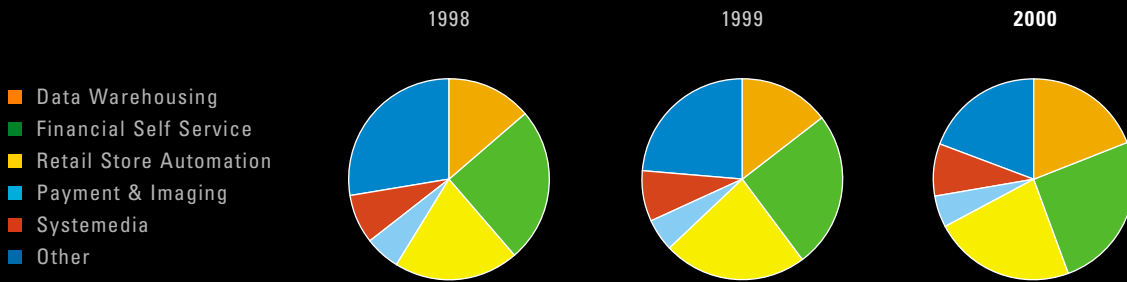




2000 annual
report

Revenue



Results of Operations¹

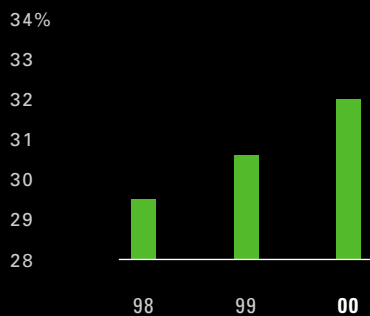
Year Ended December 31

Dollars in millions, except per share amounts

	1998	1999	2000
Revenue	\$6,505	\$6,196	\$5,959
Cost of Revenue	4,583	4,298	4,054
Selling, General and Administrative Expenses	1,410	1,354	1,327
Research and Development Expenses	360	341	308
Operating Income	152	203	270
Other Income, Net	55	59	70
Net Income	119	162	229
Earnings per Diluted Share	\$ 1.17	\$ 1.61	\$ 2.34

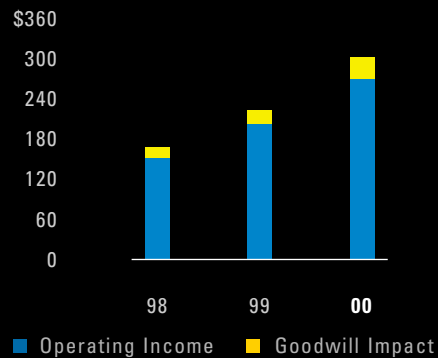
Gross Margin¹

Percent of total revenue



Operating Income¹

Dollars in millions



¹ Excludes the effect of restructuring and other related charges, in-process research and development charges, acquisition integration costs, significant gains from asset dispositions, favorable impact from a tax valuation release and non-recurring pension charge. See Notes 3, 4, 6, and 7 of the Notes to Consolidated Financial Statements.

NCR CORPORATION IS A LEADING GLOBAL PROVIDER
OF RELATIONSHIP TECHNOLOGY™ SOLUTIONS THAT ENABLE
BUSINESSES TO DRIVE GROWTH AND PERFORMANCE.

NCR'S KEY **SOLUTIONS** ARE RETAIL STORE AUTOMATION,
FINANCIAL SELF SERVICE (ATMs) AND DATA WAREHOUSING,



INCLUDING THE POWERFUL TERADATA® DATABASE AND
ANALYTICAL SOFTWARE APPLICATIONS. THESE SOLUTIONS ARE
BUILT ON NCR'S RENOWNED REPUTATION FOR LEADING-EDGE
TECHNOLOGY, IN-DEPTH INDUSTRY KNOWLEDGE, AND UNSUR-
PASSED CONSULTING AND CUSTOMER SUPPORT SERVICES.

DEAR FELLOW SHAREHOLDER



“NCR EMERGED FROM 2000 SHARPLY FOCUSED AND BETTER POSITIONED WITH AN IMPROVED MIX OF OUR BUSINESSES, A STRENGTHENED MANAGEMENT TEAM AND STRONG GROWTH IN PROFITABILITY—VALIDATING THAT OUR STRATEGY IS WORKING.”

LARS NYBERG
Chairman, President and Chief Executive Officer
NCR Corporation

This past year was decisive for NCR in its transformation to a solutions-oriented company. In 2000, we successfully completed the five-year transition from a loss-generating commodity hardware company to a solutions-focused company positioned for profitable growth. Our data warehousing business experienced a breakthrough year in 2000. Not only has data warehousing proven to be a viable business, but our Teradata technology is now widely accepted as a standard for data warehousing.

Despite a slowing economy, we expect 2001 to be a good year for NCR. We entered the year with excellent momentum, both competitively and strategically, in each of our key businesses, positioning NCR for top-line revenue growth for the first time since being spun-off from AT&T at the end of 1996. Although NCR is not totally immune to a further economic downturn, we believe our key solutions become even more attractive to businesses striving to improve operationally and financially in a slower economy.

FINANCIAL PERFORMANCE CONFIRMS STRATEGY

In 2000, NCR reported \$270 million of operating income before special items, a 33% increase over 1999. Earnings per share grew 45% to \$2.34, before special items. This marks the fourth year, since the spin-off, that we have significantly increased our profitability by strategically improving the quality of our revenue base.

The positive results reflect important strides in our key businesses but are even more meaningful given that they were achieved despite some significant challenges. Market softness related to Y2K, which became apparent in the latter half of 1999, lingered well into the first part of 2000. Greater competition in the European region along with significant currency fluctuations also presented challenges, as did a product supply issue at one of our suppliers for part of 2000 and the economic slowdown in the fourth quarter.

Strategically organized, NCR now includes three key business solutions: Data Warehousing, Financial Self Service and Retail Store Automation, each supported by Worldwide Customer Services. We implemented vital organizational changes that position these businesses optimally for the opportunities that lie ahead. Foremost was the creation of two separate operating units, which enables more effective management of the diverse business dynamics of our solutions. Our new Chief Operating Officer of the Retail and Financial Group, Bill Amelio, a twenty-one year veteran of leading global technology businesses, brings a keen focus on productivity and operational efficiency to our retail, financial, customer service and business supplies activities. Providing outstanding leadership in a pivotal year for data warehousing, Chief Operating Officer, Mark Hurd, heads the Teradata Division which is comprised of our analytical data warehousing solution and our enterprise-wide data warehousing software and applications.

BREAKTHROUGH YEAR FOR TERADATA

Leading NCR's accelerating top-line growth is the **Teradata Division**. 2000 was a watershed year for Teradata's data warehousing solution. The Teradata technology is now generally recognized as the world's leading data warehouse solution for companies seeking to capture, analyze and manage more than one terabyte of data. The use of information has emerged as a company's best competitive advantage; and increasingly, data warehouses of one terabyte or more are becoming the norm.

Joining Teradata's existing customers such as SBC Communications, Delta Air Lines, Lufthansa, FedEx Corporation, Harrah's Entertainment, Inc. and Travelocity.com, the Teradata Division added over 100 new customers in 2000. The Teradata Division is expected to attain profitability for the year 2001, an important milestone in building the business into a strong cash flow generator in the years ahead. Customer upgrades to existing, successfully managed data warehouses and increasing sales of software applications and services should continue to enhance the operating margins of this business.

Among NCR's challenges in 2000 was increasing the awareness of Teradata in a marketplace historically populated by well-known technology names. Clearly, our strong revenue growth in 2000 demonstrates that we are increasing awareness. The knowledge and appreciation of Teradata's technology edge was nowhere more apparent than when 3,000 technology professionals, from around the globe, attended the September 2000 Teradata's "Partners" annual user group conference.

While the data warehouse itself is the vital analytical engine, going forward, it is the tools, services and applications that are increasingly essential to Teradata's strategy of developing a comprehensive suite of analytical solutions for the world's leading corporations. A key strategic focus is analytical customer relationship management (CRM) solutions. As consumer products and services are increasingly commoditized, businesses now, more than ever, clearly recognize that their customers are core assets who must be better understood, targeted and leveraged. Simply knowing what products are purchased is no longer sufficient; today, companies must thoroughly, and cost effectively, understand which customers are buying what and how, as well as who is not buying and why. The answers to these questions give companies a better picture of consumer purchasing behavior allowing them to focus marketing efforts, more accurately forecast sales and plan resources accordingly. We believe our CRM applications and data warehousing solutions provide companies a distinct competitive advantage to gathering, analyzing and utilizing that information.

To accelerate our ability to provide a comprehensive, integrated suite of CRM solutions, NCR acquired Ceres Integrated Solutions in April 2000. Ceres' market-leading CRM software applications were combined with NCR's Relationship Optimizer™ CRM software application to become Teradata CRM Solutions. This suite provides a full complement of analytical and marketing software that facilitates a tactical one-on-one customer communication capability. The powerful combination of a Teradata data warehouse and analytical

CRM solutions is being recognized. For example, NCR was selected by readers of DM Review, a top industry trade magazine, as number one for CRM and number two overall in its annual reader survey ranking of the top 100 data warehousing, e-business and CRM providers.

Looking ahead, the Teradata Division continues the race to establish its global market leadership position in data warehousing and analytical solutions. The division has effectively leveraged the benefits of NCR's global sales and marketing strength with its nimbleness and entrepreneurial zeal. With continued strong revenue growth forecasted for 2001 and a developing array of exciting applications to complement its formidable data warehouse analytical technology, we believe the Teradata Division is well positioned for aggressive, profitable growth.

INNOVATION AND LEADERSHIP

NCR's **Retail Store Automation** business emerged from a challenging 2000 with signs of growing market acceptance of its new product offerings which are seeing strong customer interest. The acceptance and installation of these exciting new store automation products will enhance NCR's reputation as the innovative leader in this business.

In 2000, web-enabled kiosks gained acceptance in the marketplace, bringing e-commerce functionality into brick-and-mortar stores. Serving as complementary customer touchpoints, NCR web-enabled kiosks provide timely information, facilitate purchases and bill payment and deliver customized offers in solutions such as airline ticket dispensing, automated deli ordering and telephone bill payment.

Our self-checkout terminals (SCOT) reduce consumers' wait time and improve retailers' financial equation by significantly reducing labor requirements. As consumer acceptance grew during 2000, we implemented several pilot programs at leading retailers such as Albertson's, Inc. which has now selected our convertible model for installation. Furthermore, we are pleased to start 2001 with a significant SCOT order from Kmart Corporation. Not only will these orders contribute to our revenue this year, but, more importantly, they signify the adoption of self-checkout terminals.

NCR's **Financial Self Service** business finished the year 2000 in very healthy condition and entered 2001 as a worldwide leader. In the automated teller machine (ATM) business, NCR has a strong presence in all key regions of the globe—a distinct advantage given the under-penetrated nature of large international markets such as India and China. Our ATM business performed well in 2000 in spite of lingering Y2K effects and the significant impact of a weaker Euro during much of the year. Margins remained good as we augmented revenue growth with efficiency and cost reduction.

The ATM industry is in some respects a tale of two markets—the United States and the rest of the world. ATM sales among major financial institutions slowed in the United States following a period of sustained growth. NCR realigned its sales strategy in 2000 to address specific growth opportunities

such as community banks and the entry-level cash dispenser market where independent sales organizations have adopted the use of traditional ATMs for new types of locations. Initiatives in these markets have enabled NCR to maintain strong volume, good market share and sound margins in the United States.

Internationally, while some markets are more established than others, the opportunities on the whole are dynamic and exciting. We have already successfully entered into, and gained market share in, the important emerging markets of India and China, which collectively are home to over a third of the world's population. To facilitate cost efficient penetration and timely deployments, we continue to expand our Asian-based manufacturing capabilities at our facility in Beijing, China.

Looking forward, we also expect greater acceptance of ATMs featuring increased functionality including automated cash acceptance, check cashing, bill payment, imaging and fulfillment capabilities for items such as tickets and coupons. As banks and e-businesses use ATMs as a more cost efficient channel to serve customers, sales of our new web-enabled ATMs should provide additional growth in both the United States and international markets.

Growth in 2000 for our **Worldwide Customer Services** business was masked by foregone revenue associated with exited businesses and Y2K-related hardware retirements. Moving forward, NCR intends to grow its customer service revenue base via organic growth from our key solutions, from outsourcing contracts and high availability service offerings, and also from acquisitions.

Outsourcing represents a significant opportunity to enhance our market position in the ATM marketplace and leverage our customer services capabilities. In January, we announced our first North American outsourcing contract to service the ATM network of Royal Bank of Canada, expanding our relationship to provide help desk operations, cash replenishment, cash management and first-line maintenance. This is an exciting business and we look forward to more companies relying on NCR for their outsourcing needs.

Global e-business initiatives require companies to place extreme emphasis on high availability systems and networks. NCR has increased its focus to provide high availability service to companies with mission critical systems that cannot afford system unavailability. Our worldwide implementation and support capabilities position us well in the e-business infrastructure services market, and make us an ideal partner to provide a comprehensive network infrastructure that integrates systems, software, security and operations. NCR is now a service partner with leading technology companies such as Cisco Systems, Dell Computer Corporation, Nortel Networks Corporation and Sun Microsystems.

Two strategic acquisitions were completed in 2000, broadening our offering and solidifying our reputation as a third-party high availability services provider in Asia and Europe—Memorex Telex Asia Pacific and 4Front Technologies, respectively.

POSITIONED FOR SUCCESS

NCR emerged from 2000 sharply focused and better positioned than one year ago as evidenced by the improved mix of our businesses, strengthened management team and strong growth in profitability—validating that our strategy is working. I firmly believe that we have now passed the point separating NCR's past from its opportunity-filled future as a global solutions-oriented leader, dedicated to creating and providing innovative relationship technologies.

Profitable growth is inherent for each of our key businesses. In Retail Store Automation and Financial Self Service, we will attack from both the revenue and the cost side. Our Teradata Division will aggressively strive to continue building worldwide market share while asserting our technological dominance, extending into important new industry verticals and continuing the development of software and our suite of application offerings. In support of these businesses, Worldwide Customer Services will continue its transition from a decelerating, legacy hardware maintenance organization to a flexible and global high availability service organization.



Executive Committee: *from left to right*

MARK HURD, Executive Vice President and Chief Operating Officer, Teradata Division
WILLIAM AMELIO, Executive Vice President and Chief Operating Officer, Retail and Financial Group
DAVID BEARMAN, Senior Vice President and Chief Financial Officer
LARS NYBERG, Chairman, President and Chief Executive Officer

The key now is to execute. And I firmly believe we have the solutions, people and drive to do it.

Lars Nyberg
 Chairman, President and Chief Executive Officer

FINANCIALS

Contents

6	Selected Financial Data
7	Management's Discussion and Analysis of Financial Condition and Results of Operations
17	Report of Management
17	Report of Independent Accountants
18	Consolidated Statements of Income
19	Consolidated Balance Sheets
20	Consolidated Statements of Cash Flows
21	Consolidated Statements of Changes in Stockholders' Equity
22	Notes to Consolidated Financial Statements
40	Stockholder Information
40	Executive Officers
41	Board of Directors

SELECTED FINANCIAL DATA

At and for the Year Ended December 31	2000 ¹	1999 ²	1998 ³	1997	1996 ⁴
Dollars in millions, except per share amounts					
RESULTS OF OPERATIONS					
Revenue	\$5,959	\$6,196	\$6,505	\$6,589	\$6,963
Operating expenses					
Cost of revenue	4,092	4,306	4,583	4,715	4,997
Selling, general and administrative expenses	1,329	1,471	1,460	1,510	1,458
Research and development expenses	333	341	360	383	378
Income (loss) from operations	205	78	102	(19)	130
Interest expense	13	12	13	15	56
Other income, net	83	71	68	61	36
Gain from significant asset dispositions	—	98	55	—	—
Income before income taxes	275	235	212	27	110
Income tax expense (benefit)	97	(102)	90	20	219
Net income (loss)	\$ 178	\$ 337	\$ 122	\$ 7	\$ (109)
Net income (loss) per common share					
Basic	\$ 1.87	\$ 3.45	\$ 1.21	\$ 0.07	\$ (1.07)
Diluted	\$ 1.82	\$ 3.35	\$ 1.20	\$ 0.07	\$ (1.07)
FINANCIAL POSITION AND OTHER DATA					
Cash, cash equivalents and short-term investments	\$ 357	\$ 763	\$ 514	\$1,129	\$1,203
Accounts receivable, net	1,338	1,197	1,556	1,471	1,457
Inventories, net	288	299	384	489	439
Property, plant and equipment and reworkable service parts, net	960	1,002	1,104	1,106	1,207
Total assets	5,106	4,895	4,892	5,376	5,280
Debt	107	77	83	94	76
Stockholders' equity	\$1,758	\$1,596	\$1,447	\$1,353	\$1,396
Cash dividends	—	—	—	—	—
Number of employees and contractors	32,900	32,800	33,100	38,300	38,600

¹ Income from operations includes \$38 million for restructuring and other related charges, \$25 million for in-process research and development charges related to acquisitions completed in 2000, and \$2 million for integration costs related to the acquisition of 4Front Technologies, Inc. (See Notes 3 and 7 of Notes to Consolidated Financial Statements.) Excluding these items, the 2000 income from operations, net income and net income per common share (diluted) would have been \$270 million, \$229 million and \$2.34, respectively.

² Income from operations includes \$125 million for restructuring and other related charges. (See Note 3 of Notes to Consolidated Financial Statements.) Net income for 1999 includes the after-tax impacts of \$125 million for restructuring and other related charges, \$98 million of gains from significant asset dispositions and \$232 million of favorable impact from a tax valuation allowance release. (See Notes 3 and 4 of Notes to Consolidated Financial Statements.) Excluding these items, the 1999 income from operations, net income and net income per common share (diluted) would have been \$203 million, \$162 million and \$1.61, respectively.

³ Income from operations includes a \$50 million non-recurring pension charge. (See Note 6 of Notes to Consolidated Financial Statements.) Net income for 1998 includes the after-tax impacts of \$50 million for a non-recurring pension charge and a \$55 million significant gain from an asset disposition. Excluding these items, the 1998 income from operations, net income and net income per common share (diluted) would have been \$152 million, \$119 million and \$1.17, respectively.

⁴ Operating expenses include restructuring and other related charges of \$(55) million in 1996. Net loss per share for the year ended December 31, 1996 was calculated by dividing the net loss by 101.4 million shares of common stock. Effective December 31, 1996, AT&T Corp. distributed to its stockholders all of its interest in NCR on the basis of one share of NCR common stock for each 16 shares of AT&T Corp. common stock (the Distribution). The Distribution resulted in 101.4 million shares of NCR common stock outstanding as of December 31, 1996. Such shares are assumed to be outstanding since January 1, 1996.

Selected
Financial
Data

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

OVERVIEW

As the relationship technology company, we provide solutions worldwide that are designed specifically to enable businesses to build, expand and enhance their relationships with their customers by facilitating transactions and transforming data from transactions into valuable business information.

Through our presence at customer interaction points, such as point-of-sale workstations, automated teller machines (ATMs) and web-enabled kiosks, our Retail Store Automation and Financial Self Service solutions enable companies to capture and process consumer transactions. We then provide powerful Data Warehousing solutions that help businesses understand and serve each customer as a clearly defined market of one, responding with programs designed to improve customer acquisition, retention and profitability.

We offer specific solutions for the retail and financial industries and also provide solutions for industries including telecommunications, transportation, insurance, utilities and electronic commerce, as well as consumer goods manufacturers and government entities. These solutions are built on a foundation of long-established industry knowledge and consulting expertise, value-adding software, global customer support services, a complete line of consumable and media products and a range of hardware technology.

REVENUE AND OPERATING MARGIN BY SOLUTION

We categorize our key solutions as Data Warehousing, Financial Self Service and Retail Store Automation. In addition to these key solutions, we discuss the results of the Payment and Imaging solutions and Systemedia as reportable segments. A sixth category, Other, accumulates the results of operations not attributable to the formally identified reportable segments. Each segment includes hardware, software, professional consulting and customer support services. Customer support services, including maintenance, staging and implementation, networking, multi-vendor integration, consulting, industry-specific support and outsourcing services, complement each of our solution offerings by supporting the high availability technology environments in which our solutions are utilized.

The following table presents the gross margin, operating expenses and operating income amounts, for the years ended December 31, excluding the effects of restructuring and other related charges, in-process research and development charges, integration costs related to the acquisition of 4Front Technologies, Inc. (4Front) and a non-recurring pension charge. (See Notes 3, 6 and 7 of Notes to Consolidated Financial Statements.)

MD&A

	2000	1999	1998
In millions			
Consolidated revenue	\$5,959	\$6,196	\$6,505
Consolidated gross margin ¹	1,905	1,898	1,922
Consolidated operating expenses:			
Selling, general and administrative expenses ²	1,327	1,354	1,410
Research and development expenses ³	308	341	360
Consolidated income from operations	\$ 270	\$ 203	\$ 152

¹ Consolidated gross margin excludes the impact of \$37 million and \$8 million for restructuring and other related charges in 2000 and 1999, respectively. The results for 2000 also exclude the impact of \$1 million for integration costs related to the acquisition of 4Front.

² Selling, general and administrative expenses exclude the impact of \$1 million and \$117 million for restructuring and other related charges in 2000 and 1999, respectively. The results for 2000 also exclude the impact of \$1 million for integration costs related to the acquisition of 4Front. In 1998, selling, general and administrative expenses exclude the impact of a \$50 million non-recurring pension charge.

³ Research and development expenses exclude the impact of \$25 million for in-process research and development charges related to acquisitions completed during 2000.

Total revenue decreased 4% in 2000 compared to 1999. On a constant currency basis, total revenue decreased 1% in 2000 versus the year ago period. The decline in 2000 revenue primarily reflects the impact of exited solutions, but also reflects the termination of services associated with equipment retired as a result of Year 2000 replacement and recent economic slowing in the retail industry. The decline was partially offset by strong double-digit growth in the Data Warehousing solutions. By geographic region, revenues in 2000 decreased from the prior year 2% in the Americas, 6% in Japan and 13% in Europe/Middle East/Africa. Currency impacts were greatest in the Europe/Middle East/Africa region with revenues down 4% on a constant currency basis. These declines versus prior year were in contrast to a 24% increase in the Asia/Pacific region. The 33% increase in income from operations in 2000 reflects continued improvement in gross margin as a percentage of revenue, particularly in the Data Warehousing solutions, and continued reductions in operating expenses.

In 1999, total revenue decreased 5% compared to 1998. During 1999, we achieved increased sales in our Retail Store Automation and Data Warehousing solutions, offset by declines in the other solutions. The declines were primarily due to decreased revenues from the exited solutions, which included commodity hardware. Aggregate revenues in 1999 decreased from the prior year 5% in both the Americas and Europe/Middle East/Africa regions and 11% in Japan. These declines were in contrast to a 13% increase in the Asia/Pacific region. The increase in income from operations in 1999 reflected growth in our Retail Store Automation solutions, improvement in professional consulting and customer services gross margins and reduced operating expenses.

Overcoming a slowing U.S. economy, we expect revenue growth in 2001 as the aggregate growth of our key solutions outpaces the decline in the commodity hardware business. With benefits to our revenue mix from lower margin hardware products to higher margin solutions and increased expense discipline, we expect continued improvement in operating income.

DATA WAREHOUSING SOLUTIONS

Our Data Warehousing solutions, built on advanced technologies such as the Teradata data warehouse and complex customer relationship management applications, help businesses synthesize large volumes of information about customers, suppliers and partners, allowing more accurate business decisions. Combining hardware, software, professional consulting and customer support services and products from leading technology firms, our Data Warehousing solutions are designed to enable businesses, across a multitude of industries, to simply and quickly leverage detailed data into actionable opportunities.

The following table presents Data Warehousing solutions revenue and total operating (loss) for the years ended December 31:

	2000	1999	1998
In millions			
Data Warehousing revenue	\$1,134	\$ 900	\$ 890
Data Warehousing operating (loss)	\$ (34)	\$(142)	\$(118)

Data Warehousing revenues increased 26% in 2000 compared to 1999. The significant growth was attributable to all regions with the exception of Japan, and was primarily the result of new customer sales growth. The substantial decrease in operating loss in 2000 was the result of higher volumes driving significant improvement in gross margin as a percentage of revenue. In 1999, revenues increased 1% compared to 1998 primarily due to growth in the Americas and Asia/Pacific regions. The increased operating loss in 1999 from 1998 was driven primarily by increased investments in marketing, advertising and sales resources.

In 2001, we will continue to strengthen the market position of our Data Warehousing solutions through marketing initiatives designed to increase customer awareness, and through development of analytical customer relationship management applications. As a result of these investments, we expect continued revenue growth driving to operating profitability.

FINANCIAL SELF SERVICE SOLUTIONS

Providing a complete line of ATMs, and related software and services, Self Service solutions are designed to quickly and reliably process high volumes of everyday transactions. Incorporating advanced features such as web enablement, check cashing, bill payment and the sale of non-cash items, Self Service solutions enable businesses to reduce costs, generate new revenue streams and build customer loyalty.

The following table presents Self Service solutions revenue and total operating income for the years ended December 31:

	2000	1999	1998
In millions			
Financial Self Service revenue	\$1,511	\$1,565	\$1,626
Financial Self Service operating income	\$ 201	\$ 224	\$ 283

Self Service revenues decreased 3% in 2000 compared to 1999. The decline was primarily due to the impact of currency fluctuations, as well as a decrease in customer services maintenance revenue driven by the retirement of equipment as a result of Year 2000 replacement. Excluding customer services maintenance, and adjusting for the effects of currency fluctuations, Self Service revenues increased 4% versus the prior year. Strong revenue growth was experienced in the Asia/Pacific region versus declines in the Americas and Europe/Middle East/Africa regions. Operating income in 2000 decreased 10% versus the prior year, due primarily to lower gross margin in the Americas and Europe/Middle East/Africa regions. In 1999, revenues decreased 4% compared to a strong 1998. The decline was the result of lower revenues in the Americas region and Japan, offset partially by growth in the Europe/Middle East/Africa region. The operating income decline in 1999 was driven by lower revenues, mix-influenced lower gross margins and increased selling expenses.

Leveraging our worldwide presence, we expect to grow Self Service revenues and operating income in 2001 through continued expansion in the emerging markets, growth in the entry-level cash dispenser market, development of our outsourcing business, further acceptance of full-featured ATMs and expense management.

RETAIL STORE AUTOMATION SOLUTIONS

Combining our retail industry expertise, software and hardware technologies, and a full range of implementation, consulting and maintenance services, Store Automation solutions deliver traditional retail solutions such as point-of-sale workstations and scanners, as well as advanced solutions in the emerging areas of self-checkout, web-enabled kiosks and electronic shelf labels. Our Store Automation solutions are designed to improve selling productivity and checkout processes, and increase service levels for retailers.

The following table presents Store Automation solutions revenue and total operating (loss) income for the years ended December 31:

MD&A

	2000	1999	1998
In millions			
Retail Store Automation revenue	\$1,359	\$1,435	\$1,307
Retail Store Automation operating (loss) income	\$ (17)	\$ 20	\$ (32)

Store Automation revenues decreased 5% in 2000 compared to 1999. The decline in revenues was primarily due to decreased revenues in Japan, the Americas and Europe/Middle East/Africa regions, offset partially by growth in the Asia/Pacific region. The decline in the Americas was primarily the result of softness in the retail industry related to the slowing U.S. economy. The decline in operating income in 2000 was primarily the result of lower sales. In 1999, revenues increased 10% compared to 1998 due to growth in all regions driven in part by Year 2000 replacement. The operating income improvement in 1999 was driven by strong sales growth and improvements in professional consulting margin.

In 2001, we expect the slowing U.S. economy to influence revenues in our traditional Store Automation solutions. The impact on our traditional retail solutions is expected to be offset by greater market acceptance of our advanced solutions as retailers search for ways to both reduce operating costs and improve customer service. We expect the shift in revenue between traditional and advanced solutions, combined with expense reductions, to result in improved profitability.

PAYMENT AND IMAGING SOLUTIONS

Consisting of hardware, software, and consulting and support services, our comprehensive Payment and Imaging solutions enable item-based transactions to be digitally captured, processed and retained within a flexible, scalable environment. Payment and Imaging solutions utilize advanced recognition and workflow technologies to automate item processing, helping businesses increase efficiency and reduce operating costs.

The following table presents Payment and Imaging solutions revenue and total operating income for the years ended December 31:

	2000	1999	1998
In millions			
Payment and Imaging revenue	\$304	\$324	\$370
Payment and Imaging operating income	\$ 42	\$ 17	\$ 29

Payment and Imaging revenues declined 6% in 2000 compared to 1999. The revenue decline was due to our decision to focus efforts in more profitable geographic areas. Declines in the Americas and Europe/Middle East/Africa regions were partially offset by double-digit growth in the Asia/Pacific region and Japan. The substantial operating income increase in 2000 was driven by improved gross margin and reductions in operating expenses. In 1999, revenues decreased 12% compared to 1998 across all regions. The operating income decline in 1999 compared to 1998 was driven primarily by lower sales volume and declines in gross margin, offset partially by a reduction in operating expenses.

SYSTEMEDIA

Systemedia develops, produces and markets a complete line of business consumables to complement our other solutions. These products include paper rolls, paper products and imaging supplies for ink jet, laser, impact and thermal-transfer printers. Systemedia products are designed to reduce media related failures, and enable businesses to improve transaction accuracy while reducing overall costs.

The following table presents Systemedia revenue and total operating income for the years ended December 31:

	2000	1999	1998
In millions			
Systemedia revenue	\$502	\$506	\$515
Systemedia operating income	\$ 15	\$ 30	\$ 35

Systemedia revenues decreased 1% in 2000 compared to 1999 primarily due to currency fluctuations and weakness in the retail industry. On a constant currency basis, Systemedia revenues increased 2%. Declines in the Europe/Middle East/Africa and Asia/Pacific regions were in contrast to growth in the Americas region and Japan. Operating income declined in 2000 primarily due to competitive pricing pressures impacting gross margin yield and increasing paper prices. In 1999, revenues decreased 2% compared to 1998. The decline was primarily due to our decision to exit sales in certain countries and specific low-margin business within the indirect channel in the Europe/Middle East/Africa region, partially offset by revenue increases in Japan. Operating income declined in 1999 due to the revenue decline and increased selling, general and administrative expenses.

GROSS MARGIN

Gross margin as a percentage of revenue increased 1.4 percentage points in 2000 versus prior year. The gross margin increase in 2000 reflects a 0.8 percentage point increase in product gross margin and a 1.9 percentage point increase in services gross margin. Product gross margin in 2000 reflects a favorable sales mix, which includes increased sales within our higher-margin solutions, such as Data Warehousing, and decreased sales of lower-margin products within our exited solutions. The improvement in services gross margin was driven by strong margin improvements in our professional consulting services, and increased margins for transactional support services within our key solutions. Gross margin as a percentage of revenue increased 1.1 percentage points in 1999 compared to 1998. The gross margin increase in 1999 consisted of a 1.8 percentage point increase in product gross margin and a 1.0 percentage point increase in services gross margin. Gross margin improvements in 1999 reflect a favorable sales mix and improved professional consulting margin.

OPERATING EXPENSES

Selling, general and administrative expenses decreased \$27 million or 2% in 2000 compared to a decrease of \$56 million or 4% in 1999. The decrease in 2000 was primarily due to lower selling expenses and employee reductions related to the restructuring plan, offset partially by increases in marketing expense and amortization of goodwill from acquisitions. The decrease in 1999 was primarily due to the continued focus on expense discipline, standardization of financial reporting, invoicing, logistics and order processing in centralized shared service centers and employee reductions. As a percentage of revenue, selling, general and administrative expenses were 22.3%, 21.9% and 21.7% in 2000, 1999 and 1998, respectively.

Research and development expenses decreased \$33 million or 10% in 2000 compared to a decrease of \$19 million or 5% in 1999. Investment in our key solutions increased by 11%, but was more than offset by spending reductions in non-key/exited solutions. As a percentage of revenue, research and development expenses were 5.2% in 2000 compared to 5.5% in both 1999 and 1998.

INCOME BEFORE INCOME TAX

Operating income increased 33% to \$270 million in 2000 versus operating income of \$203 million in 1999. Operating income in 1998 was \$152 million. Operating income was favorably impacted during 2000 by our pension benefit plans with an additional \$64 million of income being recognized during 2000 versus 1999. Operating income was unfavorably impacted during 2000 by postemployment and postretirement benefit plans, and associated investments, with an additional \$38 million of expense being recognized during 2000 versus 1999. The net impact on operating results from the combined pension, postretirement and postemployment benefit plans was \$26 million of additional income in 2000 versus 1999. Operating income was unfavorably impacted during 2000 by goodwill amortization with an additional \$13 million of expense being recognized in 2000 versus 1999.

Interest expense was \$13 million in 2000, \$12 million in 1999 and \$13 million in 1998. Other income, net, was \$83 million in 2000, \$169 million in 1999 and \$123 million in 1998. In 1999, other income included \$98 million in significant gains on the sales of facilities, and in 1998, other income reflected a \$55 million significant gain from an asset disposition related to the sale of the TOP END[®] middleware technology and product family. Other income also includes interest income of \$31 million, \$26 million and \$44 million in 2000, 1999 and 1998, respectively.

INCOME TAX

Income tax expense (benefit) was \$97 million in 2000, \$(102) million in 1999 and \$90 million in 1998. The 1999 income tax benefit was due primarily to the \$232 million reduction in the Company's U.S. deferred tax valuation allowance as a result of our U.S. operations achieving sustained profitability. Our effective tax rate was approximately 33%, 38% and 43% in 2000, 1999 and 1998, respectively, excluding the impact of the tax valuation release, restructuring and other related charges, in-process research and development charges, integration costs related to the acquisition of 4Front, significant gains from disposition of assets and the non-recurring pension charge.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents and short-term investments totaled \$357 million at December 31, 2000, compared with \$763 million at December 31, 1999 and \$514 million at December 31, 1998. The decrease in 2000 was primarily due to increased investment activities totaling \$319 million, including our acquisition of 4Front, and disbursements for employee severance related to the 1999 restructuring plan.

We generated cash from operations of \$171 million in 2000 and \$607 million in 1999, and used cash in operations of \$79 million in 1998. The cash generated from operations in 2000 was driven primarily by operating results, partially offset by the timing of disbursements for employee severance and pension. Receivable balances increased \$80 million in 2000 compared to a \$358 million decrease in 1999. The increase in receivables in 2000 was primarily attributable to the timing of revenue in the fourth quarter, partially offset by approximately \$58 million in factored receivables. Inventory balances decreased \$28 million in 2000 compared to a decrease of \$85 million in 1999. The cash generated from operations in 1999 was driven primarily by improved operating results and dramatic asset management improvements, partially offset by the timing of disbursements for employee severance and pension.

Net cash used in investing activities was \$367 million, \$326 million and \$186 million in 2000, 1999 and 1998, respectively. The net use of cash in investing activities in 2000 primarily represents business acquisitions and investments, and capital expenditures, offset by a reduction in short-term investments. In 2000, we reduced net short-term investments by \$182 million compared to an increase in net short-term investments of \$165 million in 1999. The decrease in 2000 reflects the liquidation of our short-term position to fund acquisition activities totaling a net use of \$319 million. Capital expenditures, excluding expenditures for reworkable service parts, were \$216 million, \$187 million and \$205 million for the years ended 2000, 1999 and 1998, respectively. Proceeds from sales of property, plant and equipment are primarily driven by initiatives to reduce our owned, excess real estate.

Net cash used in financing activities was \$7 million, \$194 million and \$154 million in 2000, 1999 and 1998, respectively. In December of 2000, our Board of Directors approved a systematic share repurchase program to offset the dilutive effects of the employee stock purchase plan and outstanding options. Combined with share repurchase programs approved in April and October 1999, we used \$110 million of cash to repurchase shares during 2000, and \$269 million to repurchase shares during 1999.

In 1996, we entered into a five-year, unsecured revolving credit facility with a syndicate of commercial banks and financial institutions. The credit facility provides that we may borrow, from time to time, on a revolving credit basis an aggregate principal amount of up to \$600 million. We expect to be able to use the available funds at any time for capital expenditure needs, repayment of existing debt obligations, working capital and general corporate purposes. The credit facility matures in 2001 and contains certain representations and warranties, conditions, affirmative, negative and financial covenants and events of default customary for such a facility. Interest rates charged on borrowings outstanding under the credit facility are based on market rates. In addition, a portion of the credit facility is available for the issuance of letters of credit as we require. No amounts were outstanding under the facility as of December 31, 2000, 1999 or 1998.

We believe that cash flows from operations, the credit facility (existing or future arrangements) and other short- and long-term debt financings, if any, will be sufficient to satisfy our future working capital, research and development, capital expenditures and other financing requirements for the foreseeable future.

RESTRUCTURING

During the fourth quarter of 1999, we established a restructuring plan designed to accelerate our transformation from a computer hardware and product company to a technology solutions and services provider. The plan contemplated an alignment around three key solutions (Data Warehousing, Financial Self Service and Retail Store Automation), the elimination of approximately 1,250 associate positions, the exit of certain commodity hardware businesses and an enhanced leverage of the investment in our Data Warehousing offering.

In connection with the restructuring plan, we recorded a pre-tax charge of \$125 million in the fourth quarter of 1999. The charge included a \$76 million accrual under postemployment benefit plans related to employee separations, \$35 million of charges related to asset impairments, \$7 million of charges for the write-off of software licenses and inventory write-downs and \$7 million of charges for other items. Cash payments under the plan totaled \$46 million, and we anticipate that future cash payments under the plan will not be significant. In addition, we expected to incur approximately \$55 million of period costs during 2000, primarily related to settling customer obligations that were not complete as of December 31, 1999. These obligations were resolved for approximately \$38 million, or \$17 million less than originally expected. We recorded the costs associated with these obligations through charges of \$37 million in cost of revenue and \$1 million in selling, general and administrative expenses. The restructuring plan was substantially complete at December 31, 2000.

As a result of the restructuring, we achieved an estimated savings of more than \$75 million in 2000 due primarily to the elimination of losses in the exited solutions, as well as through cost savings related to employee separations within our support organizations. In addition, we experienced a revenue decline of approximately \$360 million as a result of our decision to exit specific non-key solutions in certain geographic areas.

FACTORS THAT MAY AFFECT FUTURE RESULTS

This annual report, including the Chairman's letter, and other documents that we file with the Securities and Exchange Commission, as well as other oral or written statements we may make from time to time, contain information based on management's beliefs and include forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that involve a number of known and unknown risks, uncertainties and assumptions. These forward-looking statements are not guarantees of future performance, and there are a number of factors, including those listed on the following pages, which could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements. We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

COMPETITION

Our ability to compete effectively within the technology industry is critical to our future success.

We compete in the intensely competitive information technology industry. This industry is characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, price and cost reductions, and increasingly greater commoditization of products, making differentiation difficult. In addition, this intense competition increases pressure on gross margins that could impact our business and operating results. Our competitors include other large, successful companies in the technology industry such as: Diebold, Inc., International Business Machines (IBM), Oracle Corporation, Unisys Corporation and Wincor Nixdorf GmbH & Co., some of which have widespread penetration of their platforms. If we are unable to compete successfully, the demand for our solutions, including products and services, would decrease. Any reduction in demand could lead to fewer customer orders, a decrease in the prices of our products and services, reduced revenues, reduced margins, operating inefficiencies, reduced levels of profitability and loss of market share. These competitive pressures could impact our business and operating results.

Our future competitive performance depends on a number of factors, including our ability to: rapidly and continually design, develop and market, or otherwise obtain and introduce solutions and related products and services for our customers that are competitive in the marketplace; offer a wide range of solutions from web-enabled kiosks to enterprise data warehouses; offer solutions to customers that operate effectively within a computing environment, which include the integration of hardware and software from multiple vendors; offer products that are reliable and that ensure the security of data and information; offer high quality, high availability services; market and sell all of our solutions effectively and produce and deliver solutions at competitive operating margins.

INTRODUCTION OF NEW SOLUTIONS

The solutions we sell are very complex, and we need to rapidly and successfully develop and introduce new solutions.

We operate in a very competitive, rapidly changing environment, and our future success depends on our ability to develop and introduce new solutions that our customers choose to buy. If we are unable to develop new solutions, our business and operating results would be impacted. This includes our efforts to rapidly develop and introduce data warehousing software applications. The development process for our complex solutions, including our software application development programs, requires high levels of innovation from both our developers and our suppliers of the components embedded in our solutions. In addition, the development process can be lengthy and costly. It requires us to commit a significant amount of resources to bring our business solutions to market. If we are unable to anticipate our customers' needs and technological trends accurately, or are otherwise unable to complete development efficiently, we would be unable to introduce new solutions into the market on a timely basis, if at all, and our business and operating results would be impacted. In addition, if we are unable to successfully market and sell both existing and newly developed solutions, such as our self-checkout and electronic shelf label solutions, our operating results would be impacted.

Our solutions, which contain both hardware and software products, may contain known as well as undetected errors which may be found after the products' introduction and shipment. While we attempt to fix errors that we believe would be considered critical by our customers prior to shipment, we may not be able to detect or fix all such errors, and this could result in lost revenues, delays in customer acceptance and incremental costs, which would all impact our operating results.

RELIANCE ON THIRD PARTIES

Third party suppliers provide important elements to our solutions.

We rely on many suppliers for necessary parts and components to complete our solutions. In most cases, there are a number of vendors producing the parts and components that we utilize. However, there are some components that are purchased from single sources due to price, quality, technology or other reasons. For example, we depend on chips and microprocessors from Intel Corporation and operating systems from UNIX[®] and Microsoft Windows NT[®]. Certain parts and components used in the manufacture of our ATMs and the delivery of some of our Store Automation solutions are also supplied by single sources. If we were unable to purchase the necessary parts and components from a particular vendor and we had to find an alternative supplier for such parts and components, our new and existing product shipments and solutions deliveries could be delayed, impacting our business and operating results.

We have, from time to time, formed alliances with third parties (such as the outsourcing arrangements with Solectron Corporation to manufacture hardware) that have complementary products, services and skills. These alliances introduce risks that we cannot control such as non-performance by third parties and difficulties with or delays in integrating elements provided by third parties into our solutions. The failure of third parties to provide high quality products or services that conform to the required specifications could impair the delivery of our solutions on a timely basis and impact our business and operating results.

ACQUISITIONS AND ALLIANCES

Our ability to successfully integrate acquisitions or effectively manage alliance activities will help drive future growth.

As part of our overall solutions strategy, we intend to continue to make investments in companies, products, services and technologies, either through acquisitions, joint ventures or strategic alliances. Acquisitions and alliance activities inherently involve risks. The risks we may encounter include those associated with assimilating and integrating different business operations, corporate cultures, personnel, infrastructures and technologies or products acquired or licensed, retaining key employees and the potential for unknown liabilities within the acquired or combined business. The investment or alliance may also disrupt our ongoing business, or we may not be able to successfully incorporate acquired products, services or technologies into our solutions and maintain quality. Business acquisitions typically result in intangible assets being recorded and amortized in future years. Future operating results could be impacted if our acquisitions do not generate profitable results in excess of the related amortization expense.

OPERATING RESULT FLUCTUATIONS

We expect our revenues and operating results to fluctuate for a number of reasons.

Future operating results will continue to be subject to fluctuations based on a variety of factors, including:

Seasonality. Our sales are historically seasonal, with revenue higher in the fourth quarter of each year. During the three quarters ending in March, June and September, we have historically experienced less favorable results than in the quarter ending in December. Such seasonality also causes our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume, timing and mix of product sales. In addition, revenue in the third month of each quarter is typically higher than in the first and second months. These factors, among other things, make forecasting more difficult and may adversely affect our ability to predict financial results accurately.

Acquisitions and Alliances. As part of our solutions strategy, we intend to continue to acquire technologies, products and businesses as well as form strategic alliances and joint ventures. As these activities take place and we begin to include the financial results related to these investments, our operating results will fluctuate. For example, the acquisition of 4Front will result in incremental customer services revenue, margin and operating expenses.

MULTI-NATIONAL OPERATIONS

Continuing to generate substantial revenues from our multi-national operations helps to balance our risks and meet our strategic goals.

Currently, approximately 59% of our revenues come from our international operations. We believe that our geographic diversity may help to mitigate some risks associated with geographic concentrations of operations (e.g., adverse changes in foreign currency exchange rates or business disruptions due to economic or political uncertainties). However, our ability to sell our solutions domestically in the United States and internationally is subject to the following risks, among others: general economic and political conditions in each country which could adversely affect demand for our solutions in these markets, as evidenced by the recent economic slowing in the U.S. retail industry; currency exchange rate fluctuations which could result in lower demand for our products as well as generate currency translation losses; currency changes such as the euro introduction which could affect cross border competition and pricing and require modifications to our offerings to accommodate the changeover; and changes to and compliance with a variety of local laws and regulations which may increase our cost of doing business in these markets or otherwise prevent us from effectively competing in these markets.

EMPLOYEES

Hiring and retaining highly qualified employees helps us to achieve our business objectives.

Our employees are vital to our success, and our ability to attract and retain highly skilled technical, sales, consulting and other key personnel is critical as these key employees are difficult to replace. The expansion of high technology companies has increased demand and competition for qualified personnel. If we are not able to attract or retain highly qualified employees in the future, our business and operating results could be impacted.

INTELLECTUAL PROPERTY

As a technology company, our intellectual property portfolio is key to our future success.

Our intellectual property portfolio is a key component of our ability to be a leading technology and services solutions provider. To that end, we aggressively protect and work to enhance our proprietary rights in our intellectual property through patent, copyright, trademark and trade secret laws, and if our efforts fail, our business could be impacted. In addition, many of our offerings rely on technologies developed by others, and if we were not able to continue to obtain licenses for such technologies, our business would be impacted. Moreover, from time to time, we receive notices from third parties regarding patent and other intellectual property claims. Whether such claims are with or without merit, they may require significant resources to defend and, if an infringement claim is successful, in the event we are unable to license the infringed technology or to substitute similar non-infringing technology, our business could be adversely affected.

ENVIRONMENTAL

Our historical and ongoing manufacturing activities subject us to environmental exposures.

We have been identified as a potentially responsible party in connection with the Fox River matter as further described in "Environmental Matters" under Note 11 of the Notes to Consolidated Financial Statements of this annual report and we incorporate such discussion in this Management's Discussion and Analysis of Financial Condition and Results of Operations by reference and make it a part of this risk factor.

CONTINGENCIES

Like other technology companies, we face uncertainties with regard to regulations, lawsuits and other related matters.

We are subject to regulations, proceedings, lawsuits, claims and other matters, including those that relate to the environment, health and safety, and intellectual property. Such matters are subject to the resolution of many uncertainties; thus, outcomes are not predictable with assurance. While we believe that amounts provided in our financial statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to discharge alleged liabilities from lawsuits, claims and other legal proceedings and environmental matters, and to comply with applicable environmental laws will not impact future operating results.

MARKET RISK

We are exposed to market risk, including changes in foreign currency exchange rates and interest rates. We use a variety of measures to monitor and manage these risks, including derivative financial instruments. Since a substantial portion of our operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, our results can be significantly impacted by changes in foreign currency exchange rates. To manage our exposures to changes in currency exchange rates, we enter into various derivative financial instruments such as forward contracts and options. These instruments generally mature within 12 months. At inception, select derivative instruments are designated as hedges of inventory purchases and sales, and of certain financing transactions that are firmly committed or forecasted. Generally, gains and losses on qualifying hedged transactions are deferred and recognized in the determination of income when the underlying transactions are realized, canceled or otherwise terminated. When hedging certain foreign currency transactions of a long-term investment nature, gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on other foreign exchange contracts are recognized in other income or expense as exchange rates change.

For purposes of potential risk analysis, we use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our hedge portfolio related to anticipated transactions. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. As of December 31, 2000 and 1999, a 10% appreciation in the value of the U.S. dollar against foreign currencies from the prevailing market rates would result in a \$14 million increase or a \$2 million decrease in the fair value of the hedge portfolio, respectively. Conversely, a 10% depreciation of the U.S. dollar against foreign currencies from the prevailing market rates would result in a \$1 million increase or \$22 million increase in the fair value of the hedge portfolio as of December 31, 2000 and 1999, respectively.

The interest rate risk associated with our borrowing and investing activities at December 31, 2000 was not material in relation to our consolidated financial position, results of operations and cash flows. We generally do not use derivative financial instruments to alter the interest rate characteristics of our investment holdings or debt instruments.

We are potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, short-term investments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Our business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, we could be exposed to potential significant losses. However, we believe that the reserves for potential losses are adequate. At December 31, 2000 and 1999, we did not have any major concentration of credit risk related to financial instruments.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 133 AND NO. 138

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133" (SFAS 138). SFAS 133 and the corresponding amendments under SFAS 138 are effective for fiscal years beginning after June 15, 2000. We have elected to adopt SFAS 133 and SFAS 138 effective January 1, 2001. SFAS 133 and SFAS 138 require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. For fair value hedge transactions in which we are hedging changes in the fair value of an asset, liability or firm commitment, changes in the fair value of the derivative instrument will be offset in the income statement by changes in the hedged item's fair value. For cash flow hedge transactions in which we are hedging the variability of cash flows related to a variable rate asset, liability or a forecasted transaction, changes in the fair value of the derivative instrument will generally be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. In the event that a hedging instrument is deemed to be ineffective under SFAS 133, the ineffective portion will be recognized in current period earnings.

On January 1, 2001, we will record net-of-tax, cumulative-effect-type losses of \$6 million and \$4 million, in accumulated other comprehensive income and net income, respectively, to recognize at fair value all derivative instruments that will be designated as hedging instruments. Included in the \$4 million loss is an immaterial expense related to derivatives that are deferred on the balance sheet and will be de-designated as effective hedges.

STAFF ACCOUNTING BULLETIN NO. 101

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 provides guidance on the recognition, presentation and disclosure of revenues in financial statements. Consistent with the requirements to implement SAB 101 no later than the fourth quarter for fiscal years beginning after December 15, 1999, we adopted the provisions of SAB 101 and the resulting impact was immaterial to our consolidated financial position, results of operations and cash flows.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 140

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 140). SFAS 140, which replaces Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," revises the standards for accounting for securitizations and other transfers of financial assets and collateral. The standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. We do not expect adoption of this standard to have any impact to our consolidated financial position, results of operations and cash flows.

REPORT OF MANAGEMENT

We are responsible for the preparation, integrity and objectivity of our consolidated financial statements and other financial information presented in our Annual Report. The accompanying consolidated financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on currently available information and our judgment of current conditions and circumstances.

We maintain an internal control structure designed to provide reasonable assurance, at reasonable cost, that our assets are safeguarded, and that transactions are properly authorized, executed, recorded and reported. This structure is supported by the selection and training of qualified personnel, by the proper delegation of authority and division of responsibility, and through dissemination of written policies and procedures. An ongoing program of internal audits and operational reviews assists us in monitoring the effectiveness of these controls, policies and procedures. The accounting systems and related other controls are modified and improved in response to changes in business conditions and operations, and recommendations made by our independent accountants and internal auditors.

PricewaterhouseCoopers LLP, independent accountants, are engaged to perform audits of our consolidated financial statements. These audits are performed in accordance with generally accepted auditing standards, which include the consideration of our internal control structure.

The Audit and Finance Committee of the Board of Directors, consisting entirely of independent directors who are not employees of NCR, monitors our accounting, reporting and internal control structure. Our independent accountants, internal auditors and management have complete and free access to the Audit and Finance Committee, which periodically meets directly with each group to ensure that their respective duties are being properly discharged.

Lars Nyberg
Chairman, President and Chief Executive Officer

David Bearman
Senior Vice President and Chief Financial Officer

Report of
Management
and
Report of
Independent
Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NCR CORPORATION

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of NCR Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of NCR Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Dayton, Ohio
January 22, 2001

CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31

2000

1999

1998

In millions, except per share amounts

	2000	1999	1998
REVENUE			
Products	\$3,178	\$3,290	\$3,641
Services	2,781	2,906	2,864
Total revenue	5,959	6,196	6,505
OPERATING EXPENSES			
Cost of products	2,000	2,099	2,380
Cost of services	2,092	2,207	2,203
Selling, general and administrative expenses	1,329	1,471	1,460
Research and development expenses	333	341	360
Total operating expenses	5,754	6,118	6,403
Income from operations	205	78	102
Interest expense	13	12	13
Other income, net	83	169	123
Income before income taxes	275	235	212
Income tax expense (benefit)	97	(102)	90
Net income	\$ 178	\$ 337	\$ 122
NET INCOME PER COMMON SHARE			
Basic	\$ 1.87	\$ 3.45	\$ 1.21
Diluted	\$ 1.82	\$ 3.35	\$ 1.20
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	95.1	97.6	101.0
Diluted	98.0	100.6	102.1

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated
Statements
of Income

CONSOLIDATED BALANCE SHEETS

At December 31	2000	1999
In millions, except per share amounts		
ASSETS		
Current assets		
Cash, cash equivalents and short-term investments	\$ 357	\$ 763
Accounts receivable, net	1,338	1,197
Inventories, net	288	299
Other current assets	251	282
Total current assets	2,234	2,541
Reworkable service parts, net	218	209
Property, plant and equipment, net	742	793
Other assets	1,912	1,352
Total assets	\$5,106	\$4,895
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ 96	\$ 37
Accounts payable	521	378
Payroll and benefits liabilities	260	247
Customer deposits and deferred service revenue	344	365
Other current liabilities	615	635
Total current liabilities	1,836	1,662
Long-term debt	11	40
Pension and indemnity liabilities	332	342
Postretirement and postemployment benefits liabilities	466	570
Other liabilities	676	623
Minority interests	27	49
Total liabilities	3,348	3,286
Put options	—	13
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at December 31, 2000 and 1999	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 95.2 and 93.6 shares issued and outstanding at December 31, 2000 and 1999, respectively	1	1
Paid-in capital	1,156	1,081
Retained earnings	644	466
Accumulated other comprehensive (loss) income	(43)	48
Total stockholders' equity	1,758	1,596
Total liabilities and stockholders' equity	\$5,106	\$4,895

Consolidated
Balance
Sheets

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31

2000

1999

1998

In millions

OPERATING ACTIVITIES

Net income	\$178	\$337	\$122
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	361	358	364
Deferred income taxes	32	(187)	54
Net gain on sales of assets	(33)	(107)	(47)
Purchased research and development from acquisitions	25	—	—
Changes in assets and liabilities:			
Receivables	(80)	358	(85)
Inventories	28	85	15
Current payables	80	(41)	(53)
Customer deposits and deferred service revenue	(42)	13	4
Timing of disbursements for employee severance and pension	(248)	(148)	(268)
Other assets and liabilities	(130)	(61)	(185)
Net cash provided by (used in) operating activities	171	607	(79)

INVESTING ACTIVITIES

Purchases of short-term investments	(26)	(354)	(356)
Proceeds from sales and maturities of short-term investments	208	189	573
Net expenditures and proceeds for service parts	(108)	(104)	(82)
Expenditures for property, plant and equipment	(216)	(187)	(205)
Proceeds from sales of property, plant and equipment	173	240	252
Business acquisitions and investments	(319)	(32)	(274)
Other investing activities, net	(79)	(78)	(94)
Net cash (used in) investing activities	(367)	(326)	(186)

FINANCING ACTIVITIES

Purchases of Company common stock	(110)	(269)	(200)
Short-term borrowings, net	15	(13)	(9)
Long-term borrowings, net	(29)	7	(2)
Other financing activities, net	117	81	57
Net cash (used in) financing activities	(7)	(194)	(154)

Effect of exchange rate changes on cash and cash equivalents

(21)	(4)	21
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(Decrease) increase in cash and cash equivalents

(224)	83	(398)
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Cash and cash equivalents at beginning of year

571	488	886
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Cash and cash equivalents at end of year

\$347	\$571	\$488
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Supplemental data

Cash paid during the year for:

Income taxes	\$ 68	\$ 61	\$ 60
Interest	14	16	13

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount				
In millions						
December 31, 1997	103	\$ 1	\$1,438	\$ 7	\$ (93)	\$1,353
Employee stock purchase and stock compensation plans	2	—	57	—	—	57
Purchase of Company common stock	(6)	—	(200)	—	—	(200)
Subtotal	99	1	1,295	7	(93)	1,210
Net income	—	—	—	122	—	122
Other comprehensive income, net of tax:						
Currency translation adjustments	—	—	—	—	95	95
Unrealized gains on securities:						
Unrealized holding gains arising during the period	—	—	—	—	9	9
Less: reclassification adjustment for gains included in net income	—	—	—	—	(4)	(4)
Additional minimum pension liability	—	—	—	—	15	15
Comprehensive income	—	—	—	122	115	237
December 31, 1998	99	1	1,295	129	22	1,447
Employee stock purchase and stock compensation plans	3	—	80	—	—	80
Proceeds from sale of put options	—	—	1	—	—	1
Reclassification of put option obligation	—	—	(13)	—	—	(13)
Purchase of Company common stock	(8)	—	(282)	—	—	(282)
Subtotal	94	1	1,081	129	22	1,233
Net income	—	—	—	337	—	337
Other comprehensive income, net of tax:						
Currency translation adjustments	—	—	—	—	(13)	(13)
Unrealized gains on securities:						
Unrealized holding gains arising during the period	—	—	—	—	54	54
Less: reclassification adjustment for gains included in net income	—	—	—	—	(14)	(14)
Additional minimum pension liability	—	—	—	—	(1)	(1)
Comprehensive income	—	—	—	337	26	363
December 31, 1999	94	1	1,081	466	48	1,596
Employee stock purchase and stock compensation plans	3	—	117	—	—	117
Purchase acquisitions	1	—	64	—	—	64
Proceeds from sale of put options	—	—	5	—	—	5
Expiration of put option obligation	—	—	13	—	—	13
Purchase of Company common stock	(3)	—	(124)	—	—	(124)
Subtotal	95	1	1,156	466	48	1,671
Net income	—	—	—	178	—	178
Other comprehensive (loss), net of tax:						
Currency translation adjustments	—	—	—	—	(42)	(42)
Unrealized (losses) gains on securities:						
Unrealized holding (losses) arising during the period	—	—	—	—	(35)	(35)
Less: reclassification adjustment for gains included in net income	—	—	—	—	(3)	(3)
Additional minimum pension liability	—	—	—	—	(11)	(11)
Comprehensive income (loss)	—	—	—	178	(91)	87
December 31, 2000	95	\$ 1	\$1,156	\$644	\$ (43)	\$1,758

Consolidated
Statements of
Changes in
Stockholders'
Equity

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

NCR Corporation and its subsidiaries (NCR or the Company) provide solutions worldwide that are designed specifically to enable businesses to build, expand and enhance their relationships with their customers by facilitating transactions and transforming data from transactions into useful business information.

At the checkout counter, by telephone, at a web-enabled kiosk or automated teller machine (ATM), or over the Internet, NCR's solutions enable companies to capture information about individual preferences and needs. The Company then provides powerful data warehousing solutions that help businesses understand and serve each customer as a clearly defined market of one, responding with programs designed to improve customer acquisition, retention and profitability.

NCR offers specific solutions for the retail and financial industries and also provides solutions for industries including telecommunications, transportation, insurance, utilities and electronic commerce, as well as consumer goods manufacturers and government entities. These solutions are built on a foundation of long-established industry knowledge and consulting expertise, value-adding software, global customer support services, a complete line of consumable and media products and a range of hardware technology.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of NCR and its majority-owned subsidiaries in which NCR exercises significant influence and control. Long-term investments in affiliated companies in which NCR exercises significant influence, but which it does not control, are accounted for under the equity method. Investments in which NCR does not exercise significant influence (generally, when NCR has an investment of less than 20% and no representation on the company's Board of Directors) are accounted for under the cost method. All significant intercompany transactions and accounts have been eliminated.

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 reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates.

FOREIGN CURRENCY

For many NCR international operations, the local currency is designated as the functional currency. Accordingly, assets and liabilities are translated into U.S. dollars at year end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Currency translation adjustments resulting from fluctuations in exchange rates are recorded in other comprehensive income.

In the normal course of business, NCR enters into various financial instruments, including derivative financial instruments. The use of foreign exchange forward contracts and options allows NCR to reduce its exposure to changes in currency exchange rates. Derivatives used as a part of NCR's risk management strategy, which are designated at inception as hedges, are measured for effectiveness both at inception and on an ongoing basis. NCR primarily uses forward contracts and options to hedge its foreign currency exposures relating largely to inventory purchases by marketing units and inventory sales by manufacturing units. For foreign exchange contracts that hedge firm commitments, and foreign exchange options contracts that hedge anticipated transactions, the gains and losses are deferred and recognized as adjustments of carrying amounts when the underlying hedged transaction is realized, canceled or otherwise terminated. For other foreign exchange contracts that hedge anticipated transactions, gains and losses are recognized currently in other income and expense as exchange rates change. When hedging certain foreign currency transactions of a long-term investment nature, gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Settlement payments are primarily based on net gains and losses related to foreign exchange derivatives and are included in cash flows from operating activities in the consolidated statements of cash flows. At December 31, 2000, deferred net gains on foreign exchange options, which hedged anticipated transactions, were \$2 million, and the unamortized foreign exchange option premiums were \$5 million. The applicable amounts at December 31, 1999 were \$3 million and \$15 million, respectively.

REVENUE RECOGNITION

Revenue is generally recognized when all contractual obligations have been satisfied and collection of the resulting receivable is reasonably assured. Revenue from product sales is recognized upon shipment, delivery, installation or customer acceptance, based upon the substance of the arrangement or as defined in the customer contract. Revenue from services, including maintenance services, is recognized proportionately over the contract period, at the time of performance or upon customer acceptance, based upon the substance of the arrangement or as defined in the customer contract.

WARRANTY, SALES RETURNS AND POST SALES SUPPORT

Provisions for product warranties, sales returns and allowances and post sales support are recorded in the period in which the related revenue is recognized.

INCOME TAXES

Income tax expense is provided based on income before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws. NCR records valuation allowances related to its deferred income tax assets when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

NET INCOME PER COMMON SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic, except that the weighted average number of shares outstanding includes the additional dilution from potential common stock, such as stock options and restricted stock awards.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

All short-term, highly liquid investments having original maturities of three months or less are considered to be cash equivalents. Short-term investments include certificates of deposit, commercial paper and other investments having maturities less than one year. Such investments are stated at cost, which approximates fair value at December 31, 2000 and 1999.

TRANSFER OF FINANCIAL ASSETS

NCR offers its customers the option to acquire its products and services through payment plans, financing or leasing contracts. From time to time, the Company transfers future payments under these contracts to financing institutions on a non-recourse basis. NCR may act as servicing agent for the purchaser and retain collection and administrative responsibilities. These transfers are recorded as sales of the related accounts receivable when NCR is considered to have surrendered control of such receivables. During the fourth quarter of 2000, the Company factored approximately \$58 million of receivables. The related loss on the factoring was immaterial to the Company's consolidated financial results.

INVENTORIES

Inventories are stated at the lower of average cost or net realizable value.

INVESTMENTS IN MARKETABLE SECURITIES

All marketable securities, which are included in other assets, are deemed by management to be available-for-sale and are reported at fair value with net unrealized gains or losses reported, net of tax, within stockholders' equity. Realized gains and losses are recorded based on the specific identification method and average cost method, as appropriate, based upon the investment type. The fair value of the Company's investments in marketable securities in aggregate was \$72 million and \$118 million at December 31, 2000 and 1999, respectively.

In 1999, the Company sold its TeraCube® software rights and related assets to MicroStrategy Incorporated in exchange for \$14 million of MicroStrategy Incorporated common stock. A pre-tax realized gain of \$11 million was recognized in NCR's 1999 consolidated financial statements.

LONG-LIVED ASSETS

Capitalized Software. In 1999, NCR adopted the Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". In accordance with this standard, certain direct development costs associated with internal-use software were capitalized beginning in 1999. These costs are included within other assets and are generally amortized over three years, beginning when the asset is substantially ready for use.

Research and development costs incurred for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These costs are also included within other assets and are generally amortized over three years, beginning when the product is available for general release. Costs capitalized include direct labor and related overhead costs. Amortization of capitalized software development costs was \$68 million in 2000, \$63 million in 1999 and \$65 million in 1998. Accumulated amortization for capitalized software development costs was \$131 million and \$102 million at December 31, 2000 and 1999, respectively.

Goodwill. Goodwill is included in other assets and is carried at cost less accumulated amortization. Amortization is computed on a straight-line basis over useful lives ranging from three to 20 years. Goodwill amortization expense was \$33 million in 2000, \$20 million in 1999 and \$16 million in 1998. Accumulated amortization was \$53 million and \$20 million at December 31, 2000 and 1999, respectively.

Property, Plant and Equipment. Property, plant and equipment, and reworkable service parts are stated at cost less accumulated depreciation. Reworkable service parts are those parts that can be reconditioned and used in installation and ongoing maintenance services and integrated service solutions for NCR's customers. Depreciation is computed over the estimated useful lives of the related assets primarily on the straight-line basis. Buildings are depreciated over 25 to 45 years, machinery and other equipment over three to 10 years and reworkable service parts over three to five years.

Valuation of Long-Lived Assets. Long-lived assets such as property, plant and equipment, goodwill, software and investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount.

ACQUISITIONS AND DIVESTITURES

During 2000, 1999 and 1998, NCR acquired several companies that were not significant to its financial position, results of operations and cash flows. All of these acquisitions were accounted for as purchase business combinations and the earnings from these acquired entities were included in NCR's consolidated financial results from the dates of acquisition. Acquisition costs were allocated to the acquired tangible and intangible assets and liabilities based on fair market values, with residual amounts recorded as goodwill. The intangible value assigned to in-process research and development was charged to expense at the time of the acquisition. The allocation of purchase price to the various tangible and intangible assets and liabilities are subject to finalization of pre-existing contingencies and other purchase accounting adjustments, none of which are expected to be material. In 2000, 1999 and 1998, NCR sold assets related to portions of its businesses to third parties. Unaudited pro forma financial information has not been presented because the effects of these acquisitions and divestitures were not material on either an individual or aggregated basis.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 133 and No. 138. In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133" (SFAS 138). SFAS 133 and the corresponding amendments under SFAS 138 are effective for fiscal years beginning after June 15, 2000. NCR has elected to adopt SFAS 133 and SFAS 138 effective January 1, 2001. SFAS 133 and SFAS 138 require that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. For fair value hedge transactions in which the Company is hedging changes in the fair value of an asset, liability or firm commitment, changes in the fair value of the derivative instrument will be offset in the income statement by changes in the hedged item's fair value. For cash flow hedge transactions in which the Company is hedging the variability of cash flows related to a variable rate asset, liability or a forecasted transaction, changes in the fair value of the derivative instrument will generally be reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. In the event that a hedging instrument is deemed to be ineffective under SFAS 133, the ineffective portion will be recognized in current period earnings.

On January 1, 2001, NCR will record net-of-tax, cumulative-effect-type losses of \$6 million and \$4 million, in accumulated other comprehensive income and net income, respectively, to recognize at fair value all derivative instruments that will be designated as hedging instruments. Included in the \$4 million loss is an immaterial expense related to derivatives that are deferred on the balance sheet and will be de-designated as effective hedges.

Staff Accounting Bulletin No. 101. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements"(SAB 101). SAB 101 provides guidance on the recognition, presentation and disclosure of revenues in financial statements. Consistent with the requirements to implement SAB 101 no later than the fourth quarter for fiscal years beginning after December 15, 1999, NCR adopted the provisions of SAB 101 and the resulting impact was immaterial to the Company's consolidated financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 140. In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 140). SFAS 140, which replaces Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," revises the standards for accounting for securitizations and other transfers of financial assets and collateral. The standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company does not expect adoption of this standard to have any impact to the Company's consolidated financial position, results of operations and cash flows.

NOTE 2 SUPPLEMENTARY FINANCIAL INFORMATION

For the Year Ended December 31

	2000	1999	1998
In millions			
OTHER INCOME			
Interest income	\$31	\$ 26	\$ 44
Gain on sales of assets	33	107	47
Other, net	19	36	32
Total other income, net	\$83	\$169	\$123

At December 31

	2000	1999
In millions		
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
Cash and cash equivalents	\$ 347	\$ 571
Short-term investments	10	192
Total cash, cash equivalents and short-term investments	\$ 357	\$ 763
ACCOUNTS RECEIVABLE		
Trade	\$ 1,255	\$ 1,047
Other	107	181
Accounts receivable, gross	1,362	1,228
Less: allowance for doubtful accounts	(24)	(31)
Total accounts receivable, net	\$ 1,338	\$ 1,197
INVENTORIES		
Finished goods, gross	\$ 262	\$ 298
Work in process and raw materials, gross	83	73
Inventories, gross	345	371
Less: inventory allowances	(57)	(72)
Total inventories, net	\$ 288	\$ 299
OTHER CURRENT ASSETS		
Current deferred tax assets	\$ 123	\$ 167
Other	128	115
Total other current assets	\$ 251	\$ 282
REWORKABLE SERVICE PARTS		
Reworkable service parts, gross	\$ 494	\$ 516
Less: accumulated depreciation	(276)	(307)
Total reworkable service parts, net	\$ 218	\$ 209
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	\$ 103	\$ 140
Buildings and improvements	641	701
Machinery and other equipment	1,107	1,170
Property, plant and equipment, gross	1,851	2,011
Less: accumulated depreciation	(1,109)	(1,218)
Total property, plant and equipment, net	\$ 742	\$ 793
OTHER ASSETS		
Prepaid pension cost	\$ 932	\$ 811
Goodwill, net	532	118
Other	448	423
Total other assets	\$ 1,912	\$ 1,352
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX		
Currency translation adjustments	\$ (12)	\$ 30
Unrealized gains on securities	1	39
Additional minimum pension liability and other	(32)	(21)
Total accumulated other comprehensive (loss) income	\$ (43)	\$ 48

NOTE 3 BUSINESS RESTRUCTURING

During the fourth quarter of 1999, NCR established a restructuring plan designed to accelerate the Company's transformation from a computer hardware and product company to a technology solutions and services provider. The plan contemplated an alignment around three key solutions (Data Warehousing, Financial Self Service and Retail Store Automation), the elimination of approximately 1,250 associate positions, the exit of certain commodity hardware businesses and an enhanced leverage of the investment in the Company's Data Warehousing offering.

In connection with the restructuring plan, NCR recorded a pre-tax charge of \$125 million in the fourth quarter of 1999. The charge included a \$76 million accrual under postemployment benefit plans related to employee separations, \$35 million of charges related to asset impairments, \$7 million of charges for the write-off of software licenses and inventory write-downs and \$7 million of charges for other items. Cash payments under the plan totaled \$46 million, and NCR anticipates that future cash payments under the plan will not be significant. In addition, NCR expected to incur approximately \$55 million of period costs during 2000, primarily related to settling customer obligations that were not complete as of December 31, 1999. These obligations were resolved for approximately \$38 million, or \$17 million less than originally expected. The Company recorded the costs associated with these obligations through charges of \$37 million in cost of revenue and \$1 million in selling, general and administrative expenses. The restructuring plan was substantially completed at December 31, 2000.

As a result of the restructuring, NCR achieved an estimated savings of more than \$75 million in 2000 due primarily to the elimination of losses in the exited solutions, as well as through cost savings related to employee separations within the Company's support organizations. In addition, NCR experienced a revenue decline of approximately \$360 million as a result of the Company's decision to exit specific non-key solutions in certain geographic areas.

NOTE 4 INCOME TAXES

For the years ended December 31, income before income taxes consisted of the following:

	2000	1999	1998
In millions			
INCOME (LOSS) BEFORE INCOME TAXES			
United States	\$319	\$264	\$272
Foreign	(44)	(29)	(60)
Total income before income taxes	\$275	\$235	\$212

Notes to
Consolidated
Financial
Statements

For the years ended December 31, income tax expense (benefit) consisted of the following:

	2000	1999	1998
In millions			
INCOME TAX EXPENSE (BENEFIT)			
Current			
Federal	\$32	\$ 24	\$21
State and local	2	2	(8)
Foreign	31	59	23
Deferred			
Federal	35	(218)	—
State and local	3	(14)	—
Foreign	(6)	45	54
Total income tax expense (benefit)	\$97	\$(102)	\$90

The following table presents the principal components of the difference between the effective tax rate and the U.S. federal statutory income tax rate for the years ended December 31:

	2000	1999	1998
In millions			
Income tax expense at the U.S. federal tax rate of 35%	\$96	\$ 82	\$ 74
Foreign income tax differential	(8)	74	98
U.S. permanent book/tax differences (principally goodwill)	6	—	—
U.S. tax losses and valuation allowance	—	(260)	(91)
Other, net	3	2	9
Total income tax expense (benefit)	\$97	\$(102)	\$ 90

NCR's tax provisions include a provision for income taxes in those tax jurisdictions where its subsidiaries are profitable, but reflect only a portion of the tax benefits related to certain foreign subsidiaries' tax losses due to the uncertainty of the ultimate realization of future benefits from these losses. Due primarily to sustained U.S. profitability, a release of the Company's federal and a portion of its state valuation allowance was recognized in 1999 as U.S. tax losses and valuation allowance.

Deferred income tax assets and liabilities included in the balance sheets at December 31 were as follows:

	2000	1999
In millions		
DEFERRED INCOME TAX ASSETS		
Employee pensions and other benefits	\$ 110	\$ 165
Other balance sheet reserves and allowances	170	198
Tax loss and credit carryforwards	445	353
Property, plant and equipment	29	24
Other	90	76
Total deferred income tax assets	844	816
Valuation allowance	(304)	(285)
Net deferred income tax assets	540	531
DEFERRED INCOME TAX LIABILITIES		
Property, plant and equipment	72	93
Employee pensions and other benefits	164	135
Taxes on undistributed earnings of foreign subsidiaries	58	75
Other	63	79
Total deferred income tax liabilities	357	382
Total net deferred income tax assets	\$ 183	\$ 149

NCR recorded valuation allowances related to certain deferred income tax assets due to the uncertainty of the ultimate realization of future benefits from certain assets. The \$19 million increase in valuation allowance from 1999 to 2000 represents additional deferred tax assets, primarily tax loss carryforwards, in tax jurisdictions where there is uncertainty as to the ultimate realization of a benefit from those additional tax losses. As of December 31, 2000, NCR had U.S. federal and foreign tax loss carryforwards of approximately \$645 million. The tax loss carryforwards subject to expiration expire in the years 2002 through 2020.

NCR did not provide for U.S. federal income taxes or foreign withholding taxes on approximately \$568 million and \$612 million of undistributed earnings of its foreign subsidiaries as of December 31, 2000 and 1999, respectively, because such earnings are intended to be reinvested indefinitely.

The income tax (benefit) expense related to comprehensive income for 2000 and 1999 was \$(48) million and \$5 million, respectively. In 1998, the tax effect to comprehensive income was not significant.

NOTE 5 DEBT OBLIGATIONS

NCR had debt with scheduled maturities of less than one year of \$96 million and \$37 million as of December 31, 2000 and 1999, respectively. The weighted average interest rate for such debt was 7.2% at December 31, 2000 and 7.7% at December 31, 1999. The increase in short-term debt was due, in part, to the acquisition of 4Front Technologies, Inc. (4Front), which increased NCR's debt with scheduled maturities of less than one year by \$36 million. NCR had long-term debt and notes totaling \$11 million and \$40 million at December 31, 2000 and 1999, respectively. These obligations had U.S. dollar equivalent interest rates ranging from 8.5% to 9.5% with scheduled maturity dates from 2002 to 2020. The scheduled maturities of the outstanding long-term debt and notes during the next five years are: \$2 million in 2002, \$3 million in 2004 and the remainder after 2005.

In 1996, NCR entered into a five-year, unsecured revolving credit facility with a syndicate of commercial banks and financial institutions. The credit facility provides that NCR may borrow on a revolving credit basis an aggregate principal amount of up to \$600 million. The credit facility matures in 2001 and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. Interest rates charged on borrowings outstanding under the credit facility are based on prevailing market rates. No amounts were outstanding under the facility as of December 31, 2000 or 1999.

NOTE 6 EMPLOYEE BENEFIT PLANS**PENSION AND POSTRETIREMENT PLANS**

NCR sponsors defined benefit plans for substantially all U.S. employees and the majority of international employees. For salaried employees, the defined benefit plans are based primarily upon compensation and years of service. For certain hourly employees in the United States, the benefits are based on a fixed dollar amount per year of service. NCR's funding policy is to contribute annually not less than the minimum required by applicable laws and regulations. Assets of NCR's defined benefit plans are primarily invested in publicly traded common stocks, corporate and government debt securities, real estate investments and cash or cash equivalents.

Prior to September 1998, substantially all U.S. employees who reached retirement age while working for NCR were eligible to participate in a postretirement benefit plan. The plan provides medical care and life insurance benefits to retirees and their eligible dependents. In September 1998, the plan was amended whereby U.S. participants who had not reached a certain age and years of service with NCR were no longer eligible for such benefits. Non-U.S. employees are typically covered under government sponsored programs, and NCR generally does not provide postretirement benefits other than pensions to non-U.S. retirees. NCR generally funds these benefits on a pay-as-you-go basis.

Reconciliation of the beginning and ending balances of the benefit obligations for NCR's pension and postretirement benefit plans were:

	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
In millions				
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at January 1	\$3,462	\$3,422	\$326	\$316
Gross service cost	81	83	1	1
Interest cost	234	225	24	23
Amendments	52	16	(2)	—
Actuarial loss (gain)	99	(31)	21	20
Benefits paid	(245)	(204)	(38)	(34)
Currency translation adjustments	(93)	(47)	—	—
Other	3	(2)	—	—
Benefit obligation at December 31	\$3,593	\$3,462	\$332	\$326

A reconciliation of the beginning and ending balances of the fair value of the plan assets of NCR's pension plans follows:

	Pension Benefits	
	2000	1999
In millions		
CHANGE IN PLAN ASSETS		
Fair value of plan assets at January 1	\$4,707	\$4,000
Actual return on plan assets	120	924
Company contributions	62	67
Benefits paid	(245)	(204)
Currency translation adjustments	(108)	(84)
Other	4	4
Fair value of plan assets at December 31	\$4,540	\$4,707

Accrued pension and/or postretirement benefit assets (liabilities) included in NCR's consolidated balance sheet at December 31 were:

	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
In millions				
RECONCILIATION TO BALANCE SHEET				
Funded status	\$ 947	\$1,245	\$(332)	\$(326)
Unrecognized net (gain) loss	(380)	(779)	6	(15)
Unrecognized prior service cost	66	38	(36)	(46)
Unrecognized transition asset	(25)	(47)	—	—
Net amount recognized	\$ 608	\$ 457	\$(362)	\$(387)
TOTAL RECOGNIZED AMOUNTS CONSIST OF:				
Prepaid benefit cost	\$ 932	\$ 811	\$ —	\$ —
Accrued benefit liability	(366)	(380)	(362)	(387)
Intangible asset	4	5	—	—
Accumulated other comprehensive income	38	21	—	—
Net amount recognized	\$ 608	\$ 457	\$(362)	\$(387)

Notes to
Consolidated
Financial
Statements

The weighted average rates and assumptions utilized in accounting for these plans for the years ended December 31 were:

	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Discount rate	7.0%	7.0%	6.8%	7.5%	7.5%	7.0%
Expected return on plan assets	10.0%	10.0%	10.0%	—	—	—
Rate of compensation increase	4.2%	4.1%	4.3%	4.3%	4.3%	4.3%

For postretirement benefit measurement purposes, NCR assumed growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline from 8.0% and 6.0%, pre-65 and post-65, respectively, in 2000 to 5.0% by the year 2006. In addition, a one percentage point change in assumed health care cost trend rates would have the following effect on the postretirement benefit costs and obligation:

	1% Increase	1% Decrease
In millions		
2000 service cost and interest cost	\$ 2	\$(2)
Postretirement benefit obligation at December 31, 2000	20	(18)

The net periodic benefit cost for the plans for the years ended December 31 follows:

	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
In millions						
Net service cost	\$ 78	\$ 78	\$ 75	\$ 1	\$ 1	\$ 4
Interest cost	234	225	222	24	23	27
Expected return on plan assets	(414)	(360)	(349)	—	—	—
Settlement (credit) charge	(8)	—	46	—	—	—
Curtailement	—	—	—	—	—	(19)
Amortization of:						
Transition asset	(21)	(22)	(22)	—	—	—
Prior service cost	23	16	17	(12)	(12)	(3)
Actuarial (gains) losses	(16)	3	4	—	—	(1)
Net benefit cost	\$(124)	\$ (60)	\$ (7)	\$ 13	\$ 12	\$ 8

In 1998, NCR recognized a \$50 million pre-tax non-recurring pension charge relating to its Japanese subsidiary.

For pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value were \$483 million, \$408 million and \$46 million, respectively, at December 31, 2000 and \$504 million, \$401 million and \$31 million, respectively, at December 31, 1999.

In 1996, NCR entered into an agreement with the Pension Benefit Guaranty Corporation (PBGC) concerning the provision by NCR of additional support for its domestic defined benefit pension plans. Under this agreement, among other terms and conditions, NCR agreed to provide security interests in support of such plans in collateral with an aggregate value (calculated by applying specified discounts to market value) of \$84 million. This collateral is comprised of certain domestic real estate. NCR does not believe that its agreement with the PBGC will have a material effect on its financial condition, results of operations and cash flows.

SAVINGS PLANS

All U.S. employees and many international employees participate in defined contribution savings plans. These plans generally provide either a specified percent of pay or a matching contribution on participating employees' voluntary elections. NCR's matching contributions typically are subject to a maximum percentage or level of compensation. Employee contributions can be made pre-tax, after-tax or a combination thereof. The expense under these plans was approximately \$28 million, \$28 million and \$24 million for 2000, 1999 and 1998, respectively.

OTHER POSTEMPLOYMENT BENEFITS

NCR offers various postemployment benefits to involuntarily terminated and certain inactive employees after employment but before retirement. These benefits are paid in accordance with NCR's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, and continuation of health care benefits and life insurance coverage. The accrued postemployment liability at December 31, 2000 and 1999 was \$197 million and \$275 million, respectively.

NOTE 7 BUSINESS COMBINATIONS AND EQUITY INVESTMENTS

During 2000, NCR completed the following acquisitions that were accounted for as purchase business combinations: KM Aspac Pte. Limited (d/b/a Memorex Telex Asia Pacific), Strategic Technologies and Systems, Stirling Douglas Group, Research Computer Services, Inc. and Ceres Integrated Solutions, LLC. These acquisitions resulted in total goodwill of \$107 million that is being amortized over various periods of five to seven years, and in-process research and development charges of \$25 million. The total amount of stock issued as part of these acquisitions was \$64 million.

In addition to the acquisitions described above, the Company acquired 4Front Technologies, Inc. in 2000. 4Front is a leading provider and integrator of information technology services, consisting of specialized computer services and web-based solutions. Based on the preliminary allocation of the purchase price, the acquisition resulted in intangibles of approximately \$324 million that are being amortized over 10 years. The allocation of purchase price will be finalized in 2001. As of December 31, 2000, the Company had incurred approximately \$2 million of integration costs related to the acquisition. These costs were expensed as incurred.

During 1998, NCR acquired an additional 27% ownership interest in its Japanese subsidiary, NCR Japan, Ltd., at a cost of \$274 million, increasing NCR's ownership of the subsidiary to over 97%. The acquisition resulted in goodwill of approximately \$65 million that is being amortized over 20 years.

In addition to the items described above, NCR completed other acquisitions and investments in smaller transactions during 2000, 1999 and 1998.

NOTE 8 STOCK COMPENSATION PLANS, PURCHASES OF COMPANY COMMON STOCK AND PUT OPTIONS

STOCK COMPENSATION PLANS

The NCR Management Stock Plan provides for the grant of several different forms of stock-based benefits, including stock options, stock appreciation rights, restricted stock awards, performance awards, other stock unit awards and other rights, interests or options relating to shares of NCR common stock to employees and non-employee directors. Stock options are generally granted at the fair market value of the common stock at the date of grant, generally have a 10-year term and vest within three years of the grant date. Grants that were issued before 1998 generally had a four-year vesting period. Options to purchase common stock are granted under the authority of the Board of Directors. Option terms are determined by the Compensation Committee of the Board, and terms for incentive stock options will not exceed 10 years, consistent with the Internal Revenue Code. The plan was adopted by the Board of Directors, with stockholder approval, effective January 1, 1997. The plan contains an evergreen provision that initially authorized and made available for grant 5.6% of the outstanding shares as of January 1, 1997, as well as sufficient shares to replace all outstanding awards held by active NCR employees for shares of AT&T Corp. stock. Thereafter, the number of shares authorized under the plan increases each calendar year by 4% of the outstanding shares on the first day of the year, for the 10-year term of the plan, without the need for additional Board approval. The number of shares of common stock authorized, since the inception of the plan, and currently available for grant under this plan were approximately 24 million and 5 million, respectively, at December 31, 2000.

NCR adopted the WorldShares Plan effective as of December 31, 1996, the date AT&T Corp. distributed to its stockholders all of its interest in NCR on the basis of one share of NCR common stock for each 16 shares of AT&T Corp. common stock (the Distribution). The plan provides for the grant of nonstatutory stock options to substantially all NCR employees. NCR provided each participant with an option to purchase shares of NCR common stock with an aggregate market value of \$3,000 as of the Distribution date. Such options have an exercise price of \$33.44, equal to the market value of NCR common stock on January 2, 1997, and have a five-year expiration period. Subject to certain conditions, participants became fully vested and able to exercise their options January 2, 1998. The number of shares authorized, since the inception of the plan, and currently available for grant under this plan were approximately 7 million and 4 million, respectively, at December 31, 2000.

A summary of stock option activity under the NCR Management Stock Plan and the WorldShares Plan follows (shares in thousands):

	2000		1999		1998	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding at January 1	14,577	\$35.22	12,906	\$33.13	12,521	\$33.26
Granted	4,491	38.50	3,967	40.64	2,904	31.87
Exercised	(2,327)	32.07	(1,631)	31.36	(703)	27.13
Canceled	(593)	37.44	(504)	36.47	(1,552)	33.95
Forfeited	(233)	34.26	(161)	33.27	(264)	36.06
Outstanding at December 31	15,915	\$36.52	14,577	\$35.22	12,906	\$33.13

The following table summarizes information about stock options outstanding at December 31, 2000 (shares in thousands):

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$9.68 to \$14.02	26	1.16 years	\$11.22	26	\$11.22
\$16.78 to \$29.22	541	2.89 years	25.18	482	25.02
\$30.31 to \$51.63	15,348	6.65 years	36.96	7,862	35.34
Total	15,915		\$36.52	8,370	\$34.67

NCR accounts for its stock-based compensation plans using the intrinsic value-based method, which requires compensation expense for options to be recognized when the market price of the underlying stock exceeds the exercise price on the date of grant. Compensation cost charged against income for NCR's stock-based plans was not material in 2000, 1999 and 1998.

Had NCR recognized stock-based compensation expense based on the fair value of granted options at the grant date, net income and net income per diluted share for the years ended December 31 would have been as follows:

	2000	1999	1998
In millions, except per share amounts			
Net income			
As reported	\$ 178	\$ 337	\$ 122
Pro forma	140	309	81
Net income per diluted share			
As reported	\$1.82	\$3.35	\$1.20
Pro forma	1.43	3.07	0.80

The pro forma amounts shown above are not necessarily indicative of the effects on net income and net income per diluted share in future years.

The above pro forma net income and net income per diluted share for all periods presented were computed using the fair value of options as calculated using the Black-Scholes option-pricing method. The following weighted average assumptions were used for the years ended December 31:

	2000	1999	1998
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	6.41%	4.97%	5.35%
Expected volatility	40.00%	40.00%	40.00%
Expected holding period (years)	5	5	5

The weighted average fair value of NCR stock options calculated using the Black-Scholes option-pricing model for options granted during the years ended December 31, 2000, 1999 and 1998 was \$17.42, \$17.39 and \$13.85 per share, respectively.

The NCR Employee Stock Purchase Plan enables eligible employees to purchase NCR's common stock at 85% of the average market price at the end of the last trading day of each month. Employees may authorize payroll deductions of up to 10% of eligible compensation for common stock purchases. During 2000, 1999 and 1998, employees purchased approximately 800 thousand, 900 thousand and 1 million shares, respectively, of NCR common stock for approximately \$27 million, \$30 million and \$28 million, respectively. The number of shares authorized and available for grant under this plan at December 31, 2000 were approximately 8 million and 4 million, respectively.

PURCHASE OF COMPANY COMMON STOCK

On December 8, 2000, NCR's Board of Directors approved a share repurchase program authorizing the systematic repurchase of shares of Company common stock to offset the dilutive effect of the employee stock plans. The systematic repurchase program will be funded by the proceeds from the purchase of shares under the Company's Employee Stock Purchase Plan and the exercise of options. Stock will be repurchased periodically on an ongoing basis in the open market or through privately negotiated transactions at management's discretion. As of December 31, 2000, the

Company had committed approximately \$88 million to the repurchase of shares under this program. The repurchased shares will be added to NCR's authorized, but unissued shares. During 2000, approximately 1.8 million shares were repurchased under this program at an average price of \$48.75 per share. This program is expected to continue into 2001.

As of December 31, 2000, the Company had committed approximately \$319 million of the total \$500 million authorized by the Board of Directors on April 15, 1999 and October 21, 1999 for share repurchase programs. During 2000, approximately 1.1 million shares were repurchased under this program at an average cost of \$34.04 per share. In 1999, a portion of the funds was used to cash out fractional interests in NCR stock resulting from a 1-for-10 reverse stock split, followed immediately by a 10-for-1 forward split of NCR's common stock, on May 14, 1999. This program effectively cashed out registered stockholders who held fewer than 10 shares of NCR common stock in a record account as of May 14, 1999. As a result of the reverse/forward stock split initiative, approximately 2.4 million shares were repurchased at a cost of \$42.38 per share. Additionally, during 1999, approximately 5.1 million shares were repurchased at an average cost of \$35.25 per share.

PUT OPTIONS

At times, the Company sells put options that entitle the holder of each option to sell to the Company, by physical delivery, shares of common stock at a specified price. In a single private placement during the fourth quarter of 1999, the Company sold put options for 400 thousand shares of common stock. These options expired unexercised in the first quarter of 2000. During 2000, in a series of private placements, the Company sold put options for 2.0 million shares of common stock. Of these 2.0 million options, 1.6 million expired unexercised during the year and 400 thousand were exercised during the third quarter at an average price of \$37.00 per share. There were no options outstanding at December 31, 2000.

The put option activity is summarized as follows:

	Cumulative Net Premium Received	Put Options Outstanding	
		Number of Options	Potential Obligation
In millions			
December 31, 1998	\$—	—	\$ —
Sales	1.1	0.4	13.1
Exercises	—	—	—
Expirations	—	—	—
December 31, 1999	\$1.1	0.4	\$13.1
Sales	4.9	2.0	73.0
Exercises	—	(0.4)	(14.8)
Expirations	—	(2.0)	(71.3)
December 31, 2000	\$6.0	—	\$ —

At December 31, 1999, the amount related to the Company's potential repurchase obligation of approximately \$13 million had been reclassified from stockholders' equity to put options. Each option was exercisable only at expiration, and all options sold during 1999 expired unexercised on March 1, 2000. These put option obligations had no significant effect on diluted earnings per share for the periods presented.

NOTE 9 FINANCIAL INSTRUMENTS

In the normal course of business, NCR enters into various financial instruments, including derivative financial instruments. These instruments primarily consist of foreign exchange forward contracts and options that are used to reduce NCR's exposure to changes in currency exchange rates. At inception, foreign exchange contracts are designated as hedges of firmly committed or forecasted transactions. These transactions are generally expected to occur in less than one year. The forward contracts and options generally mature within 12 months. The majority of NCR's foreign exchange forward contracts were to exchange pounds, euro and yen.

LETTERS OF CREDIT

Letters of credit are purchased guarantees that ensure NCR's performance or payment to third parties in accordance with specified terms and conditions. Letters of credit may expire without being drawn upon. Therefore, the total notional or contract amounts do not necessarily represent future cash flows.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of long-term debt and foreign exchange contracts are based on market quotes of similar instruments. The fair values of letters of credit are based on fees charged for similar agreements. The table below presents the fair value, carrying value and notional amount of foreign exchange contracts, debt and letters of credit at December 31, 2000 and 1999. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based, and are an indication of the extent of NCR's involvement in such instruments. They do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments.

	Contract Notional Amount	Carrying Amount		Fair Value	
		Asset	Liability	Asset	Liability
In millions					
2000					
Foreign exchange forward contracts	\$886	\$30	\$ 39	\$33	\$ 44
Foreign currency options	275	15	1	15	1
Debt	—	—	107	—	107
Letters of credit	50	—	—	—	—
1999					
Foreign exchange forward contracts	\$467	\$19	\$ 24	\$19	\$ 30
Foreign currency options	403	19	2	19	2
Debt	—	—	77	—	77
Letters of credit	44	—	—	—	—

Fair values of financial instruments represent estimates of possible value that may not be realized in the future.

CONCENTRATION OF CREDIT RISK

NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, short-term investments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potential significant losses. However, Management believes that the reserves for potential losses are adequate. At December 31, 2000 and 1999, NCR did not have any major concentration of credit risk related to financial instruments.

Notes to
Consolidated
Financial
Statements

NOTE 10 SEGMENT INFORMATION AND CONCENTRATIONS**OPERATING SEGMENT INFORMATION**

NCR assesses performance and allocates resources based principally on its alignment around three key solutions: Data Warehousing, Financial Self Service and Retail Store Automation. Each solution combines hardware, software, professional consulting, customer support and maintenance services, and third party applications and technologies. For reporting purposes, NCR categorizes its operations into six reportable segments: the three key solutions, Payment and Imaging solutions, Systemedia and Other.

Designed to help businesses gain insight into consumers' activities and choices, asset use, and operations and financial results, Data Warehousing solutions provide the hardware, software and related services necessary to transform large volumes of information into actionable opportunities. NCR's Data Warehousing solutions serve a multitude of industries including retail, financial, telecommunications, transportation, insurance, utilities and electronic commerce, as well as consumer manufacturing and government entities. The Company's Self Service solutions offer a complete line of ATM hardware and software, and related services, enabling businesses to reduce costs, generate new revenue streams and build customer loyalty. Self Service solutions primarily serve the financial services industry, with particular focus on retail banking. NCR's Store Automation solutions are designed to improve selling productivity and checkout processes, and increase service levels. Primarily serving the retail industry, Store Automation solutions deliver traditional

point-of-sale, web-enabled kiosk, self-checkout and electronic shelf label solutions. The Company's Payment and Imaging solutions are designed to digitally capture, process and retain item-based transactions, thereby helping businesses reduce operating costs and increase efficiency. Payment and Imaging solutions primarily serve the financial services industry. Systemedia develops, produces and markets consumable media products principally for customers in industries served by NCR's other operating segments. NCR's Other segment accumulates the revenue and operating income not attributable to the above operating segments, as well as unallocated corporate expenses.

The following tables present data for revenue and operating income by segment for the years ended December 31:

	2000	1999	1998
In millions			
REVENUE			
Data Warehousing	\$1,134	\$ 900	\$ 890
Financial Self Service	1,511	1,565	1,626
Retail Store Automation	1,359	1,435	1,307
Payment and Imaging	304	324	370
Systemedia	502	506	515
Other	1,149	1,466	1,797
Consolidated revenue	\$5,959	\$6,196	\$6,505
OPERATING INCOME (LOSS)			
Data Warehousing	\$ (34)	\$ (142)	\$ (118)
Financial Self Service	201	224	283
Retail Store Automation	(17)	20	(32)
Payment and Imaging	42	17	29
Systemedia	15	30	35
Other	63	54	(45)
Adjustments to reconcile operating income (loss) ¹	(65)	(125)	(50)
Consolidated operating income	\$ 205	\$ 78	\$ 102

¹ Adjustments to reconcile operating income (loss) consist of restructuring and other related charges, in-process research and development charges associated with acquisitions completed in 2000, integration costs associated with the acquisition of 4Front, and a non-recurring pension charge. (See Notes 3, 6 and 7.)

The assets attributable to NCR's segments consist primarily of accounts receivable, inventories and manufacturing assets dedicated to a specific solution. Segment assets at December 31 were:

	2000	1999	1998
In millions			
SEGMENT ASSETS			
Data Warehousing	\$ 382	\$ 253	\$ 321
Financial Self Service	547	500	634
Retail Store Automation	425	387	491
Payment and Imaging	86	78	99
Systemedia	194	185	192
Other	319	334	466
Segment assets	1,953	1,737	2,203
Assets not attributable to segments	3,153	3,158	2,689
Consolidated assets	\$5,106	\$4,895	\$4,892

Assets not attributable to segments consist primarily of fixed assets not dedicated to a specific segment, prepaid pension costs, cash, cash equivalents and short-term investments.

The following table presents revenue by geographic area for NCR for the years ended December 31, 2000, 1999 and 1998. Revenues are attributed to geographic areas/countries based principally upon the geographic area/country to which the product is delivered or in which the service is provided.

	2000	1999	1998
In millions			
REVENUE BY GEOGRAPHIC AREA			
United States	\$2,427	\$2,655	\$2,846
Americas (excluding United States)	721	533	523
Europe/Middle East/Africa	1,661	1,941	2,046
Japan	582	612	687
Asia/Pacific (excluding Japan)	568	455	403
Consolidated revenue	\$5,959	\$6,196	\$6,505

The following table presents certain long-lived assets, primarily composed of property, plant and equipment, prepaid pension, capitalized software and goodwill, by country as of the years ended December 31:

	2000	1999	1998
In millions			
LONG-LIVED ASSETS			
United States	\$1,401	\$ 823	\$ 782
Japan	411	456	486
All other countries	800	830	909
Consolidated long-lived assets	\$2,612	\$2,109	\$2,177

CONCENTRATIONS

No single customer accounts for more than 10% of NCR's consolidated revenue. As of December 31, 2000, NCR is not aware of any significant concentration of business transacted with a particular customer that could, if suddenly eliminated, have a material adverse impact on NCR's operations. NCR also does not have a concentration of available sources of labor, services, licenses or other rights that could, if suddenly eliminated, have a material adverse impact on its operations.

A number of NCR's products, systems and solutions rely primarily on specific suppliers for microprocessors and other component products, manufactured assemblies, operating systems, commercial databases and other central components. There can be no assurances that any sudden impact to the availability or cost of these technologies would not have a material adverse impact on NCR's operations.

NOTE 11 COMMITMENTS AND CONTINGENCIES

CONTINGENCIES

In the normal course of business, NCR is subject to various regulations, proceedings, lawsuits, claims and other matters, including actions under laws and regulations related to the environment and health and safety, among others. NCR believes the amounts provided in its consolidated financial statements, as prescribed by generally accepted accounting principles, are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to discharge alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including the Fox River matter discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's consolidated financial statements or will not have a material adverse effect on its consolidated results of operations, financial condition and cash flows. Any amounts of costs that may be incurred in excess of those amounts provided as of December 31, 2000 cannot currently be determined.

ENVIRONMENTAL MATTERS

NCR's facilities and operations are subject to a wide range of environmental protection laws, and NCR has investigatory and remedial activities underway at a number of facilities that it currently owns or operates, or formerly owned or operated, to comply, or to determine compliance, with such laws. Also, NCR has been identified, either by a government agency or by a private party seeking contribution to site cleanup costs, as a potentially responsible party (PRP) at a number of sites pursuant to various state and federal laws, including the Federal Water Pollution Control Act (FWPCA) and comparable state statutes, and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), and comparable state statutes.

Various federal agencies, Native American tribes and the State of Wisconsin (Claimants) consider NCR to be a PRP under the FWPCA and CERCLA for alleged natural resource damages (NRD) and remediation liability with respect to the Fox River and related Green Bay environment (Fox River System) due to, among other things, sediment contamination in the Fox River System allegedly resulting in part from NCR's former carbonless paper manufacturing in Wisconsin. Claimants have also notified a number of other paper manufacturing companies of their status as PRPs resulting from their ongoing or former paper manufacturing operations in the Fox River Valley, and Claimants have entered into a Memorandum of Agreement among themselves to coordinate their actions, including the assertion of claims against the PRPs. Additionally, the federal NRD Claimants have notified NCR and the other PRPs of their intent to commence a NRD lawsuit, but have not as yet instituted litigation. In addition, one of the Claimants, the United States Environmental Protection Agency (USEPA), has formally proposed the Fox River for inclusion on the CERCLA National Priorities List. In February 1999, the State of Wisconsin made available for public review a draft remedial investigation and feasibility study (RI/FS), which outlines a variety of alternatives for addressing the Fox River sediments. While the draft RI/FS did not advocate any specific alternative or combination of alternatives, the estimated total costs provided in the draft RI/FS ranged from \$0 for no action (which appears to be an unlikely choice) to between \$143 million and \$721 million depending on the alternative selected. The USEPA has indicated that the final RI/FS will be issued in the first or second quarter of 2001 and that a decision on the anticipated remedial action will be made in the third or fourth quarter of 2001. During the fourth quarter of 2000, the federal Claimants released a proposed Restoration and Compensation Determination Plan (RCDP). The range of damages in the proposed RCDP is from \$176 million to \$333 million. NCR, in conjunction with the other PRPs, has developed a substantial body of evidence that it believes should demonstrate that selection of alternatives involving river-wide restoration/remediation, particularly massive dredging, would be inappropriate and unnecessary. However, because there is ongoing debate within the scientific, regulatory, legal, public policy and legislative communities over how to properly manage large areas of contaminated sediments, NCR believes there is a high degree of uncertainty about the appropriate scope of alternatives that may ultimately be required by the Claimants. An accurate estimate of NCR's ultimate share of restoration/remediation and damages liability cannot be made at this time due to uncertainties with respect to: the scope and cost of the potential alternatives; the outcome of further federal and state NRD assessments; the amount of NCR's share of such restoration/remediation expenses; the timing of any restoration/remediation; the evolving nature of restoration/remediation technologies and governmental policies; the contributions from other parties; and the recoveries from insurance carriers and other indemnitors. NCR believes the other currently named PRPs would be required and able to pay substantial shares toward restoration and remediation, and that there are additional parties, some of which have substantial resources, that may also be liable. Further, in 1978 NCR sold the business to which the claims apply, and NCR and the buyer have reached an interim settlement agreement under which the parties are sharing both defense and liability costs.

It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR accrues environmental provisions when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based primarily on internal and third-party environmental studies, estimates as to the number and participation level of any other PRPs, the extent of the contamination, and the nature of required remedial and restoration actions. Accruals are adjusted as further information develops or circumstances change. Management expects that the amounts accrued from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites, which, as to the Fox River site, may be 10 to 20 years or more. The amounts provided for environmental matters in NCR's consolidated financial statements are the estimated gross undiscounted amounts of such liabilities, without deductions for insurance or third-party indemnity claims. Except for the sharing arrangement described above with respect to the Fox River, in those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectibility of such amounts is probable, the amounts are reflected as receivables in the consolidated financial statements.

LEASES

NCR conducts certain of its sales and manufacturing operations using leased facilities, the initial lease terms of which vary in length. Many of the leases contain renewal options and escalation clauses. Future minimum lease payments under noncancelable leases as of December 31, 2000 were:

	2001	2002	2003	2004	2005	Later Years	Total
In millions							
Operating leases	\$48	\$40	\$35	\$25	\$19	\$149	\$316

Total rental expense for operating leases was \$83 million, \$99 million and \$76 million in 2000, 1999 and 1998, respectively.

During 2000, NCR entered into a legal agreement to lease a newly constructed manufacturing facility in Dundee, Scotland. The construction project is being funded entirely by the leasing company and is expected to be completed in 2002. Upon completion of the facility, NCR has the option of committing to a 15-year lease with minimum annual rental payments of approximately \$2.4 million or to purchase the facility at a cost of approximately \$26.8 million. NCR has not recognized any costs associated with this commitment in its 2000 results.

NOTE 12 QUARTERLY INFORMATION (UNAUDITED)

	First ¹	Second ²	Third ³	Fourth ⁴	Total
In millions, except per share amounts					
2000					
Total revenues	\$1,255	\$1,448	\$1,464	\$1,792	\$5,959
Gross margin	358	470	463	576	1,867
Operating (loss) income	(18)	43	67	113	205
Net (loss) income	(5)	39	54	90	178
Net (loss) income per share:					
Basic	\$ (0.05)	\$ 0.41	\$ 0.57	\$ 0.93	\$ 1.87
Diluted	\$ (0.05)	\$ 0.39	\$ 0.55	\$ 0.90	\$ 1.82
1999					
Total revenues	\$1,333	\$1,572	\$1,530	\$1,761	\$6,196
Gross margin	384	499	464	543	1,890
Operating (loss) income	(8)	61	52	(27)	78
Net income	3	46	53	235	337
Net income per share:					
Basic	\$ 0.03	\$ 0.47	\$ 0.54	\$ 2.47	\$ 3.45
Diluted	\$ 0.03	\$ 0.45	\$ 0.53	\$ 2.44	\$ 3.35

¹ During the first quarter of 2000, NCR recognized a \$14 million expense for restructuring and other related charges. (See Note 3.)

² During the second quarter of 2000, NCR recognized a \$4 million expense for restructuring and other related charges and a \$24 million in-process research and development charge associated with acquisitions completed in 2000. (See Notes 3 and 7.)

³ During the third quarter of 2000, NCR recognized a \$4 million expense for restructuring and other related charges and a \$1 million in-process research and development charge associated with acquisitions completed in 2000. (See Notes 3 and 7.) During the third quarter of 1999, net income includes a pre-tax, significant gain of \$21 million from the sale of real estate in Madrid, Spain.

⁴ During the fourth quarter of 2000, NCR recognized a \$16 million expense for restructuring and other related charges and a \$2 million charge for integration costs associated with the acquisition of 4Front. (See Notes 3 and 7.) During the fourth quarter of 1999, NCR recognized a \$125 million expense for restructuring and other related charges and released U.S. deferred tax valuation allowances of \$232 million. (See Notes 3 and 4.) In addition, 1999 net income includes a pre-tax, significant gain of \$77 million from the sale of real estate in Akasaka, Japan.

Notes to
Consolidated
Financial
Statements

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STOCKHOLDER INFORMATION

ANNUAL MEETING

Stockholders are invited to attend NCR's Annual Meeting of Stockholders at 9:30 a.m. on April 18, 2001, to be held at:

NCR Auditorium, World Headquarters Building
1700 S. Patterson Blvd.
Dayton, OH 45479

STOCKHOLDER INQUIRIES

Inquiries concerning stockholder accounts should be directed to:

NCR Corporation
c/o American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
800-NCR-2303 (800-627-2303)
718-921-8200 (Outside the U.S. & Canada)

Account information can also be obtained via e-mail at info@amstock.com, or by visiting NCR's stock transfer agent's web site at <http://www.amstock.com>.

Information regarding NCR's Direct Stock Purchase/Sell Program can be obtained by calling:

American Stock Transfer & Trust Co.
877-253-6852 (toll-free)
718-921-8200 (Outside the U.S. & Canada)

COMMON STOCK INFORMATION

NCR common stock is listed on the New York Stock Exchange and trades under the symbol NCR. The following table presents the high and low per share sales prices for NCR stock for each quarter of 2000 and 1999 as well as the per share closing sales price on the last trading day of each quarter:

2000	High	Low	Close
1st Quarter	47	32 ¹⁵ / ₁₆	40 ¹ / ₈
2nd Quarter	44 ⁵ / ₈	34 ³ / ₄	38 ¹⁵ / ₁₆
3rd Quarter	41 ⁵ / ₁₆	32 ³ / ₈	37 ¹¹ / ₁₆
4th Quarter	53 ¹¹ / ₁₆	37 ¹¹ / ₁₆	49 ¹ / ₈
1999	High	Low	Close
1st Quarter	55 ³ / ₄	40 ³ / ₈	50
2nd Quarter	54 ⁹ / ₁₆	37 ¹³ / ₁₆	48 ¹³ / ₁₆
3rd Quarter	52 ⁵ / ₈	30	33 ¹ / ₁₆
4th Quarter	38 ⁵ / ₈	26 ¹¹ / ₁₆	37 ⁷ / ₈

At December 31, 2000, there were 95,243,969 shares of NCR common stock outstanding. NCR has not paid cash dividends on its outstanding common stock to date and does not anticipate the payment of cash dividends on its common stock in the foreseeable future.

INVESTOR RELATIONS

INFORMATION & LITERATURE REQUESTS

Investor Relations inquiries and requests for NCR's Form 10-K, which is filed with the Securities and Exchange Commission, annual report and other financial information can be obtained without charge by writing or calling:

NCR Investor Relations
1700 S. Patterson Blvd.
Dayton, OH 45479
937-445-5905
investor.relations@ncr.com
http://www.ncr.com/investors/invest_rel.htm

If you are a stockholder of record and would like to receive NCR's future annual reports and proxy statements electronically, please visit www.investpower.com. Next, click on "Enroll to receive mailings via e-mail" to enroll. Please refer to NCR's company number and account number listed on the front of your proxy card. If you hold your NCR common stock through a nominee (such as a bank or broker), please check with your nominee regarding the availability of this option.

NCR EXECUTIVE OFFICERS

LARS NYBERG*	Chairman, President and Chief Executive Officer
WILLIAM AMELIO*	Executive Vice President and Chief Operating Officer, Retail and Financial Group
DAVID BEARMAN*	Senior Vice President and Chief Financial Officer
WILBERT BUITER	Senior Vice President, Human Resources
PATRICK CRONIN	Senior Vice President, Financial Solutions Division
ROBERT A. DAVIS	Chief Quality Officer and Chief of Staff, Retail and Financial Group
GERALD A. GAGLIARDI	Senior Vice President, Worldwide Customer Services Division
JONATHAN S. HOAK	Senior Vice President and General Counsel
MARK HURD*	Executive Vice President and Chief Operating Officer, Teradata Division
MOHSEN SOHI	Senior Vice President, Retail Solutions Division
KEITH TAYLOR	Vice President, Systemedia Division

*Member of NCR Executive Committee



NCR BOARD OF DIRECTORS

(From left to right)

LARS NYBERG

Chairman, President and Chief Executive Officer Lars Nyberg joined NCR in 1995. Prior to coming to NCR, he held a number of positions with Philips Electronics NV (Philips), working in the United Kingdom, Netherlands and Sweden. He was Chairman and CEO of Philips Communications Division, and he also headed Philips Computer Division, where he led a turnaround of the company's computer business.

JAMES R. LONG

On December 31, 1999, James R. Long retired as Executive Vice President of Nortel Networks Corporation and President of its Enterprise Networks business, positions he had held since 1994. Prior to 1994, he served as President of Nortel World Trade, Group Executive for Asia and Corporate Vice President of Quality. Before joining Nortel, he spent 25 years with IBM Corporation in a variety of sales, marketing and management capacities.

WILLIAM S. STAVROPOULOS

William S. Stavropoulos is Chairman of the Board of Directors and Chairman of the Executive Committee of The Dow Chemical Co. From 1995 until November 2000, he was also the President and Chief Executive Officer of Dow Chemical. He joined Dow Chemical in 1967 and assumed his current duties in 1995.

RONALD A. MITSCH

Ronald A. Mitsch was the Vice Chairman of the Board for Minnesota Mining and Manufacturing Company (3M) from 1995 until November 1998, and its Executive Vice President, Industrial and Consumer Markets and Corporate Services, from 1991 to 1998. Dr. Mitsch joined 3M in 1960 and held a variety of technical, research and management positions.

C.K. PRAHALAD

C.K. Prahalad has been the Chairman of PRAJA, Inc., a software company located in San Diego, California, since May 2000. Mr. Prahalad is on a two-year leave of absence from the University of Michigan, where he is the Harvey Freuhauf Professor of Business Administration. Mr. Prahalad is a specialist in corporate strategy and the role of top management in large, diversified, multi-national companies. Since completing his D.B.A. at Harvard University, he has been a visiting research fellow at Harvard, a professor at the Indian Institute of Management and a visiting professor at the European Institute of Business Administration.

LINDA FAYNE LEVINSON

Linda Fayne Levinson has been a partner with GRP, a private equity investment fund since 1997. From 1994 to 1999, she was also President of Fayne Levinson Associates, an independent consulting firm. Prior to 1994, Ms. Levinson worked for Creative Artists Agency, Inc., Alfred Checchi Associates, Inc., American Express Travel Related Services Co., Inc. and McKinsey & Co.

JAMES O. ROBBINS

Since 1994, James O. Robbins has served as President and Chief Executive Officer of Cox Communications, Inc. (Cox). Prior to joining Cox in 1983, he worked for Continental Cablevision and Viacom Communications, Inc.

DAVID R. HOLMES

David R. Holmes has been Chairman of The Reynolds and Reynolds Company since 1990. Mr. Holmes also served as its Chief Executive Officer from 1989 until November 2000, and the company's President from 1989 until 1999. Before joining Reynolds and Reynolds in 1984, he was Vice President and General Manager of the snack food business for Nabisco Brands, Inc.

DAVID BOHNETT

David Bohnett is the founder and, from November 1994 until May 1999, was the Chairman of GeoCities Inc., one of the most heavily trafficked sites on the Internet prior to its merger with Yahoo!. Prior to founding GeoCities in 1994, Mr. Bohnett served as director of product marketing at Goal Systems International Inc., which merged with Legent Corporation in 1991. Mr. Bohnett is a director of Stamps.com Inc. and other privately-held ventures.

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NCR Corporation
1700 S. Patterson Blvd.
Dayton, OH 45479

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