2007 ANNUAL REPORT

COMPANY OVERVIEW

Teradata Corporation is a global leader in data warehousing and analytic solutions. Our customers use our market-leading technology to gain deeper insight into their business operations to drive growth, profitability, and competitive advantage.

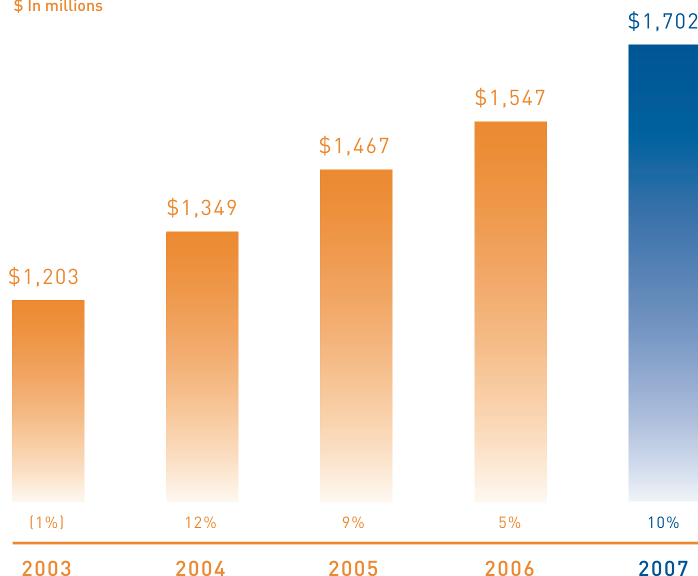
Companies rely on Teradata to integrate data from various systems, applications, and other sources into a single enterprise data warehouse. This "single view of the business" allows decision makers to examine extremely large volumes of atomic-level data from multiple sources throughout their organization to better understand what has happened in the past and, more importantly, to better predict what will happen in the future. Their objective: to operate more quickly and more effectively in a changing marketplace.

Teradata's Enterprise Data Warehousing solutions include our high-performance massively parallel database technology, robust portfolio of analytical applications, data management solutions, and world-class scalable hardware. Our extensive network of partnerships with key analytic providers and system integrators, along with our team of knowledgeable and experienced data warehousing consulting and support services professionals, completes our solution set – which is designed to deliver superior intelligence for our customers.

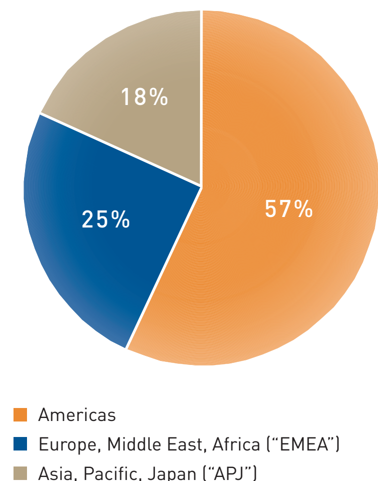
Teradata's opportunity has never been greater; our competitive differentiation has never been more pronounced. All elements of our solution are fully integrated, and all dimensions of our business are fully riveted on a single purpose: to enable our growing base of customers to realize the value of enterprise data warehousing.

Data warehousing is the process of collecting, integrating, and managing a wide variety of detailed data from across an organization using a central repository, or "warehouse," to answer business questions and enhance decision making.

REVENUE / GROWTH RATE



REGIONAL SEGMENT REVENUE



- Americas
- Europe, Middle East, Africa ("EMEA")
- Asia, Pacific, Japan ("APJ")

On the cover: Teradata's Rancho Bernardo office near San Diego, California, houses research and development, customer briefing center, and customer support facilities. Rancho Bernardo will host the 2008 Annual Meeting of Stockholders.

James M. Ringler, Chairman
Michael F. Koehler, President and Chief Executive Officer

Welcome to Teradata – a new company with a long history of success. As a world leader in enterprise data warehousing, Teradata has grown from its beginnings in Southern California in the late 1970s into an organization of nearly 6,000 employees with a presence in more than 60 countries, dedicated to serving more than 850 of the most respected organizations around the world. Over the years, our mission has remained constant: to enable organizations to use better information to make faster and smarter decisions that drive profitable growth and competitive advantage.

DEAR FELLOW SHAREHOLDERS,

2007 was a busy year for Teradata. We continued our consistent record of strong performance; completed our spin off from NCR Corporation into an independent, publicly-traded company; and were named to the Standard & Poor's 500. Although we have the drive, passion, and focus of a "start-up" company, we have a solid foundation of innovative technology, a market-leading position, and financial strength. With a strong balance sheet and the ability to generate attractive cash flow, Teradata's financial position enables us to make investment decisions that are fully in the best interests of our customers and shareholders.

In 2007, we increased our revenue 10 percent from 2006 to more than $1.7 billion. Operating income for the year, which included non-recurring items such as the cost to spin off Teradata, was $320 million – or $337 million excluding such items – an increase from $302 million in 2006. We reported net income of $200 million, or $1.10 per share, in accordance with generally accepted accounting principles ("GAAP"), which included spin-off–related costs of approximately $17 million, and some tax adjustments. Excluding these items, non-GAAP net income was $226 million, or $1.24 per share, compared with $192 million, or $1.06 per share, in 2006.

THE OPPORTUNITY Going forward, Teradata has tremendous opportunities for growth and continued success as a freestanding company. The $19 billion data warehousing infrastructure market – database software, hardware, maintenance, and professional services – affords us significant potential, as more and more companies increasingly use enterprise analytics and business intelligence for strategic advantage. By providing the leading enterprise data warehousing solution to support these complex analyses, Teradata is well-positioned to increase market penetration.

Teradata's approach to data warehousing differs radically from the current IT infrastructures used by many organizations. Those environments contain numerous independent silos of fragmented data, or data marts, which house duplicate, inconsistent, or incomplete data. We advocate that companies instead integrate detailed data from across the enterprise into a large single data warehouse.

Industry analysts, as well as our customers, validate that Teradata's centralized enterprise analytics architecture provides the optimal information foundation for decision making. In fact, Gartner, Inc. has recognized our technology leadership by positioning Teradata in the Leaders Quadrant in its *Magic Quadrant for Data Warehouse DBMS Systems, 2007*, by Donald Feinberg and Mark A. Beyer, 10 October 2007.

Providing value is at the heart of the Teradata business and is core to our investment strategy. Since our inception, Teradata's commitment has been to help customers unlock the value of their data, transforming

Our mission is to enable organizations to use better information to make faster and smarter decisions that drive profitable growth and competitive advantage.

it into actionable information for strategic decision making. Teradata's next frontier is to enable companies to align strategic decision making, now done at the corporate level, with operational execution at all levels of the organization. Using Teradata's technology and analytics, organizations can improve their ability to make decisions and take actions faster than their competition.

Teradata calls this process of aligning data and accelerating decision making "Active Enterprise Intelligence." Active Enterprise Intelligence pushes out intelligence from the corporate office to operational decision makers – front-line employees, suppliers, partners, and customers. This is how we enable our customers to "raise intelligence," so that they can make the best decisions in the shortest amount of time, where it means the most – in the store, at the airport gate, in the call center, or over the Internet.

OUR STRATEGY It is our long-term strategy to leverage our core technology and services, along with those of our partners, to deliver competitively superior solutions to our customers that yield higher return on their investment – and by doing so, increase the long-term value of our company. We will continue to make strategic decisions and investments in three key areas to achieve these core objectives:

Technology: For nearly three decades Teradata has provided a revolutionary approach to data warehousing: a massively parallel processing architecture that is scalable for decision support and complex analytics. Going forward, we will continue to invest in our database software and platform to further extend our lead at the best price performance in the marketplace. These investments are directed at high-availability solutions and services, and Active Data Warehousing capabilities that enable Active Enterprise Intelligence.

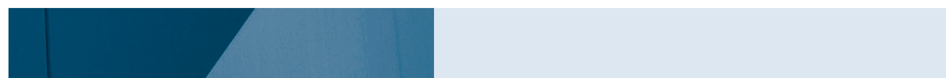
Solutions: By expanding our solutions and offers, Teradata enables its customers to drive more innovation and solve business challenges more effectively. Investments in consulting, data management, and applications – along with continued work with our partners – will provide our customers with tailored solutions and high-value opportunities to leverage and grow their data warehouses. It is our goal to optimize and expand our portfolio of analytical applications from third-party providers on Teradata, giving our customers greater choice in the way they use information for competitive advantage.

Market Coverage: Teradata focuses its sales effort on the world's 3,000 largest organizations, across a wide range of industries, including communications, financial services, government, healthcare, insurance, manufacturing, retail, transportation, and travel. To deliver optimal value to our customers and grow our business, we will continue to expand our market coverage, which includes sales, professional services, and consulting resources. This will not only increase our ability to add new customers, but also our ability to grow the size and scope of our existing customers' enterprise data warehouses – which is vital to our future growth and success.

Teradata's spin off into an independent company allows for further innovation and greater improvements to help drive more value for our customers. We are excited about our future as a new company, and we extend our thanks and appreciation to our customers, partners, advocates, shareholders, and the Teradata team for their collective efforts that led to our continued success in 2007.

Michael F. Koehler
President and Chief Executive Officer

James M. Ringler
Chairman



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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

You should read the following discussion in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this Annual Report. This Annual Report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Annual Report.

BUSINESS OVERVIEW

Teradata ("we," "us," "Teradata," or the "Company") provides Enterprise Data Warehousing solutions for customers worldwide that combine software (including the Teradata database software and tools, data mining and analytical applications), hardware, and related consulting and support services. These solutions can also include third-party products and services from other leading technology and service partners.

Our solutions enable customers to integrate detailed enterprise-wide data such as customer, financial and operational data into a single data warehouse and provide the analytical capabilities to transform that data into useful information. As a result, customers have a consistent, accurate view of their data and businesses, which gives them more accurate, insightful and timely information when and where they need it so they can make better and faster decisions. This approach provides customers with better insight, faster access to new analytics and less redundancy within their information technology infrastructure so they can maximize business value while minimizing their total cost of ownership.

Our data warehousing technologies provide a high level of performance, scalability, availability and manageability for strategic and operational analytic requirements. Our professional services consultants combine a proven methodology, deep industry expertise and years of hands-on experience to help clients quickly capture business value while minimizing risk. Our customer services professionals provide a single source of support services to allow customers to maximize use and fully leverage the value of their investments in data warehousing.

Through Active Enterprise Intelligence, Teradata is extending the use of traditional data warehousing by integrating advanced analytics into enterprise business processes, allowing companies to combine the analysis of current and historical data so operations personnel can make decisions at the point of contact or service and take action as events occur.

Teradata offers data warehousing solutions to many major industries, including communications, financial services, government, healthcare, insurance, manufacturing, retail, transportation and travel. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors, value-added resellers and distributors. We deliver our solutions to customers on a global basis, and organize our operations in the following three regions, which are also our reportable segments: North America and Latin America ("Americas"), Europe, the Middle East and Africa ("EMEA"), and Asia Pacific and Japan ("APJ").

REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the fourth quarter of 2007, the Company identified an error related to a sales transaction that was originally recognized in the fourth quarter of 2006. Upon subsequent review, management determined that the transaction, which was made through a reseller, did not meet the conditions for revenue recognition until the first quarter of 2007, when the products were delivered and accepted by the end-user customer. The impact of this error was an overstatement of revenue and net income in the three- and twelve-month periods ended December 31, 2006, and an understatement of revenue and net income in the three-month period ended March 31, 2007. We assessed the materiality of this error on the three- and twelve-month periods ended December 31, 2006, in accordance with the U.S. Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 99 ("SAB 99"), and concluded that the error was not material to either period. However, we did conclude that the error was material to the three months ended March 31, 2007, as it understated the first quarter results. Therefore, in accordance with the SEC's Staff Accounting Bulletin No. 108 ("SAB 108"), the full-year 2006 financial statements presented herein have been revised to correct for the immaterial error and to allow for the correct recording of this transaction in the 2007 consolidated financial statements. The correction resulted in a $13 million reduction in product revenue, a $3 million reduction in cost of products and a $4 million

reduction to income tax expense, resulting in a $6 million reduction to net income ($0.04 per diluted share) in the full-year 2006 financial statements. These revenue and expense amounts have subsequently been reflected in the 2007 results. Associated adjustments were also made to decrease accounts receivable by $13 million, increase inventory by $3 million and increase deferred income taxes by $4 million within the December 31, 2006, consolidated balance sheet. The revision had no net impact on Teradata's net cash provided by operating activities for the twelve months ended December 31, 2006.

2007 FINANCIAL OVERVIEW

As more fully discussed in later sections of this MD&A, the following were significant themes and events for 2007:

- Revenue increased 10% in 2007 from 2006, driven by strong growth in the EMEA and APJ regions.
- Gross margin as a percentage of revenue increased to 53.8% in 2007 from 53.6% in 2006.
- Operating income was $320 million in 2007, up from $302 million in 2006. Operating income in 2007 included Separation-related expenses of $17 million.
- Net income of $200 million in 2007 increased from $192 million in 2006. Net income per common share (diluted) of $1.10 in 2007 compared to $1.06 in 2006. Included in the 2007 results were $0.08 of Separation-related costs and $0.06 of unfavorable tax adjustments.

STRATEGY OVERVIEW

Our strategy is to grow profitability as the global leader of enterprise data warehousing technology and services. We are executing our multi-year strategy to advance enterprise data warehousing as the preferred data warehousing architecture that companies utilize to build their enterprise analytics infrastructure. To do this, we are focused on three core strategies:

- Increasing our technology capabilities by investing in near real-time (or "active") data warehousing and advanced development;
- Expanding our solutions and offers by investing in consulting and support services, applications and partners; and
- Optimizing our market coverage through effective use of our sales, marketing and services resources.

FUTURE TRENDS

We believe that demand for our solutions will continue to increase due to the continued increase in data volumes, the scale and complexity of business requirements, and the growing use of new data elements and more near real-time analytics over time. The adoption by customers of more near real-time analysis for enterprise intelligence is driving more applications, usage and capacity. We expect 2008 full-year revenue growth of approximately 5% to 8%. This outlook for 2008 includes some conservatism due to the potential impact of certain macroeconomic factors on capital spending, particularly in the United States. Also, while the EMEA and APJ segments experienced very strong revenue growth of 18% in 2007, we do not anticipate this same level of revenue growth for these regions in 2008. The size, timing and contracted terms of large customer orders for our products and services can impact, both positively and negatively, our quarterly operating results. While we have seen fluctuations in the information technology environment in the past, our outlook remains positive. We expect that competitive and technological pricing trends will continue at the levels experienced in 2007 and 2006. In 2008, we continue to be committed to new product development and achieving maximum yield from our research and development spending and resources, which are intended to drive revenue growth, and we continue to evaluate opportunities to increase our market coverage. We expect our full-year effective tax rate for 2008 to be approximately 30%.

THE SEPARATION OF TERADATA FROM NCR CORPORATION

The Separation became effective on September 30, 2007, through a distribution of 100% of the common stock of Teradata Corporation to the holders of record of NCR Corporation's ("NCR") common stock. The Separation was completed pursuant to the Separation and Distribution Agreement by which NCR contributed to the Teradata Corporation all of the assets and liabilities associated with the Teradata data warehousing business. We have received a private letter ruling from the Internal Revenue Service indicating that the Separation was tax free to stockholders, NCR and Teradata for U.S. federal income tax purposes. NCR distributed all of the shares of Teradata Corporation common stock as a dividend to NCR shareholders as of the record date for the Separation.

RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31:

In millions	2007	% of Revenue	2006	% of Revenue	2005	% of Revenue
Product revenue	$ 884	51.9%	$ 807	52.2%	$ 786	53.6%
Service revenue	818	48.1%	740	47.8%	681	46.4%
Total revenue	1,702	100%	1,547	100%	1,467	100%
Gross margin						
Product gross margin	572	64.7%	518	64.2%	500	63.6%
Service gross margin	344	42.1%	311	42.0%	295	43.3%
Total gross margin	916	53.8%	829	53.6%	795	54.2%
Expenses						
Selling, general and administrative expenses	470	27.6%	410	26.5%	391	26.7%
Research and development expenses	126	7.4%	117	7.6%	120	8.2%
Total expenses	596	35.0%	527	34.1%	511	34.8%
Operating income	$ 320	18.8%	$ 302	19.5%	$ 284	19.4%

Teradata revenue increased 10% in 2007 from 2006. The revenue increase included a benefit of 2% from foreign currency fluctuations. The growth was driven by the need for more centralized data warehouse systems and is indicative of customers valuing the analytical capabilities of our solutions and the return on investment they can provide. Product revenue increased 10% in 2007 from 2006, primarily due to capacity expansions and technology upgrades by existing customers, as well as sales to new customers. Service revenue increased 11% in 2007 from 2006, driven by strong growth in both professional services and annuity support services. Product revenue, as a percentage of total revenue, declined in 2007 due to the increase in service revenue in 2007. Operating income was up $18 million in 2007 compared to 2006. The operating income benefited from the higher volume, offset somewhat by higher operating expenses, which included Separation-related costs and recurring incremental independent-company costs, as well as higher selling and marketing expenses and increased investment in research and development.

Our revenue increased 5% in 2006 from 2005 due to increased demand for a consolidated, enterprise-wide data warehousing architecture. Foreign currency fluctuations had less than 1% of negative impact on the year-over-year revenue comparison. Product revenue increased 3% in 2006 from 2005, led by growth in the EMEA region. Service revenue increased 9% in 2006 from 2005, primarily due to increases in professional services and annuity support services in the Americas region. Operating income increased $18 million in 2006 from 2005 due primarily to higher volume, offset somewhat by increases in selling and marketing expenses.

Gross Margin

Gross margin as a percentage of revenue for 2007 was 53.8% in 2007 compared to 53.6% in 2006. Product gross margin increased to 64.7% in 2007, compared to 64.2% in 2006. Service gross margin of 42.1% in 2007 compared to 42.0% in 2006. The increase in product gross margins was driven primarily by the EMEA and APJ regions. The improvement in total gross margin overcame the adverse mix effect of having a higher growth rate of the lower-margin service revenue (as compared to product revenue) in 2007.

Gross margin as a percentage of revenue for 2006 decreased to 53.6% from 54.2% in 2005. Product gross margin increased to 64.2% for 2006 compared to 63.6% in 2005, primarily due to improved product revenue mix. Service gross margin decreased to 42.0% for 2006 from 43.3% in 2005 as Teradata added professional services resources.

Operating Expenses

Total operating expenses, characterized as "selling, general and administrative expenses" and "research and development expenses," were $596 million in 2007 compared to $527 million in 2006. As a percentage of revenue, total operating expenses increased to 35.0% in 2007 from 34.1% in 2006. The increase in selling, general and administrative expenses of $60 million included $17 million in Separation-related expenses and $8 million of recurring incremental costs subsequent to the Separation as Teradata began operating as an independent publicly-traded company. The remainder of the increase was primarily due to increased selling and marketing expenses (consisting of compensation expense as well as marketing, partnering and pre-sale activities), foreign currency impact and stock-based compensation. Research and development expenses were $9 million higher in 2007 compared to 2006, reflecting increased investment in product development.

Our 2006 operating expenses were $527 million in 2006 compared to $511 million in 2005. As a percentage of revenue, total operating expenses improved to 34.1% in 2006 from 34.8% in 2005. The increase in selling, general and administrative expenses of $19 million was primarily due to a $29 million increase in selling and marketing expenses and a $5 million increase in stock-based compensation as a result of adopting Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment*. The increase was partially offset by decreases of $14 million in expenses from NCR for corporate-related functions. The decrease in costs allocated from NCR coincided with its multi-year re-engineering efforts to drive operational improvements through simplification, standardization, globalization and consistency across the organization, which reduced overall costs at the NCR level. Research and development expenditures were lower, primarily due to the timing of the capitalization of software development. For more information on the impact of the timing of software capitalization, see the subhead entitled "Critical Accounting Policies – Capitalized Software" included below in this MD&A section.

Effects of Pension and Postemployment Benefit Plans

Teradata's pension and postemployment benefit expense for the years ended December 31, is shown below. Pension and postemployment benefit expenses incurred prior to the Separation were allocated to Teradata by NCR.

In millions	2007	2006	2005
Pension expense	$ 9	$ 23	$ 22
Postemployment expense	15	16	17
Total expense	$ 24	$ 39	$ 39

Teradata recorded $9 million of pension expense in 2007 versus $23 million of pension expense in 2006. This decrease was due primarily to NCR's action to freeze its U.S. defined pension plans and cease the accrual of additional benefits for all participants in the U.S. plans after December 31, 2006. In connection with the Separation, as discussed in Notes 1 and 8 of Notes to Consolidated Financial Statements, the Company assumed net pension assets and liabilities of $41 million and postemployment liabilities of $50 million.

Income Taxes

The tax rate in 2007 was 37.9%. This rate includes a discrete $10 million charge, or 3.1%, related to a tax rate change in Germany, as well as a $7 million charge, or 2.2%, to correct prior period errors in the calculation of the income tax provision related to intercompany profit eliminations. As the impact of this error was not material to the then current or any prior period, it was recorded in the second quarter of 2007. The 2007 tax rate also included a $6 million tax benefit, or 1.9%, related to the utilization of certain tax attributes associates with foreign sourced income. The tax rate in 2006 was 36.4%. The tax rate in 2005 was 27.5%, and included $33 million or 12% of tax benefits resulting from NCR's resolution of prior-year tax audits. See Note 6 of Notes to Consolidated Financial Statements for additional information on these prior-year tax items.

Revenue and Gross Margin by Operating Segment

Teradata manages its business in three regions – the Americas, EMEA and APJ regions – which are also the Company's operating segments. For purposes of discussing our results by segment, we exclude the impact of certain items, consistent with the manner by which management evaluates the performance of each segment and reports our operating results under Statement of Financial Accounting Standards No. 131 ("SFAS 131"), *Disclosures about Segments of an Enterprise and Related Information.* This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess our financial performance. The discussion of our segment results describes the changes in results as compared to the prior-year period. These changes do not represent changes in long-term trends. The effect of certain corporate-related items has been excluded from the segment gross margin for each reporting segment presented and discussed below. Teradata does not use corporate-level selling, general and administrative, or research and development expenses to measure the performance of the regional operating segments. Our segment results are reconciled to total company results reported under U.S. generally accepted accounting principles ("GAAP") in Note 13 of Notes to Consolidated Financial Statements.

The following table presents revenue and operating performance by segment for the years ended December 31:

In millions	2007	% of Revenue	2006	% of Revenue	2005	% of Revenue
Segment Revenue						
Americas	$ 964	57%	$ 920	60%	$ 861	59%
EMEA	424	25%	360	23%	340	23%
APJ	314	18%	267	17%	266	18%
Total segment revenue	$ 1,702	100%	$ 1,547	100%	$ 1,467	100%
Segment gross margin						
Americas	$ 560	58.1%	$ 545	59.2%	$ 507	58.9%
EMEA	207	48.8%	168	46.7%	165	48.5%
APJ	159	50.6%	126	47.2%	130	48.9%
Total segment gross margin	$ 926	54.4%	$ 839	54.2%	$ 802	54.7%

Americas Revenue increased 5% in 2007 from 2006, largely driven by growth in service revenue. The revenue growth included 1% of benefit from foreign currency fluctuations. Gross margin as a percentage of revenue decreased to 58.1% for 2007, from 59.2% for 2006, driven primarily by reduced service margins.

Revenue increased 7% in 2006 from 2005, primarily driven by increased service revenue. Gross margin as a percentage of revenue increased to 59.2% in 2006, from 58.9% in 2005, with improved margin rates slightly offset by the impact of a higher mix of service revenue as compared to the prior year.

EMEA Revenue increased 18% in 2007 from 2006, with double-digit growth in both product and service revenue. The revenue growth included 7% of benefit from foreign currency fluctuations. Gross margin as a percentage of revenue increased to 48.8% in 2007, from 46.7% in 2006, with improvements in both product and service margins. The improvement in gross margin rates was offset somewhat by the increased mix of lower-margin services revenue.

Revenue increased 6% in 2006 from 2005, with increases in both product and service revenue. The revenue growth included 1% of benefit from foreign currency fluctuations. Gross margin as a percentage of revenue decreased to 46.7% in 2006, from 48.5% in 2005. The reduction was primarily driven by lower service margins.

APJ Revenue increased 18% in 2007 from 2006, led predominantly by growth in product revenue. The revenue growth included 3% of benefit from foreign currency fluctuations. Gross margin as a percentage of revenue was 50.6% in 2007, up from 47.2% in 2006, driven by the greater mix of product revenue, as well as improved product margins.

Revenue was roughly flat in 2006 from 2005. Revenue in 2006 included 2% of negative impact from foreign currency fluctuations. Gross margin as a percentage of revenue decreased to 47.2% in 2006, from 48.9% in 2005. The reduction was primarily related to lower service margins.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Prior to the Separation, Teradata's financial resources were provided by NCR, which managed cash and cash equivalents on a centralized basis. Cash receipts associated with Teradata's business were transferred to NCR on a daily basis, and NCR funded Teradata's cash disbursements. These net cash transfers were reflected in parent company equity in Teradata's historical financial statements.

Upon the Separation, the Company received $196 million in cash from NCR, plus a note receivable for another $4 million in cash. The balance of the note from NCR was collected in October 2007. In addition, on October 1, 2007, the Company entered into a five-year, $300 million unsecured revolving credit facility. This credit facility contains certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. For most borrowings, Teradata would anticipate choosing a floating rate based on the London Interbank Offered Rate ("LIBOR"). If the facility had been fully drawn at December 31, 2007, the spread over the LIBOR would have been 32 basis points (for an interest rate of 5.04%, assuming a 6-month borrowing term) given Teradata's leverage ratio at that date. As of December 31, 2007, the Company had no borrowings outstanding under this revolving credit facility and was in compliance with all covenants. Also in connection with the Separation, the Company assumed pension and postemployment benefit obligations and plan assets relating to the Teradata business. The unfunded portion of the pension and postemployment obligations at December 31, 2007, were $41 million and $53 million, respectively.

Management believes Company cash flows from operations and the $300 million credit facility will be sufficient to satisfy future working capital, research and development activities, capital expenditures, pension contributions and other financing requirements for the foreseeable future. The Company's ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors. If the Company is unable to generate sufficient cash flows from operations, or otherwise to comply with the terms of the credit facilities, the Company may be required to seek additional financing alternatives.

Teradata's management uses a non-GAAP measure called "free cash flow," which we define as net cash provided by operating activities less capital expenditures for property, plant and equipment, and additions to capitalized software, to assess the financial performance of the Company. Free cash flow does not have a uniform definition under GAAP; therefore, Teradata's definition may differ from other companies' definitions of this measure. The components that are used to calculate free cash flow are GAAP measures that are taken directly from the consolidated statements of cash flows. We believe that free cash flow information is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures for, among other things, investments in the Company's existing businesses, strategic acquisitions, repurchase of Teradata stock and repayment of debt obligations. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other non-discretionary expenditures that are not deducted from the measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP.

The table below shows net cash provided by operating activities and capital expenditures for the following periods:

In millions	2007	2006	2005
Net cash provided by operating activities	$ 387	$ 219	$ 192
Less:			
Expenditures for property, plant and equipment	(50)	(20)	(18)
Additions to capitalized software	(50)	(48)	(37)
Free cash flow	$ 287	$151	$ 137

Cash provided by operating activities increased by $168 million in 2007, while capital expenditures increased by $32 million, resulting in a net increase in free cash flow of $136 million compared to 2006. The increase in cash provided by operating activities was primarily due to higher net income, increased deferred income tax expense, increased payables and accrued expenses, offset somewhat by an increase in receivables. The increase in deferred income tax expense was primarily related to the amortization of capitalized research and development credits and a $10 million charge related to a tax rate change in Germany. Receivables increased due to several factors related to the Separation. These included such things as customer payments on Teradata invoices that were issued prior to the Separation that were collected by NCR prior to year-end but were not submitted to Teradata before December 31, 2007, and an increase in value-added tax ("VAT") receivables (prior to the Separation, most VAT due from customers was not recorded as part of Teradata's receivables balances). Lastly, there was an increase compared to the prior year in billings in the second half of the fourth quarter that were not collected prior to year-end. Accounts payable increased largely due to transition activities and increased volume with key suppliers, especially as it relates to year-end activity. Transition activities primarily consisted of payments made by NCR on Teradata's behalf because the original purchase order was placed by NCR. These payments made by NCR are subsequently recorded by the Company as payables back to NCR. Capital expenditures were higher in 2007 largely due to activity related to the Separation, including investments in the Company's IT infrastructure and the acquisition of a corporate aircraft.

Cash provided by operating activities increased by $27 million in 2006, while capital expenditures increased by $13 million, resulting in a net increase in free cash flow of $14 million compared to 2005. The increase in cash from operating activities was primarily driven by higher net income (net of non-cash items). The increase in net income was partially offset by higher receivables. The increase in capital expenditures was largely due to increased investment in software development.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. These other investing activities primarily consisted of acquisition-related activity. Teradata's financing activities primarily consisted of net cash transfers to NCR of $216 million (prior to the Separation, cash generated by Teradata was contributed to NCR), and a $200 million cash inflow from NCR based on the Separation.

In 2007, the Company identified certain errors in the calculation of deferred tax assets and liabilities that resulted in an overstatement of net deferred tax assets and parent company equity in periods prior to the Separation, which were determined to be immaterial to previously issued financial statements. In 2007, the Company corrected the error by reducing net deferred tax assets and parent company equity by approximately $43 million. This adjustment is included in the "Net transfers to parent" in the Consolidated Statement of Changes in Stockholders' Equity. The adjustment had no effect on previously reported income tax expense, net income or cash.

On February 11, 2008, the Board of Directors of the Company authorized two stock repurchase programs. The employee stock dilution offset program is an ongoing self-funding, dilution-mitigation program that uses the cash received from employee share purchases under the Teradata Corporation Employee Stock Purchase Plan and option exercises under the Teradata Corporation 2007 Stock Incentive Plan to repurchase Company common stock on the open market at management's discretion, in accordance with applicable securities rules regarding issuer repurchases. In addition, the Board authorized a general open market share repurchase program pursuant to which the Company may spend up to $250 million over a two-year period to repurchase its common stock on the open market at management's discretion, in accordance with applicable securities rules regarding issuer repurchases. No stock repurchases had been made by the Company as of December 31, 2007. Subsequent to the Company's customary blackout period surrounding the release of earnings, from February 14, 2008 through February 29, 2008, the Company repurchased approximately 1.6 million shares for approximately $38 million. In order to preserve the tax-free status of the Separation, the accumulated shares repurchased in the two-year period following the Separation must remain below 20% of the common shares outstanding on September 30, 2007.

Contractual and Other Commercial Commitments. In the normal course of business, we enter into various contractual obligations that impact, or could impact, our liquidity. The following table and discussion outlines our material obligations at December 31, 2007, with projected cash payments in the periods shown:

In millions	Total Amounts	2008	2009–2010	2011–2012	2013 and Thereafter
Lease obligations	$ 63	$ 15	$ 23	$ 16	$ 9
Purchase obligations	158	131	12	12	3
Total lease and purchase obligations	$ 221	$ 146	$ 35	$ 28	$ 12

Our lease obligations in the above table include Company-only facilities in various domestic and international locations, as well as leases from NCR for properties that are currently owned by NCR and partially utilized by the Company. Purchase obligations are committed purchase orders and other contractual commitments for goods and services, and include contractual payments in relation to service agreements with Accenture LLP and NCR for ongoing transaction services.

We also have product warranties and several guarantees to third parties, as well as postemployment and international pension obligations that may affect future cash flow. These items are not included in the table of obligations shown above. Product warranties and third-party guarantees are described in detail in Note 10 of Notes to Consolidated Financial Statements. Postemployment and pension obligations are described in detail in Note 8 of Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements. We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE"), which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As of December 31, 2007, we were not involved in any material unconsolidated SPE transactions.

Please see Note 10, "Commitments and Contingencies," in Notes to Consolidated Financial Statements for additional information on guarantees associated with Teradata's business activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of these financial statements, we are required to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. Our critical accounting policies are those that require assumptions to be made about matters that are highly uncertain. Different estimates could have a material impact on our financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions or circumstances. Our management periodically reviews these estimates and assumptions to ensure that our financial statements are presented fairly and are materially correct.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require significant management judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. The significant accounting policies and estimates that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are discussed in the paragraphs below. Teradata's senior management has reviewed these critical accounting policies and related disclosures with our independent registered public accounting firm and the Audit Committee of Teradata's Board of Directors (see Note 1 of Notes to Consolidated Financial Statements, which contains additional information regarding our accounting policies and other disclosures required by GAAP).

Revenue Recognition

Teradata's solution offerings typically include hardware, software, software subscriptions, maintenance support services and other professional consulting services. Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when: (a) persuasive evidence of an arrangement exists; (b) the products or services have been delivered to the customer; (c) the sales price is fixed or determinable and free of contingencies or significant uncertainties; and (d) collectibility is reasonably assured. Our judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If market conditions decline, or if the financial condition of our customers deteriorates, we may be unable to determine that collectibility is probable, and we could be required to defer the recognition of revenue until we receive customer payments. Teradata reports revenue net of any taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors and distributors, and value-added resellers.

Substantially all of Teradata's solutions contain software that is more than incidental to the hardware and services. The typical solution requires no significant production, modification or customization of the software or hardware, and the software is not essential to the functionality of the hardware. Revenue related to software and software-related elements is recognized under Statement of Position 97-2, *Software Revenue Recognition*. Revenue for hardware and related installation services is recognized under Staff Accounting Bulletin No. 104 ("SAB 104"), *Revenue Recognition*. For software and software-related elements, Teradata allocates revenue to each element based upon its fair value as determined by vendor-specific objective evidence ("VSOE"). VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. These elements often involve delivery or performance at different periods of time. Revenue for software is generally recognized upon delivery with the hardware. Revenue for software subscriptions, which provide for unspecified upgrades or enhancements on a when-and-if-available basis, is recognized straight-line over the term of the subscription arrangement. Revenue for maintenance support services is also recognized on a straight-line basis over the term of the service contract. Revenue for other professional consulting services is recognized as services are provided. In certain instances, customer acceptance is required prior to the passage of title and risk of loss of the delivered products. In such cases, no revenue is recognized until the customer acceptance is obtained. Delivery and acceptance generally occur in the same reporting period.

For arrangements involving multiple deliverables, where the deliverables include software and non-software products and services, Teradata applies the provisions of Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, to separate the deliverables and allocate the total arrangement consideration. Accordingly, Teradata evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (a) whether the delivered item has value to the customer on a stand-alone basis; (b) whether there is objective and reliable evidence of the fair value of the undelivered items; and (c) if the contract includes a general right of return relative to the delivered item, and delivery or performance of the undelivered items is considered probable and substantially in the control of Teradata. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting based on relative fair values. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement's consideration. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Revenue recognition for complex contractual arrangements requires a greater degree of judgment, including a review of specific contracts, past experience, creditworthiness of customers, international laws and other factors. We must also apply judgment in determining all elements of the arrangement, and in determining the fair value of each element, considering the price charged for each product, and applicable renewal rates for services. Changes in judgments about these factors could impact the timing and amount of revenue recognized between periods.

Capitalized Software

We account for research and development costs in accordance with applicable accounting pronouncements, including Statement of Financial Accounting Standards No. 2 ("SFAS 2"), *Accounting for Research and Development Costs*, and Statement of Financial Accounting Standards No. 86 ("SFAS 86"), *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* SFAS 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Technological feasibility is established when all planning, designing, coding and testing activities that are necessary to establish the product can be produced to meet its detailed design specifications. In the absence of a detailed program design, a working model is used to establish technological feasibility. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. The timing of when various research and development projects become technologically feasible or ready for release can cause fluctuation in the amount of research and development costs that are expensed or capitalized in any given period, thus impacting our reported profitability for that period.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS 109"), *Accounting for Income Taxes*, which recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized. Teradata's operating results were included in NCR's U.S. and state income tax returns prior to the Separation. The provision for income tax in Teradata's consolidated financial statements prior to the Separation was determined on a separate-return basis. Significant judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment, and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters could be different from that which is reflected in our historical income tax provisions and accruals. Such difference could have a material effect on our income tax provision, net income and accruals in the period in which such determination is made.

Our effective tax rate may include the impact of certain undistributed foreign earnings for which no U.S. taxes have been provided because such earnings may be planned to be indefinitely reinvested outside of the United States. Repatriation of foreign earnings to the U.S. will be based on a plan of projected cash flow, working capital and investment needs of foreign and domestic operations. Based on these assumptions, we will estimate the amount that will be distributed to the U.S. and will provide U.S. federal taxes on these amounts. Material changes in our estimates could impact our effective tax rate.

We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement. The adoption of FIN 48 did not impact our results of operations or net assets. In accordance with the Tax Sharing Agreement between NCR and Teradata, NCR is responsible for all taxes reported on any separate or joint return of NCR, which may also include Teradata for periods prior to the Separation. As of December 31, 2007, the Company has no unrecognized tax benefits.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based

on current tax law and our tax methods of accounting. We periodically evaluate estimates and judgments related to uncertain tax positions, including transfer pricing-related risks and, when necessary, establish contingency reserves to account for uncertain tax positions. As more information is obtained via the settlement of tax audits and through other pertinent information, these projections and estimates are reassessed and may be adjusted accordingly.

If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, or if the tax laws change unfavorably, then we could be required to increase our valuation allowance against our deferred tax assets, resulting in an increase in our effective tax rate. The impact to our effective tax rate would be an increase of one percentage point for each increase of $3 million to the valuation allowance as of December 31, 2007.

We had valuation allowances of $5 million as of December 31, 2007, related to certain deferred income tax assets, in jurisdictions where there is uncertainty as to ultimate realization of a benefit from those tax assets.

Stock-based Compensation

We account for employee stock-based compensation costs in accordance with SFAS 123R, which requires us to measure compensation cost for stock awards at fair value and recognize compensation expense over the service period for which awards are expected to vest. We utilize the Black-Scholes option pricing model to estimate the fair value of stock-based compensation at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected holding period. Further, as required under SFAS 123R, we estimate forfeitures for options granted, which are not expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period in which estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards and historical experience. Actual results and future changes in estimates may differ substantially from our current estimates.

In addition, we have performance-based awards that vest only if specific performance conditions are satisfied, typically at the end of an award's three-year performance period. The number of shares that will be earned can vary based on actual performance. No shares will vest if the threshold objectives are not met. In the event the objectives are exceeded, additional shares will vest, up to a maximum payout of 150%. The cost of these awards is expensed over the performance period based upon management's estimate and analysis of future earnings as compared to the performance criteria. Because the actual number of shares to be awarded is not known until the end of the performance period, the actual compensation expense related to these awards could differ from our current expectations.

Pension and Postemployment Benefits

We account for defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 87 ("SFAS 87"), *Employers' Accounting for Pensions*, which requires that amounts recognized in financial statements be determined on an actuarial basis. Our postemployment plans are accounted for in accordance with Statement of Financial Accounting Standards No. 112 ("SFAS 112"), *Employers' Accounting for Postemployment Benefits*. Beginning December 31, 2006, we also apply Statement of Financial Accounting Standards No. 158 ("SFAS 158"), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends each of these two standards, primarily relative to balance sheet presentation and disclosure requirements. Prior to the Separation, we accounted for pension and postemployment benefit costs under the multiemployer plan approach.

We have pension and postemployment benefit costs and credits, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions we make about interest rates, expected investment return on plan assets, total and involuntary turnover rates, and rates of future compensation increases. In addition, our actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop our valuations. We generally review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the measurement of our pension and postemployment benefit obligations, and to the amount of pension and postemployment benefits expense we have recorded or may record. For example, as of December 31, 2007, a one-half percent increase/decrease in the discount rate would change the accumulated benefit obligation of our pension plans by $4 million, and a one percent increase/decrease in our involuntary turnover assumption would change our postemployment benefit obligation by $18 million.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A discussion of recently issued accounting pronouncements is described in Note 1 of Notes to Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company employs a foreign currency hedging strategy to limit potential losses in earnings or cash flows from adverse foreign currency exchange rate movements. Foreign currency exposures arise from transactions denominated in a currency other than the Company's functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary currencies to which the Company is exposed include the Euro, the British Pound, the Japanese Yen, the Canadian dollar, the Australian dollar, and other Asian and South American currencies. Exposures are hedged with foreign currency forward contracts with maturity dates of twelve months or less. The potential loss in fair value at December 31, 2007, for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately $5 million. This loss would be mitigated by corresponding gains on the underlying exposures.

REPORT OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 accounting principles generally accepted in the United States of America and include certain amounts based on currently available information and our judgment of current conditions and circumstances. Due to the Company's recent separation from NCR, the Company was not required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules and regulations of the U.S. Securities and Exchange Commission to perform an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007. While we were not required to conduct such an evaluation, as of December 31, 2007, we identified a material weakness in our internal control over financial reporting relating to the accounting for revenue transactions involving resellers for which fees were not fixed or determinable. This control deficiency resulted in a revision to the consolidated financial statements for the year ended December 31, 2006, and an adjustment to the consolidated financial statements for the year ended December 31, 2007.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, is engaged to perform audits of our consolidated financial statements. These audits are performed in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our independent registered public accounting firm was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board.

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

Michael F. Koehler
President and
Chief Executive Officer

Stephen M. Scheppmann
Executive Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF TERADATA CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows, and of changes in stockholder's equity present fairly, in all material respects, the financial position of Teradata Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company'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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 our opinion.

As discussed in Note 1 of Notes to Consolidated Financial Statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

Cincinnati, Ohio
March 3, 2008

CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31	2007	2006	2005
In millions, except per share amounts			
Revenue			
Product revenue	$ 884	$ 807	$ 786
Service revenue	818	740	681
Total revenue	1,702	1,547	1,467
Operating expenses			
Cost of products	312	289	286
Cost of services	474	429	386
Selling, general and administrative expenses	470	410	391
Research and development expenses	126	117	120
Total operating expenses	1,382	1,245	1,183
Income from operations	320	302	284
Interest (income)	(2)	–	–
Income before income taxes	322	302	284
Income tax expense	122	110	78
Net income	$ 200	$ 192	$ 206
Net income per common share			
Basic	$ 1.11	$ 1.06	$ 1.14
Diluted	$ 1.10	$ 1.06	$ 1.14
Weighted average common shares outstanding			
Basic	180.8	180.7	180.7
Diluted	181.3	180.7	180.7

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

CONSOLIDATED BALANCE SHEETS

At December 31	2007	2006
In millions, except per share amounts		
Assets		
Current Assets		
Cash and cash equivalents	$ 270	$ –
Accounts receivable, net	507	379
Inventories, net	51	39
Other current assets	45	84
Total current assets	873	502
Property, plant and equipment, net	94	64
Capitalized software, net	61	59
Goodwill	90	90
Deferred income taxes	140	265
Other assets	36	23
Total assets	$ 1,294	$ 1,003
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 120	$ 67
Payroll and benefits liabilities	88	78
Deferred revenue	246	194
Other current liabilities	118	54
Total current liabilities	572	393
Pension and other postemployment plan liabilities	88	–
Other liabilities	3	19
Total liabilities	663	412
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding at December 31, 2007 and 2006, respectively	–	–
Common stock: par value $0.01 per share, 500.0 shares authorized, 181.0 shares issued and outstanding at December 31, 2007; no shares issued and outstanding at December 31, 2006	2	–
Paid-in capital	555	–
Retained earnings	79	–
Parent company investment	–	573
Accumulated other comprehensive (loss) income	(5)	18
Total stockholders' equity	631	591
Total liabilities and stockholders' equity	$ 1,294	$ 1,003

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31 *In millions*	2007	2006	2005
Operating activities			
Net income	$ 200	$ 192	$ 206
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	68	55	55
Stock-based compensation expense	17	9	1
Deferred income taxes	80	(14)	(18)
Non-cash income tax adjustment	–	–	(33)
Changes in assets and liabilities:			
Receivables	(128)	(29)	(16)
Inventories	(12)	(10)	(5)
Current payables and accrued expenses	71	1	(2)
Deferred revenue	52	15	10
Employee severance and pension	2	–	–
Other assets and liabilities	37	–	(6)
Net cash provided by operating activities	387	219	192
Investing activities			
Expenditures for property, plant and equipment	(50)	(20)	(18)
Additions to capitalized software	(50)	(48)	(37)
Other investing activities, net	(4)	(21)	(8)
Net cash used in investing activities	(104)	(89)	(63)
Financing activities			
Cash contributions from parent	200	–	–
Transfer to parent, net	(216)	(130)	(129)
Excess tax benefit from stock-based compensation	1	–	–
Other financing activities, net	1	–	–
Net cash used in financing activities	(14)	(130)	(129)
Effect of exchange rate changes on cash and cash equivalents	1	–	–
Increase in cash and cash equivalents	270	–	–
Cash and cash equivalents at beginning of year	–	–	–
Cash and cash equivalents at end of year	$ 270	$ –	$ –
Supplemental data			
Cash paid during the year for:			
Income taxes	$ 1	$ –	$ –
Interest	$ –	$ –	$ –

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In millions	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Parent Company Investment	Total	Comprehensive Income for the Year Ended
December 31, 2004	–	$ –	$ –	$ –	$ 20	$ 424	$ 444	
Employee stock compensation allocated from NCR						1	1	
Net income						206	206	$ 206
Currency translation adjustments					(5)		(5)	(5)
Net transfers to parent						(129)	(129)	
December 31, 2005	–	–	–	–	15	502	517	$ 201
Employee stock compensation allocated from NCR						9	9	
Net income						192	192	$ 192
Currency translation adjustments					3		3	3
Net transfers to parent						(130)	(130)	
December 31, 2006	–	–	–	–	18	573	591	$ 195
Employee stock compensation allocated from NCR						11	11	
Net income				79		121	200	$ 200
Net transfers to parent						(259)	(259)	
Contribution of net assets to Teradata Corporation and issuance of shares to parent (Note 1)	181	2	548		(30)	(446)	74	
Employee stock compensation plans			6				6	
Income tax benefit from stock compensation plans			1				1	
Currency translation adjustments					7		7	7
December 31, 2007	181	$ 2	$ 555	$ 79	$ (5)	$ –	$ 631	$ 207

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Description of Business, Separation, Basis of Presentation and Significant Accounting Policies

Description of the Business. Teradata Corporation ("Teradata" or "the Company") provides Enterprise Data Warehousing solutions for customers worldwide that combine software (including the Teradata database and tools, data mining and analytical applications), hardware, and related consulting and support services.

The Separation. On August 27, 2007, the Board of Directors of NCR Corporation ("NCR"), the Company's former parent, approved the separation of NCR into two independent, publicly traded companies through the distribution of 100% of its Teradata data warehousing business to shareholders of NCR ("Separation").

To effect the Separation, Teradata Corporation, a Delaware corporation, was formed on March 27, 2007, as a wholly-owned subsidiary of NCR. Immediately prior to the Separation, the assets and liabilities of the Teradata data warehousing business of NCR were transferred to Teradata Corporation in return for 180.7 million shares of Teradata Corporation common shares. NCR accomplished the Separation through a distribution of one share of Teradata Corporation common stock for each share of NCR common stock on September 30, 2007, to NCR shareholders of record as of September 14, 2007.

Significant Non-Cash Financing and Investing Activities. In connection with the Separation, the Company executed the following transactions, which involved no cash:

- NCR distributed 180.7 million shares of Teradata common stock to holders of NCR common stock.
- NCR's historical net investment in Teradata, $446 million immediately prior to the Separation, was reclassified to additional paid-in capital.
- NCR transferred to the Company certain postemployment liabilities and international pension assets and liabilities totaling $91 million, of which $30 million, net of tax, was recorded in accumulated other comprehensive income (loss).
- Reduced deferred tax assets by $82 million for net operating losses and other tax attributes retained by NCR, and increased net deferred tax assets and liabilities by $20 million for changes in tax bases of certain assets and liabilities resulting from the Separation, including the assumed pension and postemployment net obligations.
- Reduced income tax accruals by $19 million as such liabilities were retained by NCR in accordance with the Tax Sharing Agreement between NCR and the Company.

The assets and liabilities transferred to the Company from NCR at September 30, 2007, also included $196 million in cash and a $4 million receivable, which was collected from NCR in October 2007.

Basis of Presentation. The financial statements for periods ending on or after the Separation are presented on a consolidated basis and include the accounts of the Company and its majority-owned subsidiaries. The financial statements for the periods presented prior to the Separation include the assets, liabilities, operating results and cash flows of the Teradata data warehousing business of NCR Corporation. The assets and liabilities presented have been reflected on a historical basis, as prior to the Separation such assets and liabilities were 100% owned by NCR. Changes in parent company equity represents NCR's net investment in Teradata, prior to the Separation, after giving effect to the net income of Teradata and net cash transfers to and from NCR.

The historical financial statements include allocations of certain NCR corporate expenses, including treasury, accounting, tax, legal, internal audit, human resources, severance, pension, public and investor relations, general management, real estate, shared information technology systems, procurement and other statutory functions such as board of directors and other centrally managed employee benefit arrangements that benefit the Teradata business. These costs include the cost of salaries, benefits (including stock-based compensation) and other related costs. The Company was allocated $96 million in 2007 (prior to the Separation), $122 million in 2006 and $139 million in 2005 of general corporate overhead expenses incurred by NCR.

Management believes that the assumptions and methodologies underlying the allocation of general corporate overhead expenses from NCR are reasonable. However, such expenses may not be indicative of the actual level of expense that would have been incurred by the Company if it had operated as an independent, publicly traded company or of the costs expected to be incurred in the future. As such, the financial information herein may not necessarily reflect the financial position, results of operations and cash flows of the Company in the future or what it would have been had the Company been an independent, publicly traded company during the periods presented. Refer to Note 5 for further information regarding allocated expenses.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and judgments 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.

Revenue Recognition. Teradata's solution offerings typically include hardware, software, software subscriptions, maintenance support services and other professional consulting services. Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when: (a) persuasive evidence of an arrangement exists; (b) the products or services have been delivered to the customer; (c) the sales price is fixed or determinable and free of contingencies or significant uncertainties; and (d) collectibility is reasonably assured. Teradata reports revenue net of any taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors and distributors, and value-added resellers.

Substantially all of Teradata's solutions contain software that is more than incidental to the hardware and services. The typical solution requires no significant production, modification or customization of the software or hardware, and the software is not essential to the functionality of the hardware. Revenue related to software and software-related elements is recognized under Statement of Position 97-2, *Software Revenue Recognition.* Revenue for hardware and related installation services is recognized under Staff Accounting Bulletin No. 104 ("SAB 104"), *Revenue Recognition.* For software and software-related elements, Teradata allocates revenue to each element based upon its fair value as determined by vendor-specific objective evidence ("VSOE"). VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. These elements often involve delivery or performance at different periods of time. Revenue for software is generally recognized upon delivery with the hardware. Revenue for software subscriptions, which provide for unspecified upgrades or enhancements on a when-and-if-available basis, is recognized straight-line over the term of the subscription arrangement. Revenue for maintenance support services is also recognized on a straight-line basis over the term of the service contract. Revenue for other professional consulting services is recognized as services are provided. In certain instances, customer acceptance is required prior to the passage of title and risk of loss of the delivered products. In such cases, no revenue is recognized until the customer acceptance is obtained. Delivery and acceptance generally occur in the same reporting period.

For arrangements involving multiple deliverables, where the deliverables include software and non-software products and services, Teradata applies the provisions of Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, to separate the deliverables and allocate the total arrangement consideration. Accordingly, Teradata evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (a) whether the delivered item has value to the customer on a stand-alone basis; (b) whether there is objective and reliable evidence of the fair value of the undelivered items; and (c) if the contract includes a general right of return relative to the delivered item, and delivery or performance of the undelivered items is considered probable and substantially in the control of Teradata. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting based on relative fair values. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement's consideration. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Shipping and Handling. Costs related to shipping and handling are primarily included in cost of products in the Consolidated Statements of Income.

Cash and Cash Equivalents. All short-term, highly-liquid investments having original maturities of three months or less are considered to be cash equivalents.

Allowance for Doubtful Accounts. Teradata establishes provisions for doubtful accounts using both percentages of accounts receivable balances to reflect historical average credit losses and specific provisions for known issues.

Inventories. Inventories are stated at the lower of cost or market, using the average cost method. Excess and obsolete reserves are established based on forecasted usage, orders, technological obsolescence and inventory aging.

Long-Lived Assets
Property, Plant and Equipment. Property, plant and equipment, leasehold improvements and rental equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the related assets primarily on a straight-line basis. Machinery and other equipment are depreciated over 3 to 20 years and buildings over 25 to 45 years. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter.

Capitalized Software. Direct development costs associated with internal-use software are capitalized and amortized over the estimated useful lives of the resulting software. The costs are capitalized when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and placed in service. Teradata typically amortizes capitalized internal-use software on a straight-line basis over four years beginning when the asset is substantially ready for use.

Costs incurred for the development of software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established under Statement of Financial Accounting Standards No. 86 ("SFAS 86"), *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* Technological feasibility is established when all planning, designing, coding and testing activities that are necessary to establish the product can be produced to meet its detailed design specifications. In the absence of a detailed program design, a working model is used to establish technological feasibility. These costs are included within capitalized software and are amortized over the estimated useful lives of the resulting software. The Company typically amortizes capitalized software on a sum-of-the-years'-digits basis over three years beginning when the product is available for general release, which materially approximates the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility and after general release are expensed as incurred. The following table identifies the activity relating to capitalized software:

	Internal-Use Software			External-Use Software		
In millions	2007	2006	2005	2007	2006	2005
Beginning balance at January 1	$ 8	$ 6	$ 6	$ 51	$ 45	$ 46
Capitalized	8	5	3	37	40	34
Amortization	(4)	(3)	(3)	(39)	(34)	(35)
Ending balance at December 31	$ 12	$ 8	$ 6	$ 49	$ 51	$ 45

Goodwill and Other Intangible Assets. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives, which range from 5 to 10 years. The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company did not recognize any goodwill or intangible asset impairment charges in 2007, 2006 or 2005.

Valuation of Long-Lived Assets. Long-lived assets such as property, plant and equipment and capitalized software 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 the carrying amount.

Warranty. Provisions for product warranties are recorded in the period in which the related revenue is recognized. The Company accrues warranty reserves using percentages of revenue to reflect the Company's historical average warranty claims.

Research and Development Costs. Research and development costs are expensed as incurred, in accordance with Statement of Financial Accounting Standards No. 2 ("SFAS 2"), *Accounting for Research and Development Costs.* Research and development costs primarily include payroll and headcount-related costs, contractor fees, facilities costs, infrastructure costs, and administrative expenses directly related to research and development support.

Pension, Postretirement and Postemployment Benefits. Prior to the Separation, Teradata employees were eligible to participate in pension, postretirement and postemployment benefit plans sponsored by NCR in many of the countries where the Company does business. Prior to the Separation, the Company accounted for its pension and postemployment benefit costs under the multiemployer plan approach, and recognized the pension and postemployment costs allocated to it by NCR. The pension and postemployment benefits costs were allocated to Teradata based on the projected benefit obligation associated with Teradata-specific employees and other NCR employees who provided support services to Teradata. In conjunction with the Separation, certain of NCR's pension and postemployment benefit obligations and plan assets relating to the Teradata business were assumed by/transferred to the Company.

The Company accounts for its pension and postemployment benefit obligations using actuarial models. The measurement of plan obligations was made as of December 31, 2007. Liabilities are computed using the projected unit credit method. The objective under this method is to expense each participant's benefits under the plan as they accrue, taking into consideration salary increases and the plan's benefit allocation formula. Thus, the total pension or postemployment benefit to which each participant is expected to become entitled is broken down into units, each associated with a year of past or future credited service.

In accordance with Statement of Financial Accounting Standards No. 158 ("SFAS 158"), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, the Company recognizes the funded status of its pension and postemployment plan obligations in its consolidated balance sheets and records in other comprehensive income (loss) certain gains and losses that arise during the period, but are deferred under pension accounting rules.

Foreign Currency. Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated into U.S. dollars at period-end exchange rates. Income and expense accounts are translated at average exchange rates prevailing during the period. Adjustments arising from the translation are included in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in determining net income.

Income Taxes. For the periods prior to the Separation, Teradata's operating results were included in NCR's consolidated U.S. and state income tax returns and in tax returns of certain NCR foreign subsidiaries. The provision for income taxes in these financial statements was determined on a separate-return basis. Deferred tax assets and liabilities were recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

For the periods after the Separation, 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 determined based on the enacted tax rates expected to apply in the periods in which the deferred assets or liabilities are expected to be settled or realized. The Company records valuation allowances related to its deferred income taxes when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Stock Compensation. For the periods prior to the Separation, share-based compensation represented the costs related to NCR share-based awards granted to employees of Teradata recognized under the provisions of Statements of Financial Accounting Standards No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment*. NCR selected the modified prospective transition method of implementing SFAS 123R and began recognizing compensation expense for share-based awards granted on or after January 1, 2006, plus any unvested awards granted prior to January 1, 2006. Under the transition method, prior periods were not restated. Prior to the adoption of SFAS 123R on January 1, 2006, NCR accounted for the costs of its stock-based employee compensation plans under Accounting Principles Board Opinion No. 25 ("APB 25"), *Accounting for Stock Issued to Employees*, and related interpretations. Under APB 25, compensation cost was not recognized for all options granted because the exercise price was at least equal to the market value of the underlying common stock on the date of grant.

SFAS 123R requires that all share-based payments to employees, including grants of stock options, be recognized in the financial statements based on their fair value. The fair value of each stock option award on the grant date is estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield, expected stock price volatility, weighted-average risk-free interest rate and weighted average expected life of the options. In connection with the Separation, NCR share-based awards held by Teradata employees were converted to equivalent share-based awards of Teradata Corporation based on the ratio of the Company's fair market value to NCR and Teradata's combined fair market value at the time of the Separation. The conversion was accounted for as a modification under the provisions of SFAS 123R, and resulted in no increase in the fair value of the awards. For the periods following the Separation, share-based compensation represented the costs related to Teradata share-based awards.

Under SFAS 123R, the Company's expected volatility assumption used in the Black-Scholes option-pricing model was based on peer group volatility. The expected life assumption is based on the simplified method in accordance with the U.S. Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 107 ("SAB 107"). The simplified method is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate used in the Black-Scholes model is based on the implied yield curve available on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the Company's expected term assumption. The Company has never declared or paid a cash dividend and has no current plans to pay cash dividends.

Earnings Per 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 earnings per share, except that the weighted-average number of shares outstanding includes the dilution from potential shares added from stock options, restricted stock awards and other stock awards. For periods prior to the Separation, basic and diluted earnings per share were the same, as no potentially dilutive securities (stock options, restricted shares, etc.) of the Company were outstanding. Refer to Note 7 of Notes to Consolidated Financial Statements for share information on the Company's stock compensation plans.

The components of basic and diluted earnings per share are as follows:

For the year ended December 31	2007	2006	2005
In millions, except earnings per share			
Net income available for common stockholders	$ 200	$ 192	$ 206
Weighted average outstanding shares of common stock	180.8	180.7	180.7
Dilutive effect of employee stock options and restricted stock	0.5	–	–
Common stock and common stock equivalents	181.3	180.7	180.7
Earnings per share:			
Basic	$ 1.11	$ 1.06	$ 1.14
Diluted	$ 1.10	$ 1.06	$ 1.14

Reclassifications. Certain prior-year amounts have been reclassified to conform to the 2007 presentation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 48. In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. The Company adopted the provisions of FIN 48 on January 1, 2007. In accordance with the NCR Tax Sharing Agreement, liabilities related to all uncertain tax positions that arose prior to the Separation were retained by NCR. As of December 31, 2007, the Company has no unrecognized tax benefits.

Statement of Financial Accounting Standards No. 157. In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. While the Company is currently evaluating the impact of adopting SFAS 157, we do not expect that it will have a material effect on our financial condition and results of operations.

Statement of Financial Accounting Standards No. 159. In February 2007, the FASB issued SFAS No. 159 ("SFAS 159"), *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. While the Company is currently evaluating the impact of adopting SFAS 159, we do not expect that it will have a material effect on our financial condition and results of operations.

Statement of Financial Accounting Standards No. 141 (revised 2007). In December 2007, the FASB issued SFAS No. 141(R) ("SFAS 141R"), *Business Combinations*. This statement changes the accounting for acquisition transaction costs by requiring them to be expensed in the period incurred, and also changes the accounting for contingent consideration, acquired contingencies and restructuring costs related to an acquisition. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. While the Company is currently evaluating the impact of adopting SFAS 141R, we do not expect that it will have a material impact on our financial condition and results of operations.

Statement of Financial Accounting Standards No. 160. In December 2007, the FASB issued SFAS No. 160 ("SFAS 160"), *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. This statement will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. While the Company is currently evaluating the impact of adopting SFAS 160, we do not expect that it will have a material effect on our financial condition and results of operations.

NOTE 2 Revision of Prior Period Financial Statements

During the fourth quarter of 2007, the Company identified an error related to a sales transaction that was originally recognized in the fourth quarter of 2006. Upon subsequent review, management determined that the transaction, which was made through a reseller, did not meet the conditions for revenue recognition until the first quarter of 2007 when the products were delivered and accepted by the end-user customer. The impact of this error was an overstatement of revenue and net income in the three- and twelve-month periods ended December 31, 2006, and an understatement of revenue and net income in the three-month period ended March 31, 2007. We assessed the materiality of this error on the three- and twelve-month periods ended December 31, 2006, in accordance with the SEC's Staff Accounting Bulletin No. 99 ("SAB 99") and concluded that the error was not material to either period. However, we did conclude that the error was material to the three months ended March 31, 2007 as it understated the first-quarter results. Therefore, in accordance with the SEC's Staff Accounting Bulletin No. 108 ("SAB 108"), the full-year 2006 financial statements presented herein have been revised to correct for the immaterial error and to allow for the correct recording of this transaction in the 2007 consolidated financial statements. The correction resulted in a $13 million reduction in product revenue, a $3 million reduction in cost of products and a $4 million reduction to income tax expense, resulting in a $6 million reduction to net income ($0.04 per diluted share) in the previously filed, full-year 2006 financial statements. Revenue and expenses in these amounts have subsequently been reflected in the 2007 results. Associated adjustments were also made to decrease accounts receivable by $13 million, increase inventory by $3 million and increase deferred income taxes by $4 million within the December 31, 2006, consolidated balance sheet. The revision had no net impact on Teradata's net cash provided by operating activities for the twelve months ended December 31, 2006.

NOTE 3 Supplemental Financial Information

At December 31	2007	2006
In millions		
Accounts receivable		
Trade	$ 485	$ 381
Other	27	3
Accounts receivable, gross	512	384
Less: allowance for doubtful accounts	5	5
Total accounts receivable, net	$ 507	$ 379
Inventories		
Finished goods, net	$ 29	$ 21
Service parts, net	22	18
Total inventories, net	$ 51	$ 39
Other current assets		
Current deferred tax assets	$ 25	$ 75
Other	20	9
Total other current assets	$ 45	$ 84
Property, plant and equipment		
Land and improvements	$ 8	$ 8
Buildings and improvements	61	50
Machinery and other equipment	181	160
Property, plant and equipment, gross	250	218
Less: accumulated depreciation	156	154
Total property, plant and equipment, net	$ 94	$ 64
Other current liabilities		
Sales value-added tax	$ 36	$ 10
Other	82	44
Total other current liabilities	$ 118	$ 54
Accumulated other comprehensive (loss) income, net of tax		
Currency translation adjustments	$ 25	$ 18
Actuarial losses and prior service costs on employee benefit plans	(30)	–
Total accumulated other comprehensive (loss) income	$ (5)	$ 18

NOTE 4 Goodwill and Other Intangible Assets

The following table identifies the activity relating to goodwill by operating segment:

	Balance December 31, 2006	Additions	Balance December 31, 2007
In millions			
Goodwill			
Americas	$ 56	$ –	$ 56
EMEA	11	(1)	10
APJ	23	1	24
Total goodwill	$ 90	$ –	$ 90

The change in goodwill is primarily due to changes in foreign currency exchange rates. In the fourth quarter of 2007, in accordance with Statement of Financial Accounting Standards No. 142 (“SFAS 142”), *Goodwill and Other Intangible Assets*, the Company performed its annual test of goodwill impairment. No goodwill impairment losses were realized.

The Company's identifiable intangible assets, reported under Other Assets in the balance sheets, were specifically identified when acquired, and are deemed to have finite lives. The gross carrying amount and accumulated amortization for Teradata's identifiable intangible assets were as follows:

	Original Amortization Life (in Years)	December 31, 2007		December 31, 2006	
In millions		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Depreciation
Identifiable intangible assets					
Intellectual property	5–10	21	(6)	15	(2)

The increase in intellectual property since December 31, 2006, was primarily due to the purchase of software related to new industry solutions.

The aggregate amortization expense (actual and estimated) for identifiable intangible assets for the following periods is:

	Actual	For the year ended (estimated)				
In millions	2007	2008	2009	2010	2011	2012
Amortization expense	$ 4	$ 4	$ 4	$ 4	$ 2	$ 1

NOTE 5 Transactions with NCR

Teradata's costs and expenses for periods prior to the Separation include allocations from NCR for, among other things, centralized treasury, tax, accounting, legal, internal audit, human resources, severance, pension, public and investor relations, general management, real estate, shared information technology systems, procurement and other statutory functions such as board of directors and centrally managed benefit arrangements. These allocations have been determined on a basis that NCR and Teradata considered to be a reasonable reflection of the utilization of services provided to or the benefits received by Teradata. These allocations were based on methods that include such drivers as revenue, headcount, square footage, transaction processing costs and others considered as a reasonable method in relation to the costs being allocated. Separation costs of $15 million (for periods prior to the Separation) are included in selling, general and administrative expenses for the year ended December 31, 2007. Allocated costs included in the statements of income were as follows (allocated costs in 2007 include only the nine months ended September 30, 2007):

In millions	2007	2006	2005
Cost of products and services	$ 27	$ 39	$ 41
Selling, general and administrative expenses	63	69	83
Research and development expenses	6	14	15
Total allocated operating expenses	$ 96	$ 122	$ 139

NCR and the Company entered into an Interim Services and Systems Replication Agreement, which provides for the provision of certain transitional services by the Company and its subsidiaries to NCR and its subsidiaries, and vice versa. The services include the provision of administrative and other services identified by the parties. The Interim Services and Systems Replication Agreement provides for a term of up to 18 months for such services, which may be extended for an additional six months by mutual agreement of the parties. The pricing is based on actual costs incurred by the party rendering the services plus a fixed percentage.

As discussed in the Form 10, NCR and the Company have also entered into certain other agreements, including the Separation and Distribution Agreement, the Tax Sharing Agreement, the Employee Benefits Agreement and several commercial agreements. The commercial agreements include a network support agreement, service and distributor arrangements, intellectual property agreements, and various real estate arrangements.

NOTE 6 Income Taxes

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

In millions	2007	2006	2005
Income before income taxes			
United States	$ 198	$ 214	$ 187
Foreign	124	88	97
Total income before income taxes	$ 322	$ 302	$ 284

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

In millions	2007	2006	2005
Income tax expense			
Current			
Federal	$ 30	$ 80	$ 55
State and local	5	14	13
Foreign	7	30	28
Deferred			
Federal	40	(14)	(23)
State and local	6	(2)	(4)
Foreign	34	2	9
Total income tax expense	$ 122	$ 110	$ 78

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:

In millions	2007	2006	2005
Income tax expense at the U.S. federal tax rate of 35%	$ 113	$ 105	$ 99
Foreign income tax differential	(22)	2	9
State and local income taxes	9	11	9
U.S. permanent book/tax differences	5	(9)	(1)
Tax audit settlements	–	–	(33)
Rate change	10	–	–
Other, net	7	1	(5)
Total income tax expense	$ 122	$ 110	$ 78

Teradata's tax provisions arising from periods prior to the Separation include a provision for income taxes in certain tax jurisdictions where its operations are profitable, but reflect only a portion of the tax benefits related to certain foreign operations' tax losses due to the uncertainty of the ultimate realization of future benefits from these losses.

The 2007 income tax provision includes a $10 million charge relating to a tax rate change in Germany. The income tax provision also includes a $7 million net expense adjustment to correct prior period errors in the calculation of the income tax provision related to intercompany profit eliminations. As the impact of this error was not material to any prior periods or to the full-year 2007 financial statements, it was recorded in 2007.

The 2005 income tax provision includes $33 million of benefits as a result of NCR's resolution of prior-year tax audits. During 2005, NCR settled the tax audit for years 1997–1999 with the appellate level of the Internal Revenue Service ("IRS") resulting in a tax benefit of $14 million. Also in 2005, NCR settled the tax audit for years 2000–2002 with the examination level of the IRS, resulting in a tax benefit of $19 million. The initial income tax accruals were established based upon the nature of uncertain tax positions in the federal return, and accruals for the related interest were compounded each year. The accruals were established by specifically identifying risk items within the tax return and then assessing the likelihood of the items being challenged or overturned. The tax accruals were necessary due to uncertainty regarding the ultimate sustainability of tax return deductions taken for areas that are

prone to tax controversy and are complex areas of tax law. Teradata's benefits from NCR's settlement of the tax audits described above were based on the specific identification of settled tax matters directly attributable to Teradata's income before taxes, plus a reasonable ratable allocation of settled matters that were related to tax matters and filing positions attributable to both Teradata and NCR.

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

In millions	2007	2006	2005
Deferred income tax assets			
Employee pensions and other benefits	$ 36	$ –	$ –
Other balance sheet reserves and allowances	18	34	20
Tax loss and credit carryforwards	4	90	84
Capitalized research and development	120	212	213
Goodwill	14	–	–
Property, plant and equipment	13	–	–
Other	–	47	44
Total deferred income tax assets	205	383	361
Valuation allowance	(5)	(43)	(35)
Net deferred income tax assets	200	340	326
Deferred income tax liabilities			
Property, plant and equipment	23	–	–
Goodwill	8	–	–
Employee pensions and other benefits	3	–	–
Other	2	–	–
Total deferred income tax liabilities	36	–	–
Total net deferred income tax assets	$ 164	$ 340	$ 326

Teradata recorded valuation allowances related to certain deferred income tax assets due to the uncertainty of the ultimate realization of future benefits from those assets. The valuation allowances relate to certain state deferred income tax assets in tax jurisdictions where there is uncertainty as to their ultimate realization.

Teradata did not provide for U.S. federal income taxes or foreign withholding taxes on approximately $141 million in 2007 of undistributed earnings of its foreign subsidiaries because such earnings are intended to be reinvested indefinitely.

In 2007, the Company identified certain errors in the calculation of deferred tax assets and liabilities that resulted in an overstatement of net deferred tax assets and parent company equity in periods prior to the Separation, which were determined to be immaterial to previously issued financial statements. In 2007, the Company corrected the error by reducing net deferred tax assets and parent company equity by approximately $43 million. This adjustment is included in the "Net transfers to parent" in the Consolidated Statement of Changes in Stockholders' Equity. The adjustment had no effect on previously reported income tax expense, net income or cash.

The Company adopted FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement. The adoption of FIN 48 did not impact our results of operations or net assets. In accordance with the Tax Sharing Agreement between NCR and Teradata, NCR is responsible for all taxes reported on any separate or joint return of NCR, which may also include Teradata for periods prior to the Separation. As of December 31, 2007, the Company has no unrecognized tax benefits.

NOTE 7 Employee Stock Compensation Plans

The Company recorded stock-based compensation expense for the years ended December 31 as follows:

In millions	2007	2006	2005
Stock options	$ 6	$ 5	$ –
Restricted stock	11	4	1
Total stock-based compensation (pre-tax)	17	9	1
Tax benefit	(6)	(3)	–
Total stock-based compensation, net of tax	$ 11	$ 6	$ 1

On January 1, 2006, the Company implemented the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS 123R"), *Share-Based Payment*, and related interpretations. SFAS 123R requires that all share-based payments to employees, including grants of stock options, be recognized in the financial statements based on their fair value. The fair value of the Company's stock-based awards, less estimated forfeitures, is amortized over the awards' vesting periods on a straight-line basis. The Company selected the modified prospective transition method for implementing SFAS 123R and began recognizing compensation expense for stock-based awards granted on or after January 1, 2006, plus any unvested awards granted prior to January 1, 2006. Under this transition method, prior periods have not been restated. For the periods prior to the Separation, share-based compensation represents the costs related to NCR share-based awards granted to employees of Teradata recognized under the provisions of SFAS 123R. In connection with the Separation on September 30, 2007, NCR share-based awards held by Teradata employees were converted to equivalent share-based awards of Teradata Corporation based on the ratio of the Company's fair market value at the time of the Separation. The conversion was accounted for as a modification under the provisions of SFAS 123R, and resulted in no increase in the fair value of the awards. As of December 31, 2007, the Company's primary types of share-based compensation were stock options and restricted stock units.

Stock Options

Prior to the Separation, all stock options granted to NCR employees engaged in Teradata's business were granted under the NCR Stock Incentive Plan ("NCR SIP"). The NCR SIP provided for the grant of several different forms of stock-based compensation, including stock options to purchase shares of NCR common stock. The Compensation and Human Resource Committee of NCR's Board of Directors had discretion to determine the material terms and conditions of option awards under the SIP, provided that (i) the exercise price must be no less than the fair market value of NCR common stock (as defined in the NCR SIP or otherwise determined by the NCR Compensation and Human Resource Committee) on the date of grant, (ii) the term must be no longer than ten years, and (iii) in no event shall the normal vesting schedule provide for vesting in less than one year.

In connection with the Separation on September 30, 2007, NCR share-based awards held by Teradata employees were converted to equivalent share-based awards of Teradata Corporation based on the ratio of the Company's fair market value to NCR and Teradata's combined fair market value at the time of the adjustment. The conversion was accounted for as a modification under the provisions of SFAS 123R, and resulted in no increase in the fair value of the awards.

The Teradata Corporation 2007 Stock Incentive Plan (the "Teradata SIP") was adopted by Teradata's Board of Directors on September 6, 2007, after having been approved by NCR International, Inc., as sole stockholder of Teradata, on August 14, 2007. Stock options granted under the Teradata SIP contain similar terms and conditions as those granted under the NCR SIP, including terms no longer than 10 years, and exercise prices not less than the fair market value of Teradata common stock on the date of grant. Grants generally have a four-year vesting period. A total of 20 million shares are authorized to be issued under the Teradata SIP. New shares of the Company's common stock are issued as a result of stock option exercises.

For the year ended December 31, 2007, the weighted-average fair value of options granted for Teradata and NCR awards was $12.99 and $17.03, respectively. For the year ended December 31, 2006, the weighted-average fair value of NCR options granted was $15.66. The fair value of each option award on the grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Teradata	NCR	
	2007	**2007**	2006
Dividend yield	**–**	**–**	–
Risk-free interest rate	**4.30%**	**4.52%**	4.58%
Expected volatility	**39.7%**	**32.5%**	34.9%
Expected holding period (years)	**6.3**	**5.0**	5.3

Prior to the Separation, expected volatility incorporated a blend of both historical volatility of NCR's stock over a period equal to the expected term of the options and implied volatility from traded options on NCR's stock, as NCR management believed this was more representative of prospective trends. NCR used historical data to estimate option exercise and employee termination within the valuation model. Subsequent to the Separation, expected volatility assumption was based on peer group volatility, and the expected life assumption is based on the simplified method in accordance with the SEC's Staff Accounting Bulletin No. 107 ("SAB 107"). The simplified method is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate for periods within the contractual life of the option is based on the five-year U.S. Treasury yield curve in effect at the time of grant.

The Company had previously accounted for stock-based employee compensation using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), which required compensation expense for options to be recognized when the market price of the underlying stock exceeded the exercise price on the date of grant. If the Company had recognized stock option-based compensation expense based on the fair value of stock option grants, net income and net income per diluted share for the year ended December 31, 2005, would have been as follows:

In millions, except per share amounts	2005
Net income	$ 206
Stock-based employee compensation expense included in reported net income (pre-tax)	1
Tax benefit of stock-based employee compensation included in reported net income	–
Subtotal: Add to net income	1
Total stock-based employee compensation expense determined under fair value-based method for awards (pre-tax)	8
Tax benefit of stock-based employee compensation determined under fair value-based method for awards	(2)
Subtotal: Deduct from net income	6
Pro forma net income	$ 201
Basic net income per share:	
As reported	$ 1.14
Pro forma	$ 1.11
Diluted net income per share:	
As reported	$ 1.14
Pro forma	$ 1.11

The pro forma net income and net income per diluted share for 2005 was computed using the fair value of NCR options as calculated using the Black-Scholes option-pricing model. The weighted-average fair value for options granted was $15.56 per share in 2005 and was estimated based on the following weighted-average assumptions:

	2005
Dividend yield	–
Risk-free interest rate	4.00%
Expected volatility	35.5%
Expected holding period (years)	5.5

The following table summarizes the Company's stock option activity for the year ended December 31, 2007 (options in thousands):

Shares in thousands	Shares Under Option	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2007	2,390	$ 24.11	5.8	$ 45
Granted	281	$ 38.12		
Exercised	(283)	$ 20.25		
Canceled	(1)	$ 42.02		
Forfeited	(6)	$ 39.07		
Subtotal of NCR awards at September 30, 2007	2,381	$ 27.28		
Conversion of NCR awards to awards in Teradata stock	4,102	$ 14.75		
Transfer from NCR, net[a]	1,341	$ 13.72		
Subtotal – post-Separation	5,443	$ 14.50		
Granted	755	$ 27.98		
Exercised	(76)	$ 12.96		
Canceled	(64)	$ 12.04		
Forfeited	(19)	$ 21.28		
Outstanding at December 31, 2007	6,039	$ 16.22	6.0	$ 68
Fully vested and expected to vest at December 31, 2007	5,931	$ 16.08	6.0	$ 68
Exercisable at December 31, 2007	3,910	$ 15.76	4.4	$ 62

[a] Represents stock options held by NCR employees who became employees of Teradata at the Separation, and reflects the conversion to Teradata stock awards. Compensation for these employees, including stock-based compensation, was included in the corporate expense allocations (see Note 5) prior to the Separation.

The total intrinsic value of options exercised was $10 million in 2007, $21 million in 2006 and $32 million in 2005. Cash received by the Company from option exercises under all share-based payment arrangements was $1 million in 2007 (following the Separation). The tax benefit realized from these exercises was $3 million in 2007, $6 million in 2006 and $10 million in 2005. As of December 31, 2007, there was $16 million of total unrecognized compensation cost related to unvested stock option grants. That cost is expected to be recognized over a weighted-average period of 2.0 years.

Restricted Stock and Restricted Stock Units

Prior to the Separation, all restricted stock and restricted stock unit awards granted to NCR employees engaged in Teradata's business were granted under the NCR SIP. The NCR SIP provided for the issuance of restricted stock, as well as restricted stock units. For performance-based awards, performance goals were established by NCR's Compensation and Human Resource Committee for each respective performance period. Any grant of restricted stock or restricted stock units was subject to a vesting period of at least three years, except that a one-year term of service may be required if vesting is conditioned upon achievement of performance goals.

In connection with the Separation, NCR restricted stock and restricted stock unit awards held by Teradata employees were converted to equivalent restricted stock and restricted stock unit awards of Teradata Corporation based on the ratio of the Company's fair market value to NCR's and Teradata's combined fair market value at the time of the adjustment. The conversion was accounted for as a modification under the provisions of SFAS 123R, and resulted in no increase in the fair value of the awards.

The Teradata SIP provides for the issuance of restricted stock, as well as restricted stock units. Grants under the Teradata SIP consist of both service-based and performance-based awards. Service-based awards typically vest over a three- to four-year period beginning on the effective date of grant. These grants are not subject to future performance measures. The cost of these awards, determined to be the fair market value at the date of grant, is expensed ratably over the period the restrictions lapse. For substantially all restricted stock grants, at the date of grant, the recipient has all rights of a stockholder, subject to certain restrictions on transferability and a risk of forfeiture. A recipient of restricted stock units does not have the rights of a stockholder but is subject to restrictions on transferability and risk of forfeiture. Performance-based grants are subject to future performance measurements over a one- to three-year period. All performance-based shares will become vested at the end of the performance period provided the employee is continuously employed by the Company and applicable performance measures are met.

The following table reports restricted stock and restricted stock unit activity during the year ended December 31, 2007 (awards/units in thousands):

Shares in thousands	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Unvested shares at January 1, 2007	504	$ 35.15
Granted	128	$ 44.73
Vested and distributed	(20)	$ 40.99
Forfeited	(6)	$ 41.20
Subtotal of NCR awards at September 30, 2007	606	$ 41.98
Conversion of NCR awards to awards in Teradata stock	1,135	$ 22.64
Transfer from NCR, net[a]	58	$ 29.27
Subtotal – post-Separation	1,193	$ 22.96
Granted	547	$ 28.16
Vested and distributed	(273)	$ 19.46
Forfeited	(7)	$ 24.09
Unvested shares at December 31, 2007	1,460	$ 23.91

[a] Represents stock options held by NCR employees who became employees of Teradata at the Separation, and reflects the conversion to Teradata stock awards. Compensation for these employees, including stock-based compensation, was included in the allocations (see Note 5) prior to the Separation.

The total intrinsic value of shares vested and distributed was $2 million in 2007, $3 million in 2006 and $1 million in 2005. As of December 31, 2007, there was $25 million of unrecognized compensation cost related to unvested restricted stock grants. The unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 1.8 years.

The following table represents the composition of Teradata restricted stock grants (post-Separation) in 2007:

Shares in thousands	Number of Shares	Weighted-Average Grant Date Fair Value
Service-based shares	277	$ 28.21
Performance-based shares	270	$ 28.10
Total stock grants	547	$ 28.16

Other Share-based Plans

The Company's employee stock purchase program ("ESPP") was adopted by Teradata's Board of Directors on September 6, 2007, after having been approved by NCR International, Inc., as sole stockholder of Teradata, on August 14, 2007. The plan became effective on October 1, 2007. The plan provides eligible employees of Teradata and its designated subsidiaries an opportunity to purchase the Company's common stock at a discount to the average of the highest and lowest sale prices on the last trading day of each month. The ESPP discount is 5% of the average market price. As a result, this plan was considered non-compensatory under SFAS 123R. Employees may authorize payroll deductions of up to 10% of eligible compensation for common stock purchases. No purchases were made under the ESPP in 2007, as the first enrollment period began after December 31, 2007. Purchases under Teradata's ESPP are expected to begin in 2008.

NOTE 8 Employee Benefit Plans

Pension and Postemployment Plans. Prior to the Separation, NCR employees engaged in Teradata's business were eligible to participate in pension, postretirement and postemployment benefit plans sponsored by NCR in many of the countries where Teradata does business. As Teradata participated in NCR's plans, it accounted for its pension and postemployment benefit costs under the multiemployer plan approach, and has recognized the pension and postemployment costs allocated to it by NCR as expense, with a corresponding contribution in parent company investment. Pension and postemployment benefit costs were allocated to Teradata based on the projected benefit obligation associated with Teradata-specific employees and other NCR employees who provided support services to Teradata. NCR froze its U.S. defined pension plans as of December 31, 2006, and ceased to accrue additional benefits for all participants in the U.S. plans.

In conjunction with the Separation, certain of NCR's pension and postemployment benefit obligations and plan assets relating to the Teradata business were assumed by/transferred to the Company. Assets of the Company'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.

Postemployment obligations relate to benefits provided to involuntarily terminated employees and certain inactive employees after employment but before retirement. These benefits are paid in accordance with various foreign statutory laws and regulations, and Teradata's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, continuation of health care benefits and life insurance coverage, and are funded on a pay-as-you-go basis. There were no postretirement benefit obligations assumed by the Company.

Pension and postemployment benefit costs for the years ended December 31 were as follows:

	2007		2006		2005	
	Pension	Postemployment	Pension	Postemployment	Pension	Postemployment
In millions						
Service cost	$ 2	$ 1	$ –	$ –	$ –	$ –
Interest cost	1	1	–	–	–	–
Expected return on plan assets	(1)	–	–	–	–	–
Amortization of actuarial loss	1	1	–	–	–	–
Pre-Separation allocation from NCR	6	12	23	16	22	17
Total costs	$ 9	$ 15	$ 23	$ 16	$ 22	$ 17

In accordance with the provisions of Statement of Financial Accounting Standards No. 158 ("SFAS 158"), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, the underfunded amount of pension and postemployment obligations is recorded as a liability in the Company's condensed consolidated balance sheets. The following tables present the changes in benefit obligations, plan assets, funded status and the reconciliation of the funded status to amounts recognized in the consolidated balance sheets and in accumulated other comprehensive income at December 31:

	2007	
In millions	Pension	Postemployment
Change in benefit obligation		
Benefit obligation at January 1	$ –	$ –
Obligation transferred from NCR	91	50
Service cost	2	1
Interest cost	1	1
Actuarial (gain) loss	–	(2)
Other	–	2
Benefits paid	(1)	(1)
Currency translation adjustments	4	2
Benefit obligation at December 31	97	53
Change in plan assets		
Fair value of plan assets at January 1	–	–
Fair value of plan assets transferred from NCR	50	–
Actuarial return on plan assets	1	–
Company contributions	3	–
Benefits paid	(1)	–
Currency translation adjustments	2	–
Plan participant contribution	1	–
Fair value of plan assets at December 31	56	–
Funded status	$ (41)	$ (53)
Amounts Recognized in the Balance Sheet		
Noncurrent assets	$ (2)	$ –
Current liabilities	1	7
Noncurrent liabilities	42	46
Net amounts recognized	$ 41	$ 53
Amounts Recognized in Accumulated Other Comprehensive Income		
Net actuarial loss	$ 14	$ 28
Prior service cost	1	(1)
Total	$ 15	$ 27

The accumulated pension benefit obligation as of December 31, 2007, was $88 million. For pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were $30 million, $33 million and $35 million, respectively, at December 31, 2007.

The weighted-average rates and assumptions used to determine benefit obligations at December 31, 2007, and net periodic benefit cost for the year ended December 31, 2007, were as follows:

	Pension		Postemployment	
	Benefit Obligations	Benefit Cost	Benefit Obligations	Benefit Cost
Discount rate	4.7%	4.5%	5.4%	5.0%
Rate of compensation increase	3.3%	3.2%	4.2%	3.8%
Expected return on plan assets	–	5.2%	–	–
Involuntary turnover rate	–	–	3.0%	3.0%

The Company employs a building block approach as its primary approach in determining the long-term expected rate of return assumption for plan assets. Historical market returns are studied, and long-term relationships between equities and fixed income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a higher return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The expected long-term portfolio return is established for each plan via a building block approach with proper rebalancing consideration. The result is then adjusted to reflect additional expected return from active management net of plan expenses. Historical plan returns, the expectations of other capital market participants and peer data are all used to review and check the results for reasonableness and appropriateness.

The discount rate used to determine year-end 2007 U.S. benefit obligations was derived by matching the plans' expected future cash flows to the corresponding yields from the Citigroup Pension Discount Curve. This yield curve has been constructed to represent the available yields on high-quality fixed-income investments across a broad range of future maturities. International discount rates were determined by examining interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our future expected cash flows.

Gains and losses have resulted from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and differences between actual and assumed asset returns. These gains and losses (except those differences being amortized to the market-related value) are only amortized to the extent that they exceed 10% of the higher of the market-related value or the projected benefit obligation of each respective plan. As a result, unrecognized net losses of $1 million and an immaterial amount of prior service cost are expected to be amortized during fiscal 2008.

Plan Assets. The weighted-average asset allocations at December 31, 2007, by asset category are as follows:

	Actual Asset Allocation	Target Asset Allocation
Equity securities	58%	57%
Debt securities	28%	32%
Real estate	10%	10%
Other	4%	1%
Total	100%	100%

Investment Strategy. Teradata employs a total return investment approach whereby a mix of equities, fixed-income and real estate investments are used to maximize the long-term return of plan assets subject to a prudent level of risk. The risk tolerance is established for each plan through a careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolios contain a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across domestic and international stocks, small and large capitalization stocks, and growth and value stocks. Fixed-income assets are also diversified across domestic and international issuers, and type of fixed-income security (i.e., government and corporate bonds). Where applicable, real estate investments are made through real estate securities, partnership interests or direct investment, and are diversified by property type and location. Other assets such as cash are used judiciously to improve portfolio diversification and enhance risk-adjusted portfolio returns. Derivatives may be used to adjust market exposures in an efficient and timely manner. Due to the timing of security purchases and sales, cash held by fund managers is classified in the same asset category as the related investment. Rebalancing algorithms are applied to keep the asset mix of the plans from deviating excessively from their targets. Investment risk is measured and monitored on an ongoing basis through regular performance reporting, investment manager reviews, actuarial liability measurements and periodic investment strategy reviews.

Cash Flows Related to Employee Benefit Plans

Cash Contributions. The Company plans to contribute approximately $7 million to the international pension plans in 2008.

Estimated Future Benefit Payments. The Company expects to make the following benefit payments reflecting past and future service from its pension and postemployment plans:

In millions	Pension Benefits	Postemployment Benefits
Year		
2008	$ 7	$ 7
2009	$ 8	$ 7
2010	$ 6	$ 7
2011	$ 6	$ 7
2012	$ 7	$ 7
2013–2017	$ 35	$ 30

Savings Plans. 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. The Company'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 the U.S. plan was approximately $11 million in 2007. The expense under international and subsidiary savings plans was $6 million in 2007. Certain of these amounts represent contributions made by NCR to the defined contribution savings plans in periods prior to the Separation.

NOTE 9 Derivative Instruments and Hedging Activities

As a portion of the Company's operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, the Company is exposed to potential losses from changes in foreign currency exchange rates. To mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting from foreign currency denominated intercompany inventory purchases. The forward contracts are designated as fair value hedges of specified foreign currency denominated intercompany payables and generally mature in three months or less. The Company does not hold or issue financial instruments for trading purposes nor does it hold or issue leveraged derivative instruments. By using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to credit risk. The Company manages exposure to counterparty credit risk by entering into derivative financial instruments with highly rated institutions that can be expected to fully perform under the terms of the agreement.

All derivatives are recognized in the Consolidated Balance Sheets at their fair value. The fair values of foreign exchange contracts are based on market spot and forward exchange rates and represent estimates of possible value that may not be realized in the future. Changes in the fair value of derivative financial instruments, along with the loss or gain on the hedged asset or liability, are recorded in current period earnings.

At December 31, 2007, the contract notional amount of the Company's foreign exchange forward contracts was $66 million. The fair value derivative assets and liabilities recorded in other current assets and accrued liabilities at December 31, 2007, are not material. The Company was not party to any derivative financial instruments at December 31, 2006.

The aggregate net foreign currency transaction losses (gains) in 2007, 2006 and 2005 were not material to the results of operations. The aggregate foreign currency transaction amounts include the gains/losses on the Company's foreign currency fair value hedges for all periods presented.

NOTE 10 Commitments and Contingencies

In the normal course of business, the Company is subject to proceedings, lawsuits, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property, tax matters, and other regulatory compliance and general matters, including those described below. Because such matters are subject to many uncertainties, their outcomes are not predictable. While the Company believes that amounts provided in our condensed consolidated financial statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results.

The Company is subject to governmental investigations and requests for information from time to time. Presently, the United States Department of Justice is conducting an investigation regarding the propriety of the Company's arrangements or understandings with others in connection with certain federal contracts and the adequacy of certain disclosures related to such contracts. The investigation arises in connection with civil litigation in federal district court filed under the qui tam provisions of the civil False Claims Act against a number of information technology companies, including the Company. The complaints against the Company remain under seal. The Company is conducting its own internal investigation focusing on the propriety of certain transactions under federal programs under which Teradata was a contractor. The Company has shared evidence of questionable conduct that the Company has uncovered with the Justice Department and intends to continue to cooperate with the Justice Department in its investigation. The Company has recorded a reserve of approximately $1 million related to the current best estimate of potential liability relating to this matter.

A separate portion of the government's investigation relates to the adequacy of pricing disclosures made to the government in connection with negotiation of NCR's General Services Administration Federal Supply Schedule as it relates to Teradata, and to whether certain subsequent price reductions were properly passed on to the government. Both NCR and the Company are participating in this aspect of the investigation, with respect to certain products and services of each, and each will assume financial responsibility for its own exposures, if any, without indemnification from the other. At this time, the Company is unable to determine whether it has liability with respect to this aspect of the investigation.

The Company believes the amounts provided in its financial statements are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from the matter described above and other matters, and to comply with applicable laws and regulations, will not exceed the amounts reflected in the Company's financial statements or will not have a material adverse effect on its results of operations, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of December 31, 2007, cannot currently be reasonably determined.

Guarantees and Product Warranties. Guarantees associated with the Company's business activities are reviewed for appropriateness and impact to the Company's financial statements. Periodically, the Company's customers enter into various leasing arrangements coordinated with a leasing partner. In some instances, the Company guarantees the leasing partner a minimum value at the end of the lease term on the leased equipment or guarantees lease payments between the customer and the leasing partner. As of December 31, 2007, the maximum future payment obligation of this guaranteed value and the associated liability balance was $6 million.

The Company provides its customers a standard manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors such as labor rates, average repair time, travel time, number of service calls and cost of replacement parts. For each consummated sale, the Company recognizes the total customer revenue and records the associated warranty liability using pre-established warranty percentages for that product class. From time to time, product design or quality corrections are accomplished through modification programs. When identified, associated costs of labor and parts for such programs are estimated and accrued as part of the warranty reserve.

The following table identifies the activity relating to the warranty reserve for the years ended December 31:

In millions	2007	2006	2005
Warranty reserve liability			
Beginning balance at January 1	$ 8	$ 7	$ 7
Accruals for warranties issued	13	12	11
Settlements (in cash or kind)	(15)	(11)	(11)
Balance at end of period	$ 6	$ 8	$ 7

The Company also offers extended and/or enhanced coverage to its customers in the form of maintenance contracts. The Company accounts for these contracts by deferring the related maintenance revenue over the extended and/or enhanced coverage period. Amounts associated with these maintenance contracts are not included in the table above.

In addition, the Company provides its customers with certain indemnification rights. In general, the Company agrees to indemnify the customer if a third party asserts patent or other infringement on the part of the customer for its use of the Company's products. In addition, the Company has entered into indemnification agreements with its officers and directors. From time to time, the Company also enters into agreements in connection with its acquisition and divesture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is not readily determinable due to the conditional nature of the Company's potential obligations and the specific facts and circumstances involved with each particular agreement. The Company has not recorded a liability in connection with these indemnifications. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company's consolidated financial condition, results of operations or cash flows.

Contractual and Other Commercial Commitments In the normal course of business, the Company enters into various contractual obligations that impact, or could impact, liquidity. The following table and discussion outlines the Company's material obligations at December 31, 2007, with projected cash payments in the periods shown:

In millions	Total Amounts	2008	2009–2010	2011–2012	2013 and thereafter
Lease obligations	$ 63	$ 15	$ 23	$ 16	$ 9
Purchase obligations	158	131	12	12	3
Total lease and purchase obligations	$ 221	$ 146	$ 35	$ 28	$ 12

Lease obligations in the above table include facilities in various domestic and international locations, as well as leases from NCR for properties that are currently owned by NCR and partially utilized by the Company. Purchase obligations are committed purchase orders and other contractual commitments for goods and services, and include contractual payments in relation to service agreements with Accenture LLP and NCR for ongoing transaction services.

The Company also has product warranties and several guarantees to third parties, as well as postemployment and international pension obligations that may affect future cash flow. These items are not included in the table of obligations shown above. Product warranties and third-party guarantees are described in detail above in this Note. Postemployment and pension obligations are described in detail in Note 8.

Concentrations of Risk. The Company is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, 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. Teradata'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 potentially significant losses. However, management believes that the reserves for potential losses were adequate at December 31, 2007 and 2006.

The Company is also potentially subject to concentrations of supplier risk. Our hardware components are assembled exclusively by Flextronics Corporation (formerly Solectron). Flextronics procures a wide variety of components used in the manufacturing process on our behalf. Although many of these components are available from multiple sources, the Company utilizes preferred supplier relationships to better ensure more consistent quality, cost and delivery. Typically, these preferred suppliers maintain alternative processes and/or facilities to ensure continuity of supply. Given the Company's strategy to outsource its manufacturing activities to Flextronics and to source certain components from single suppliers, a disruption in production at Flextronics or at a supplier could impact the timing of customer shipments.

NOTE 11 Revolving Credit Facility

On October 1, 2007, Teradata entered into a five-year, $300 million unsecured credit agreement (the "Credit Agreement") with a syndicate of financial institutions and Bank of America, N.A., as Administrative Agent. The Credit Agreement provides for a revolving credit commitment of up to $300 million, and expires on October 1, 2012. Borrowing under the Credit Agreement is subject to the satisfaction of a number of conditions precedent. The credit facilities contain certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. For most borrowings,

Teradata would anticipate choosing a floating rate based on the London Interbank Offered Rate ("LIBOR"). If the facility had been fully drawn at December 31, 2007, the spread over the LIBOR would have been 32 basis points (for an interest rate of 5.04%, assuming a 6-month borrowing term) given Teradata's leverage ratio at that date. As of December 31, 2007, the Company had no borrowings outstanding under this revolving credit facility and was in compliance with all covenants.

NOTE 12 Subsequent Events

On February 11, 2008, the Board of Directors of the Company authorized two stock repurchase programs. The employee stock dilution offset program is an ongoing, self-funding anti-dilution program that uses the cash received from employee share purchases under the Teradata Corporation Employee Stock Purchase Plan and option exercises under the Teradata Corporation 2007 Stock Incentive Plan to repurchase Company common stock on the open market at management's discretion, in accordance with applicable securities rules regarding issuer repurchases. In addition, the Board authorized a general open market share repurchase program pursuant to which the Company may spend up to $250 million over a two-year period to repurchase its common stock on the open market at management's discretion, in accordance with applicable securities rules regarding issuer repurchases. No stock repurchases had been made by the Company as of December 31, 2007. Subsequent to the Company's customary blackout period surrounding the release of earnings, from February 14, 2008 through February 29, 2008, the Company repurchased approximately 1.6 million shares for approximately $38 million. In order to preserve the tax-free status of the Separation, the accumulated shares repurchased in the two-year period following the Separation must remain below 20% of the common shares outstanding on September 30, 2007.

NOTE 13 Segment, Other Supplemental Information and Concentrations

Teradata manages its business in three geographic regions, which are also the Company's operating segments: (1) the North America and Latin Americas ("Americas") region; (2) the Europe, Middle East and Africa ("EMEA") region; and (3) the Asia Pacific and Japan ("APJ") region. Management evaluates the performance of its segments based on revenue and segment margin, and does not include segment assets for management reporting purposes. Segment margin excludes certain corporate-related costs consistent with the manner by which management evaluates segment operating performance. This presentation is useful to investors because it allows analysis and comparability of operating trends. The Company's management does not use corporate-level selling, general and administrative, or research and development expenses to measure and evaluate regional segment performance.

The following table presents regional segment revenue and segment gross margin for the Company for the years ended December 31:

In millions	2007	% of Revenue	2006[3]	% of Revenue	2005	% of Revenue
Revenue						
Americas[1]	$ 964	57%	$ 920	60%	$ 861	59%
EMEA	424	25%	360	23%	340	23%
APJ	314	18%	267	17%	266	18%
Total revenue	1,702	100%	1,547	100%	1,467	100%
Segment gross margin						
Americas	560	58%	545	59%	507	59%
EMEA	207	49%	168	47%	165	49%
APJ	159	51%	126	47%	130	49%
Subtotal – segment gross margin	926	54%	839	54%	802	55%
Reconciling amounts[2]	(10)		(10)		(7)	
Total gross margin	916	54%	829	54%	795	54%
Selling, general and administrative expenses	470	28%	410	27%	391	27%
Research and development expenses	126	7%	117	8%	120	8%
Total income from operations	$ 320	19%	$ 302	20%	$ 284	19%

(1) The Americas region includes revenue from the United States of $884 million in 2007, $849 million in 2006 and $803 million in 2005.

(2) Includes corporate-related costs that management does not use to make decisions regarding the regional operating segments or to assess their financial performance.

(3) The Americas results for the year ended December 31, 2006, have been revised to correct for the error discussed in Note 2.

The following table presents revenue by product and services revenue for the Company for the years ended December 31:

In millions	2007	2006[2]	2005
Products (software and hardware)[1]	$ 884	$ 807	$ 786
Professional and installation-related services	451	404	368
Total solution	1,335	1,211	1,154
Support services	367	336	313
Total revenue	$ 1,702	$ 1,547	$ 1,467

[1] Our data warehousing hardware and software products are often sold and delivered together in the form of a "node" of capacity as an integrated technology solution. Accordingly, it is impracticable to provide the breakdown of revenue from various types of hardware and software products.

[2] Product revenue for the year ended December 31, 2006, has been revised to correct for the error discussed in Note 2.

The following table presents property, plant and equipment by geographic area at December 31:

In millions	2007	2006
United States	$ 80	$ 59
Americas (excluding United States)	1	1
EMEA	3	1
APJ	10	3
Property, plant and equipment, net	$ 94	$ 64

Concentrations. No single customer accounts for more than 10% of the Company's revenue. As of December 31, 2007, the Company is not aware of any significant concentration of business transacted with a particular customer that could, if suddenly eliminated, have a material adverse effect on the Company's operations. The Company also lacks a concentration of available sources of labor, services, licenses or other rights that could, if suddenly eliminated, have a material adverse effect on its operations.

NOTE 14 Quarterly Information (unaudited)

In millions, except per share amounts	First	Second	Third	Fourth
2007				
Total revenues	**$ 367**	**$ 430**	**$ 439**	**$ 466**
Gross margin	**$ 196**	**$ 230**	**$ 229**	**$ 261**
Operating income	**$ 70**	**$ 88**	**$ 66**	**$ 96**
Net income	**$ 43**	**$ 49**	**$ 29**	**$ 79**
Net income per share:				
Basic	**$ 0.24**	**$ 0.27**	**$ 0.16**	**$ 0.44**
Diluted	**$ 0.24**	**$ 0.27**	**$ 0.16**	**$ 0.43**
2006				
Total revenues	$ 323	$ 396	$ 375	$ 453
Gross margin	$ 180	$ 209	$ 199	$ 241
Operating income	$ 58	$ 80	$ 68	$ 96
Net income	$ 37	$ 50	$ 43	$ 62
Net income per share:				
Basic	$ 0.20	$ 0.28	$ 0.24	$ 0.34
Diluted	$ 0.20	$ 0.28	$ 0.24	$ 0.34

The unaudited quarterly information presented above for the fourth quarter of 2006 and first quarter of 2007 has been revised to correct for the error discussed in Note 2. The impact of this revision to the fourth quarter of 2006 was to reduce total revenues by $13 million, gross margin by $10 million and net income by $6 million ($0.04 per diluted share). The impact of this revision to the first quarter of 2007 was to increase total revenues by $13 million, gross margin by $10 million and net income by $6 million ($0.04 per diluted share).

Common Stock Information

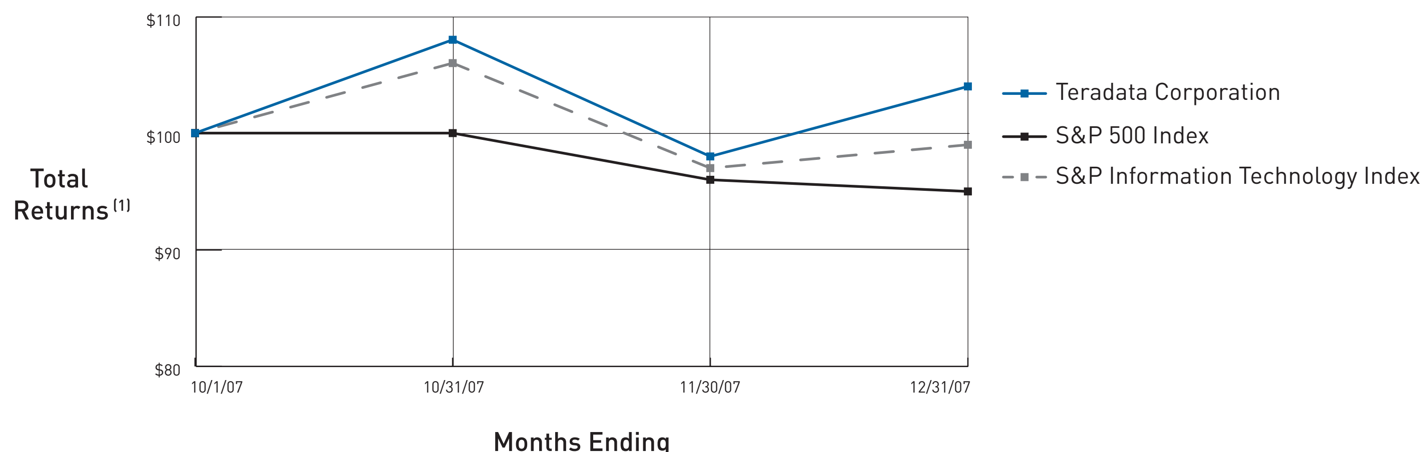
Teradata common stock began trading on the New York Stock Exchange under the symbol "TDC" on October 1, 2007. Teradata was added to the Standard & Poor's 500 ("S&P 500") index upon its separation from NCR in 2007. There were approximately 120,000 registered holders of Teradata common stock as of February 29, 2008. The following table presents the high and low closing per share prices of Teradata common stock on the New York Stock Exchange during the calendar quarter indicated.

Common Stock Closing Market Price	High	Low
2007		
Fourth quarter	$ 29.08	$ 23.13

Teradata has not paid cash dividends and does not anticipate the payment of cash dividends on Teradata common stock in the immediate future. The declaration of dividends in the future would be subject to the discretion of Teradata's Board of Directors.

Comparison of Cumulative Total Return

The following graph compares the relative performance of Teradata stock, the Standard & Poor's 500 Stock Index and the Standard & Poor's Information Technology Index. This graph covers the three-month period from October 1, 2007 (immediately following the Separation), through December 31, 2007.



Company/Index	October 1, 2007	October 31, 2007	November 30, 2007	December 31, 2007
Teradata Corporation	$ 100	$ 108	$ 98	$ 104
S&P 500 Index	$ 100	$ 100	$ 96	$ 95
S&P Information Technology Index	$ 100	$ 106	$ 97	$ 99

(1) In each case, assumes a $100 investment immediately following Teradata's Separation from NCR on October 1, 2007, and reinvestment of all dividends, if any.

SELECTED FINANCIAL DATA

For the Year Ended December 31	2007[1]	2006[2]	2005[3]	2004[4]	2003
In millions, except per share and employee amounts					
Revenue	$ 1,702	$ 1,547	$ 1,467	$ 1,349	$ 1,203
Income from operations	$ 320	$ 302	$ 284	$ 199	$ 124
Other income	$ 2	$ –	$ –	$ –	$ –
Income tax expense	$ 122	$ 110	$ 78	$ 61	$ 34
Net income	$ 200	$ 192	$ 206	$ 138	$ 90
Net income per common share					
Basic	$ 1.11	$ 1.06	$ 1.14	$ 0.76	$ 0.50
Diluted	$ 1.10	$ 1.06	$ 1.14	$ 0.76	$ 0.50

At December 31	2007	2006	2005	2004	2003
Total assets	$ 1,294	$ 1,003	$ 911	$ 871	$ 798
Debt	$ –	$ –	$ –	$ –	$ –
Total stockholders' equity/parent company equity	$ 631	$ 591	$ 517	$ 444	$ 424
Cash dividends	$ –	$ –	$ –	$ –	$ –
Number of employees	5,900	5,100	4,500	4,100	4,000

(1) Includes $17 million ($15 million after-tax) for expenses related to the Separation from NCR; a $10 million charge related to a tax rate change in Germany; and an out of period income tax expense adjustment of $7 million relating to prior years.

(2) Amounts have been revised to correct for the error discussed in Note 2 to the Consolidated Financial Statements.

(3) Includes income tax benefits totaling $33 million from the favorable settlement of tax audit issues relating to the tax years 1997–1999 and 2000–2002.

(4) Includes $14 million income tax benefit resulting from the favorable settlement of tax audit issues relating to the period when NCR was a subsidiary of AT&T Corp.

CORPORATE INFORMATION

ANNUAL MEETING OF STOCKHOLDERS

Stockholders are invited to attend Teradata's Annual Meeting of Stockholders at 8:00 a.m. on Monday, 28 April 2008, to be held at Teradata's research and development office in California at:

Teradata Corporation
17095 Via Del Campo
Rancho Bernardo, CA 92127

STOCKHOLDER ACCOUNT INQUIRIES

Inquiries regarding "registered" stockholder accounts should be directed to Teradata's stock transfer agent, BNY Mellon Shareowner Services at:

Teradata Corporation
c/o BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015

Phone: 888-261-6779
Outside the U.S.: 201-680-6578
TDD for hearing impaired (in the U.S.):
800-231-5469
TDD for hearing impaired (outside the U.S.):
201-680-6610

Account information can also be obtained via e-mail at shrrelations@mellon.com, or by visiting the stock transfer agent's web site: www.bnymellon.com/shareowner/isd.

COMPANY INFORMATION

Information requests for Teradata's filings with the U.S. Securities and Exchange Commission ("SEC"), annual report on Form 10-K, quarterly reports, and other financial information can be obtained without charge by writing or calling:

Teradata Investor Relations
2835 Miami Village Drive
Miamisburg, OH 45342
Phone: 937-242-4878
E-mail: investor.relations@teradata.com
Web site: www.teradata.com/investor

CEO AND CFO CERTIFICATIONS

In 2007, the company's CEO provided the New York Stock Exchange ("NYSE") with the annual CEO certification regarding Teradata's compliance with the NYSE's corporate governance listing standards. In addition, the company's CEO and CFO filed with the SEC all required certifications regarding the quality of Teradata's public disclosures in its fiscal 2007 periodic reports.

ANNUAL REPORT ON FORM 10-K

The company's annual report filed with the SEC on Form 10-K can be accessed via the "Investor Relations" page of Teradata's web site at www.teradata.com/investor.

LEADERSHIP

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President and Chief Executive Officer

Stephen A. Brobst
Chief Technology Officer

Rocky J. Blanton
President, Americas Region

Todd B. Carver
Vice President, Deputy General Counsel and Chief Ethics and Compliance Officer

Saundra D. Davis
Vice President, Human Resources

Robert E. Fair, Jr.
Executive Vice President,
Global Field Operations

Scott E. Gnau
Chief Development Officer

Peter Hand
President, APJ Region

Daniel L. Harrington
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Bruce A. Langos
Chief Operations Officer

Darryl D. McDonald
Chief Marketing Officer

Laura K. Nyquist
General Counsel and Corporate Secretary

Stephen M. Scheppmann
Executive Vice President and
Chief Financial Officer

Hermann Wimmer
President, EMEA Region

Robert A. Young
Vice President,
Financial Planning and Operations

BOARD OF DIRECTORS

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Computer Sciences Corporation

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The Dow Chemical Company

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The Ross School of Business,
University of Michigan

William S. Stavropoulos
Chairman Emeritus
The Dow Chemical Company

Teradata President and Chief Executive Officer Mike Koehler, with other senior leaders, rings The Opening Bell℠ on October 1, 2007, to celebrate the first day of Teradata's trading on the New York Stock Exchange.

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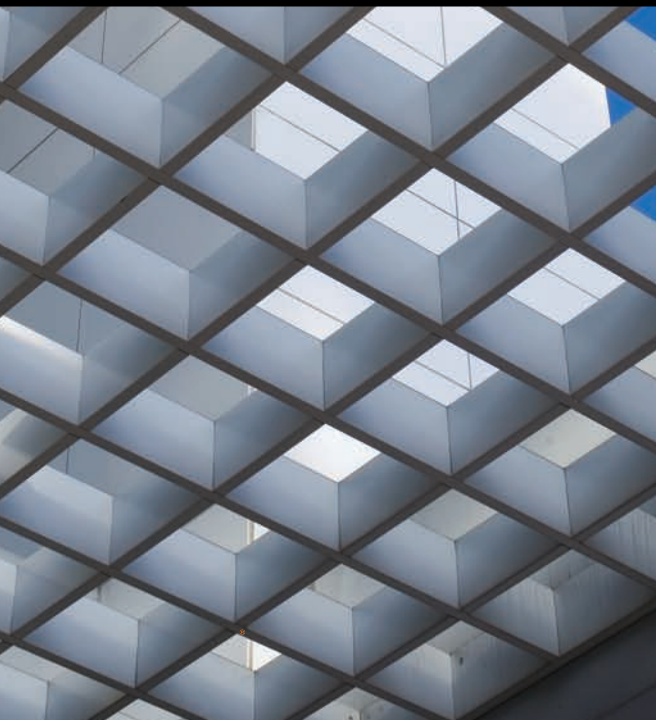

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