2018 ANNUAL REPORT

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DEAR TERADATA SHAREHOLDERS,

Almost three years ago, the company's Board of Directors of which I was a member - asked me to become the President and CEO of Teradata. My goals were to develop a customer-centric strategy that would drive future profitable growth and to develop a team capable of driving that strategy, including a new CEO. I am pleased to say both of these goals have been accomplished.

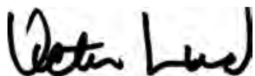
Our new strategy is working, as evidenced by our very successful year in 2018. We are well on our way to increasing customer consumption of Teradata's software via subscription-based transactions. We are successfully realigning our go-to-market resources to align and support our new target market of megadata customers. These enterprises are among the world's most demanding, large-scale users of data with mission-critical, complex, and large-scale environments, and they require an integrated analytical solution that can accommodate massive scale and speed. Fortunately for Teradata, our target market customers and our shareholders, this is exactly Teradata's sweet spot and a capability no one else in the market has demonstrated their ability to perform at the same scale. This is a great market opportunity for Teradata, and the best is yet to come.

"Our new strategy is working, as evidenced by our very successful year in 2018."

I am thrilled to have Oliver Ratzesberger succeed me as President and CEO as I have become Executive Chairman of the Board. Oliver is the right person at the right time to lead the company's ongoing success. He has the full confidence of our Board and our management team.

While we still have much to accomplish, my confidence in our strategy and our team has never been stronger. Thank you for your continued support during our transformation and for the opportunity to serve as President and CEO of Teradata; it was an honor. I look forward with optimism to serving you as Executive Chairman as we continue the successful transformation of Teradata.

Sincerely



Victor Lund
Executive Chairman of the Board

DEAR FELLOW SHAREHOLDERS,

It is with great enthusiasm as well as humility that I write to you for the first time as the President and CEO. 2018 was a significant year for Teradata, where we generated better than expected financial results, demonstrated substantial progress in transitioning to a subscription-based company and released Teradata Vantage™, our next-generation analytics platform. I look forward to leading Teradata during our next phase of growth, and thank the Board and you, our shareholders, for this outstanding opportunity.

Our opportunity
We help our customers address the challenges of how to move fast today while also accommodating future changes in a low-risk and agile manner. Through our Teradata Everywhere™ approach, customers have a flexible and scalable way to ensure a high return on their analytic investments while eliminating many of the risks of making those investments.

Teradata Vantage, our next-generation analytics platform represents the natural next step in our evolution. As we continue our transition to subscription-based offerings, we are focused on helping our customers reduce the cost, complexity and inadequacy of their analytic ecosystems. We believe Teradata Vantage is uniquely positioned to help our customers integrate and simplify their analytic ecosystems as only Vantage can leverage all of their data, all of the time to deliver analytics that matter. Especially exciting is the fact that Vantage has had the fastest adoption rate of any offering in the company's history; a strong indicator of how valuable and game changing our customers see Vantage as the platform for Pervasive Data Intelligence.

Our strategic focus
We understand that in order to build upon our recent successes, we must continue to advance our business. Recently, we outlined the pillars of our strategy to serve as the roadmap to drive our business forward and increase shareholder value.

- Relentlessly focus on consumption: We are focusing the entire company on driving increased consumption of our software with our customers.
- Radical simplification: We are focusing on improving the customer experience and making it much easier to consume our software.
- Pivot towards as-a-service: We are shifting to as-a-service, making it easy for customers to purchase, provision, upgrade, and leverage our software to accelerate time to value.
- Transform our Go-to-Market and our brand: We are repositioning Teradata with our customers and raising expectations for what data analytics can mean to their success.
- Deliver operational excellence: We are continuing to focus on improving efficiency and execution across the Company.

Underpinning all we do are our people. We remain committed to encourage and leverage diversity in all aspects of our business, multiplying our collective value for Teradata's competitive advantage. As we support our thriving culture, we additionally remain fully committed and continue to drive sustainable and ethical practices across the company - in our behaviors, products, supply chain, and facilities.

Looking ahead with confidence
I am very proud of what the Teradata team achieved in 2018 and believe that we are well positioned in the marketplace to support our customers' analytical needs. I am confident that our strategy, leadership team and passionate employees help drive our company forward.

In closing, I would like to thank our 10,000 employees who work tirelessly to transform how businesses work and people live through the power of data as well as you, our shareholders, for your continued support. We look forward to a successful 2019.

Oliver Ratzesberger
President and CEO

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

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 several factors, including those discussed in other sections of this Annual Report. See "Risk Factors" and "Forward-looking Statements."

OVERVIEW

Teradata Corporation is a leading hybrid cloud analytics software provider focusing on delivering pervasive data intelligence to our customers, which we define as the ability to leverage 100% of a company's data to uncover real-time intelligence, at scale. We help customers integrate and simplify their analytics ecosystem, access and manage data, and use analytics to extract answers and derive business value from data. Our solutions and services comprise software, hardware, and related business consulting and support services to deliver analytics across a company's entire analytical ecosystem.

Teradata's strategy is based on our mission of transforming how businesses work and people live through the power of data. Our target market is what we call "megadata" companies - those companies that we believe are the world's most demanding, large-scale, users of data. These megadata companies face significant challenges including siloed data and conflicting and duplicative solutions that typically results in considerable expense to maintain and to manage the complexity. Our strategy is to provide a differentiated set of offerings to the megadata target market through a portfolio of integrated data and analytic solutions. Teradata Vantage is a highly-scalable, secure, highly-concurrent, and resilient analytics platform that addresses the challenges that megadata companies face by offering full integration of their datasets, tools, analytics languages, functions, and engines in one analytical platform, which enables them to reduce complexity, risk, and costs. Teradata Vantage embraces leading commercial and open source technologies including our market-leading integrated data warehouse engine, and it is available on-premises or in the cloud. All subscription-based Teradata software licenses enable portability of the software license between cloud and on-premises deployment options, which can reduce risk associated with customers' buying decisions. Customer buying behavior continues to shift from predominantly capital-intensive purchases to these subscription-based purchasing options.

In the near term, the movement to subscription-based transactions is negatively impacting the timing of our reported revenue and our cash flows because revenue and cash related to subscription-based transactions are recognized and received over time versus upfront as was the case with the capital purchase model. However, the transition to a subscription-based model is expected to increase our recurring revenue, which should create more predictable operating results and cash flow generation. Near term impacts, however, can fluctuate based on the pace of customer adoption, which can be difficult to predict. In the longer term, we expect our reported operating results and cash flow to normalize and increase as more customers transition to these new purchasing and deployment options.

We are continuing to invest for Teradata's future, including investments to support our cloud-based initiatives, analytical consulting and solutions, realignment of our go-to-market approach, and modernizing our infrastructure.

Teradata has introduced additional financial and performance metrics to allow for greater transparency regarding the progress we are making toward achieving our strategic objectives. These metrics include the following:

- **Annual Recurring Revenue ("ARR")** - is the annual contract value for all active and contractually binding term-based contracts at the end of a period. It includes maintenance, software upgrade rights, subscription-based transactions and managed services.
- **Bookings Mix** - subscription bookings divided by the sum of subscription bookings plus perpetual bookings.

2018 FINANCIAL OVERVIEW

As more fully discussed in later sections of this MD&A, the following are the financial highlights for 2018:

- Revenue of $2,164 million increased by $8 million in 2018 as compared to 2017, with a 10% increase in recurring revenue as the Company's business shifts to subscription-based transactions, partially offset by a 21% decrease in perpetual software licenses and hardware revenue and a 2% decrease in consulting services revenue.
- Gross margin was 47.4% in 2018, flat as compared to 2017, primarily due to improved consulting services margins resulting from operational improvements offset by revenue mix shift as the company transitions to subscription-based transactions, which has a short-term impact on the overall gross margin rate.
- Operating expenses in 2018 increased by 3% as compared to 2017, primarily due to the investments that we made in 2018 related to our strategic initiatives including increasing sales and sales support headcount and investments in managed and public cloud and our new Vantage platform. Teradata also transitioned its corporate headquarters to San Diego, California from Dayton, Ohio, which increased operating expenses.
- Operating income was $43 million in 2018, down from $68 million in 2017, primarily due to higher operating expenses.
- Net income was $30 million in 2018 versus a net loss of $(67) million in 2017. Net income per share was $0.25 in 2018 compared to net loss per share of $(0.53) in 2017. The net loss for 2017 included a $126 million tax charge due to the enactment of The Tax Cuts and Jobs Act of 2017.

RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

Revenue

in millions	**2018**	**% of Revenue**	2017	% of Revenue	2016	% of Revenue
Revenue						
Recurring	**$1,254**	**57.9%**	$1,145	53.1%	$ 1,135	48.9%
Perpetual software license and hardware	**340**	**15.7%**	429	19.9%	600	25.8%
Consulting services	**570**	**26.4%**	582	27.0%	587	25.3%
Total revenue	**$2,164**	**100%**	$2,156	100%	$2,322	100%

Total revenue was up $8 million in 2018 compared to 2017. Recurring revenue grew 10%, driven by our movement to subscription-based transactions from perpetual software licenses and hardware transactions, which is consistent with our strategy. Under subscription models, we recognize revenue over time as opposed to the upfront recognition under the perpetual model. We expect to continue to have a significant percent of bookings be subscription-based, consistent with our overall strategy and to continue to grow recurring revenue and ARR year-over-year.

Revenues from perpetual software licenses and hardware decreased 21% in 2018 as compared to 2017, including a 1% favorable impact from foreign currency fluctuations. We expect perpetual revenues to continue to decline as customers switch to our subscription-based offerings. However, some customers continue to purchase on a perpetual basis. Perpetual revenue is primarily hardware-related, as software is generally being sold on subscription. We expect that perpetual revenue will continue to decline in 2019 and will continue to be predominantly hardware-related.

Consulting services revenue decreased 2% in 2018 as compared to 2017, as we are shifting our strategy relating to our consulting business to focus on megadata companies and, within that target market, to prioritize higher value, higher margin, business-related consulting, which is intended to increase consumption of Vantage, our software-based analytics platform. We expect consulting revenue to continue to decline as the Company implements this strategic change and focus.

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 fluctuations in foreign currency exchange rates. Based on currency rates as of January 31, 2019, Teradata is expecting one percentage point negative impact from currency translation on our 2019 full year projected revenue growth rate.

Included below are financial and performance growth metrics for 2018:

- At the end of 2018, ARR was $1.308 billion, a 10% increase from $1.184 billion at the end of 2017. The growth in ARR in 2018 was unfavorably impacted by 2% from foreign currency fluctuations. Beginning in 2018, recurring revenue and ARR now includes recurring revenue from our managed services business. The prior-period amounts have been updated to reflect the current period presentation.
- 79% of our bookings mix in 2018 were subscription-based and we expect a substantial majority of our total bookings mix in 2019 to continue to be subscription-based.

Total revenue decreased 7% in 2017 as compared to 2016, primarily due to the sale of the marketing applications business in 2016, which generated $69 million in revenue in 2016, and due to customers increasingly opting for subscription-based transactions over perpetual, which is consistent with our strategy and impacts our prior period revenue comparisons as some revenue that we would normally have recognized in 2017 was spread over future periods.

Recurring revenue increased 1% in 2017 as compared to 2016, due to the shift to subscription-based transactions offset by a reduction in recurring revenue from the sale of the marketing applications business, which generated $64 million in recurring revenue in 2016. Revenues from perpetual software licenses and hardware decreased 29% due to customers increasingly opting for our subscription-based purchasing options. Consulting services revenue decreased 1%.

Gross Profit

The Company often uses specific terms/definitions to describe variances in gross profit. The terms and definitions most often used are as follows:

- **Revenue Mix** - The proportion of recurring, consulting, and perpetual software licenses and hardware that generates the total revenue of the Company. Changes in revenue mix can have an impact on gross profit even if total revenue remains unchanged.
- **Recurring Revenue Mix** - The proportion of various recurring revenue offerings that comprise the total of recurring revenue. For example, a higher mix of subscriptions including hardware rental would have a negative impact on total recurring gross profit.
- **Deal Mix** - Refers to the type of transactions closed within the period that generate the total perpetual software license and hardware revenue. For example, a higher mix of hardware versus software or the mix of Teradata versus third-party products.

Gross profit for the following years ended December 31 was as follows:

in millions	**2018**	**% of Revenue**	2017	% of Revenue	2016	% of Revenue
Gross profit						
Recurring	**$ 880**	**70.2%**	$ 841	73.4%	$ 864	76.1%
Perpetual software licenses and hardware	**118**	**34.7%**	170	39.6%	282	47.0%
Consulting Services	**28**	**4.9%**	13	2.2%	43	7.3%
Total gross profit	**$1,026**	**47.4%**	$1,024	47.5%	$1,189	51.2%

The decrease in 2018 recurring revenue gross profit as a percent of revenue was driven by a higher mix of subscription-based revenue as compared to prior-year period. Subscription-based transactions are typically lower margin as compared to the recurring revenue from legacy maintenance and software upgrade rights.

The year-over-year decrease in perpetual software licenses and hardware gross profit in 2018 as a percent of revenue was driven by a higher mix of hardware revenue as some customers continue to purchase their hardware upfront while buying the software on a subscription basis, which is recorded in recurring revenue.

Consulting services gross profit as a percentage of revenue improved in 2018 as compared to the prior-year period as the Company continues to focus on making operational improvements within its consulting business.

The decrease in recurring revenue gross profit as a percent of revenue in 2017 was driven by a higher mix of subscription-based revenue including hardware as compared to 2016 when recurring revenue was primarily legacy maintenance and software upgrade rights and term licenses for software from the marketing applications business.

The decrease in perpetual software licenses and hardware gross profit as a percent of revenue was driven by deal mix and higher capitalized software amortization in 2017 as compared to 2016.

Consulting service gross profit in 2017 as a percentage of revenue decreased as compared to the prior year largely due to investments, we made in our consulting organization, particularly headcount, to facilitate our new strategy.

Operating Expenses

in millions	**2018**	**% of Revenue**	2017	% of Revenue	2016	% of Revenue
Operating expenses						
Selling, general & administrative expenses	**$666**	**30.8%**	$651	30.2%	$662	28.5%
Research & development expenses	**317**	**14.6%**	305	14.1%	212	9.1%
Impairment of goodwill, acquired intangibles & other assets	**-**	**-**	-	-	80	3.4%
Total operating expenses	**$983**	**45.4%**	$956	44.3%	$954	41.1%

Selling, general and administrative ("SG&A") expense in 2018 increased by $15 million or 2% as compared to 2017. The increase was driven by investments that we made in 2018 related to our strategic initiatives including transitioning our corporate headquarters to San Diego, California from the prior location in Dayton, Ohio, as well as increased sales and sales support headcount.

Research and development ("R&D") expenses in 2018 increased $12 million or 4% from 2017 due to strategic investments in the new Teradata Vantage analytics platform, our cloud offerings, as well as increased variable expense related to the annual incentive plan.

SG&A expense decreased by $11 million or 2% in 2017 as compared to 2016. The decrease was driven by the exiting of the marketing applications business. This was partially offset by an increase in marketing spend and regional selling expense due to investments in demand creation, primarily in the Americas region.

R&D expenses increased $93 million or 44% in 2017 as compared to 2016 due to the Company no longer capitalizing certain software development costs resulting from the transition to agile development methodologies. The Company did not capitalize any R&D costs in 2017 compared to $59 million in 2016. These development costs are now expensed as incurred as R&D expense. The increase in R&D expense was also due to new strategic initiatives relating to our cloud offerings.

In 2016, the Company recognized an impairment of goodwill of $57 million and acquired intangibles of $19 million to adjust the marketing applications business, which was sold on July 1, 2016, to its fair value less cost to sell. In addition, the Company recorded a $4 million impairment charge related to the sale of its corporate airplane.

Other Expense, net

in millions	**2018**	2017	2016
Gain on securities	**$ -**	$ -	$ 2
Interest income	**14**	11	6
Interest expense	**(22)**	(15)	(12)
Other	**(8)**	(6)	(10)
Total other expense, net	**$(16)**	$(10)	$(14)

In 2018, other expense, net is comprised primarily of interest expense on long-term debt, partially offset by interest income earned on our cash and cash equivalents. Interest income and interest expense increased due to increases in interest rates.

In 2017, the increase in interest expense and interest income compared to 2016 was due to an increase in interest rates. Interest expense also increased due to the use of our revolving credit facility.

Income Taxes

The effective income tax rate for the following years ended December 31 was as follows:

	2018	2017	2016
Effective Tax Rate	**(11.1%)**	215.5%	43.4%

The 2018 and 2017 effective tax rates were impacted by the passage of the Tax Cuts and Jobs Act of 2017 ("Tax Act"), which was signed into law on December 22, 2017, making significant changes to the United States Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a modified territorial tax system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. generally accepted accounting principles ("GAAP") in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act.

For the year ended December 31, 2018, the Company recorded $6 million of tax benefit in accordance with SAB 118 as an adjustment to the provisional estimates resulting from additional regulatory guidance available as of the date of this filing and changes in interpretations and assumptions the Company initially made because of the Tax Act. This resulted in an overall income tax benefit for the period.

The 2017 effective tax rate was impacted by a net $126 million of additional provisional income tax expense recorded in the fourth quarter of 2017 related to the Tax Act. The provisional amount related to the one-time transition tax expense of $145 million on the mandatory deemed repatriation of cumulative foreign earnings of $1.3 billion, which the Company will pay over an 8-year period through 2025. The Company also recorded a provisional benefit of $19 million, a majority of which related to the re-measurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future.

The 2016 effective tax rate was impacted by the $57 million of goodwill impairment charge recorded in the first quarter of 2016, all of which was treated as a permanent non-deductible tax item. In addition, a discrete tax charge of $22 million was recorded in the third quarter of 2016 for the tax impact on the sale of the marketing applications business, which occurred on July 1, 2016. In the fourth quarter of 2016, the Company recorded $8 million of tax expense associated with the issuance of new United States Treasury Regulations under Internal Revenue Code Section 987 on December 7, 2016, which clarified how companies calculate foreign currency translation gains and losses for income tax purposes for branches whose accounting records are kept in a currency other than the currency of the Company. Also, in the fourth quarter of 2016, the Company elected to early adopt Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting. As a result, the Company incurred a $5 million discrete tax expense associated with the net shortfall arising from 2016 equity compensation vesting and exercises.

REVENUE AND GROSS PROFIT BY OPERATING SEGMENT

Effective July 1, 2016, following the sale of the marketing applications business, Teradata is managing its business in two operating segments: (1) Americas region (North America and Latin America); and (2) International region (Europe, Middle East, Africa, Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with how management evaluates the performance of each segment. 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 financial performance. The chief operating decision maker, who is our President and Chief Executive Officer, evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes, assets are not allocated to the segments. Our segment results are reconciled to total Company results reported under GAAP in Note 13 of Notes to Consolidated Financial Statements. Prior period segment information has been reclassified to conform to the current period presentation.

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

in millions	**2018**	**% of Revenue**	2017	% of Revenue	2016	% of Revenue
Segment revenue						
Americas	**$1,126**	**52.0%**	$1,195	55.4%	$1,334	57.4%
International	**1,038**	**48.0%**	961	44.6%	919	39.6%
Total Data and Analytics	**2,164**	**100%**	2,156	100%	2,253	97.0%
Marketing Applications*	**-**	**-**	-	-	69	3.0%
Total segment revenue	**$2,164**	**100%**	$2,156	100%	$2,322	100%
Segment gross profit						
Americas	**$ 621**	**55.2%**	$ 675	56.5%	$ 797	59.7%
International	**474**	**45.7%**	437	45.5%	445	48.4%
Total Data and Analytics	**1,095**	**50.6%**	1,112	51.6%	1,242	55.1%
Marketing Applications*	**-**	**-**	-	-	34	49.3%
Total segment gross profit	**$1,095**	**50.6%**	$ 1,112	51.6%	$ 1,276	55.0%

* Teradata's marketing applications business was sold on July 1, 2016.

Americas

Revenue decreased 6% in 2018 as compared to 2017. An increase in recurring revenue of 8% was offset by a decrease in perpetual software licenses and hardware. Both were driven by the shift to subscription-based transactions. Segment gross profit as a percentage of revenues was lower primarily due to lower perpetual revenue margin from a higher perpetual revenue mix of hardware as some customers continued to purchase hardware upfront while buying software on a subscription basis.

Revenue decreased 11% in 2017 as compared to 2016. The revenue decline was driven by our customers' movement to subscription-based contract options, which results in revenue being recognized over time instead of upfront. Americas had a higher percent of subscription-based transactions in 2017 than International. Segment gross profit as a percentage of revenues was lower, driven by lower perpetual revenue margin from a higher perpetual revenue mix of hardware versus software revenue due to customers moving to subscription-based options. Consulting margins were also lower and impacted by investments that we made in our consulting business to drive increased consumption of Teradata's offerings.

International

Revenue increased 8% as compared to 2017, which included a 1% favorable impact from foreign currency fluctuations. The increase was driven by both recurring revenue as well as perpetual software and hardware. The increase in recurring revenue is consistent with our strategy to shift to subscriptions. Segment gross profit as a

percentage of revenues was higher primarily due to growth in higher margin recurring revenue and an increase in consulting services gross margin as the Company continues to focus on making operational improvements in its consulting business.

Revenue increased 5% in 2017 as compared to 2016. The revenue increase was driven by improved perpetual revenues in Europe, Middle East and Africa (“EMEA”) as well as the Asia Pacific and Japan (“Asia Pacific”) regions. Segment gross profit as a percentage of revenues was down in 2017 driven by lower consulting margins from investments that we made in our consulting business to drive increased consumption of Teradata’s offerings.

Change in segment reporting: Effective January 1, 2019, the Company implemented an organizational change to its operating segments and will report future results under three separate segments: (1) the Americas region, (2) the EMEA region, and (3) the Asia Pacific region, to align with the way the Company’s management operates and reviews the results of these businesses.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Teradata ended 2018 with $715 million in cash and cash equivalents, a $374 million decrease from December 31, 2017, after using approximately $300 million for repurchases of Company common stock during the year. Cash provided by operating activities increased by $40 million to $364 million in 2018. The increase in cash provided by operating activities was primarily due to differences in timing of various components of working capital.

Teradata’s management uses a non-GAAP measure called “free cash flow,” which is not a measure defined under GAAP. We define free cash flow as net cash provided by operating activities less capital expenditures for property and equipment and additions to capitalized software. Free cash flow is one measure of assessing the financial performance of the Company, and this may differ from the definition used by other companies. The components that are used to calculate free cash flow are GAAP measures 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 and repurchase of Teradata common stock. 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	**2018**	2017	2016
Net cash provided by operating activities	**$ 364**	$324	$446
Less:			
Expenditures for property and equipment	**(153)**	(78)	(53)
Additions to capitalized software	**(7)**	(9)	(65)
Free cash flow	**$ 204**	$237	$328

Financing activities and certain other investing activities are not included in our calculation of free cash flow. Other investing activities for 2018 include release of a hold-back payment from a previous year’s acquisition. In 2017 and 2016, these other investing activities primarily consisted of immaterial complementary business acquisitions and equity investment activities that were closed during these years along with the sale of the marketing applications business on July 1, 2016.

Teradata’s financing activities for the years ended December 31, 2018 primarily consisted of cash outflows of $300 million for share repurchases, repayments of credit facility borrowings of $240 million, repayment of existing term loan of $40 million, $5 million of payments on capital leases, and $31 million from other financing activities.

Teradata's financing activities for the years ended December 31, 2017 primarily consisted of cash outflows of $351 million for share repurchases, net proceeds of credit facility borrowings of $240 million, repayment of existing term loan of $30 million and $32 million from other financing activities.

Teradata's financing activities for the year ended December 31, 2016 primarily consisted of cash outflows of $82 million for share repurchases, repayments of credit facility borrowings of $180 million, repayment of existing term loan of $30 million and $30 million from other financing activities.

The Company purchased 7.9 million shares of its common stock at an average price per share of $37.89 in 2018, 11.5 million shares of its common stock at an average price per share of $30.59 in 2017 and 3.4 million shares at an average price per share of $24.25 in 2016.

Share repurchases were made under two share repurchase programs initially authorized by our Board of Directors in 2008. The first of these programs (the "dilution offset program") authorizes the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan ("ESPP") to offset dilution from shares issued pursuant to these plans. As of December 31, 2018, under the Company's second share repurchase program (the "general share repurchase program"), the Company had approximately $253 million of authorization remaining to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis.

Proceeds from the ESPP and the exercise of stock options, net of tax paid for shares withheld upon equity award settlement, were $33 million in 2018, $32 million in 2017 and $31 million in 2016. These proceeds are included in other financing activities, net in the Consolidated Statements of Cash Flows.

Our total cash and cash equivalents held outside the United States in various foreign subsidiaries was $364 million as of December 31, 2018 and $1,044 million as of December 31, 2017. The remaining balance held in the United States was $351 million as of December 31, 2018 and $45 million as of December 31, 2017. Prior to the enactment of the Tax Act, the Company either reinvested or intended to reinvest its earnings outside of the United States. Because of the Tax Act, the Company has changed its indefinite reinvestment assertion related to foreign earnings that have been taxed in the United States and now considers a majority of these earnings no longer indefinitely reinvested. In 2018, the Company repatriated $800 million of its offshore cash and utilized $280 million to pay down its credit facilities, used $300 million for share repurchases that occurred during the period, and the remainder for general corporate purposes. Effective January 1, 2018, the United States has moved to a modified territorial system of international taxation, and as such will not subject future foreign earnings to United States taxation upon repatriation in future years.

On June 11, 2018, Teradata replaced its existing five-year, $400 million revolving credit facility with a new $400 million revolving credit facility (the "Credit Facility"). The Credit Facility ends on June 11, 2023 at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. In addition, under the terms of the Revolving Credit Agreement, Teradata from time to time and subject to certain conditions may increase the lending commitments under the Revolving Credit Agreement in an aggregate principal amount up to an additional $200 million to the extent that existing or new lenders agree to provide such additional commitments. The outstanding principal amount of the Revolving Credit Agreement bears interest at a floating rate based upon, at Teradata's option, a negotiated base rate or a Eurodollar rate plus, in each case, a margin based on Teradata's leverage ratio. In the near term, Teradata would anticipate choosing a floating rate based on London Interbank Offered Rate ("LIBOR"). The Credit Facility is unsecured but is guaranteed by certain of Teradata's material domestic subsidiaries and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of December 31, 2018, the Company had no borrowings outstanding under the Credit Facility, leaving $400 million in additional borrowing capacity available under the Credit Facility. The Company was in compliance with all covenants under the Credit Facility as of December 31, 2018. Unamortized deferred costs on the original credit facility and new lender fees of approximately $1 million were being amortized over the five-year term of the credit facility. The Company was in compliance with all covenants as of December 31, 2018.

Also, on June 11, 2018, Teradata closed on a new senior unsecured $500 million five-year term loan, the proceeds of which, plus additional cash-on-hand, were used to pay off the remaining $525 million of principal on its existing term loan. The $500 million term loan is payable in quarterly installments, which will commence on June 30, 2019, with 1.25% of the initial principal amount due on each of the first eight payment dates; 2.50% of the initial principal amount due on each of the next four payment dates; 5.0% of the initial principal amount due on each of the next three payment dates; and all remaining principal due on June 11, 2023. The outstanding principal amount under the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus a margin based on the leverage ratio of the Company. As of December 31, 2018, the term loan principal outstanding was $500 million. The Company was in compliance with all covenants under the term loan as of December 31, 2018. Unamortized deferred issuance costs of approximately $2 million were being amortized over the five-year term of the loan. The Company was in compliance with all covenants as of December 31, 2018.

In addition, in June 2018, Teradata executed a five-year interest rate swap with a $500 million initial notional amount to hedge the floating rate interest on the above-described term loan. The notional amount of the hedge will step-down according to the amortization schedule of the term loan. Because of the swap, Teradata's fixed rate on the term loan equals 2.86% plus the applicable leverage-based margin as defined in the Term Loan agreement. As of December 31, 2018, the all-in fixed rate was 4.36%.

During 2018, the Company entered into capital leases to finance certain of its equipment purchases. Assets acquired by capital leases during 2018 were $52 million. The lease term for all capital leases entered into during the year was 3 years and the average interest rate was 5.01%. The lease obligation as of December 31, 2018 was approximately $47 million.

Management believes current cash, cash flows from operations and the $400 million available under the Credit Facility will be sufficient to satisfy future working capital requirements, research and development activities, capital expenditures, pension contributions, severance benefits and other financing requirements for at least the next twelve months. The Company principally holds its cash and cash equivalents in bank deposits and highly-rated money market funds.

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 described elsewhere in this Annual Report. If the Company is unable to generate sufficient cash flows from operations, or otherwise to comply with the terms of the credit facility and term loan agreement, the Company may be required to seek additional financing alternatives.

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 outline our material obligations at December 31, 2018, with projected cash payments in the periods shown:

in millions	Total Amounts	2019	2020-2021	2022-2023	2024 and Thereafter
Principal payments on long-term debt	$500	$ 19	$ 69	$412	$ -
Interest payments on long-term debt	79	20	37	22	-
Principal payments on capital leases	47	17	30	-	-
Interest payments on capital leases	3	2	1	-	-
Transition tax	105	3	19	28	55
Lease obligations	75	24	32	17	2
Purchase obligations	33	19	11	3	-
Total debt, lease and purchase obligations	$842	$104	$199	$482	$ 57

Our principal payments on long-term debt represent the expected cash payments on our $500 million term loan and do not include any fair value adjustments or discounts and premiums. Our interest payments on long-term debt represent the estimated cash interest payments based on the prevailing interest rate as of December 31, 2018. Our principal payments on capital leases represent the expected cash payment on our capital leases obligation, which is $47 million as of December 31, 2018. Our interest payments on capital leases represent the

estimated cash interest payments based on the interest rates per capital lease agreements as of December 31, 2018. Transition tax is the remaining payable balance as of December 31, 2018 of the one-time tax on accumulated foreign earnings resulting from the Tax Act. The payments associated with this deemed repatriation will be paid over seven years ending in 2025. Our lease obligations in the above table includes Company facilities in various domestic and international locations. Purchase obligations are committed purchase orders and other contractual commitments for goods and services and include non-cancelable contractual payments for fixed or minimum amounts to be purchased in relation to service agreements with various vendors for ongoing telecommunications, information technology, hosting and other services.

Additionally, the Company has $34 million in total uncertain tax positions recorded on its balance sheet as of December 31, 2018, of which $17 million is recorded in non-current liabilities and $17 million is reflected as an offset to deferred tax assets related to certain tax attribute carryforwards. These items are not included in the table of obligations shown above. The settlement period for the non-current income tax liabilities cannot be reasonably estimated as the timing and the amount of the payments, if any, will depend on possible future tax examinations with the various tax authorities. However, it is not expected any payments will be due within the next 12 months.

We also have product warranties and 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. The Company is also potentially subject to concentration of supplier risk. Our hardware components are assembled exclusively by Flex Ltd. ("Flex"). Flex procures a wide variety of components used in the manufacturing process on our behalf. Although many of these components are available from multiple sources, Teradata 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 Flex and to source certain components from single suppliers, a disruption in production at Flex or at a supplier could impact the timing of customer shipments and/or Teradata's operating results. In addition, a significant change in the forecasts to any of these preferred suppliers could result in purchase obligations or components that may be in excess of demand. Product warranties and third-party guarantees are described in detail in "Note 10 - Commitments and Contingencies" in the Notes to Consolidated Financial Statements. Postemployment and pension obligations are described in detail in "Note 8 - Employee Benefit Plans" in the 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, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes.

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 the Audit Committee of Teradata's Board of Directors. For additional information regarding our accounting policies and other disclosures required by GAAP, see "Note 1 - Description of Business, Basis of Presentation and Significant Accounting Policies" in the Notes to Consolidated Financial Statements.

Revenue Recognition

On January 1, 2018, we adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Refer to Note 1, of our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K for discussion of recently issued accounting standards.

Revenue recognition for complex contractual arrangements requires judgment, including a review of specific contracts, past experience, creditworthiness of customers, international laws and other factors. Specifically, complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. We must also apply judgment in determining all performance obligations in the contract and in determining the standalone selling price of each performance obligation, considering the price charged for each product when sold on a standalone basis and applicable renewal rates for services and subscriptions. Changes in judgments about these factors could impact the timing and amount of revenue recognized between periods.

The Company reviews the standalone selling price on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company's recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company's management. For the year ended December 31, 2018 there was no material impact to revenue resulting from changes in the standalone selling price, nor does the Company expect a material impact from such changes in the near term.

Capitalized Software

Costs incurred in researching and developing a computer software product that will be sold, leased or otherwise marketed are charged to expense until technological feasibility has been established. Technological feasibility is established when planning, designing and initial coding activities that are necessary to establish that the product can be produced to meet its design specifications are complete. In the absence of a detailed program design or for agile development activities, a working model is used to establish technological feasibility. Once technological feasibility is established, all development 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 fluctuations 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.

In 2016, the Company began moving towards more frequent releases of its offerings, which significantly shortens the opportunity to capitalize software development costs. Our research and development efforts have become more driven by market requirements and rapidly changing customers' needs. In addition, the Company started applying agile development methodologies to help respond to new technologies and trends. Agile development methodologies are characterized by a more dynamic development process with more frequent and iterative revisions to a product releases' features and functions as the software is being developed. Because of the shorter development cycle and focus on rapid production associated with agile development, the Company did not capitalize any external use software development costs in 2018 and 2017 due to the relatively short duration between the completion of the working model and the point at which a product was ready for general release. Prior capitalized costs will continue to be amortized under the greater of revenue-based or straight-line method over the estimated useful life.

Income Taxes

In accounting for income taxes, we recognize 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. The Company has made a new accounting policy election in 2018 related to the Tax Act to provide for the tax expense related to global intangible low-taxed income ("GILTI") in the year the tax is incurred.

Prior to the enactment of the Tax Act in December 2017, the Company had not provided for taxes on the undistributed earnings of its foreign subsidiaries as the Company either reinvested or intended to reinvest those earnings outside of the United States. Because of the Tax Act, the Company has changed its indefinite reinvestment assertion related to foreign earnings that have been taxed in the United States and now considers a majority of these earnings no longer indefinitely reinvested. The Company has recorded $1 million of deferred foreign and state tax expense with respect to certain earnings that are not considered permanently reinvested. Deferred taxes have not been provided on earnings considered indefinitely reinvested as it is not expected that distribution of these earnings would give rise to material income tax liabilities.

We account 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. 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. We record any interest and/or penalties related to uncertain tax positions in the income tax expense line on our Consolidated Statements of Income. As of December 31, 2018, the Company has a total of $34 million of unrecognized tax benefits, of which $17 million is included in the other liabilities section of the Company's consolidated balance sheet as a non-current liability. The remaining balance of $17 million of uncertain tax positions relates to certain tax attributes generated by the Company which are netted against the underlying deferred tax assets recorded on the balance sheet.

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. We have recorded $39 million in 2018 and $32 million in 2017 for valuation allowances, a majority of which offset our California R&D tax credit carryforward, as the Company expects to continue to generate excess California R&D tax credits into the foreseeable future.

Stock-based Compensation

We measure compensation cost for stock awards at fair value and recognize compensation expense over the service period. We utilize pricing models, including the Black-Scholes option pricing model and Monte Carlo simulation model, to estimate the fair value of stock-based compensation at the date of grant. These valuation models require the input of subjective assumptions, including expected volatility and expected term. In addition, we issue performance-based awards that vest only if specific performance conditions are satisfied. 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. The cost of these awards is expensed over the performance period based upon management's estimate and analysis of the probability of meeting 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. Since the adoption of the FASB Accounting Standards Update - Improvements to Employee Share-Based Payment Accounting, effective January 1, 2016, we account for forfeitures as they occur instead of estimating forfeitures at the time of grant and revising those estimates in subsequent periods if actual forfeitures differ from our estimates.

Goodwill and Acquired Intangible Assets

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The Company tests goodwill by first performing a qualitative analysis to determine if it is more likely than not that the fair value of the reporting unit is below its

carrying value. Qualitative factors may include, but are not limited to, economic, market and industry conditions, and overall financial performance of the reporting unit. If the Company determines that it is more likely than not that the fair value of the reporting unit is below its carrying value after assessing these qualitative factors, then the guidance on goodwill impairment requires the company to perform a quantitative impairment test. In this test, the Company compares the fair value of each reporting unit to its carrying value. The Company typically determines the fair value of its reporting units using a weighting of fair values derived from the income and market approaches. Under the income approach, the Company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable companies with similar operating and investment characteristics as the reporting unit. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the company records an impairment loss equal to the difference. Teradata reviewed two reporting units in its 2018 goodwill impairment assessment, as each operating segment was deemed as a reporting unit for purposes of testing. Based on the Company's evaluation and weighting of the events and circumstances that have occurred since the most recent quantitative test, the Company concluded that it was not more likely than not that each reporting unit's fair value was below its carrying value. Therefore, the Company determined that it was not necessary to perform a quantitative goodwill impairment test for the reporting units in 2018. See "Note 5 - Goodwill and Acquired Intangible Assets" for additional information.

Determining the fair value of goodwill and acquired intangibles is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, discount rates and future economic and market conditions. The company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which may not reflect unanticipated events and circumstances that may occur.

Pension and Postemployment Benefits

We measure pension and postemployment benefit costs and credits using 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 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, 2018, a one-half percent increase/decrease in the discount rate would change the projected benefit obligation of our pension plans by approximately $7 million, and a one-half percent increase/decrease in our involuntary turnover assumption would change our postemployment benefit obligation by approximately $10 million.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A discussion of recently issued accounting pronouncements is described in "Note 1 - Description of Business, Basis of Presentation and Significant Accounting Policies" in the Notes to Consolidated Financial Statements elsewhere in this Annual Report, and we incorporate such discussion by reference.

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 Australian dollar, the Canadian 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, 2018, for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately $4 million. This loss would be mitigated by corresponding gains on the underlying exposures.

In June 2018, Teradata executed a five-year interest rate swap with a $500 million initial notional amount to hedge the floating interest rate of its Term Loan, as more fully described in "Note 12 - Debt and Capital Leases" in the Notes to Consolidated Financial Statements elsewhere in this Annual Report. The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan facility. The notional amount of the hedge will step-down according to the amortization schedule of the term loan. The fair value of these contracts and swaps are measured at the end of each reporting period using observable inputs other than quoted prices, specifically market spot and forward exchange rates. The fair value of interest rate swaps recorded in other liabilities at December 31, 2018 was $7 million. A hypothetical 50 basis point increase/decrease in interest rates would result in an increase/decrease to the fair value of the hedge of approximately $9 million.

For additional information regarding the Company's foreign currency hedging strategy and interest rate swaps, see "Note 9 - Derivative Instruments and Hedging Activities" in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

REPORT OF MANAGEMENT

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. Teradata's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of Teradata's internal control over financial reporting as of the end of the period covered by this report. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013). Based on our assessment and those criteria, management concluded that Teradata's internal control over financial reporting was effective as of December 31, 2018.

Teradata's independent registered public accounting firm has issued their report on the effectiveness of Teradata's internal control over financial reporting as of December 31, 2018, which appears in this Annual Report.

Oliver Ratzesberger
Director, President and Chief Executive Officer

Mark Culhane
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF TERADATA CORPORATION

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Teradata Corporation and its subsidiaries (the "Company") as of December 31, 2018 and December 31, 2017, and the related consolidated statements of income (loss), comprehensive income (loss), cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2018, including the related notes of Teradata Corporation (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle
As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

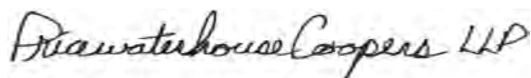
Basis for Opinions
The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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



PricewaterhouseCoopers LLP
Atlanta, Georgia
February 25, 2019

We have served as the Company's auditor since 2007.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the Years Ended December 31	**2018**	2017	2016
in millions, except per share amounts			
Revenue			
Recurring	**$1,254**	$1,145	$1,135
Perpetual software licenses and hardware	**340**	429	600
Consulting services	**570**	582	587
Total revenue	**2,164**	2,156	2,322
Cost of revenue			
Recurring	**374**	304	271
Perpetual software license and hardware	**222**	259	318
Consulting services	**542**	569	544
Total cost of revenue	**1,138**	1,132	1,133
Gross profit	**1,026**	1,024	1,189
Operating expenses			
Selling, general and administrative expenses	**666**	651	662
Research and development expenses	**317**	305	212
Impairment of goodwill and other assets	**-**	-	80
Total costs and operating expenses	**983**	956	954
Income from operations	**43**	68	235
Other expense, net			
Interest expense	**(22)**	(15)	(12)
Interest income	**14**	11	6
Other expense	**(8)**	(6)	(8)
Total other expense, net	**(16)**	(10)	(14)
Income before income taxes	**27**	58	221
Income tax (benefit) expense	**(3)**	125	96
Net income (loss)	**$ 30**	$ (67)	$ 125
Net income (loss) per weighted average common share			
Basic	**$ 0.25**	$(0.53)	$ 0.96
Diluted	**$ 0.25**	$(0.53)	$ 0.95
Weighted average common shares outstanding			
Basic	**119.2**	125.8	129.7
Diluted	**121.2**	125.8	131.5

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31	**2018**	2017	2016
in millions			
Net income (loss)	**$ 30**	$(67)	$125
Other comprehensive income (loss):			
Foreign currency translation adjustments	**(13)**	16	(7)
Derivatives:			
Unrealized loss on derivatives, before tax	**(7)**	-	-
Unrealized loss on derivatives, tax portion	**1**	-	-
Unrealized loss on derivatives, net of tax	**(6)**	-	-
Defined benefit plans:			
Reclassification of loss to net income (loss)	**5**	4	3
Defined benefit plan adjustment, before tax	**(14)**	(6)	(12)
Defined benefit plan adjustment, tax portion	**1**	1	3
Defined benefit plan adjustment, net of tax	**(8)**	(1)	(6)
Other comprehensive (loss) income	**(27)**	15	(13)
Comprehensive income (loss)	**$ 3**	$(52)	$112

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

CONSOLIDATED BALANCE SHEETS

At December 31	2018	2017
in millions, except per share amounts		
Assets		
Current assets		
Cash and cash equivalents	**$ 715**	$ 1,089
Accounts receivable, net	**588**	554
Inventories	**28**	30
Other current assets	**97**	77
Total current assets	**1,428**	1,750
Property and equipment, net	**295**	162
Capitalized software, net	**72**	121
Goodwill	**395**	399
Acquired intangible assets, net	**16**	23
Deferred income taxes	**67**	57
Other assets	**87**	44
Total assets	**$2,360**	$2,556
Liabilities and stockholders' equity		
Current liabilities		
Current portion of long-term debt	**$ 19**	$ 60
Short-term borrowings	**-**	240
Accounts payable	**141**	74
Payroll and benefits liabilities	**224**	173
Deferred revenue	**490**	414
Other current liabilities	**135**	102
Total current liabilities	**1,009**	1,063
Long-term debt	**478**	478
Pension and other postemployment plan liabilities	**113**	109
Long-term deferred revenue	**105**	85
Deferred tax liabilities	**3**	4
Other liabilities	**157**	149
Total liabilities	**1,865**	1,888
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, 2018 and 2017, respectively	**-**	-
Common stock: par value $0.01 per share, 500.0 shares authorized, 116.8 and 121.9 shares issued and outstanding at December 31, 2018 and 2017, respectively	**1**	1
Paid-in capital	**1,418**	1,320
Accumulated deficit	**(823)**	(579)
Accumulated other comprehensive loss	**(101)**	(74)
Total stockholders' equity	**495**	668
Total liabilities and stockholders' equity	**$2,360**	$2,556

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31	2018	2017	2016
in millions			
Operating activities			
Net income (loss)	**$ 30**	$ (67)	$ 125
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**130**	138	128
Stock-based compensation expense	**65**	68	62
Deferred income taxes	**(18)**	(34)	(3)
Gain on investments	**-**	-	(2)
Impairment of goodwill, acquired intangibles and other assets	**-**	-	80
Changes in assets and liabilities, net of acquisitions:			
Receivables	**(34)**	(6)	40
Inventories	**2**	3	14
Account payables and accrued expenses	**108**	12	11
Deferred revenue	**115**	115	1
Other assets and liabilities	**(34)**	95	(10)
Net cash provided by operating activities	**364**	324	446
Investing activities			
Expenditures for property and equipment	**(153)**	(78)	(53)
Additions to capitalized software	**(7)**	(9)	(65)
Proceeds from sales of property and equipment	**-**	-	5
Proceeds from disposition of investments	**-**	-	2
Proceeds from sale of business	**-**	-	92
Business acquisitions and other investing activities, net	**(3)**	(21)	(16)
Net cash used in investing activities	**(163)**	(108)	(35)
Financing activities			
Repayments of long-term borrowings	**(40)**	(30)	(30)
Proceeds from credit facility borrowings	**-**	420	-
Repayments of credit-facility borrowings	**(240)**	(180)	(180)
Repurchases of common stock	**(300)**	(351)	(82)
Payments of capital leases	**(5)**	-	-
Other financing activities, net	**31**	32	30
Net cash used in financing activities	**(554)**	(109)	(262)
Effect of exchange rate changes on cash and cash equivalents	**(20)**	8	(14)
(Decrease) increase in cash and cash equivalents	**(373)**	115	135
Cash, cash equivalents and restricted cash at beginning of year	**1,089**	974	839
Cash, cash equivalents and restricted cash at end of year	**$ 716**	$ 1,089	$ 974
Reconciliation of cash, cash equivalents and restricted cash to the Consolidated Balance Sheets			
Cash and cash equivalents	**$ 715**	$ 1,089	$ 974
Restricted cash	**1**	-	-
Total cash, cash equivalents and restricted cash	**$ 716**	$ 1,089	$ 974
Non-cash investing and financing activities:			
Assets acquired by capital lease	**$ 52**	$ -	$ -
Cash paid during the year for:			
Income taxes	**$ 33**	$ 25	$ 105
Interest	**$ 23**	$ 14	$ 12

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock			Retained Earnings	Accumulated Other	
	Shares	Amount	Paid-in Capital	(Accumulated Deficit)	Comprehensive Income (Loss)	Total
in millions						
December 31, 2015	**131**	**$ 1**	**$1,128**	**$(204)**	**$ (76)**	**$ 849**
Net income				125		125
Employee stock compensation, employee stock purchase programs and option exercises	3		92			92
Repurchases of common stock, retired	(3)			(82)		(82)
Pension and postemployment benefit plans, net of tax					(6)	(6)
Currency translation adjustment					(7)	(7)
December 31, 2016	**131**	**$ 1**	**$1,220**	**$(161)**	**$ (89)**	**$ 971**
Net loss				(67)		(67)
Employee stock compensation, employee stock purchase programs and option exercises	2		100			100
Repurchases of common stock, retired	(11)			(351)		(351)
Pension and postemployment benefit plans, net of tax					(1)	(1)
Currency translation adjustment					16	16
December 31, 2017	**122**	**$ 1**	**$1,320**	**$(579)**	**$ (74)**	**$ 668**
Net income				30		30
Employee stock compensation, employee stock purchase programs and option exercises	2		98			98
Repurchases of common stock, retired	(7)			(300)		(300)
Pension and postemployment benefit plans, net of tax					(8)	(8)
Unrealized loss on derivatives, net of tax					(6)	(6)
Adoption of Topic 606 (See Note 3)				26		26
Currency translation adjustment					(13)	(13)
December 31, 2018	**117**	**$ 1**	**$1,418**	**$(823)**	**$ (101)**	**$ 495**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of the Business. Teradata Corporation ("we," "us," "Teradata," or the "Company") is a leading hybrid cloud analytics software provider focusing on delivering pervasive data intelligence to our customers, which we define as the ability to leverage 100% of a company's data to uncover real-time intelligence, at scale. We help customers integrate and simplify their analytics ecosystem, access and manage data, and use analytics to extract answers and derive business value from data. Our solutions and services comprise software, hardware, and related business consulting and support services to deliver analytics across a company's entire analytical ecosystem.

Basis of Presentation. The financial statements are presented on a consolidated basis and include the accounts of the Company and its wholly-owned subsidiaries in accordance with accounting principles generally accepted in the United States of America ("GAAP").

During the first quarter of 2018, the Company changed its historical presentation of its revenue and cost of revenue categories. Previously, the Company presented revenue and cost of revenue on two lines: product and cloud, and services. As part of the Company's business transformation, the Company is transitioning away from perpetual transactions to subscription-based transactions. To better reflect this shift in the business, the Company adopted a revised presentation in the first quarter of 2018, including the separation of recurring revenue from non-recurring product and consulting services. Recurring revenue consists of our on-premises and off-premises subscriptions, which have varying term lengths from one month to five years. Recurring revenue is intended to depict the revenue recognition model for these subscription transactions. The recurrence of these revenue streams in future periods depends on several factors, including contractual periods and customers' renewal decisions. Perpetual software licenses and hardware revenue consists of hardware, perpetual software licenses, and subscription/term licenses recognized upfront. Consulting services revenue consists of consulting, implementation and installation services.

In connection with these revisions, the Company also revised its cost of revenue classification to present costs associated with the new revenue presentation. This change in presentation does not affect the Company's total revenues, total cost of revenues or overall total gross profit (defined as total revenue less total cost of revenue).

Prior period amounts have been restated to conform to the current year presentation, unless otherwise stated that the prior period amounts have not been restated.

Use of Estimates. The preparation of financial statements in conformity with 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. On an ongoing basis, management evaluates these estimates and judgments, including those related to allowances for doubtful accounts, the valuation of inventory to net realizable value, impairments of goodwill and other intangibles, stock-based compensation, pension and other postemployment benefits, and income taxes and any changes will be accounted for on a prospective basis. Actual results could differ from those estimates.

Revenue Recognition. In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606") that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. Topic 606 supersedes the revenue recognition requirements of the prior revenue recognition guidance used prior to January 1, 2018. The Company adopted Topic 606 as of January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for 2018 reflect the application of Topic 606 while the reported results for 2016 and 2017 were prepared under the guidance of Accounting Standards Codification 605, *Revenue Recognition,* which is also referred to herein as the "previous guidance." As a result, prior periods have not been restated and continue to be reported under the previous guidance. The cumulative effect of applying Topic 606 was recorded as an adjustment to accumulated deficit as of the adoption date. See Note 3 for the required disclosures related to the impact of adopting this standard. See Note 4 for costs to obtain and fulfill a customer contract.

Revenue Recognition under Topic 606

The Company adopted Topic 606 as of January 1, 2018 for all contracts not completed as of the date of adoption. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve that core principle, the Company performs the following five steps:

1. identify the contract with a customer,
2. identify the performance obligations in the contract,
3. determine the transaction price,
4. allocate the transaction price to the performance obligations in the contract, and
5. recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the above five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for goods or services it transfers to the customer. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience, published credit, and financial information pertaining to the customer.

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales, value add, and other taxes the Company collects concurrent with revenue-producing activities. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a good or service to a customer. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once the uncertainty is resolved. The Company uses the expected value method or the most likely amount method depending on the nature of the variable consideration. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us. If actual results in the future vary from the Company's estimates, the Company adjusts these estimates in the period such variances become known. Typically, the amount of variable consideration is not material.

For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the relative standalone selling price of each distinct good or service in the contract. The Company must apply judgment to determine whether promised goods or services are capable of being distinct and distinct within the context of the contract. If these criteria are not met, the promised goods or services are combined with other goods or services and accounted for as a combined performance obligation. Revenue is then recognized either at a point in time or over time depending on our evaluation of when the customer obtains control of the promised goods or services. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue recorded in a given period. In addition, the Company has developed assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. The Company determines the standalone selling price for a good or service by considering multiple factors including, geographies, market conditions, product life cycles, competitive landscape, internal costs, gross margin objectives, purchase volumes and pricing practices. The Company reviews the standalone selling price for each of its performance obligations on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company's recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company's management.

Teradata delivers its solutions primarily through direct sales channels, as well as through other independent software vendors and distributors and value-added resellers. Standard payment terms may vary based on the country in which the contract is executed but are generally between 30 days and 90 days. The following is a description of the principal activities and performance obligations from which the Company generates its revenue:

- **Subscriptions** - The Company sells on and off-premises subscriptions to our customers through our subscription licenses, cloud, service model, and hardware rental offerings. Teradata's subscription licenses include a right-to-use license and revenue is recognized upfront at a point in time unless the customer has a contractual right to cancel, where revenue is recognized on a month-to-month basis and is included within the recurring revenue caption. Subscription licenses recognized upfront are reported within the perpetual software licenses and hardware caption. Cloud and service model arrangements include a right-to-access software license on Teradata owned or third party owned hardware such as the public cloud. Revenue is recognized ratably over the contract term and included within the recurring revenue caption. Service models typically include a minimum fixed amount that is recognized ratably over the contract term and may include an elastic amount for usage above the minimum, which is recognized monthly based on actual utilization. For our hardware rental offering, the Company owns the hardware and may or may not provide managed services. The revenue for these arrangements is generally recognized straight-line over the term of the contract and is included within the recurring revenue caption. Hardware rentals are generally accounted for as operating leases and considered outside the scope of Topic 606.
- **Maintenance and software upgrade rights** - Revenue for maintenance and unspecified software upgrade rights on a when-and-if-available basis are recognized straight-line over the term of the contract.
- **Perpetual software licenses and hardware** - Revenue for software is generally recognized when the customer has the ability to use and benefit from its right to use the license. Hardware is typically recognized upon delivery once title and risk of loss have been transferred (when control has passed).
- **Consulting services** - The Company accounts for individual services as separate performance obligations if a service is separately identifiable from other items in a combined arrangement and if a customer can benefit from it on its own or with other resources that are readily available to the customer. Revenue for consulting, implementation and installation services is recognized as services are provided by measuring progress toward the complete satisfaction of the Company's obligation. Progress for services that are contracted for at a fixed price is generally measured based on hours incurred as a portion of total estimated hours. Progress for services that are contracted for on a time and materials basis is generally based on hours expended. These input methods (e.g. hours incurred or expended) of revenue recognition are considered a faithful depiction of our efforts to satisfy services contracts and therefore reflect the transfer of services to a customer under such contracts.

Significant Accounting Policies and Practical Expedients under Topic 606
The following are the Company's significant accounting policies not already disclosed elsewhere and practical expedients relating to revenue from contracts with customers:

- Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.
- Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment cost and are included in cost of revenues.
- The Company does not adjust for the effects of a significant financing component if the period between performance and customer payment is one year or less.
- The Company expenses the costs to obtain a contract as incurred when the expected amortization period is one year or less.

Revenue Recognition under Topic 605 (periods prior to January 1, 2018)
Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when:

- Persuasive evidence of an arrangement exists
- The offerings or services have been delivered to the customer
- The sales price is fixed or determinable and free of contingencies or significant uncertainties
- Collectability 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. The Company assesses whether fees are fixed or determinable at the time of sale. Standard payment terms may vary based on the country in which the agreement is executed but are generally between 30 days and 90 days. Payments that are due within six months are generally deemed to be fixed or determinable based on a successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition.

The Company's deliverables often involve delivery or performance at different periods of time. The Company's deliverables include the following:

- Subscription license - revenue for these arrangements is typically recognized ratably over the contract term.
- Cloud and service model - revenue for these arrangements are recognized outside the software rules and revenue is recognized ratably over the contract term.
- Rentals - revenue for these arrangements is generally recognized straight-line over the term of the contract and are generally accounted for as operating leases.
- Perpetual software and hardware - revenue is generally recognized upon delivery once title and risk of loss have been transferred.
- Unspecified software upgrades - revenue is recognized straight-line over the term of the arrangement.
- Maintenance support services - revenue is recognized on a straight-line basis over the term of the contract.
- Consulting, implementation and installation services - revenue is recognized as services are provided. In certain instances, acceptance of the product or service is specified by the customer. In such cases, revenue is deferred until the acceptance criteria have been met. Delivery and acceptance generally occur in the same reporting period.

For multiple deliverable arrangements that contain non-software related deliverables, the Company allocates revenue to each deliverable based upon the relative selling price hierarchy and if software and software-related deliverables are also included in the arrangement, to those deliverables as a group based on the best estimate of selling price ("BESP") for the group. The selling price for a deliverable is based on its vendor-specific objective evidence of selling price ("VSOE") if available, third-party evidence of selling price ("TPE") if VSOE is not available, or BESP if neither VSOE nor TPE is available. The Company then recognizes revenue when the remaining revenue recognition criteria are met for each deliverable. For the software group or arrangements that contain only software and software-related deliverables, the revenue is allocated utilizing the residual or fair value method. Under the residual method, the VSOE of the undelivered elements is deferred and accounted for under the applicable revenue recognition guidance, and the remaining portion of the software arrangement fee is allocated to the delivered elements and is recognized as revenue. The fair value method is similar to the relative selling price method used for non-software deliverables except that the allocation of each deliverable is based on VSOE.

VSOE is based upon the normal pricing and discounting practices for those offerings and services when sold separately. Teradata uses the stated renewal rate approach in establishing VSOE for maintenance and when-and-if-available software upgrades. Under this approach, the Company assesses whether the contractually stated renewal rates are substantive and consistent with the Company's normal pricing practices. Renewal rates greater than the lower level of our targeted pricing ranges are substantive and, therefore, meet the requirements to support VSOE. In instances where there is not a substantive renewal rate in the arrangement, the Company allocates revenue based upon BESP, using the minimum established pricing targets as supported by the renewal rates for similar customers utilizing the bell-curve method. VSOE for consulting services is based on the hourly rates for standalone consulting services projects by geographic region and are indicative of the Company's customary pricing practices. Pricing in each market is structured to obtain a reasonable margin based on input costs.

The Company determines BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, product life cycles, competitive landscape, internal costs, gross margin objectives, purchase volumes and pricing practices. The primary consideration in developing BESP for the Company's platforms is the bell-curve method based on historical transactions. The BESP analysis is at the geography level to align it with the way in which the Company goes to market and establishes pricing for its offerings. BESP is analyzed on a semi-annual basis using data from the four previous quarters, which the Company believes best reflects most recent pricing practices in a changing marketplace.

Shipping and Handling. Product shipping and handling are included in cost in the Consolidated Statements of Income (Loss).

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. Cost of service parts is determined using the average cost method. Finished goods inventory is determined using actual cost.

Available-for-sale Securities. Available-for-sale securities are reported at fair value. Unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income (loss). Realized gains and losses are included in other income and expense in the Consolidated Statements of Income (Loss).

Long-Lived Assets

Property and Equipment. Property 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. Equipment is depreciated over 3 to 5 years and buildings over 25 to 45 years. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter. Total depreciation expense on the Company's property and equipment for December 31 was as follows:

in millions	**2018**	2017	2016
Depreciation expense	**$67**	$55	$49

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 three years beginning when the asset is substantially ready for use.

Costs incurred for the development of analytic applications are expensed as incurred based on the frequency and agile nature of development. Prior to 2017, costs incurred for the development of analytic database software that will be sold, leased or otherwise marketed were capitalized between technological feasibility and the point at which a product was ready for general release. Technological feasibility is established when planning, designing and initial coding activities that are necessary to establish the product can be produced to meet its design specifications are complete. In the absence of a 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 four years using the greater of the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product beginning when the product is available for general release. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility and after general release are expensed as incurred.

In 2016, our research and development efforts became more driven by market requirements and rapidly changing customers' needs. In addition, the Company started applying agile development methodologies to help respond to new technologies and trends. Agile development methodologies are characterized by a more dynamic development process with more frequent and iterative revisions to a product release features and functions as the software is being developed. Due to the shorter development cycle and focus on rapid production associated with agile development, the Company did not capitalize any amounts for external-use software development costs in 2018 and 2017 due to the relatively short duration between the completion of the working model and the point at which a product is ready for general release. Prior capitalized costs will continue to be amortized under the greater of revenue-based or straight-line method over the estimated useful life.

The following table identifies the activity relating to capitalized software for the following periods:

	Internal-use Software			External-use Software		
in millions	**2018**	2017	2016	**2018**	2017	2016
Beginning balance at January 1	**$16**	$13	$13	**$105**	$174	$177
Capitalized	**6**	9	6	**-**	**-**	59
Amortization	**(7)**	(6)	(6)	**(48)**	(69)	(62)
Ending balance at December 31	**$15**	$16	$13	**$ 57**	$105	$174

The aggregate amortization expense (actual and estimated) for internal-use and external-use software for the following periods is:

	Actual	For the years ended (estimated)				
in millions	**2018**	2019	2020	2021	2022	2023
Internal-use software amortization expense	**$ 7**	$ 6	$ 7	$ 7	$ 6	$ 6
External-use software amortization expense	**$48**	$34	$23	$ -	$ -	$ -

Estimated expense, which is recorded to cost of sales for external use software, is based on capitalized software at December 31, 2018 and does not include any new capitalization for future periods.

Valuation of Long-Lived Assets. Long-lived assets such as property and equipment, acquired intangible assets and internal 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 is calculated based on the present value of future cash flows and 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. No impairment was recognized during 2018.

Goodwill. 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 annually or upon occurrence of an event or change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. See Note 5 for additional information.

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. See Note 10 for additional information.

Research and Development Costs. Research and development costs are expensed as incurred (except for the capitalized software development costs discussed above). Research and development costs primarily include labor-related costs, contractor fees, and overhead expenses directly related to research and development support.

Pension and Postemployment Benefits. The Company accounts for its pension benefit and its non-U.S. postemployment benefit obligations using actuarial models. The measurement of plan obligations was made as of December 31, 2018. 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.

The Company recognizes the funded status of its pension and non-U.S. postemployment plan obligations in its consolidated balance sheet and records, in other comprehensive income, certain gains and losses that arise during the period, but are deferred under pension and postemployment accounting rules. See Note 8 for additional information.

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 daily exchange rates prevailing during the period. Adjustments arising from the translation are included in accumulated other comprehensive income, a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in determining net income.

Income Taxes. Income tax expense is provided based on income before income taxes in the various jurisdictions in which the Company conducts its business. 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 made an accounting policy election in 2018 related to the Tax Act to provide for the tax expense related to global intangible low-taxed income ("GILTI") in the year the tax is incurred. Teradata recognizes tax benefits from uncertain tax positions only if it is more likely than not the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company records valuation allowances related to its deferred income tax assets when it is more likely than not that some portion or all the deferred income tax assets will not be realized. See Note 6 for additional information.

Stock-based Compensation. Stock-based payments to employees, including grants of stock options, restricted shares and restricted share units, are 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 term of the options. The Company's expected volatility assumption used in the Black-Scholes option-pricing model is based on Teradata's historical volatility. The expected term for options granted is based upon historical observation of actual time elapsed between date of grant and exercise of options for all employees. The risk-free interest rate used in the Black-Scholes model is based on the implied yield curve available on U.S. Treasury 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. See Note 7 for additional information.

Earnings (Loss) Per Share. Basic earnings (loss) per share is calculated by dividing net income (loss) 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 share awards and other stock awards. Refer to Note 7 for share information on the Company's stock compensation plans.

The components of basic and diluted earnings (loss) per share for the years ended December 31 are as follows:

in millions, except earnings (loss) per share	**2018**	2017	2016
Net income (loss) attributable to common stockholders	**$ 30**	$ (67)	$ 125
Weighted average outstanding shares of common stock	**119.2**	125.8	129.7
Dilutive effect of employee stock options, restricted shares and other stock awards	**2.0**	-	1.8
Common stock and common stock equivalents	**121.2**	125.8	131.5
Earnings (loss) per share:			
Basic	**$ 0.25**	$ (0.53)	$ 0.96
Diluted	**$ 0.25**	$ (0.53)	$ 0.95

For 2017, due to the net loss attributable to Teradata common stockholders, largely due to the tax expense recorded because of the Tax Cuts and Jobs Act of 2017, potential common shares that would cause dilution, such as employee stock options, restricted shares and other stock awards, have been excluded from the diluted share count because their effect would have been anti-dilutive. For 2017, the fully diluted shares would have been 127.8 million

Options to purchase 2.6 million shares in 2018, 2.7 million shares in 2017 and 5.2 million shares in 2016 of common stock, were not included in the computation of diluted earnings per share because their exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

Recently Issued Accounting Pronouncements

Leases. In February 2016, the Financial Accounting Standards Board (FASB) issued new guidance under Topic 842, which requires a lessee to account for leases as finance or operating leases. Both types of leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. Entities will classify leases to determine how to recognize lease-related revenue and expense. This standard is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We anticipate adopting this standard on January 1, 2019 using the prospective adoption approach with a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast and anticipate electing certain of the practical expedients allowed under the standard. We are in the process of aggregating and evaluating lease arrangements, implementing new controls and processes, and implementing a lease accounting system. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption. The impact to the Company's balance sheet is estimated to result in approximately 3 percent increase in assets and approximately 4 percent increase in liabilities. The impact on our results of operations and cash flows is not expected to be material.

Comprehensive Income. In February 2018, the FASB issued new guidance for Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02), which allows companies to reclassify stranded tax effects resulting from the Tax Reform Act from accumulated other comprehensive income to retained earnings. The amendments are effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The impact on our results of operations and cash flows is not expected to be material.

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. In June 2018, the FASB issued new guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments are intended to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Fair Value Measurement. In August 2018, the FASB issued new guidance that modifies disclosure requirements related to fair value measurement. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this update while delaying adoption of the additional disclosures until their effective date. The Company is currently evaluating this guidance to determine the impact it may have on its disclosures.

Compensation-Retirement Benefits-Defined Benefit Plans-General. In August 2018, the FASB issued new guidance that modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted, and is to be applied on a retrospective basis to all periods presented. The Company is currently evaluating this guidance to determine the impact it may have on its disclosures.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. In August 2018, the FASB issued new guidance that reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). For public companies, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The effects of this standard on our financial position, results of operations or cash flows are not expected to be material.

Recently Adopted Guidance

Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost. In March 2017, the FASB issued accounting guidance for "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost." The amendment requires the service cost component of net periodic benefit cost be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and other components of the net periodic benefit cost be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. The Company adopted this amended guidance in the first quarter of 2018. The retroactive adoption of this standard resulted in an increase in operating income and a corresponding increase in other expense of $6 million in 2018, $4 million in 2017 and $3 million in 2016.

Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities. In August 2017, the FASB issued new guidance that intended to simplify the application of hedge accounting guidance and better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The Company adopted this amended guidance during the second quarter of 2018 and applied it to the interest rate swap described in Note 9. The impact on the Company's consolidated financial statements was immaterial.

NOTE 2: Supplemental Financial Information

At December 31	2018	2017
in millions		
Accounts receivable		
Trade	**$ 590**	$ 559
Other	**12**	7
Accounts receivable, gross	**602**	566
Less: allowance for doubtful accounts	**(14)**	(12)
Total accounts receivable, net	**$ 588**	$ 554
Inventories		
Finished goods	**$ 16**	$ 18
Service parts	**12**	12
Total inventories	**$ 28**	$ 30
Property and equipment		
Land	**$ 8**	$ 8
Buildings and improvements	**84**	82
Capital lease assets	**52**	-
Machinery and other equipment	**495**	404
Property and equipment, gross	**639**	494
Less: accumulated depreciation	**(344)**	(332)
Total property and equipment, net	**$ 295**	$ 162
Other current liabilities		
Sales and value-added taxes	**$ 34**	$ 30
Pension and other postemployment plan liabilities	**10**	9
Capital lease obligations - current portion	**17**	-
Other	**74**	63
Total other current liabilities	**$ 135**	$ 102
Deferred revenue		
Deferred revenue, current	**$ 490**	$ 414
Long-term deferred revenue	**105**	85
Total deferred revenue	**$ 595**	$ 499
Other long-term liabilities		
Transition tax	**$ 102**	$ 133
Capital lease obligations	**30**	-
Uncertain tax positions	**17**	14
Other	**8**	2
Total other long-term liabilities	**$ 157**	$ 149

Note 3: Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

The following table presents a disaggregation of revenue for the years ended December 31:

in millions	**2018**	2017*	2016*
Americas			
Recurring	**$ 801**	$ 739	$ 703
Perpetual software licenses and hardware	**127**	234	369
Consulting services	**198**	222	262
Total Americas	**1,126**	1,195	1,334
International			
Recurring	**453**	406	368
Perpetual software licenses and hardware	**213**	195	231
Consulting services	**372**	360	320
Total International	**1,038**	961	919
Marketing applications	**-**	-	69
Total Revenue	**$ 2,164**	$ 2,156	$ 2,322

* As noted above, prior period amounts have not been adjusted under the modified retrospective adoption method of Topic 606; however, as discussed in Note 1, prior period revenue captions have been reclassified to conform to the current year presentation.

Hardware rental revenue, included in recurring revenue, was $32 million in 2018, $17 million in 2017 and $7 million in 2016.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, contract assets, and customer advances and deposits (deferred revenue or contract liabilities) on the consolidated balance sheet. Accounts receivable include amounts due from customers that are unconditional. Contract assets relate to the Company's rights to consideration for goods delivered or services completed and recognized as revenue but billing and the right to receive payment is conditional upon the completion of other performance obligations. Contract assets are included in other current assets on the balance sheet and are transferred to accounts receivable when the rights become unconditional. Deferred revenue consists of advance payments and billings in excess of revenue recognized. Deferred revenue is classified as either current or noncurrent based on the timing of when the Company expects to recognize revenue. These assets and liabilities are reported on a contract-by-contract basis at the end of each reporting period. The following table provides information about receivables, contract assets and deferred revenue from contracts with customers:

in millions	**December 31, 2018**	January 1, 2018 (as adjusted)
Accounts receivable, net	**$ 588**	$ 534
Contract assets	**$ 14**	$ 20
Current deferred revenue	**$ 490**	$ 395
Long-term deferred revenue	**$ 105**	$ 85

Revenue recognized during the twelve months ended December 31, 2018 from amounts included in deferred revenue at the beginning of the period was approximately $384 million

Transaction Price Allocated to Unsatisfied Obligations

The following table includes estimated revenue expected to be recognized in the future related to the Company's unsatisfied (or partially satisfied) obligations at December 31, 2018:

in millions	**Total at December 31, 2018**	Year 1	Year 2 and Thereafter
Remaining unsatisfied obligations	**$2,547**	$1,200	$1,347

The amounts above represent the price of firm orders for which work has not been performed or goods have not been delivered and exclude unexercised contract options outside the stated contractual term that do not represent material rights to the customer. Although the Company believes that the contract value in the above table is firm, approximately $1,468 million of the amount includes customer-only general cancellation for convenience terms that the Company is contractually obligated to perform unless the customer notifies us. The Company expects to recognize revenue of approximately $729 million in the next year from contracts that are non-cancelable. Customers typically do not cancel before the end of the contractual term and historically the Company has seen very little churn in its customer base. The Company believes the inclusion of this information is important to understanding the obligations that the Company is contractually required to perform and provides useful information regarding remaining obligations related to these executed contracts.

Impacts on Financial Statements

The Company adopted Topic 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to accumulated deficit as of the adoption date. As a result of applying the modified retrospective method to adopt Topic 606, the following adjustments were made to accounts on the consolidated balance sheets as of January 1, 2018:

- The Company reduced current deferred revenue and accumulated deficit by $19 million for contracts that were not complete as of the date of adoption and would have been recognized in a prior period under Topic 606. The revenue adjustment primarily relates to term licenses that are recognized upfront under Topic 606 but were recognized ratably under the previous guidance.
- Prior to the adoption of Topic 606, the Company expensed sales commissions on long-term contracts. Under Topic 606, the Company capitalizes these incremental costs of obtaining customer contracts. The impact of this change resulted in an increase of other assets and a reduction in accumulated deficit of $17 million on January 1, 2018.
- The tax impact of these items was $10 million, which was recorded as a deferred tax liability, resulting in a net $26 million reduction in accumulated deficit on January 1, 2018.
- In addition, the Company reclassified $20 million of contract assets from accounts receivable to other current assets on January 1, 2018.

The following summarizes the significant changes on the Company's consolidated financial statements for the twelve months ended December 31, 2018 because of the adoption of Topic 606 on January 1, 2018 compared to if the Company had continued to recognize revenue under the previous guidance:

- The impact to revenues was a net increase of $15 million for the twelve months ended December 31, 2018, under Topic 606.
- Topic 606 resulted in the amortization of capitalized contract costs that were recorded as part of the cumulative effect adjustment upon adoption. The amortization of these capitalized costs was offset by new capitalized costs in the period resulting in $37 million less selling, general and administrative expenses for the twelve months ended December 31, 2018 under Topic 606.
- Because of higher revenue and the capitalization of contract costs under Topic 606, net income reported under Topic 606 was higher by $33 million or $0.27 per share for the twelve months ended December 31, 2018.

- Total reported assets at December 31, 2018 were $43 million higher under Topic 606, which includes $54 million of capitalized contract costs that were expensed as incurred under the previous guidance, partially offset by $11 million of deferred costs related to the timing of revenue that would have been deferred under the previous guidance but recognized under Topic 606.
- Total reported liabilities were $16 million less under Topic 606 primarily due to revenue that would have been deferred and recognized over time under the previous guidance, but is recognized upfront under Topic 606, offset by the change in deferred tax liability.

The adoption of Topic 606 had no impact on the Company's total cash flows from operations.

Note 4: Contract Costs

The Company capitalizes sales commissions and other contract costs that are incremental direct costs of obtaining customer contracts if the expected amortization period of the asset is greater than one year. These costs are recorded in Other Assets on the Company's balance sheet. The capitalized amounts are calculated based on the total contract value for individual multi-term contracts. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract. Costs to obtain a contract are amortized as selling, general and administrative expenses on a straight-line basis over the expected period of benefit, which is typically four years. These costs are periodically reviewed for impairment. The following table identifies the activity relating to capitalized contract costs:

in millions	January 1, 2018	Capitalized	Amortization	**December 31, 2018**
Capitalized contract costs	$17	$44	$(7)	**$54**

Note 5: Goodwill and Acquired Intangible Assets

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

in millions	Balance at December 31, 2017	Additions	Currency Translation Adjustments	**Balance at December 31, 2018**
Goodwill				
Americas	$253	$ -	$ -	**$253**
International	146	-	(4)	**142**
Total goodwill	$399	$ -	$ (4)	**$395**

In the fourth quarter of 2018, the Company performed its annual impairment test of goodwill and determined that no impairment to the carrying value of goodwill was necessary. The Company reviewed two reporting units in its 2018 goodwill impairment assessment, as both geographic operating segments were considered separate reporting units for purposes of testing. Based on the Company's evaluation and weighting of the events and circumstances that have occurred since the most recent quantitative test, the Company concluded that it was not more likely than not that each reporting unit's fair value was below its carrying value. Therefore, the Company determined that it was not necessary to perform a quantitative goodwill impairment test for the reporting units in 2018.

Acquired intangible assets were specifically identified when acquired and are deemed to have finite lives. The gross carrying amount and accumulated amortization for Teradata's acquired intangible assets were as follows:

		December 31, 2018		December 31, 2017	
in millions	**Amortization Life** (in Years)	**Gross Carrying Amount**	**Accumulated Amortization and Currency Translation Adjustments**	Gross Carrying Amount	Accumulated Amortization and Currency Translation Adjustments
Acquired intangible assets					
Intellectual property/developed technology	1 to 7	**$35**	**$(20)**	$43	$(20)

During 2018, the gross carrying amount of acquired intangibles was reduced by certain intangible assets previously acquired that became fully amortized and were removed from the balance sheet.

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

	Actual			For the years ended (estimated)			
in millions	2016	2017	**2018**	2019	2020	2021	2022
Amortization expense	$10	$8	**$7**	$5	$4	$4	$2

Note 6: Income Taxes

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

in millions	**2018**	2017	2016
Income (loss) before income taxes			
United States	**$ (79)**	$(26)	$ 93
Foreign	**106**	84	128
Total income before income taxes	**$ 27**	$ 58	$221

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

in millions	**2018**	2017	2016
Income tax (benefit) expense			
Current			
Federal	**$ (10)**	$ 132	$ 67
State and local	**6**	2	7
Foreign	**19**	25	25
Deferred			
Federal	**(20)**	(22)	7
State and local	**(4)**	(4)	1
Foreign	**6**	(8)	(11)
Total income tax (benefit) expense	**$ (3)**	$ 125	$ 96
Effective income tax rate	**(11.1%)**	215.5%	43.4%

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

Percent of income before taxes	**2018**	2017	2016
Income tax expense at the U.S. federal tax rate	**21.0%**	35.0%	35.0%
Foreign income tax differential	**2.1%**	(22.6%)	(14.0%)
U.S. tax on foreign earnings	**2.0%**	4.3%	0.9%
State and local income taxes	**(25.0%)**	(11.0%)	0.2%
U.S. permanent book/tax differences	**(2.7%)**	(1.5%)	1.3%
U.S. research and development tax credits	**(29.5%)**	(11.2%)	(1.6%)
Change in valuation allowance	**27.7%**	10.0%	0.8%
U.S. manufacturing deduction permanent difference	**-%**	(8.0%)	(3.5%)
Goodwill impairment	**-%**	-%	8.9%
Tax impact of sale of marketing applications business	**-%**	-%	9.9%
Tax impact of equity compensation	**(1.4%)**	0.7%	2.4%
Tax impact of U.S. tax law change - IRC Section 987	**-%**	-%	3.5%
Deferred tax impact from U.S. rate change from Tax Reform	**-%**	(27.0%)	-%
Tax impact of U.S. Tax Reform/ Transition Tax	**(23.9%)**	250.0%	-%
Tax Impact of uncertain tax positions	**20.2%**	(3.6%)	(0.6%)
Other, net	**(1.6%)**	0.4%	0.2%
Effective income tax rate	**(11.1%)**	215.5%	43.4%

The 2018 and 2017 effective tax rates were impacted by the Tax Act, which was signed into law on December 22, 2017, making significant changes to the United States Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of United States international taxation from a worldwide tax system to a modified territorial tax system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act.

In accordance with SAB 118, the Company completed its analysis of the impact of the Tax Act during the fourth quarter of 2018 in accordance with its understanding of the Tax Act and guidance available as of the date of this filing. For the year ended December 31, 2018, the Company recorded a $6 million tax benefit as an adjustment to the 2017 provisional estimate in accordance with SAB 118 because of additional regulatory guidance and changes in interpretations and assumptions the Company initially made as a result of the Tax Act. Effective in 2018, the Tax Act subjects United States shareholders to a tax on GILTI earned by certain foreign subsidiaries. The Company has elected to provide for the tax expense related to GILTI in the year the tax is incurred. For 2018, the Company recorded $1 million of tax expense for GILTI tax.

In the fourth quarter of 2017, the Company recorded $126 million as additional income tax expense as its provisional estimate of the impact of the Tax Act. The amount included $145 million of tax expense for the one-time transition tax on cumulative foreign earnings of $1.3 billion, which the Company will pay over an 8-year period ending in 2025. In addition, a tax benefit of $19 million was recorded, a majority of which related to the re-measurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future.

The 2016 effective tax rate was impacted by the $57 million of goodwill impairment charges recorded in the first quarter of 2016, all of which was treated as a permanent, non-deductible tax item. In addition, a discrete tax charge of $22 million was recorded in the third quarter of 2016 related to the tax impact of the sale of the marketing applications business, which occurred on July 1, 2016. In the fourth quarter of 2016, the Company recorded $8 million of tax expense associated with the issuance of new U.S. Treasury Regulations under Internal Revenue Code Section 987 on December 7, 2016, which clarified how companies calculate foreign currency translation gains and losses for income tax purposes for branches whose accounting records are kept in a

currency other than the currency of the Company. Also, in the fourth quarter of 2016, the Company elected to early adopt Accounting Standards Update 2016-09, Improvements to Employee Share-based Payment Accounting. As a result, the Company incurred a $5 million discrete tax expense associated with the net shortfall arising from 2016 equity compensation vestings and exercises.

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

in millions	**2018**	2017
Deferred income tax assets		
Employee pensions and other liabilities	**$ 49**	$ 50
Other balance sheet reserves and allowances	**18**	13
Tax loss and credit carryforwards	**63**	59
Deferred revenue	**20**	3
Other	**-**	2
Total deferred income tax assets	**150**	127
Valuation allowance	**(39)**	(32)
Net deferred income tax assets	**111**	95
Deferred income tax liabilities		
Intangibles and capitalized software	**17**	30
Property and equipment	**11**	12
Other	**19**	-
Total deferred income tax liabilities	**47**	42
Total net deferred income tax assets	**$ 64**	$ 53

As of December 31, 2018, Teradata has net operating loss (“NOL”) and tax credit carryforwards totaling $63 million (tax effected and before any valuation allowance offset and application of recognition criteria for uncertain tax positions). Of the total tax carryforwards, $11 million are NOL’s in the United States and certain foreign jurisdictions, a small portion of which will begin to expire in 2020, $1 million are United States foreign tax credit carryforwards which expire in 2028, which has a full valuation allowance offset; and $51 million are California R&D tax credits that have an indefinite carryforward period (which have a $38 million valuation allowance offset recorded).

Prior to the enactment of the Tax Act, the Company had not provided for taxes on the undistributed earnings of its foreign subsidiaries as the Company either reinvested or intended to reinvest those earnings outside of the United States. Because of the 2017 Tax Act, the Company has changed its indefinite reinvestment assertion related to foreign earnings that have been taxed in the United States and now considers a majority of these earnings no longer indefinitely reinvested. Because of United States tax reform legislation, distributions of profits from non-U.S. subsidiaries are not expected to cause a significant United States tax impact in the future. However, these distributions may be subject to non-U.S. withholding taxes if profits are distributed from certain jurisdictions. The Company has recorded $1 million of deferred foreign withholding tax expense with respect to certain earnings which are not considered permanently reinvested as they would be taxable upon remittance. Deferred taxes have not been provided on earnings considered indefinitely reinvested as it is not expected that the distribution of these earnings would give rise to a material tax liability.

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 Company reflects any interest and penalties recorded in connection with its uncertain tax positions as a component of income tax expense.

As of December 31, 2018, the Company’s uncertain tax positions totaled approximately $34 million, of which $17 million is reflected in the other liabilities section of the Company’s balance sheet as a non-current liability. The remaining balance of $17 million of uncertain tax positions relates to certain tax attributes both generated by the Company and acquired in various acquisitions, which are netted against the underlying deferred tax assets recorded on the balance sheet. The entire balance of $34 million in uncertain tax positions would cause a decrease in the effective income tax rate upon recognition. Teradata has recorded $2 million of interest accruals related to its uncertain tax liabilities as of December 31, 2018.

Below is a roll-forward of the Company's liability related to uncertain tax positions at December 31:

in millions	**2018**	2017
Balance at January 1	**$ 28**	$ 30
Gross decreases for prior period tax positions	**-**	(1)
Gross increases for prior period tax positions	**3**	-
Gross increases for current period tax positions	**8**	3
Decreases due to the lapse of applicable statute of limitations	**(1)**	(4)
Decreases relating to settlements with taxing authorities	**(4)**	-
Balance at December 31	**$ 34**	$ 28

On July 24, 2018, the Ninth Circuit Court of Appeals issued an opinion in Altera Corp. v. Commissioner requiring related parties in an intercompany cost-sharing arrangement to share expenses related to stock-based compensation. This opinion reversed the prior decision of the United States Tax Court. On August 7, 2018, the Ninth Circuit published an order withdrawing its opinion and is re-examining the opinion. The Company is awaiting the revised opinion of the Court to determine the impact, if any, on the Company.

The Company and its subsidiaries file income tax returns in the United States and various state jurisdictions, as well as numerous foreign jurisdictions. As of December 31, 2018, the Company has ongoing tax audits in a limited number of state and foreign jurisdictions. However, no material adjustments have been proposed or made in any of these examinations to date, which would result in any incremental income tax expense in future periods to the Company. The Company's tax returns for years 2015-2018 are still open for assessment by tax authorities in its major jurisdictions.

Note 7: Employee Stock-based Compensation Plans

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

in millions	**2018**	2017	2016
Stock options	**$ 6**	$ 9	$ 9
Restricted shares	**56**	56	51
Employee share repurchase program	**3**	3	2
Total stock-based compensation before income taxes	**65**	68	62
Tax benefit	**(11)**	(21)	(13)
Total stock-based compensation, net of tax	**$ 54**	$ 47	$ 49

The Teradata Corporation 2007 Stock Incentive Plan (the "2007 SIP"), as amended, and the Teradata 2012 Stock Incentive Plan (the "2012 SIP") provide for the grant of several different forms of stock-based compensation. The 2012 SIP was adopted and approved by stockholders in April 2012 and no further awards may be made under the 2007 SIP after that time. A total of approximately 17.5 million shares were authorized to be issued under the 2012 SIP. New shares of the Company's common stock are issued as a result of the vesting of restricted share units and stock option exercises and at the time of grant for restricted shares, for awards under both plans.

As of December 31, 2018, the Company's primary types of stock-based compensation were stock options, restricted shares, restricted share units and the employee stock purchase program (the "ESPP").

Stock Options

The Compensation and Human Resource Committee of Teradata's Board of Directors has discretion to determine the material terms and conditions of option awards under both the 2007 SIP and the 2012 SIP (collectively, the "Teradata SIP"), provided that (i) the exercise price must be no less than the fair market value of Teradata common stock (as defined in both plans) on the date of grant, and (ii) the term must be no longer than ten years. Option grants generally have a four-year vesting period.

No options were granted in 2018. The weighted-average fair value of options granted for Teradata equity awards was $11.08 in 2017 and $10.68 in 2016. The fair value of each option award on the grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2017	2016
Dividend yield	-	-
Risk-free interest rate	1.99%	2.08%
Expected volatility	35.0%	35.2%
Expected term (years)	6.3	6.3

The following table summarizes the Company's stock option activity for the year ended December 31, 2018:

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, 2018	**5,373**	**$ 37.63**	**4.5**	**$30**
Granted	**-**	**-**		
Exercised	**(885)**	**$23.69**		
Canceled	**(207)**	**$ 47.79**		
Forfeited	**(133)**	**$ 30.12**		
Outstanding at December 31, 2018	**4,148**	**$40.34**	**3.8**	**$15**
Fully vested and expected to vest at December 31, 2018	**4,148**	**$40.34**	**3.8**	**$15**
Exercisable at December 31, 2018	**3,608**	**$42.05**	**3.2**	**$10**

The following table summarizes the total intrinsic value of options exercised and the cash received by the Company from option exercises under all share-based payment arrangements at December 31:

in millions	**2018**	2017	2016
Intrinsic value of options exercised	**$15**	$ 6	$13
Cash received from option exercises	**$21**	$19	$18
Tax benefit realized from option exercises	**$ 3**	$ 2	$ 5

As of December 31, 2018, there was $6 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 1.7 years.

Restricted Shares and Restricted Share Units

The Teradata SIP provides for the issuance of restricted shares, as well as restricted share units. These grants consist of both service-based and performance-based awards. Service-based awards typically vest over a three-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 vesting period. For substantially all restricted share 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 share units does not have the rights of a stockholder and is subject to restrictions on transferability and risk of forfeiture. For both restricted share grants and restricted share units, any potential dividend rights would be subject to the same vesting requirements as the underlying equity award. As a result, such rights are considered a contingent transfer of value and consequently these equity awards are not considered participating securities. Performance-based grants are subject to future performance measurements over a one-to three-year period. All performance-based shares that are earned in respect of an award will become vested at the end of the performance and/or service period provided the employee is continuously employed by the Company and applicable performance measures and other vesting conditions are met. The fair value of each performance-based award is determined on the grant date, based on the Company's stock price, and assumes that

performance targets will be achieved. Over the performance period, the number of shares of stock that will be issued is adjusted upward or downward based upon management's assessment of the probability of achievement of performance targets. The ultimate number of shares issued, and the related compensation cost recognized as expense will be based on a comparison of the final achievement of performance metrics to the specified targets.

The following table reports restricted shares and restricted share unit activity during the year ended December 31, 2018:

shares in thousands	**Number of Shares**	**Weighted-Average Grant Date Fair Value per Share**
Unvested shares at January 1, 2018	**4,226**	**$32.76**
Granted	**994**	**$37.98**
Vested	**(1,636)**	**$37.86**
Forfeited/canceled	**(353)**	**$34.44**
Unvested shares at December 31, 2018	**3,231**	**$34.27**

The following table summarizes the weighted-average fair value of restricted share units granted for Teradata equity awards and the total fair value of shares vested.

	2018	2017	2016
Weighted-average fair value of restricted share units granted	**$37.98**	$34.88	$26.61
Total fair value of shares vested (in millions)	**$ 53**	$ 50	$ 61

As of December 31, 2018, there was $67 million of unrecognized compensation cost related to unvested restricted share grants. The unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 1.95 years.

The following table represents the composition of Teradata restricted share unit grants in 2018:

shares in thousands	**Number of Shares**	**Weighted-Average Grant Date Fair Value**
Service-based shares	**482**	**$39.32**
Performance-based shares	**512**	**$36.62**
Total stock grants	**994**	**$37.98**

In 2016 and 2017, performance-based share units granted as part of our long-term incentive program for certain corporate officers and key executives will be earned based on Teradata's total shareholder return ("TSR") over a three-year performance period relative to the other companies in the S&P 1500 Information Technology Index. The number of shares issued, as a percentage of the amount subject to the performance share award, could range from 0% to 200%. The grant date fair value of the non-vested performance-based awards was determined using a Monte Carlo simulation model, which utilized multiple input variables that determined the probability of satisfying the market condition requirements applicable to each award. The compensation expense for the award will be recognized if the requisite service is rendered, regardless of whether the market conditions are achieved.

Employee Stock Purchase Program

The Company's ESPP, effective on October 1, 2007, and as amended effective as of January 1, 2013, 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 15% of the average market price and is considered compensatory.

Employees may authorize payroll deductions of up to 10% of eligible compensation for common stock purchases. A total of 7 million shares were authorized to be issued under the ESPP, with approximately 2.7 million shares remaining under that authorization at December 31, 2018. The shares of Teradata common stock purchased by a participant on an exercise date (the last day of each month), for all purposes, are deemed to have been issued and sold at the close of business on such exercise date. Prior to that time, none of the rights or privileges of a stockholder exists with respect to such shares. Employee purchases and aggregate cost were as follows at December 31:

in millions	**2018**	2017	2016
Employee share purchases	**0.5**	0.6	0.6
Aggregate cost	**$17**	$15	$13

Note 8: Employee Benefit Plans

Pension and Postemployment Plans. Teradata currently sponsors defined benefit pension plans for certain of its international employees. For those international pension plans for which the Company holds asset balances, those assets are primarily invested in common/collective trust funds (which include publicly traded common stocks, corporate and government debt securities, real estate indirect investments, cash or cash equivalents) and insurance contracts.

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.

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

	2018		2017		2016	
in millions	**Pension**	**Postemployment**	Pension	Postemployment	Pension	Postemployment
Service cost	**$ 8**	**$ 8**	$ 9	$ 7	$ 8	$ 6
Interest cost	**3**	**1**	3	1	3	1
Expected return on plan assets	**(2)**	**-**	(2)	-	(2)	-
Settlement charge	**-**	**-**	-	-	1	-
Curtailment charge	**(1)**	**-**	-	-	-	-
Amortization of actuarial loss	**1**	**4**	1	2	1	1
Amortization of prior service (credit) cost	**-**	**-**	(1)	1	-	2
Divestiture	**-**	**-**	-	-	(2)	(1)
Total costs	**$ 9**	**$13**	$10	$11	$ 9	$ 9

The underfunded amount of pension and postemployment obligations is recorded as a liability in the Company's consolidated balance sheet. 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:

	Pension		**Postemployment**	
in millions	**2018**	2017	**2018**	2017
Change in benefit obligation				
Benefit obligation at January 1	**$136**	$120	**$ 47**	$ 42
Service cost	**8**	9	**8**	7
Interest cost	**3**	3	**1**	1
Plan participant contributions	**1**	1	**-**	-
Actuarial (gain) loss	**(5)**	(3)	**12**	12
Benefits paid	**(2)**	(4)	**(14)**	(15)
Curtailment	**(1)**	-	**-**	-
Settlement	**(4)**	-	**-**	-
Currency translation adjustments	**(4)**	10	**-**	-
Benefit obligation at December 31	**$132**	$136	**$ 54**	$ 47
Change in plan assets				
Fair value of plan assets at January 1	**$ 75**	$ 64	**$ -**	$ -
Actual return on plan assets	**(2)**	5	**-**	-
Company contributions	**5**	5	**-**	-
Benefits paid	**(2)**	(4)	**-**	-
Currency translation adjustments	**(1)**	4	**-**	-
Plan participant contribution	**1**	1	**-**	-
Settlements	**(4)**	-	**-**	-
Other	**(4)**	-	**-**	-
Fair value of plan assets at December 31	**68**	75	**-**	-
Funded status (underfunded)	**$ (64)**	$ (61)	**$ (54)**	$ (47)
Amounts Recognized in the Balance Sheet				
Non-current assets	**$ 5**	$ 10	**$ -**	$ -
Current liabilities	**(1)**	(2)	**(9)**	(7)
Non-current liabilities	**(68)**	(69)	**(45)**	(40)
Net amounts recognized	**$ (64)**	$ (61)	**$ (54)**	$ (47)
Amounts Recognized in Accumulated Other Comprehensive Income (Loss)				
Unrecognized Net actuarial loss	**$ 16**	$ 15	**$ 44**	$ 37
Unrecognized Prior service (credit) cost	**-**	(1)	**3**	3
Total	**$ 16**	$ 14	**$ 47**	$ 40

The following table presents the accumulated pension benefit obligation at December 31:

in millions	**2018**	2017
Accumulated pension benefit obligation	**$122**	$125

The following table presents pension plans with accumulated benefit obligations in excess of plan assets at December 31:

in millions	**2018**	2017
Projected benefit obligation	**$68**	$69
Accumulated benefit obligation	**$61**	$63
Fair value of plan assets	**$ -**	$ -

The following table presents the pre-tax net changes in projected benefit obligations recognized in other comprehensive income:

in millions	Pension		Postemployment	
	2018	2017	**2018**	2017
Actuarial (gain) loss arising during the year	**$(2)**	$(7)	**$12**	$13
Amortization of loss included in net periodic benefit cost	**(1)**	(1)	**(4)**	(2)
Prior service (credit) cost arising during the year	**-**	-	**-**	(1)
Recognition of gain due to curtailment	**1**	-	**-**	-
Foreign currency exchange	**(1)**	2	**-**	-
Total recognized in other comprehensive (loss) income	**$(3)**	$(6)	**$ 8**	$10

The following table presents the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during 2019:

in millions	**Pension**	**Postemployment**
Net loss to be recognized in other comprehensive income	$1	$5

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

	Pension Benefit Obligations		Pension Benefit Cost		
	2018	2017	**2018**	2017	2016
Discount rate	**2.2%**	2.1%	**2.1%**	2.0%	2.4%
Rate of compensation increase	**3.4%**	3.3%	**3.3%**	3.3%	3.2%
Expected return on plan assets	**N/A**	N/A	**2.8%**	2.9%	3.0%

	Postemployment Benefit Obligations		Postemployment Benefit Cost		
	2018	2017	**2018**	2017	2016
Discount rate	**2.5%**	2.6%	**2.5%**	2.6%	3.4%
Rate of compensation increase	**3.0%**	3.0%	**3.0%**	3.0%	3.0%
Involuntary turnover rate	**2.5%**	2.3%	**2.5%**	2.3%	2.0%

The Company determines the expected return on assets based on individual plan asset allocations, historical capital market returns, and long-term interest rate assumptions, with input from its actuaries, investment managers, and independent investment advisors. The company emphasizes long-term expectations in its evaluation of return factors, discounting or ignoring short-term market fluctuations. Expected asset returns are reviewed annually but are generally modified only when asset allocation strategies change or long-term economic trends are identified.

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. The discount rate used for countries with individually insignificant benefit obligation at year-end was derived by matching the plans' expected future cash flows to the corresponding yields from the Citigroup Pension Liability Index. This yield curve has been constructed to represent the available yields on high-quality fixed-income investments across a broad range of future maturities.

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 of plan assets or the projected benefit obligation of each respective plan.

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

	Actual Asset Allocation as of December, 31		Target Asset Allocation
	2018	2017	
Equity securities	**32%**	32%	32%
Debt securities	**51%**	41%	50%
Insurance (annuity) contracts	**12%**	17%	12%
Real-estate	**3%**	8%	3%
Other	**2%**	2%	3%
Total	**100%**	100%	100%

Investment Strategy. Teradata employs several investment strategies across its various international pension plans. In some countries, particularly where Teradata does not have a large employee base, the Company may use insurance (annuity) contracts to satisfy its future pension payment obligations, whereby the Company makes pension plan contributions to an insurance company in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. In other countries, the Company may employ local asset managers to manage investment portfolios according to the investment policies and guidelines established by the Company, and with consideration to individual plan liability structure and local market environment and risk tolerances. The Company's investment policies and guidelines primarily emphasize diversification across and within asset classes to maximize long-term returns subject to prudent levels of risk, with the overall objective of enabling the plans to meet their future obligations. 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 diversified across 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.

Fair Value. Fair value measurements are established utilizing a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are more fully described in Note 11.

The following is a description of the valuation methodologies used for pension assets as of December 31, 2018.

Common/collective trust funds (which include money market funds, equity funds, bond funds, real-estate indirect investments, etc.): Valued at the net asset value ("NAV") of shares held by the Plan at year end, as reported to the Plan by the trustee, which represents the fair value of shares held by the Plan. Because the NAV of the shares held in the common/collective trust funds are derived by the value of the underlying investments, the Company has classified these underlying investments as Level 2 fair value measurements.

Insurance contracts: Valued by discounting the related future benefit payments using a current year-end market discount rate, which represents the fair value of the insurance contract. The Company has classified these contracts as Level 3 assets for fair value measurement purposes.

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2018:

in millions	**December 31, 2018**	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	**$ 1**	$ -	$ 1	$ -
Equity funds	**22**	-	22	-
Bond/fixed-income funds	**35**	-	35	-
Real-estate indirect investments	**2**	-	2	-
Insurance contracts	**8**	-	-	8
Total assets at fair value	**$ 68**	$ -	$ 60	$ 8

The table below sets forth a summary of changes in the fair value of the pension plan level 3 assets for the year ended December 31, 2018:

in millions	Insurance Contracts
Balance as of January 1, 2018	$12
Purchases, sales and settlements, net	(4)
Balance as of December 31, 2018	**$ 8**

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2017:

in millions	December 31, 2017	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 2	$ -	$ 2	$ -
Equity funds	24	-	24	-
Bond/fixed-income funds	31	-	31	-
Real-estate indirect investments	6	-	6	-
Insurance contracts	12	-	-	12
Total assets at fair value	$ 75	$ -	$ 63	$12

The table below sets forth a summary of changes in the fair value of the pension plan level 3 assets for the year ended December 31, 2017:

in millions	Insurance Contracts
Balance as of January 1, 2017	$11
Purchases, sales and settlements, net	1
December 31, 2017	$12

Cash Flows Related to Employee Benefit Plans

Cash Contributions. In 2019, the Company expects to contribute approximately $4 million to the international pension plans.

Estimated Future Benefit Payments. The Company expects to make the following benefit payments, estimated based on the assumptions used to measure the company's benefit obligation at the end of the year, reflecting past and future service from its pension and postemployment plans:

in millions	Pension Benefits	Postemployment Benefits
Year		
2019	$ 3	$ 9
2020	$ 4	$ 9
2021	$ 5	$ 9
2022	$ 5	$ 9
2023	$ 5	$ 9
2024 - 2028	$31	$44

Savings Plans. United States 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 following table identifies the expense for the United States and International subsidiary savings plans for the years ended December 31:

in millions	**2018**	2017	2016
U.S. savings plan	**$22**	$21	$19
International subsidiary savings plans	**$17**	$17	$16

Note 9: Derivative Instruments and Hedging Activities

As a portion of Teradata's operations is conducted outside the United States and in currencies other than the U.S. dollar, the Company is exposed to potential gains and losses from changes in foreign currency exchange rates. In an attempt to mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting predominantly from foreign currency denominated inter-company receivables and payables. The forward contracts are designated as fair value hedges of specified foreign currency denominated inter-company receivables and payables and generally mature in three months or less. 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. Across its portfolio of contracts, Teradata has both long and short positions relative to the U.S. dollar. As a result, Teradata's net involvement is less than the total contract notional amount of the Company's foreign exchange forward contracts.

In June 2018, Teradata executed a five-year interest rate swap with a $500 million initial notional amount to hedge the floating interest rate of its Term Loan, as more fully described in Note 12. The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan facility. The notional amount of the hedge will step-down according to the amortization schedule of the term loan.

The Company performed an initial effectiveness assessment in the second quarter of 2018 on the interest rate swap and the hedge was determined to be effective. The hedge is being evaluated qualitatively on a quarterly basis for effectiveness. Changes in fair value are recorded in Accumulated Other Comprehensive Income and periodic settlements of the swap will be recorded in interest expense along with the interest on amounts outstanding under the term loan facility.

The following table identifies the contract notional amount of the Company's hedging instruments at December 31:

in millions	**2018**	2017
Contract notional amount of foreign exchange forward contracts	**$ 256**	$ 147
Net contract notional amount of foreign exchange forward contracts	**$ 35**	$ 23
Contract notional amount of interest rate swap	**$ 500**	$ -

All derivatives are recognized in the consolidated balance sheets at their fair value. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based and are an indication of the extent of Teradata's involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments. Refer to Note 11 for disclosures related to the fair value of all derivative assets and liabilities.

The Company does not hold or issue derivative 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 foreign exchange and interest 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 applicable contracts.

NOTE 10: Commitments and Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits, governmental investigations, 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. We are not currently a party to any litigation, nor are we aware of any pending or threatened litigation against us that we believe would materially affect our business, operating results, financial condition or cash flows.

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 company. In some instances, the Company guarantees the leasing company a minimum value at the end of the lease term on the leased equipment. As of December 31, 2018, the maximum future payment obligation of this guaranteed value and the associated liability balance was $3 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.

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

in millions	**2018**	2017	2016
Beginning balance at January 1	**$ 4**	$ 5	$ 6
Accruals for warranties issued	**5**	6	8
Settlements (in cash or kind)	**(6)**	(7)	(9)
Balance at end of period	**$ 3**	$ 4	$ 5

The Company also offers extended and/or enhanced coverage to its customers in the form of maintenance contracts. Teradata accounts for these contracts by deferring the related maintenance revenue over the extended and/or enhanced coverage period. Costs associated with maintenance support are expensed as incurred. 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 offerings. The Company has indemnification obligations under its charter and bylaws to its officers and directors and has entered into indemnification agreements with the officers and directors of its subsidiaries. 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, including the sale of the marketing applications business. The fair value of these indemnification obligations is typically 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. As such, the Company has generally not recorded a liability in connection with these indemnification arrangements. 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.

Leases. Teradata conducts certain of its sales and administrative operations using leased facilities, the initial lease terms of which vary in length. Many of the leases contain renewal options and escalation clauses that are not material to the overall lease portfolio. Future minimum operating lease payments and committed subleases under non-cancelable leases as of December 31, 2018, for the following fiscal years were:

in millions	Total Amounts	2019	2020	2021	2022	2022 and Thereafter
Operating lease obligations	$ 73	$ 24	$ 20	$ 12	$ 11	$ 6
Sublease rentals	(10)	(6)	(4)	-	-	-
Total committed operating leases less sublease rentals	$ 63	$ 18	$ 16	$ 12	$ 11	$ 6

The following table represents the Company's actual rental expense and sublease rental income for the years ended December 31:

in millions	**2018**	2017	2016
Rental expense	**$24**	$24	$24
Sublease rental income	**$ 6**	$ 5	$ 3

The Company had no contingent rentals for these periods.

NOTE 11: Fair Value Measurements

Fair value measurements are established utilizing a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as significant other observable inputs, such as quoted prices in active markets for similar assets or liabilities, or quoted prices in less-active markets for identical assets; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company's assets and liabilities measured at fair value on a recurring basis include money market funds, interest rate swaps and foreign currency exchange contracts. A portion of the Company's excess cash reserves are held in money market funds which generate interest income based on the prevailing market rates. Money market funds are included in cash and cash equivalents in the Company's balance sheet. Money market fund holdings are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy.

When deemed appropriate, the Company minimizes its exposure to changes in foreign currency exchange rates using derivative financial instruments, specifically, foreign exchange forward contracts. Additionally, in June 2018, Teradata executed a five-year interest rate swap with a $500 million initial notional amount to hedge the floating interest rate on its term-loan. The fair value of these contracts and swaps are measured at the end of each interim reporting period using observable inputs other than quoted prices, specifically market spot and forward exchange rates. As such, these derivative instruments are classified within Level 2 of the valuation hierarchy. Fair value gains for open contracts are recognized as assets and fair value losses are recognized as liabilities. The fair value of interest rate swaps recorded in other liabilities at December 31, 2018 was $7 million. The hedge is being evaluated qualitatively on a quarterly basis

for effectiveness. Changes in fair value are recorded in Accumulated Other Comprehensive Income. The fair value of foreign exchange forward contracts recorded in other assets and accrued liabilities at December 31, 2018 and December 31, 2017, were not material. Any realized gains or losses would be mitigated by corresponding gains or losses on the underlying exposures. Gains and losses from the Company's fair value hedges (foreign currency forward contracts and related hedged items) were immaterial for the years ended December 31, 2018, 2017 and 2016.

The Company's assets and liabilities measured at fair value on a recurring basis and subject to fair value disclosure requirements at December 31, 2018 and December 31, 2017 were as follows:

		Fair Value Measurements at Reporting Date Using		
in millions	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds at December 31, 2018	$246	$246	$ -	$ -
Money market funds at December 31, 2017	$501	$501	$ -	$ -
Liabilities				
Interest rate swap at December 31, 2018	**$ 7**	**$ -**	**$ 7**	**$ -**

NOTE 12: Debt and Capital Leases

On June 11, 2018, Teradata replaced its existing five-year, $400 million revolving credit facility with a new $400 million revolving credit facility (the "Credit Facility"). The Credit Facility ends on June 11, 2023, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. In addition, under the terms of the Revolving Credit Agreement, Teradata from time to time and subject to certain conditions may increase the lending commitments under the Revolving Credit Agreement in an aggregate principal amount up to an additional $200 million, to the extent that existing or new lenders agree to provide such additional commitments. The outstanding principal amount of the Revolving Credit Agreement bears interest at a floating rate based upon, at Teradata's option, a negotiated base rate or a Eurodollar rate plus, in each case, a margin based on Teradata's leverage ratio. In the near term, Teradata would anticipate choosing a floating rate based on London Interbank Offered Rate ("LIBOR"). The Credit Facility is unsecured but is guaranteed by certain of Teradata's material domestic subsidiaries and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of December 31, 2018, the Company had no borrowings outstanding under the Credit Facility, leaving $400 million in additional borrowing capacity available under the Credit Facility. Unamortized deferred costs on the original credit facility and new lender fees of approximately $1 million were being amortized over the five-year term of the credit facility. The Company was in compliance with all covenants as of December 31, 2018.

As of December 31, 2017, the Company had $240 million in borrowings outstanding under the previous five-year, $400 million revolving credit facility, which carried an interest rate of 5.0%. The Company was in compliance with all covenants as of December 31, 2017.

Also, on June 11, 2018, Teradata closed on a new senior unsecured $500 million five-year term loan, the proceeds of which plus additional cash-on-hand were used to pay off the remaining $525 million of principal on its existing term loan. The $500 million term loan is payable in quarterly installments, which will commence on June 30, 2019 with 1.25% of the initial principal amount due on each of the first eight payment dates; 2.50% of the initial principal amount due on each of the next four payment dates; 5.0% of the initial principal amount due on each of the next three payment dates; and all remaining principal due on June 11, 2023. The outstanding principal amount under the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus a margin based on the leverage ratio of the Company. As of December 31, 2018,

the term loan principal outstanding was $500 million. As disclosed in Note 9, Teradata entered into an interest rate swap to hedge the floating interest rate of the Term Loan. Because of the swap, Teradata's fixed rate on the term loan equals 2.86% plus the applicable leverage-based margin as defined in the Term Loan agreement. As of December 31, 2018, the all-in fixed rate is 4.36%. Unamortized deferred issuance costs of approximately $2 million were being amortized over the five-year term of the loan. The Company was in compliance with all covenants as of December 31, 2018.

Prior to its repayment in the second quarter of 2018, Teradata had a $600 million term loan payable in quarterly installments, which commenced on March 31, 2016. As of December 31, 2017, the term loan principal outstanding was $540 million and carried an interest rate of 3.375%.

Annual contractual maturities of outstanding principal on the term loan at December 31, 2018, are as follows:

in millions	
2019	$ 19
2020	25
2021	44
2022	87
2023	325
Total	**$500**

Teradata's term loan is recognized on the Company's balance sheet at its unpaid principal balance and is not subject to fair value measurement. However, given that the loan carries a variable rate, the Company estimates that the unpaid principal balance of the term loan would approximate its fair value. If measured at fair value in the financial statements, the Company's term loan would be classified as Level 2 in the fair value hierarchy.

During 2018, the Company entered into capital leases to finance certain of its equipment purchases. Assets acquired by capital leases during 2018 were $52 million. The lease term for all capital leases entered into during the year was 3 years and the average interest rate was 5.01%. The lease obligation as of December 31, 2018 was approximately $47 million. Future minimum lease payments under capital leases at December 31, 2018, were:

in millions	
2019	$19
2020	18
2021	13
Total	**50**
Amount representing interest	(3)
Present value of minimum lease payments	$47

The following table presents interest expense on borrowings for the years ended December 31:

in millions	**2018**	2017	2016
Interest expense on term loan and credit facility	**$21**	$15	$12
Interest expense on capital leases	**$ 1**	$ -	$ -

NOTE 13: Segment, Other Supplemental Information and Concentrations

Effective July 1, 2016, following the sale of the marketing applications business, Teradata is managing its business in two operating segments: (1) Americas region (North America and Latin America); and (2) International region (Europe, Middle East, Africa, Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with how management evaluates the performance of each segment. 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 financial performance. The chief operating decision maker, who is our President

and Chief Executive Officer, evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes assets are not allocated to the segments.

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

in millions	**2018**	2017	2016
Segment revenue			
Americas	**$1,126**	$1,195	$1,334
International	**1,038**	961	919
Total Data and Analytics	**2,164**	2,156	2,253
Marketing Applications	**-**	-	69
Total revenue	**2,164**	2,156	2,322
Segment gross profit			
Americas	**621**	675	797
International	**474**	437	445
Total Data and Analytics	**1,095**	1,112	1,242
Marketing Application	**-**	-	34
Total segment gross profit	**1,095**	1,112	1,276
Stock-based compensation expense	**15**	13	14
Amortization of acquisition-related intangible assets	**-**	-	2
Acquisition, integration and reorganization-related costs	**5**	4	9
Amortization of capitalized software costs	**49**	71	62
Selling, general and administrative expenses	**666**	651	662
Research and development expenses	**317**	305	212
Impairment of goodwill, acquired intangibles and other assets	**-**	-	80
Total income from operations	**$ 43**	$ 68	$ 235

Prior period segment information has been reclassified to conform to the current period presentation. Certain items, including amortization of certain capitalized software costs, were excluded from segment gross profit to conform to the way the Company manages and reviews the results by segment.

The following table presents revenues by geographic area for the years ended December 31:

in millions	**2018**	2017	2016
United States	**$1,018**	$1,089	$1,246
Americas (excluding United States)	**108**	107	123
International	**1,038**	960	953
Total revenue	**$2,164**	$2,156	$2,322

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

in millions	**2018**	2017
United States	**$226**	$119
Americas (excluding United States)	**18**	11
International	**51**	32
Property and equipment, net	**$295**	$162

Concentrations. No single customer accounts for more than 10% of the Company's revenue. As of December 31, 2018, 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's hardware components are assembled exclusively by Flex. In addition, the Company utilizes preferred supplier relationships to better ensure more consistent quality, cost, and delivery. There can be no assurances that a disruption in production at Flex or at a supplier would not have a material adverse effect on the Company's operations. In addition, a significant change in the forecasts to any of these preferred suppliers could result in purchase obligations or components that may be in excess of demand.

Changes in segment reporting. Subsequent to the year ended December 31, 2018 and effective January 1, 2019, the Company implemented an organizational change to its operating segments and will report future results under three separate segments: (1) the North America and Latin America ("Americas") region, (2) the Europe, Middle East and Africa ("EMEA") region, and (3) the Asia Pacific and Japan ("Asia Pacific") region, to align with the way the Company's management operates and reviews the results of these businesses.

NOTE 14: Business Combinations and Other Investment Activities

The Company did not have any acquisition activity in 2018.

During 2017, the Company completed one immaterial business acquisition, which complements and strengthens the Company's research and development department and released hold-back amounts from prior-year acquisitions for $21 million.

During 2016, the Company completed one immaterial business acquisition, which complements and strengthens the Company's global portfolio, and released hold-back amounts from several prior-year acquisitions for $16 million. The Company also sold the marketing applications business on July 1, 2016.

NOTE 15: Accumulated Other Comprehensive (Loss) Income

The following table provides information on changes in accumulated other comprehensive income (loss), net of tax ("AOCI"), for the years ended December 31:

in millions	Derivatives	Defined benefit plans	Foreign currency translation adjustments	Total AOCI
Balance as of December 31, 2015	$ -	$(29)	$(47)	$ (76)
Other comprehensive loss before reclassifications	-	(9)	(7)	(16)
Amounts reclassified from AOCI	-	3	-	3
Net other comprehensive loss	-	(6)	(7)	(13)
Balance as of December 31, 2016	$ -	$(35)	$(54)	$ (89)
Other comprehensive (loss) income before reclassifications	-	(5)	16	11
Amounts reclassified from AOCI	-	4	-	4
Net other comprehensive (loss) income	-	(1)	16	15
Balance as of December 31, 2017	$ -	$(36)	$(38)	$ (74)
Other comprehensive loss before reclassifications	**(6)**	**(13)**	**(13)**	**(32)**
Amounts reclassified from AOCI	**-**	**5**	**-**	**5**
Net other comprehensive loss	**(6)**	**(8)**	**(13)**	**(27)**
Balance as of December 31, 2018	**$ (6)**	**$(44)**	**$(51)**	**$(101)**

The following table presents the impact and respective location of AOCI reclassifications in the Consolidated Statements of Income for the years ended December 31:

AOCI Component	Location	2018	2017	2016
in millions				
Other Expense	Other Expense	**$(6)**	$(5)	$ (4)
Tax portion	Income tax benefit	**1**	1	1
Total reclassifications	Net (loss) income	**$(5)**	$(4)	$(3)

Further information on the Company's defined benefit plans is included in Note 8.

NOTE 16: Reorganization and Business Transformation

In 2015, the Company announced a plan to realign Teradata's business by reducing its cost structure and focusing on the Company's core data and analytics business. This business transformation included exiting the marketing applications business, rationalizing costs, and modifying the Company's go-to-market approach. No costs were incurred related to this business transformation plan in 2018. Costs incurred were $26 million in 2017 and $129 million in 2016.

On June 4, 2018, the Company approved a plan to consolidate certain of its operations, including transitioning its corporate headquarters to San Diego, California from its previous location in Dayton, Ohio. This plan, which is being executed in connection with Teradata's comprehensive business transformation from a data warehouse company to a data analytics platform company, is intended to better align the Company's skills and resources to effectively pursue opportunities in the marketplace. The Company expects that the costs relating to this consolidation plan will include employee separation benefits, transition support, and other exit-related costs. The employee separation benefit costs are being expensed over the time period that the employees have to work to earn them. The Company expects that it will incur costs and charges, which are substantially all cash expenditures, in the range of approximately $35 to $45 million related to the plan, consisting primarily of the following types of items:

- $21 to $26 million for employee severance and other employee-related costs,
- $6 to $8 million of accelerated depreciation for right-to-use assets under ASC 842, and
- $8 to $11 million for outside service, legal and other associated costs.

The Company incurred a portion of these costs and charges in 2018 and expects to incur the remainder in 2019, with the majority of the cash expenditures in 2019. The Company expects the actions related to the plan will be completed in 2019.

Costs incurred for the plans listed above, are included in the table below:

in millions	2018	2017	2016
Employee severance and other employee related cost	**$ -**	$ 2	$ 14
Asset write-downs	**-**	-	80
Professional services, legal and other associated cost	**-**	24	35
Employee severance and other employee-related costs related to headquarter transition and business transformation	**14**	-	-
Transition support and other exit related costs for the headquarter transition and business transformation	**9**	-	-
Total reorganization and business transformation cost	**$23**	$26	$129

Of the $23 million total costs in 2018, $11 million was paid out in cash and the remaining $12 million was accrued under other current liabilities at December 31, 2018. The majority of the costs were attributable to the Americas reporting unit and recorded as selling, general and administrative expenses with no impact on our segment gross profit.

The charges for asset write-downs in 2016 were for non-cash write-downs of goodwill, acquired intangibles and other assets. In addition to the costs and charges incurred above, the Company made cash payments of less than $1 million in 2018 and 2017, and $20 million in 2016 related to the 2015 business transformation initiative

for employee severance that did not have a material impact on its Statement of Operations due to Teradata accounting for its postemployment benefits under Accounting Standards Codification 712, *Compensation - Nonretirement Postemployment Benefits* ("ASC 712"), which uses actuarial estimates and defers the immediate recognition of gains or losses.

NOTE 17: Impairment and Sale of the Marketing Applications Business

On April 22, 2016, the Company entered into a definitive Asset Purchase Agreement (the "Purchase Agreement") with TMA Solutions, L.P., a Cayman Islands exempted limited partnership and affiliate of Marlin Equity Partners ("Marlin Equity"), to sell the marketing applications business for $90 million in cash, subject to a post-closing adjustment for working capital, debt and other metrics. We recognized an impairment of goodwill of $57 million and acquired intangibles of $19 million in the first quarter of 2016 to adjust the carrying value of the net assets of our marketing applications business to fair value less cost to sell.

Prior to the sale that occurred on July 1, 2016, the marketing applications business was classified as held for sale and generated revenue of $69 million and an operating loss of $112 million (which includes loss from impairment of goodwill and acquired intangibles of $76 million) for the six months ended June 30, 2016.

On July 1, 2016, pursuant to the Purchase Agreement, Teradata completed the sale of Teradata's marketing applications business to Marlin Equity. The purchase price received for this business was approximately $92 million in cash, after a post-closing adjustment for working capital, debt and other metrics. Transaction costs and post-closing obligations were approximately $5 million. Upon completion of the divestiture of the held for sale assets in July 2016, no material gain or loss was recognized as the carrying value of the held for sale assets was equal to the purchase price received less costs to sell.

The Company recorded tax expense of approximately $22 million in the third quarter of 2016 related to this transaction. The total tax expense, of which $14 million was cash taxes due to having zero tax basis in goodwill, was calculated based on the amount of proceeds allocated to the various jurisdictions in accordance with the Purchase Agreement at the local statutory rates.

NOTE 18: Quarterly Information (unaudited)

The following tables present certain unaudited quarterly financial information for fiscal 2018 and 2017. This supplemental quarterly financial information reflects all normal recurring adjustments, in the opinion of management, necessary to fairly state our results of operations for the periods presented when read in conjunction with the accompanying Consolidated Financial Statements and related Notes.

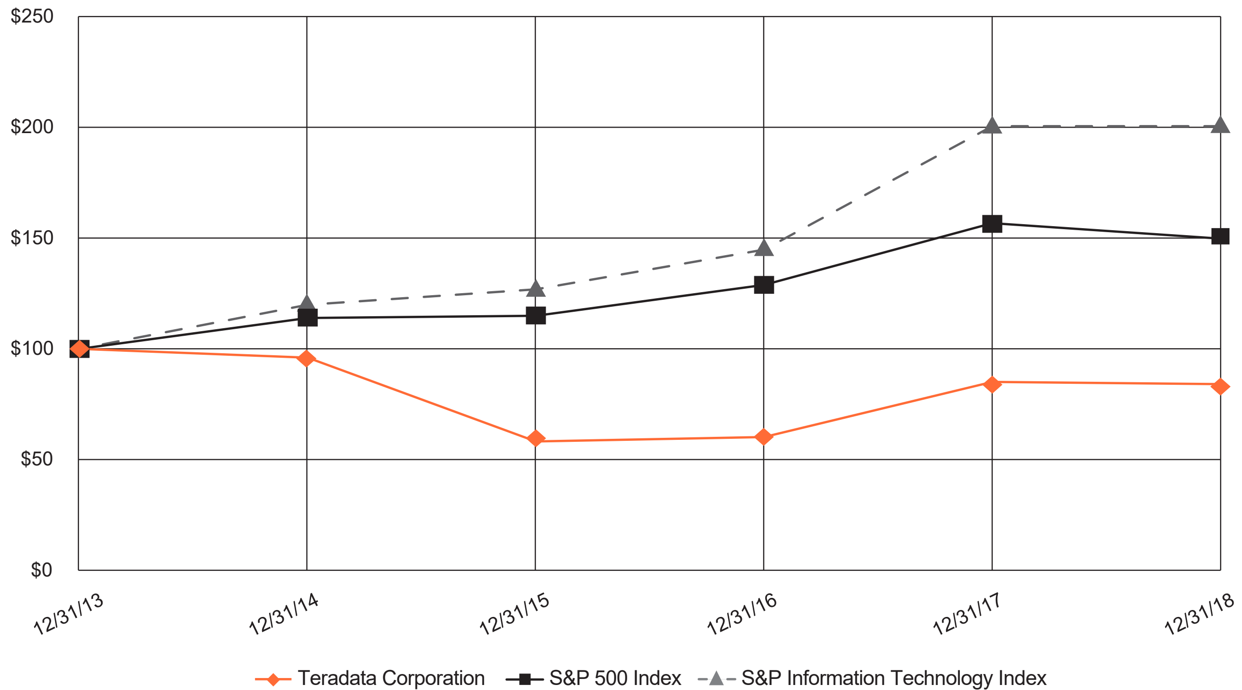
in millions, except per share amounts	First	Second	Third	Fourth[(1)]
2018				
Total revenues	**$ 506**	**$ 544**	**$ 526**	**$ 588**
Gross profit	**$ 223**	**$ 250**	**$ 264**	**$ 289**
Operating (loss) income	**$ (4)**	**$ 10**	**$ 14**	**$ 23**
Net (loss) income	**$ (7)**	**$ 4**	**$ 18**	**$ 15**
Net (loss) income per share:				
Basic	**$(0.06)**	**$ 0.03**	**$ 0.15**	**$ 0.13**
Diluted	**$(0.06)**	**$ 0.03**	**$ 0.15**	**$ 0.13**
2017				
Total revenues	$ 491	$ 513	$ 526	$ 626
Gross profit	$ 225	$ 242	$ 250	$ 307
Operating (loss) income	$ -	$ (1)	$ 9	$ 60
Net (loss) income	$ (2)	$ (4)	$ 13	$ (74)
Net (loss) income per share:				
Basic	$(0.02)	$(0.03)	$ 0.11	$(0.61)
Diluted	$(0.02)	$(0.03)	$ 0.10	$(0.61)

[(1)] Loss from operations for the three months ended December 31, 2017 includes $126 million tax impact related to 2017 U.S. Tax Reform.

TOTAL RETURN TO SHAREHOLDERS

Teradata common stock trades on the New York Stock Exchange under the symbol "TDC." There were approximately 33,336 registered holders of Teradata common stock as of February 7, 2019.

The following graph compares the relative performance of Teradata stock, the Standard & Poor's ("S&P") 500 Stock Index and the S&P Information Technology Index. This graph covers the five-year period from December 31, 2013 to December 31, 2018. In each case, assumes a $100 investment on December 31, 2013, and reinvestment of all dividends, if any.



	As of December 31,					
Company/Index	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Teradata Corporation	$100	$ 96	$ 58	$ 60	$ 85	**$ 84**
S&P 500 Index	$100	$114	$115	$129	$157	**$150**
S&P Information Technology Index	$100	$120	$127	$145	$201	**$201**

Teradata has not paid cash dividends and does not anticipate the payment of cash dividends to holders of 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.

SELECTED FINANCIAL DATA

in millions, except per share and employee amounts	For the Years Ended December 31				
	2018[1]	2017[2]	2016[3]	2015[4]	2014[5]
Revenue	**$ 2,164**	$ 2,156	$ 2,322	$ 2,530	$ 2,732
Income (loss) from operations	**$ 43**	$ 68	$ 235	$ (189)	$ 508
Other (expense) income, net	**$ (16)**	$ (10)	$ (14)	$ 45	$ (14)
Income tax (benefit) expense	**$ (3)**	$ 125	$ 96	$ 70	$ 127
Net income (loss)	**$ 30**	$ (67)	$ 125	$ (214)	$ 367
Net income (loss) per common share					
Basic	**$ 0.25**	$ (0.53)	$ 0.96	$ (1.53)	$ 2.36
Diluted	**$ 0.25**	$ (0.53)	$ 0.95	$ (1.53)	$ 2.33

	At December 31				
	2018	2017	2016	2015	2014
Total assets	**$2,360**	$2,556	$ 2,413	$ 2,527	$ 3,132
Debt and capital leases, including current portion	**$ 547**	$ 780	$ 570	$ 780	$ 468
Total stockholders' equity	**$ 495**	$ 668	$ 971	$ 849	$ 1,707
Number of employees	**10,152**	10,615	10,093	11,300	11,500

[1] Includes, $43 million ($31 million after-tax) for integration and transformation activities, including the Dayton office closure, $6 million ($6 million after-tax) for amortization of acquired intangible assets, $3 million ($3 million after-tax) for legal fees associated with the lawsuit that we initiated in the second quarter of 2018, and $4 million tax benefit for SAB 118 adjustments related to tax reform.

[2] Includes $35 million ($22 million after-tax) for acquisition-related transaction, integration and reorganization expenses, $8 million ($6 million after-tax) for amortization of acquired intangible assets, $6 million tax impact related to a reversal of TMA uncertain tax positions, and a $126 million tax impact related to 2017 U.S. Tax Reform.

[3] Includes 65 million ($41 million after-tax) for acquisition-related transaction, integration and reorganization costs and expenses, $9 million ($6 million after-tax) for amortization of acquired intangible assets, $76 million ($70 million after-tax) for impairment of goodwill and acquired intangibles, $4 million ($3 million after-tax) for impairment of other assets, and $8 million of additional tax expense from a change in U.S. tax law.

[4] Includes $31 million ($20 million after-tax) for acquisition-related transaction, integration and reorganization costs and expenses, $39 million ($25 million after-tax) for amortization of acquired intangible assets, $478 million ($457 million after-tax) for impairment of goodwill and acquired intangibles, offset by $57 million ($35 million after-tax) gain on equity investments.

[5] Includes $22 million ($14 million after-tax) for acquisition-related transaction, integration and reorganization costs and expenses, $47 million ($31 million after-tax) for amortization of acquired intangible assets, and $8 million ($6 million after-tax) for expenses related to a net loss on equity investments.

CORPORATE INFORMATION

Annual Meeting of Stockholders

Stockholders are invited to attend Teradata's Annual Meeting of Stockholders at 8 a.m. on Tuesday, April 30, 2019, to be held at:

Rancho Valencia
5921 Valencia Circle
Rancho Santa Fe, CA 92067

Stockholder Account Inquiries

Information regarding "registered" stockholder accounts is available from Teradata's stock transfer agent, Computershare Shareholder Services, at https://www-us.computershare.com/investor or by contacting:

Teradata Corporation
c/o Computershare Shareholder Services
P.O. Box 505000
Louisville, KY 40233

e-mail: web.queries@computershare.com

Phone: 888-730-8825 (U.S.)
781-575-4592 (International)

TDD for the hearing impaired:
800-952-9245 (U.S.)
781-575-4592 (International)

Company Information

Information regarding 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 accessed at www.teradata.com/investor, or obtained without charge by contacting:

Teradata Investor Relations
17095 Via Del Campo
San Diego, CA 92127
Phone: 858-485-2088
e-mail: investor.relations@teradata.com

CEO and CFO Certifications

In 2018, 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 2018 periodic reports.

Board of Directors

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Teradata Corporation

Lisa R. Bacus
Executive Vice President and
Chief Marketing Officer
Cigna Corporation

Timothy C.K. Chou
Former President
Oracle on Demand, a division of
Oracle Corporation

Daniel R. Fishback
Former President and
Chief Executive Officer
DemandTec, Inc.

Cary T. Fu
Co-Founder and
Retired Chairman and
Chief Executive Officer
Benchmark Electronics, Inc.

Michael P. Gianoni
Lead Director
Teradata Corporation
President and
Chief Executive Officer
Blackbaud, Inc.

David E. Kepler
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Chief Sustainability Officer, and
Chief Information Officer
The Dow Chemical Company

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Visier Inc.

William S. Stavropoulos
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President and
Chief Executive Officer

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Chief Marketing Officer

Daniel L. Harrington
Chief Services Officer

Laura K. Nyquist
General Counsel and
Chief Human Resources Officer

Reema Poddar
Chief Product Officer

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