UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

Commission File Number 001-00395

NCR CORPORATION
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**31-0387920** (I.R.S. Employer Identification No.)
1700 South Patterson Blvd. **Dayton, Ohio** (Address of principal executive offices)	**45479** (Zip Code)

Registrant's telephone number, including area code: (937) 445-5000

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. YES ☐ NO ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2005, was approximately $6.6 billion. At January 31, 2006, there were approximately 182 million shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the registrant's Proxy Statement, dated March 10, 2006, issued in connection with the 2006 annual meeting of stockholders.

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This Report contains trademarks, service marks, and registered marks of NCR Corporation and its subsidiaries, and other companies, as indicated.

PART I

Item 1. BUSINESS

General

NCR Corporation and its subsidiaries (NCR or the Company, also referred to as “we”, “us” or “our”) provide technology and services that help businesses interact, connect and relate with their customers.

Businesses

Data Warehousing solutions transform data into information, permitting businesses to respond with programs designed to improve business operations, customer acquisition, retention and profitability. By utilizing the Company’s automated-teller machines (ATMs), retail point-of-sale (POS) workstations and self-check-in/out systems, companies can capture and process transaction-based information. Services are an essential component of each of NCR’s offerings, and the Customer Services Division provides support services to purchasers of NCR products.

Industries Served

NCR provides specific solutions for the retail and financial industries, and through the Teradata® Data Warehousing and Customer Services businesses, the Company provides solutions for additional industries such as telecommunications, transportation, insurance, healthcare and consumer goods manufacturers, as well as governmental entities. NCR’s solutions are built on a foundation of long-established industry knowledge and consulting expertise, value-adding software and hardware technology, global customer support services, and a complete line of business consumables and specialty media products.

Company History

NCR was originally incorporated in 1884 and was a publicly traded company on the New York Stock Exchange prior to its merger with a wholly-owned subsidiary of AT&T Corp. (“AT&T”) on September 19, 1991. Subsequently on December 31, 1996, AT&T distributed all of its interest in NCR to its stockholders (the “Distribution”). NCR common stock is listed on the New York Stock Exchange and trades under the symbol “NCR.”

Operating Segments

NCR operates in the information technology industry and categorizes its operations into six reportable segments: Data Warehousing, Financial Self Service (which includes the Company’s ATM business), Retail Store Automation, Customer Services, Systemedia, and Payment & Imaging and Other, each of which is described below. Each segment generally combines hardware, software, and professional and installation-related services.

Revenue by similar classes of products and services is reported by segment in Item 8 of Part II of this Form 10-K report as part of Note 12 of Notes to Consolidated Financial Statements, “Segment Information and Concentrations,” and is incorporated herein by reference.

Geographic information is reported in Item 8 of Part II of this Form 10-K report as part of Note 12 of Notes to Consolidated Financial Statements, “Segment Information and Concentrations,” and is incorporated herein by reference.

Data Warehousing Segment

Products and Services

Under the Teradata brand name, NCR provides data warehousing solutions for customers worldwide that combine software, including the Teradata database and tools, data mining and analytical applications; hardware; and consulting and support services. These solutions can also include third-party products and services from leading technology and service partners.

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

Our data warehousing technologies provide a high level of performance, scalability, availability, and manageability for strategic and operational analytic requirements. Our professional service consultants combine a patent-pending methodology, deep industry expertise and years of hands-on experience to help clients quickly capture business value while minimizing risk.

Our customer services professionals provide a single source of support services to allow customers to maximize use and fully leverage the value of their investments in data warehousing.

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

Target Markets and Distribution Channels

Our Teradata Division offers data warehousing solutions to many major industries, including retail, financial services, telecommunications, travel, transportation, logistics, insurance, manufacturing, healthcare and government entities.

The Teradata business delivers its solutions through mostly direct sales channels, as well as alliances with system integrators, other independent software vendors, value-added resellers, distributors and original equipment manufacturers.

Competition

Our Teradata Division successfully competes with International Business Machines (IBM) Corporation and Oracle Corporation in the geographic areas where we sell. Key factors used to evaluate competitors in these markets are: data warehousing experience and customer references; technology leadership; product quality; performance and scalability; support and professional service capabilities; industry knowledge; and total cost of ownership. Teradata is one of only a few businesses that can provide complete, integrated and optimized data warehousing solutions that address all of these customer requirements.

Financial Self Service Segment

Products and Services

Our Financial Self Service business provides financial institutions, retailers and independent deployers with financial-oriented self service technologies, such as ATMs, cash dispensers, and software solutions, including the APTRA™ application suite. Financial Self Service solutions are designed to quickly and reliably process consumer transactions and incorporate advanced features such as automated check cashing/deposit, automated cash deposit, web-enablement, bill payment and the dispensing of non-cash items. Financial Self Service solutions enable businesses to reduce costs and generate new revenue streams while enhancing customer loyalty.

Target Markets and Distribution Channels

NCR's Financial Self Service solutions primarily serve the financial services industry with particular focus on retail banking, which includes traditional providers of consumer banking and financial services. Financial Self Service solutions also serve the retail markets through convenience banking products for retailers designed to complement their core businesses. Customers are located throughout the world in both established and emerging markets. NCR has historically sold most of its Financial Self Service products and services through a direct sales channel, although a certain portion of revenues is derived through distributors. About 80% of product and service sales in recent years were made by the direct sales force; the remainder is sold through indirect channels.

Competition

Our Financial Self Service business competes with Diebold, Inc. and Wincor Nixdorf GmbH & Co. ("Wincor") in markets where it operates. The primary factors of competition can vary, but typically include: value and quality of the solutions or products; total cost of ownership; industry knowledge of the vendor; the vendor's ability to provide and support a total end-to-end solution; the vendor's ability to integrate new and existing systems; the fit of the vendor's strategic vision with the customer's strategic direction; and the quality of the vendor's support and consulting services.

Retail Store Automation Segment

Products and Services

Retail Store Automation provides retail-oriented technologies such as POS terminals, self-check-in/out systems, self-service kiosks, bar-code scanners, software and services to companies worldwide. Combining our retail industry expertise, software and hardware technologies, and implementation and store performance consulting services, our Retail Store Automation solutions are designed to enable cost reductions and improve retailer operational efficiency while increasing satisfaction of the retailer's customers.

Target Markets and Distribution Channels

NCR delivers Retail Store Automation solutions for the general merchandise, food and drug, and hospitality segments. The general merchandise segment includes department stores, specialty retailers, mass merchandisers and catalog stores. The food and drug segment includes supermarkets, hypermarkets, grocery, drug, wholesalers and convenience stores. The hospitality segment includes fast food/quick service/table service, other restaurants and lodging. About 90% of NCR's Retail Store Automation solutions are sold through a direct sales force, with the remainder sold through alliances with value-added resellers, distributors and dealers. With the 2004 acquisition of Kinetics Inc. and the 2005 acquisitions of both InfoAmerica and Galvanon, NCR has expanded its offering to include self-ticketing and self-check-in/out systems for the travel industry, including airlines and hotels, self-service food/deli ordering and patient management check-in/out in the healthcare sector.

Competition

NCR faces strong competition in the retail industry in all geographic areas where it operates around the world. The Company believes that key competitive factors can vary by geographic area but typically include; value and quality of the solutions or products; total cost of ownership; industry knowledge of the vendor; and knowledge, experience and quality of the vendor's consulting, deployment and support services. NCR's competitors vary by market segment, product, service offering and geographic area, and include IBM, Wincor, Fujitsu, Hewlett-Packard, Dell, Metrologic and PSC Inc., among others.

Customer Services

Services

Customer Services are an essential and integrated component of NCR's complete solution offerings. The Customer Services Division provides maintenance and support services for NCR's Financial Self Service, Retail Store Automation and Payment & Imaging businesses, as well as select third-party companies. Our Customer Services operating segment provides other services including site assessment and preparation, staging and implementation, and complete systems management. The Customer Services operating segment also includes the resale and service of third-party computer hardware from select manufacturers such as Cisco Systems, Dell and others who value and leverage NCR's global service capability. However, NCR's strategy is to focus on maintenance and support of NCR-branded products in order to capture higher margin services and significantly reduce redundant costs associated with supporting/servicing multiple third-party products.

Target Markets and Distribution Channels

The focus of our Customer Services business is to provide service for other NCR solutions. However, Customer Services is also pursuing managed service relationships with its key customers. Longer term managed service arrangements serve to improve the efficiency and performance of the customer's business, and increase the strategic and financial importance of its relationship with NCR. We also can and do provide services on competing technologies used in these segments – for example, IBM retail technologies and Diebold ATMs. The primary sales channel for Customer Services is NCR's direct sales teams, which exist in all NCR operating segments. Our Customer Services team provides these services directly to end customers.

Competition

NCR faces competition for customer services from other technology providers, as well as from service-only firms, in all geographies where it operates around the world. The primary Customer Service competitors are the companies identified in NCR's other solutions. Global technology providers are becoming more focused on services as a core business strategy. NCR also competes with a range of smaller regional and local service companies that differ by geography.

Systemedia

Products

Systemedia develops, produces and markets a complete line of printer consumables for all print technologies. Systemedia products include paper rolls for ATMs and POS workstations, inkjet and laser printer supplies, thermal transfer ribbons, labels, ink ribbons, laser documents, business forms, and specialty media items such as photo papers and presentation papers. Systemedia's newest product line includes radio frequency identification (RFID) labels and tags. Systemedia products are designed to reduce paper-related failures and enable businesses to improve transaction accuracy while reducing overall costs.

Target Markets and Distribution Channels

The major industry segments targeted by Systemedia include general merchandise, food and drug, hospitality, financial services and consumer goods manufacturing. Systemedia's direct sales force focuses on providing solutions to major accounts in 26 countries. In addition, Systemedia products are sold through various channel partners including office product retailers, contract stationers, value-added resellers, as well as through telemarketing and the internet.

Competition

Competition in the consumable and media solutions business is significant and varies by geographic area and product group. The primary areas of competitive differentiation are typically quality, logistics and supply chain management expertise, and total cost of ownership. While price is always a factor, Systemedia focuses on total cost of ownership for all of its products.

Total cost of ownership takes into account not only the per-unit cost of the media, but also service, usage and support costs over the life of the system.

Payment & Imaging and Other Segment

Products and Services

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

"Other" business activity included in this segment primarily relates to a small business in Japan.

Target Markets and Distribution Channels

NCR's Payment and Imaging solutions primarily serve the financial services industry worldwide with a major focus on banks. NCR has historically distributed most of its Payment and Imaging products and services through a direct sales channel, although certain revenues are derived through sales by value-added resellers and distributors. Approximately 80% of the traditional Payment and Imaging product sales in recent years were sold by our direct sales force; the remainder was sold through indirect channels.

Competition

NCR faces competition in the financial services industry in all geographic areas where it operates. The primary areas of competition can vary, but typically include: quality of the solutions or products; total cost of ownership; industry knowledge; the vendor's ability to provide and support a total end-to-end solution; the vendor's ability to integrate new and existing systems; the fit of the vendor's strategic vision with the customer's strategic direction; and the quality of the vendor's support and consulting services. NCR's competitors vary by product, service offering and geographic area, and include IBM and Unisys Corporation, among others.

Research and Development

We remain focused on designing and developing products, services and solutions that anticipate our customers' changing technological needs. Expenditures for research and development were $245 million in 2005, $242 million in 2004 and $233 million in 2003. We anticipate that we will continue to have significant research and development expenditures in the future to provide a continuing flow of innovative, high-quality products and services to maintain and enhance our competitive position. Information regarding the accounting and costs included in research and development activities is included in Note 1 of the Notes to Consolidated Financial Statements of this Form 10-K report and is incorporated herein by reference.

Seasonality

Information regarding seasonality is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K report under the caption "Operating Result Fluctuations," and is incorporated herein by reference.

Sources and Availability of Raw Materials

Information regarding sources and availability of raw materials is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Report under the caption "Reliance on Third Parties," and is incorporated herein by reference.

Patents and Trademarks

NCR owns approximately 1,600 patents in the United States and a significant number in foreign countries. The foreign patents are generally counterparts of NCR's U.S. patents. Many of the patents owned by NCR are licensed to others and NCR is licensed to use certain patents owned by others. While NCR's portfolio of patents and patent applications in aggregate is of significant value to NCR, the Company does not believe that any particular individual patent is itself of material importance to NCR's business as a whole.

NCR has registered certain trademarks and service marks in the United States and in a number of foreign countries. NCR considers the marks "NCR", "Teradata", and many of its other trademarks and service marks to be valuable assets.

Employees

On December 31, 2005, NCR had approximately 28,200 employees and contractors.

Information

NCR makes available through its website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and all amendments to such reports, as soon as reasonably practicable after these reports are electronically filed or furnished to the U.S. Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. NCR will furnish, without charge to a security holder upon written request, the Notice of Meeting and Proxy Statement for the 2006 Annual Meeting of Stockholders (the 2006 Proxy Statement), portions of which are incorporated herein by reference. NCR will furnish the Code of Conduct and any other exhibit at cost. Document requests are available by calling or writing to:

NCR - Investor Relations
1700 S. Patterson Boulevard
Dayton, OH 45479
Phone: 937-445-5905
E-Mail: investor.relations@ncr.com
Website: http://investor.ncr.com

Environmental Matters

Information regarding environmental matters is reported in Item 8 of Part II of this Form 10-K report as part of Note 11 of Notes to Consolidated Financial Statements, "Commitments and Contingencies," and is incorporated herein by reference.

Item 1A. RISK FACTORS

Information regarding risk factors is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Report under the caption "Factors That May Affect Future Results," and is incorporated herein by reference.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of January 1, 2006, NCR operated 292 facilities consisting of approximately 8.4 million square feet throughout the world. On a square footage basis, 60% of these facilities are owned and 40% are leased. Within the total facility portfolio, NCR operates 28 research and development and manufacturing facilities totaling 3 million square feet, 73% of which is owned. The remaining 5.4 million square feet of space includes office, repair, warehouse and other miscellaneous sites, and is 53% owned. NCR maintains facilities in 62 countries. NCR believes its plants and facilities are suitable and adequate, and have sufficient production capacity to meet its current needs.

NCR and certain operating divisions (Teradata Data Warehousing, Financial Self Service, Payment & Imaging and Other, Systemedia and Customer Services) are headquartered in Dayton, Ohio. The Retail Store Automation operating division is headquartered in Atlanta, Georgia.

Item 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is included in Item 8 of Part II of this Form 10-K report as part of Note 11 of the Notes to Consolidated Financial Statements, "Commitments and Contingencies," and is incorporated herein by reference.

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

None.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NCR common stock is listed on the New York Stock Exchange and trades under the symbol "NCR." There were approximately 328,000 holders of NCR common stock as of February 13, 2006. The following table presents the high and low per share prices for NCR common stock for each quarter of 2005 and 2004. These stock prices are adjusted for a two-for-one stock split that became effective on January 21, 2005.

	2005			2004	
	High	Low		High	Low
1st Quarter	$39.84	$31.25	1st Quarter	$23.06	$19.36
2nd Quarter	$38.11	$32.37	2nd Quarter	$25.00	$22.00
3rd Quarter	$36.81	$29.42	3rd Quarter	$26.29	$21.01
4th Quarter	$35.13	$29.09	4th Quarter	$35.50	$24.19

Although NCR has historically not paid cash dividends and does not anticipate the payment of cash dividends on NCR common stock in the foreseeable future, the declaration of dividends would be subject to the discretion of NCR's Board of Directors. Payment of dividends on NCR common stock would also be subject to such limitations as may be imposed by NCR's credit facilities from time to time.

Purchase of Company Common Stock During 2005, the Company purchased 12 million shares of its common stock at an average price per share of $34.43 under a 2000 Board of Directors share repurchase program and a 1999 Board of Directors share repurchase program. The 2000 Board of Directors share repurchase program authorized the Company to purchase NCR common stock to the extent of cash received from the exercise of stock options and the NCR Employee Stock Purchase Plan (ESPP).

On October 26, 2005, the Board of Directors authorized the repurchase of an additional $500 million of the Company's outstanding shares of common stock. This authorization extends the Board's previous authorization under this stock repurchase program given in 1999. As of December 31, 2005 the Company had a total remaining authorization of $477 million to repurchase outstanding shares of NCR common stock.

In addition to those share purchases, the Company occasionally purchases vested restricted stock shares from Section 16 officers to cover withholding taxes. For 2005, the total of these purchases were 10,155 shares at an average price of $37.16 per share.

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The following table provides information relating to the Company's repurchase of common stock for the year ending December 31, 2005:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced 2000 Board Authorized Dilution Offset Program	Total Number of Shares Purchased as Part of Publicly Announced 1999 Board Authorized Program	Maximum Dollar Value of Shares that May Yet be Purchased Under the 1999 Program
First quarter total	**3,250,000**	**$ 36.93**	**1,375,000**	**1,875,000**	**$ 184,815,295**
Second quarter total	**2,773,500**	**$ 35.42**	**1,473,500**	**1,300,000**	**$ 137,575,737**
Third quarter total	**2,976,500**	**$ 34.12**	**524,800**	**2,451,700**	**$ 54,176,345**
October 1 through October 31, 2005	200,000	$ 30.28	—	200,000	
November 1 through November 30, 2005	2,350,000	$ 30.55	300,000	2,050,000	
December 1 through December 31, 2005	500,000	$ 34.45	250,000	250,000	
Fourth quarter total	**3,050,000**	**$ 31.17**	**550,000**	**2,500,000**	**$ 477,036,863**
Year to date total	**12,050,000**	**$ 34.43**	**3,923,300**	**8,126,700**	**$ 477,036,863**

Shares and share prices reflect the impact of a two-for-one stock split effective on January 21, 2005.

In addition, subsequent to the Company's customary blackout period surrounding the release of earnings, from January 30, 2006 through March 9, 2006, the Company repurchased approximately 2.2 million shares for approximately $86 million.

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Item 6. NCR CORPORATION SELECTED FINANCIAL DATA

In millions, except per share and employee and contractor amounts

For the year ended December 31	2005[1]	2004[2]	2003[3]	2002[4]	2001[5]
Revenue	**$ 6,028**	$ 5,984	$ 5,598	$ 5,585	$ 5,917
Income from operations	**$ 410**	$ 233	$ 130	$ 189	$ 186
Other expense (income), net	**$ 14**	$ (18)	$ 58	$ 58	$ 62
Income tax (benefit) expense	**$ (133)**	$ (39)	$ 14	$ 3	$ (97)
Net income (loss)	**$ 529**	$ 290	$ 58	$ (220)	$ 217
Net income (loss) per common share					
Basic	**$ 2.86**	$ 1.55	$ 0.31	$ (1.13)	$ 1.12
Diluted	**$ 2.80**	$ 1.51	$ 0.30	$ (1.10)	$ 1.09

At December 31					
Total assets	**$ 5,287**	$ 5,554	$ 5,197	$ 4,672	$ 4,855
Debt	**$ 307**	$ 309	$ 310	$ 311	$ 148
Stockholders’ equity	**$ 2,035**	$ 2,086	$ 1,875	$ 1,325	$ 2,027
Cash dividends	**—**	—	—	—	—
Number of employees and contractors	**28,200**	28,500	29,000	30,100	31,400

1 Income from operations for 2005 includes $19 million of pension expense associated with an early-retirement program and $7 million from reductions of accruals made in previous periods for purchased goods and services. Other income for 2005 includes $13 million of net gains from the sale of real estate, a $6 million contribution for multi-year funding of NCR’s charitable foundation, and a $10 million write-down of an equity investment in Germany. The Company also realized income tax benefits totaling $214 million from the favorable settlement of prior year tax audits and $9 million of benefits from an adjustment to the Company’s tax accounts in the United Kingdom.

2 Income from operations for 2004 includes $5 million of cost associated with the exiting of real estate facilities. Other income for 2004 includes $17 million of real estate gains, $3 million for an acquisition break-up fee, $4 million for recovery of a non-trade receivable that was previously fully reserved, and a $9 million release of a reserve previously established for the Company’s anticipated exit of certain countries in the Middle East and Africa Region. The Company also realized an $85 million income tax benefit resulting from the favorable settlement of tax audit issues relating to the period when NCR was a subsidiary of AT&T.

3 Other expense for 2003 includes $37 million for a charge associated with the Fox River environmental matter and $6 million reversal of a charge related to the Lucent indemnification claim recorded in 2002.

4 Income from operations for 2002 includes real estate consolidation and restructuring charges of $16 million and asset impairment charges of $5 million. Net income also includes a $348 million net-of-tax cumulative effect of accounting change charge for goodwill impairment relating to the adoption of Statement of Financial Accounting Standards No. 142, and the after-tax impacts of real estate consolidation impairment charges of $8 million, marketable securities write-down to fair value in Japan of $14 million, a charge of $9 million for a Lucent indemnification claim, and an income tax benefit of $35 million relating to tax refunds and use of foreign tax credits.

5 Income from operations for 2001 includes a $39 million provision for loans and receivables related to Credit Card Center, $9 million of integration costs related to acquisitions and $67 million of goodwill amortization. Net income for 2001 also includes the after-tax impacts of $40 million for a charge associated with the Fox River environmental matter, a $138 million tax benefit from the resolution of international income tax issues and a $4 million cumulative effect of adopting Statement of Financial Accounting Standards No. 133.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

BUSINESS OVERVIEW

NCR Corporation is a leading global technology company that provides innovative products and services to help businesses build stronger relationships with their customers. Our market-leading Teradata Data Warehousing solutions transform data into an integrated view of a company's business, allowing users to develop programs designed to lower their information technology-related costs; improve customer acquisition, retention and profitability; and to streamline their supply chain and business operations. Through our presence at customer interaction points, such as automated teller machines (ATMs), retail point-of-sale (POS) workstations, and self-check-in/out systems, our Financial Self Service and Retail Store Automation solutions enable companies to address consumer demand for convenience, value and individual service. Our Customer Services Division provides support services for NCR's solutions as well as select third-party products.

We provide solutions for the retail and financial industries through our Financial Self Service (which includes our ATM business) and Retail Store Automation businesses. Our Teradata Data Warehousing and Customer Services businesses also provide solutions for these industries as well as telecommunications, transportation, insurance, healthcare, manufacturing and governmental entities. We deliver our solutions to customers on a global basis, and categorize our results into four regions: the Americas, Europe/Middle East/Africa (EMEA), Japan and Asia/Pacific. Our solutions are based on a foundation of long-established industry knowledge and consulting expertise, value-added software, hardware technology, global customer support services, and a complete line of business consumables and specialty media products.

NCR's reputation has been built upon more than 120 years of providing quality products, services and solutions to our customers. At the heart of our customer and other business relationships is a commitment to acting responsibly, ethically and with the highest level of integrity. This commitment is reflected in NCR's Code of Conduct, available on the corporate governance page of our website.

2005 FINANCIAL OVERVIEW

As more fully discussed in later sections of this MD&A, the following were the significant themes and events for 2005:

- Year-over-year revenue growth in Data Warehousing and an increasing percentage of self-service revenue in our Retail Store Automation business were largely offset by an anticipated decline in Customer Services revenue as the company is reducing lower-margin services contracts associated with some third-party products.
- NCR's improved cost structure and more favorable mix of revenue enabled operating margin improvement on very limited revenue growth.
- Cash provided by operating activities notably improved year-over-year.

In 2005, we established three key value drivers in order to improve and measure our overall success. These drivers and our results against them were as follows:

1) <u>Driving revenue growth in our key product segments</u> – On a combined basis, our product segments, consisting of our Teradata Data Warehousing, Financial Self Service (ATMs) and Retail Store Automation systems, experienced revenue growth in 2005 compared to 2004. The increase was primarily driven by our Data Warehousing segment, which increased 9% from 2004. Financial Self Service was up 1% whereas Retail Store Automation was down 1%.

2) <u>Improving the profitability of our Customer Services operating segment</u> – We are driving operational and financial improvement by lowering our service delivery costs, improving the percentage of NCR ATMs and POS equipment that is serviced by NCR, and increasing our focus on the linkage between product engineering and product serviceability. The structural changes to reduce costs and the increasing focus on maintenance of NCR-branded products, as along with the improved performance related to third-party products, enabled operating income to improve by $107 million year-over-year.

3) <u>Continuing to reduce spending to achieve optimum operating performance</u> – We have continued to make progress in reducing our infrastructure cost in 2005. We are firmly on track to deliver $350 million of annualized cost savings through 2006, using 2002 as a starting point. The next phase of our cost reduction actions will target cost of goods sold such as manufacturing costs, supply chain efficiencies, and process improvements, such as our order/invoice system. These improvements may be offset by other factors, such as increased investments and continued price erosion. Please refer to the "Restructuring and Re-engineering" section in this MD&A for further details on our cost reductions efforts.

STRATEGY OVERVIEW

Building on the value drivers established in 2005, our strategic initiatives to increase operating income and return maximum value to our stakeholders include:

1) Increased productivity / competitive cost structure – Our future vision is to deliver the right products in the right geographies at the right time and cost by utilizing state-of-the-art technologies and processes. The Company expects to focus on increasing the efficiency and effectiveness of our core functions and the productivity of our employees. Areas of emphasis are expected to include product development, supply chain, customer services delivery and our overall management system.

2) Profitable growth – We expect to continue to optimize our investments in demand creation to increase NCR's market coverage in areas with the greatest potential for profitable growth. We expect these investments to provide benefits in 2007 and beyond. We believe that NCR has growth opportunities in data warehousing, enterprise analytics and self-service technologies, such as self-check-in/out and other self-service solutions. We expect to continue to grow our businesses organically as well as through targeted acquisitions and strategic partnerships.

3) High-performance culture – To achieve a higher level of performance and growth, the Company expects to work in close collaboration with our customers to more efficiently address and anticipate their needs, allowing us to effectively innovate our products, solutions and processes to meet ever-changing market demands and customer requirements.

FUTURE TRENDS

We are projecting that the capital spending environment in 2006 will be about the same as what was experienced in 2005, and are forecasting NCR's 2006 revenue to be roughly the same as was generated in 2005, including an expected 1-2% of negative impact from foreign currency fluctuations. We expect our 2006 operating income to increase due to a more favorable mix of revenue as higher margin data warehousing and self-service technologies increase as a percent of the total. In addition, we expect the continued reduction of our infrastructure costs and the restructuring of our Customer Services business to positively impact operating income.

We see the following as the most significant risks to the execution of our initiatives:

- Global capital spending environment
- Competition and loss of market share
- Executing our Customer Services transformation process
- Impact of pension expense
- Price erosion

Further discussion on our risk factors is included under "Factors That May Affect Future Results" of this MD&A.

RESULTS FROM OPERATIONS

In millions	2005	2004	2003
Consolidated revenue	**$6,028**	$5,984	$5,598
Consolidated gross margin	**$1,731**	$1,616	$1,534
Consolidated operating expenses:			
Selling, general and administrative expenses	**1,076**	1,141	1,171
Research and development expenses	**245**	242	233
Total consolidated income from operations	**$ 410**	$ 233	$ 130

2005 compared to 2004 results discussion

Total revenue increased 1% from 2004, with little impact from year-over-year foreign currency fluctuations. Please refer to the "Revenue and Operating Income (Loss) by Segment" section in this MD&A for details regarding our segment results.

The following table presents data for revenue by region for the years ended December 31:

In millions	2005	% of Total	2004	% of Total	% Increase (Decrease)	% Increase (Decrease) Constant Currency*
Americas	$3,068	51%	$2,956	49%	4%	4%
Europe/Middle East/Africa (EMEA)	1,934	32%	1,933	32%	0%	0%
Japan	433	7%	457	8%	(5)%	(3)%
Asia/Pacific (excluding Japan)	593	10%	638	11%	(7)%	(10)%
Consolidated revenue	$6,028	100%	$5,984	100%	1%	1%

* Constant currency is used to depict GAAP revenue in local currency without the benefit or detriment occurring from currency fluctuations. Constant currency is calculated by restating 2004 results using 2005 monthly average currency rates.

The revenue growth in the Americas region was due to higher revenues in Data Warehousing and Financial Self Service. In our EMEA region, moderate growth in many of our businesses was offset by the expected decline in Customer Services. In Japan, growth from Data Warehousing and Payment & Imaging and Other was more than offset by declines in our other businesses. Finally, in our Asia/Pacific region, revenue declined in nearly all of our businesses. Financial Self Service revenue was significantly lower in this region as we continue to exercise price discipline in a very price-sensitive market. Trends in the Asia/Pacific region are difficult to anticipate due to the cyclical nature and size of transactions.

Income from operations increased due to a more favorable mix of revenue coming from Data Warehousing, lower cost and expense, and improved services margins. The lower cost and expense more than offset price erosion experienced across all of our major product offerings.

2004 compared to 2003 results discussion

NCR's revenue for 2004 was a 7% increase from 2003. Foreign currency fluctuations provided 4% of benefit to the year-over year comparison.

The following table presents data for revenue by region for the years ended December 31:

In millions	2004	% of Total	2003	% of Total	% Increase (Decrease)	% Increase (Decrease) Constant Currency*
Americas	$2,956	49%	$2,748	49%	8%	7%
Europe/Middle East/Africa (EMEA)	1,933	32%	1,793	32%	8%	(0)%
Japan	457	8%	460	8%	(1)%	(7)%
Asia/Pacific (excluding Japan)	638	11%	597	11%	7%	3%
Consolidated revenue	$5,984	100%	$5,598	100%	7%	3%

* Constant currency is used to depict GAAP revenue in local currency without the benefit or detriment occurring from currency fluctuations. Constant currency is calculated by restating 2003 results using 2004 monthly average currency rates.

In the Americas region, the revenue growth was attributable to strong volumes in our three major product segments of Financial Self Service, Data Warehousing and Retail Store Automation. The growth in our EMEA region was primarily due to changes in foreign currency rates and increased volumes in Financial Self Service, which was offset somewhat by declines in Payment & Imaging and Other. In Japan, a volume increase in Data Warehousing was more than offset by declines in nearly every other segment. In the Asia/Pacific region, foreign currency changes primarily drove the revenue increase. Certain segments, such as Financial Self Service, Retail Store Automation, Systemedia and Data Warehousing, grew beyond the currency impact in Asia/Pacific; however, this growth was offset by volume declines in other businesses.

Income from operations increased primarily due to a combination of higher volumes in our three main product businesses, benefits from foreign currency fluctuations, and lower cost and expense. The increase in income from operations more than offset the increase in pension and severance expense, the incremental costs associated with the requirements of the Sarbanes-Oxley Act of 2002, and cost associated with exiting real estate facilities.

Revenue and Operating Income (Loss) by Segment

Our key solutions are categorized as Data Warehousing, Financial Self Service, Retail Store Automation and Customer Services, each of which is a reportable operating segment. In addition, our smaller businesses are reported in the Systemedia and Payment & Imaging and Other segments. Our segments comprise hardware, software, and professional and installation-related services along with maintenance and support services in our Data Warehousing and Customer Services segments.

For purposes of discussing our operating results by segment, we exclude the impact of certain items from operating income or loss, consistent with the manner by which management views each segment and reports our operating segment results under Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by NCR management to make decisions regarding the segments and to assess our financial performance. The effects of pension expense, which was $150 million in 2005, $135 million in 2004, and $105 million in 2003, has been excluded from the operating income (loss) for each reporting segment presented and discussed below. Our segment results are reconciled to total Company results reported under accounting principles generally accepted in the United States of America (otherwise known as GAAP) in Note 12 of Notes to Consolidated Financial Statements.

In the segment discussions, we have disclosed the impact of foreign currency fluctuations on revenue growth. The Company's overall benefit from currency fluctuations was less than 1%. The Company benefited from currency fluctuations in our Asia/Pacific region by 3 percentage points. In Japan, the stronger U.S. Dollar resulted in a negative impact of 2%.

Data Warehousing provides the market-leading Teradata data warehousing database software, hardware platform, analytic solutions and related services that enable companies to gain a competitive advantage by more quickly and efficiently analyzing a single integrated view of customer, product, supply chain, financial and other business information and then delivering that business intelligence to the company's decision-makers. This segment's revenues are primarily generated in the enterprise data warehousing market, which is part of the larger database market.

Our main strategic initiative is to increase our market share in the enterprise data warehouse market and to increase our penetration in the overall data warehousing market. We plan to meet these goals by providing the technology, support and consulting services that companies need to capitalize on enterprise-wide analytics and maximize the usefulness of their existing data. We will continue to focus on customers that have large amounts and complex data to leverage, which would generate a continued need for enterprise analytics and consulting and potentially lead to future upgrades and expansion.

The following table presents Data Warehousing (including support services) revenue and operating income for the years ended December 31:

Data Warehousing **In millions**	**2005**	**2004**	**2003**
Revenue	**$1,480**	$1,361	$1,213
Operating income	**$ 309**	$ 223	$ 145
Operating income as a percent of revenue	**21%**	16%	12%

Data Warehousing revenue increased 9% in 2005 from 2004. Revenue increased due to strong demand for enterprise data warehousing. The strong growth is indicative of customers valuing the superior analytical capabilities of our Data Warehousing solutions and the return on investment they can provide. Foreign currency fluctuations provided less than 1% of benefit to the year-over-year revenue comparison. Operating income increased due primarily to higher volume and increased profitability from support services.

Data Warehousing revenue increased 12% in 2004 from 2003 due to an increase in both product sales and support services. Foreign currency fluctuations provided 4% of benefit to the year-over-year comparison. The increase in operating income from 2003 to 2004 reflects the increases in sales and support services. Consistent with our strategy, reductions in infrastructure costs allowed investment in sales and research and development initiatives.

While we have seen fluctuations in the information technology environment in the past, our outlook remains positive, as we expect to see continued growth in 2006 versus a very strong 2005. Our growth in support services and solution revenue should lead to higher 2006 operating income versus 2005 for this business. Our continued improvement in operating performance in 2006, should be somewhat offset by increased investment for future growth.

Financial Self Service provides ATM-related technologies including cash dispensers, services and software solutions to financial institutions, retailers and independent deployers. Our Financial Self Service solutions are designed to quickly and reliably process consumer transactions and incorporate advanced features such as the automation of cash and check deposits, bill payment, web-enablement and the dispensing of non-cash items.

The market demand for financial self-service products and services is expected to remain about the same in 2006. Our strategy is to fully distribute our sales force and invest in emerging markets such as China, India and Russia. Also, we believe we are well-positioned to take advantage of our market-leading deposit automation technology and software, which provide higher-value solutions. Additionally, we are making progress to create a competitive cost advantage for this business, optimizing our human and asset capital deployment in order to become a lower-cost supplier. This includes streamlining our supply chain and producing ATMs in the region generating the demand. Evidence of progress toward this goal is the opening of our new ATM assembly and distribution facility in Budapest, Hungary, which will help serve markets in Eastern Europe.

A significant event in the financial services marketplace is the Check Clearing for the 21st Century Act, or "Check 21," which took effect in October 2004. The act is intended to improve the efficiency of the U.S. Federal Reserve's current paper-based clearing and settlement system through expedited funds availability and reduced risk associated with paper movement. The Financial Self Service business should realize benefits from this legislative change over the next several years. Financial institutions in the United States are rebuilding their infrastructure in order to clear and process checks electronically. As soon as they have these systems ready, NCR expects these financial institutions to upgrade their ATMs in order to allow checks to be digitally scanned upon deposit at the ATM so that they can eliminate the costly and slow process of clearing the paper form of the check.

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

Financial Self Service (ATMs) **In millions**	**2005**	**2004**	**2003**
Revenue	**$1,390**	$1,370	$1,149
Operating income	**$ 212**	$ 222	$ 165
Operating income as a percent of revenue	**15%**	16%	14%

Revenue for Financial Self Service increased 1% in 2005 from 2004. Foreign currency fluctuations provided less than 1% of benefit to the year-over-year revenue comparison. The increase in revenue was the result of strong growth in the Americas as financial institutions in the United States continued to upgrade their ATMs to comply with regulatory changes, which was partially offset by lower revenue in Asia/Pacific due to the adverse timing of transactions and an aggressive pricing environment. Operating income was lower in 2005 compared to 2004, as cost and expense reductions were not enough to offset competitive pricing pressure.

Revenue for Financial Self Service grew 19% in 2004 from 2003. The increase was the result of growth in all regions. In the Americas region, we benefited from financial institutions in the United States upgrading their ATM networks for regulatory changes. Growth in the EMEA region was reflective of banks upgrading their ATMs for the automation of cash deposits, as well as expansion of ATM networks in Eastern Europe. Growth in the Asia/Pacific region was broad-based with meaningful growth in several countries. Foreign currency fluctuations provided a benefit of 5% to the year-over-year revenue comparison. Operating income improved due to increased volume, the favorable movement of foreign currency, and expense reductions, which offset the effects of price erosion.

In 2006, we expect revenue for Financial Self Service to be roughly the same as in 2005. To maintain the profitability of this business, we are focused on properly selling the value of our technology and will continue to reduce our costs by improving the efficiency of our supply chain and leveraging the synergies of our global manufacturing locations. We expect operating income as a percent of revenue to be roughly in line with the previous year, assuming no change in the pricing environment.

Retail Store Automation provides retail-oriented technologies such as POS terminals, bar-code scanners and software, as well as innovative products such as our self-checkout systems and self-service kiosks, to companies worldwide. Combining our retail industry expertise, software and hardware technologies, and implementation and store performance consulting services, our Retail Store Automation solutions are designed to enable cost reductions and improve operational efficiency for companies while increasing the satisfaction of their customers. NCR provides a highly competitive product offering for retailers in an increasingly commoditized market.

In 2005, the Retail Store Automation business continued to make improvements in lowering its cost structure, and will continue to focus on additional improvements in its operating model in 2006. Part of our longer-term strategy, in addition to lowering our cost structure, includes making investments in new technologies that are projected to increase efficiencies for retailers, such as self-service technologies and radio frequency identification (RFID) systems.

The following table presents Retail Store Automation revenue and operating income for the years ended December 31:

Retail Store Automation In millions	2005	2004	2003
Revenue	**$853**	$864	$797
Operating income	**$ 31**	$ 26	$—
Operating income as a percent of revenue	**4%**	3%	0%

Retail Store Automation revenue was down 1% compared to 2004. Foreign currency fluctuations provided less than 1% of negative impact to the year-over-year revenue comparison. Despite a challenging market, revenues for self-service technologies increased year-over-year, nearly offsetting a decline in revenue from traditional POS terminals. In 2005, approximately 20% of revenue was from self-service technologies, which was partially aided by acquisitions. The increase in operating income in 2005 from 2004 was largely due to cost and expense reductions and a favorable mix of products sold.

In 2004, Retail Store Automation revenue grew 8% compared to 2003. The 2004 revenue growth was attributable to higher POS terminal and bar-code scanner volumes, software and professional services, as well as three percentage points of benefit from foreign currency rate changes. The operating income improvement of $26 million from 2003 to 2004 was the result of higher volumes mentioned above, cost and expense reductions, and favorable foreign currency fluctuations.

We expect higher 2006 revenue for Retail Store Automation solutions due to increasing demand for self-service technologies along with expansion of software and services. We expect about a third of our revenue to come from self-service technologies by 2007. Due to increased revenue anticipated from self-service technologies and our continuing actions to reduce cost and expense in this business, we expect operating income to improve in 2006.

Customer Services are an essential component of our complete solution offerings. NCR's Customer Services Division provides maintenance and support services for NCR's products as well as some third-party products. Maintenance and support services include site design, staging and implementation, and complete systems management.

We believe that customers value the integration of maintenance and support services with the hardware and software they purchase. However, heavy competition in the services industry and anticipated revenue declines from businesses we have exited in prior years has led to lower revenues in our Customer Services business over the past few years. The exited businesses relate to higher-margin maintenance contracts associated with bank branch automation, account processing and low-end server hardware we stopped selling several years ago. We have taken steps to reverse the trend of declining profitability through cost management, such as the realignment of call centers we operate, and through operational efficiencies, such as implementing a call-dispatching and productivity tool.

We have developed a long-term services transformation process designed to deliver the operating margins we expect from this business. For 2006, we will continue to pursue the following operational goals that were set in 2005:

- Drive profitable growth related to NCR-branded products. We will continue to support third-party products when doing so aligns with our strategic and financial objectives.
- Increase the linkage between product engineering and the serviceability of our products (e.g., ATMs, POS systems).
- Further reduce infrastructure and service delivery costs.
- Build diagnostics into our products to improve the remote diagnostics and serviceability of our products.
- Ensure that NCR intellectual property (IP) rights are not violated by third-parties.

We believe we can be more competitive in the marketplace by concentrating on servicing NCR products rather than on incremental services from third-party products. By proactively designing products for more efficient serviceability, time spent on service incidents will be reduced. This will help us achieve a lower cost structure by shifting our service model to diagnose incidents remotely and dispatch personnel through a global operating model that takes advantage of personnel and incident location synergies. Also, we will continue to evaluate the number of customer call centers we maintain and modify their operations to enhance our remote diagnostic capabilities. We believe these changes will lead to increased customer satisfaction through faster service, while reducing our service delivery costs.

Unauthorized use of NCR intellectual property allows third-party service providers a “free ride” on NCR’s investment in research and development, giving them an unfair price advantage. NCR’s actions to enforce its IP rights and require that third parties properly license diagnostic software are intended to eliminate this free ride. Additionally, NCR continues to monitor and enforce its parts sales agreements to ensure that purchasers comply with program requirements and use parts for their intended purpose. Together, these activities help eliminate unfair cost advantages to third-party service providers and generate an appropriate return on NCR’s investment for development of its services intellectual property.

The following table presents Customer Services revenue and operating income (loss) for the years ended December 31:

Customer Services **In millions**	**2005**	**2004**	**2003**
Revenue	**$1,825**	$1,913	$1,963
Operating income (loss)	**$ 50**	$ (57)	$ (39)
Operating income (loss) as a percent of revenue	**3%**	-3%	-2%

Customer Services revenue decreased 5% in 2005 compared to 2004. Foreign currency fluctuations provided less than 1% of benefit to the year-over-year revenue comparison. In line with our strategy to improve our revenue mix, revenue was down as we continue to reduce our focus on third-party maintenance business. Partially offsetting this decline was 3% growth in maintenance revenue of NCR-branded products. This strategic shift and structural changes being made in the Customer Services business to optimize the efficiency of resources, mentioned earlier in this section, enabled operating income to significantly improve in 2005 compared to 2004. 2004 results included $10 million of higher severance expense related to actions to improve profitability along with an $11 million charge for the settlement of an agreement entered into in 2002 with a services partner.

Revenue for Customer Services decreased 3% in 2004 compared to 2003. Foreign currency fluctuations provided a 4% benefit to year-over-year revenue comparison. Customer Services revenue was impacted by lower revenue from the maintenance and sale of third-party products and continued price erosion as competition for services remains strong. Also affecting the year-over-year comparison was the declining base of high-margin revenue associated with businesses we previously exited. Operating income declined due to price erosion and the effect of exited businesses, as well as from actions taken to correct the operating costs for this business. Planned headcount reductions resulted in higher severance-related postemployment benefits expense of $13 million in 2004. The 2004 results also included an $11 million charge for the settlement of an agreement entered into in 2002 with a services partner.

Customer Services segment revenue in 2006 is expected to be down compared to 2005 as planned declines in third-party maintenance contracts and price erosion continue to offset gains in maintenance revenue of NCR-branded products. However, due to an improving mix of revenue and the cost actions mentioned above, operating income in 2006 is expected to increase compared to 2005.

Systemedia provides printer consumables and products including paper rolls for ATMs and POS workstations, inkjet and laser printer supplies, thermal transfer ribbons, labels, ink ribbons, laser documents, business forms and retail office products. Systemedia products are designed to reduce paper-related failures in our ATMs and POS terminals and enable businesses to improve transaction accuracy while reducing overall costs.

The printer consumables market is highly fragmented, and market consolidation continues due to lower levels of demand in traditional media products such as paper rolls, fax paper, ink ribbons and forms. To compete effectively in this market, we are working to drive cost out of our supply chain. This includes sourcing raw material and finished products from low-cost regions, reducing distribution costs, automating manufacturing to reduce labor and consolidating production wherever possible.

Future growth is expected to come from new products such as RFID labels and two-sided thermal paper. Two-sided thermal printing is a new printing technology that enables customers to simultaneously print on the front and back of customer receipts.

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

Systemedia In millions	2005	2004	2003
Revenue	**$504**	$512	$494
Operating income	**$—**	$ 8	$ 14
Operating income as a percent of revenue	**0%**	2%	3%

Revenue for Systemedia was down 2% in 2005 compared to 2004. Foreign currency fluctuations provided less than 1% of benefit to the year-over-year revenue comparison. The decline in revenue was mainly attributable to competitive pricing pressure experienced in all regions where we operate. Operating income decreased in 2005 compared to 2004. Manufacturing cost and expense reductions were more than offset by the increase in product cost and impact of competitive pricing pressure.

Revenue for Systemedia increased 4% in 2004 from 2003. Excluding the impact of foreign exchange fluctuations, revenue was unchanged. Growth in the Americas and Asia/Pacific regions was offset by declines in the EMEA region and Japan. The decrease in operating income from 2003 was due to competition for traditional media products, which affects both pricing and volumes. Cost and expense reductions were somewhat offset by significant increases in paper prices, which represents the largest percentage of product cost for this business.

We expect revenue to be down in 2006 versus 2005. We anticipate strong competition, especially in our mature product offerings, more than offsetting growth in new products. We believe that operating income will improve in 2006 due to our actions to reduce cost of goods sold.

Payment & Imaging and Other provide end-to-end solutions for both traditional paper-based and image-based check and item processing. Our imaging solutions utilize advanced image recognition and workflow technologies to automate item processing, helping financial institutions increase efficiency and reduce operating costs. Consisting of hardware, software, and consulting and support services, our comprehensive Payment & Imaging solutions enable check and item-based transactions to be digitally scanned, processed and retained within a flexible, scalable environment. Other business included in this segment primarily relates to a business in Japan.

The most significant event that has occurred in the check payment and imaging marketplace in recent years was “Check 21,” which took effect in October of 2004. The act is intended to improve the efficiency of the U.S. Federal Reserve’s current paper-based clearing and settlement system through expedited funds availability and reduced risk associated with paper movement. Although we offer image-based solutions and services, as the need for digital imaging increases, the reliance on products that were designed for paper-based processing will decrease. Revenue growth in this segment will be challenging given these market dynamics.

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

Payment & Imaging and Other In millions	2005	2004	2003
Revenue	**$165**	$173	$191
Operating income	**$ 16**	$ 10	$ 16
Operating income as a percent of revenue	**10%**	6%	8%

Revenue for this segment decreased 5% compared to 2004. Foreign currency fluctuations had a 1% negative impact on the year-over-year revenue comparison. The operating income improvement in 2005 compared to 2004 was mainly driven by continued cost and expense reductions.

2004 revenue was down 9% compared to 2003. Foreign currency fluctuations provided a 2% benefit to the year-over-year revenue comparison. Operating income decreased in 2004 due to the volume decline and the continued shift in our revenue base from higher-margin traditional processing equipment to lower-margin imaging solutions as a result of the regulatory changes mentioned above.

As financial institutions continue to comply with "Check 21" and invest in their check processing infrastructure, we expect a shift to digital imaging products from traditional paper processing systems. The impact of this shift is anticipated to result in lower revenue for 2006 and lower operating income for this business due to the high margins associated with traditional check processing equipment.

Restructuring and Re-engineering

During 2005, we continued with our re-engineering plans announced in 2002 to drive operational efficiency throughout our Company. We are targeting process improvements to drive simplification, standardization, globalization and consistency across the organization. We continued to eliminate unnecessary costs and expenses from our business. As a result, we are firmly on track to delivering $350 million of annualized cost savings through 2006, using 2002 as a starting point. In addition to the activities described above in our businesses, we have made changes in our infrastructure to bring our costs in line with industry benchmarks. Regarding NCR's internal information technology, we have replaced or will continue to replace most major company applications, migrating from country-centric applications to new enterprise applications such as our Enterprise Resource Planning (ERP) system, our global human resources system and our Teradata Enterprise Data Warehouse. In our human resources organization, we have improved efficiencies and reduced costs by centralizing our staffing organization and controlling our external recruitment expenses. In our finance and administration area, we reorganized and reduced our workforce to a lower cost structure. In 2003, NCR entered into a service agreement with Accenture LLP (Accenture), a global outsourcing services provider, under which many of NCR's key transaction processing activities, including overall and day-to-day responsibility for order and revenue processing, accounts receivable, accounts payable and the Company's general ledger function, are performed by Accenture. Because of this transition, NCR's transaction processing activities are better streamlined and standardized resulting in improved efficiency and consistency of practices globally. As a result, we have significantly reduced our overall finance and administration costs and improved the use of global and regional centers for transaction processing.

To further improve profitability in Customer Services, NCR offered an early retirement program to qualified Customer Service engineers in the United States. As a result of participant election, the Company recorded a non-cash increase in pension expense during the second quarter of 2005 of $19 million. This initiative should result in annual cost savings of approximately $8 million in 2006. As part of our continued actions to improve profitability in Customer Services, we expect to offer a second early retirement program to qualified Customer Service engineers in the first quarter of 2006. Depending on the level of participation in this program, the Company could see up to a $20 million, non-cash charge to pension expense in the first quarter of 2006. Assuming that 50% of those eligible do participate, we would incur approximately $10 million of additional non-cash pension expense in the first quarter of 2006. This initiative should result in annual cost savings of $3 to $4 million, beginning in late 2006.

Another element of the re-engineering is our real estate consolidation and restructuring plan. During 2005, we reduced our number of properties by 60, representing a 17% reduction in total properties from 2004. Although the reduction in number of properties may be lower in future periods as compared to 2005, we will continue to examine our portfolio of owned and leased properties in order to lower our overall facility costs.

During the fourth quarter of 2002, in connection with announced restructuring efforts, NCR's management approved a real estate consolidation and restructuring plan designed to accelerate the Company's re-engineering strategies. A pre-tax restructuring charge of $16 million was recorded in the fourth quarter of 2002 under EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," to provide for contractual lease termination costs. The balance of this recorded liability at December 31, 2004 was $6 million. The Company reviews this reserve on a quarterly basis to determine whether the reserve is adequate based on current market conditions. In the third quarter of 2005, based on our quarterly assessment, the reserve was increased by $6 million. The increase was taken to account for changes in the estimates of the anticipated vacant periods, free rent and loss on subleases based on current market conditions. During 2005, the Company utilized $4 million of the reserve. The remaining lease obligations will expire over various dates through 2015. The remaining balance of this recorded liability on December 31, 2005 was $8 million.

Effects of Pension, Postemployment and Postretirement Benefit Plans

NCR's cost and expense for the years ended December 31 was impacted by certain employee benefit plans as shown below:

In millions	2005	2004	2003
Pension expense	**$150**	$135	$105
Postemployment expense	**84**	95	79
Postretirement expense	**3**	3	8
Total expense	**$237**	$233	$192

We recorded $150 million of pension expense in 2005 versus $135 million of pension expense in 2004. This increase was due primarily to $19 million of non-cash special termination benefits recognized in the second quarter of 2005 that were related to the early retirement program described in more detail in the Restructuring and Re-Engineering section of this MD&A. Pension expense also increased $30 million in 2004 relative to 2003 due primarily to the changes in discount rates and the impact of the investment performance of our pension fund portfolio in the difficult market environments during 2000 through 2002. Also during 2004, we made changes to our U.S. defined benefit pension plans in order to limit participation only to employees who were at least 40 years old and hired by August 31, 2004. As of September 1, 2004, the plans were closed to new participants. We expect pension expense of approximately $140 million in 2006 excluding the impact of any non-cash charge that may arise from the early retirement program currently being offered to certain Customer Services engineers located in the U.S. This is discussed in more detail in the Restructuring and Re-Engineering section of this MD&A.

In 2005, global capital market developments resulted in a decline in the discount rates used to estimate the pension liability. As a result, the accumulated benefit obligation of certain pension plans exceeded the fair value of plan assets for those pension plans, and NCR was required to adjust the minimum liability recorded in the consolidated balance sheet. This $403 million charge decreased prepaid pension costs by $316 million, increased pension liabilities by $87 million, increased deferred taxes by $134 million, and increased other comprehensive loss by $269 million. This non-cash charge did not affect our 2005 earnings, cash flow or debt covenants, nor did it otherwise impact the business operations of the Company.

Postemployment expense (severance and disability medical) decreased to $84 million in 2005, versus $95 million in 2004. This decrease was driven primarily by changes in the severance benefit formulas in a number of countries. Postemployment expense increased $16 million in 2004 relative to 2003. This increase in expense was mainly due to an expected higher level of involuntary turnover, primarily driven by the Company's infrastructure cost reduction initiatives, as well as lower discount rates in many countries in 2004.

Postretirement plan expense (medical) in 2005 was unchanged at $3 million in 2005. This expense decreased to $3 million in 2004 from $8 million in 2003 primarily due to the elimination of the U.S. postretirement life insurance benefit, and increases in retiree cost sharing announced in 2003. In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law in the United States. This new law will not have any material impact on NCR's postretirement plan liabilities or expense as the Company does not provide prescription drug benefits to its Medicare-eligible retirees.

Gross Margin

Gross margin as a percentage of revenue for 2005 increased to 28.7% from 27.0% in 2004. Both services gross margin and product gross margin increased year-over-year. Product gross margin increased slightly to 35.9% in 2005 from 35.6% in 2004. Improved mix of products sold along with cost reductions helped to reduce the impact of competitive pricing pressure. Services gross margin improved to 20.6% in 2005 compared to 17.3% in 2004. Services gross margin increased due to the structural changes being made in the Customer Services business to optimize the efficiency of resources, as well as to increase the focus on maintenance of NCR-branded products.

In 2004, gross margin as a percentage of total revenue declined to 27.0% from 27.4% in 2003. Both product and services gross margins were down versus the prior year. Most of the decline was due to $20 million of higher pension cost recorded in cost of sales in 2004 compared to 2003. Additionally, price erosion had an adverse effect on gross margin.

Operating Expenses

Our 2005 operating expenses, characterized as "selling, general and administrative expenses" and "research and development expenses" in the Consolidated Statements of Operations, were $1,321 million in 2005 compared to $1,383 million in 2004. As a percentage of revenue, total operating expenses for 2005 improved to 21.9% from 23.1% in 2004. The decrease is the result of our continued efforts to improve our cost infrastructure and curtail our discretionary spending while reallocating some of these resources to demand creation and research and development activities for our three major product businesses.

Operating expenses decreased to $1,383 million in 2004 versus $1,404 million in 2003. Lower expenses were directly related to the reduction of our infrastructure expenditures. The reduction in these areas was partially offset by the increased investment in sales and demand creation in our Data Warehousing and Financial Self Service segments, research and development, and $10 million more of pension expense.

In 2006, we plan to continue reducing our infrastructure costs as compared to 2005. A larger portion of our cost savings will be reinvested to improve demand generation capabilities. We are committed to new product development and will focus on achieving maximum yield from our research and development spending and resources.

Interest and Other Expense and Income Items

Interest expense was $23 million in 2005, $23 million in 2004 and $26 million in 2003. The decrease in interest expense in 2004 from 2003 was driven by lower interest rates from an interest rate swap and by the elimination of certain borrowings against company-owned life insurance policies. In November 2003, the Company entered into an interest rate swap agreement that converted $50 million of the debt to a variable rate. Although this variable rate was in line with the fixed rate as of December 31, 2005, changes in the interest rate markets could raise the variable rate of the swap above the fixed rate of the debt, which would lead to higher expenses and cash outflows.

Other income and expense, net, was $9 million of income in 2005, $41 million of income in 2004 and $32 million of expense in 2003. 2005 included $10 million of expense from the write-down of an equity investment in Germany, $13 million in real estate gains and $6 million of expense for funding to NCR's foundation for charitable giving. 2004 included $17 million of real estate gains, $3 million related to receipt of an acquisition break-up fee, $4 million for recovery of a non-trade receivable that was previously fully reserved and a $9 million release of a reserve for exit of certain countries in the Middle East and Africa region.

In 2003, due to the reassessment of the accrual for the potential future liability related to the Fox River environmental matter, we recorded $37 million in other expense. The risks and uncertainties associated with this matter are discussed in the Environmental and Legal Contingencies section of the Critical Accounting Policies and Estimates section of this MD&A and in Note 11 of Notes to Consolidated Financial Statements.

Income Taxes

The income tax benefit was $133 million in 2005 compared to an income tax benefit of $39 million in 2004 and income tax expense of $14 million in 2003. The income tax benefit in 2005 included benefits of $214 million that were related to the successful resolution of prior-year tax audits and $9 million of benefits from an adjustment to the Company's tax accounts in the United Kingdom. The tax benefit in 2004 included an $85 million benefit resulting from a favorable settlement of tax audit items relating to the period when NCR was a subsidiary of AT&T. The income tax expense in 2003 included $24 million for an increase to the valuation allowance established against deferred tax assets of NCR's Japanese subsidiaries.

Including $214 million of tax benefits from the resolution of tax audits and the $9 million of benefits from an adjustment to the Company's tax accounts in the United Kingdom, our income tax rate for 2005 was approximately (34%). Our effective operating 2005 tax rate was 23%. The 2005 effective tax rate was favorably impacted by profit generated in several foreign countries that have lower effective tax rates due to prior-year losses. Including the $85 million of tax benefits, our income tax rate for 2004 was approximately (16%). Our effective operating 2004 tax rate was 18%. Our income tax rate for 2003 was approximately 19%, and included the impact of the reserve taken for the Fox River environmental matter and income related to the Lucent indemnification claim. These items provided a 5 percentage point benefit to the income tax rate for 2003. Each year, our effective tax rate includes a certain amount of benefit related to the use of foreign tax credits. We anticipate that our effective tax rate will be approximately 22% in 2006. However, changes in profit mix or other events, such as tax audit settlements, could change this rate.

The Internal Revenue Service (IRS) has completed its examination of the income tax returns, excluding amendments, of NCR for all years through 2002. As of December 31, 2005, the IRS was in the process of examining NCR's income tax returns for years 2003 and 2004. In addition, NCR is subject to numerous ongoing audits by state and foreign authorities. While NCR believes that it is appropriately reserved for any outstanding issues of these audits, should these audits be settled, the resulting tax effect could impact the tax provision in future periods.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

To assess the financial performance of the Company, NCR's management uses a non-GAAP measure called "free cash flow," which we define as net cash provided by operating activities less capital expenditures for property, plant and equipment; reworkable service parts; and additions to capitalized software. The components that are used to calculate free cash flow are GAAP measures that are taken directly from the Consolidated Statements of Cash Flows. We believe free cash flow information is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures for, among other things, investments in the Company's existing businesses, strategic acquisitions, repurchase of NCR stock and repayment of debt obligations. 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 the changes in net cash provided by operating activities and capital expenditures for the following years:

In millions	2005	2004	2003
Net cash provided by operating activities	**$608**	$436	$441
Less:			
Net expenditures and proceeds for service parts	**(94)**	(92)	(96)
Expenditures for property, plant and equipment	**(73)**	(77)	(63)
Additions to capitalized software	**(74)**	(85)	(70)
Free cash flow	**$367**	$182	$212

For 2005, cash provided by operating activities increased by $172 million, while capital expenditures decreased by $13 million, resulting in a net increase in free cash flow of $185 million compared to 2004. Cash from operating activities was higher largely due to improved net income (adjusted for non-cash items). The increase in our net income in 2005 as compared to 2004 was due to a more favorable mix of revenue coming from Data Warehousing, lower cost and expense, and improved services margins.

The net changes in asset and liability balances had a minimal impact on operating cash flow in 2005. Operating cash flow was favorably impacted by increases of $34 million in customer deposits and deferred service revenue. The increase in customer deposits and deferred service revenue balance was mainly due to a higher volume of customer deposits in certain geographies. In addition, the cash outflows related to employee severance, pension and postretirement were less than the amount of expense for these items, resulting in a $42 million favorable impact to cash flow. Partially offsetting these items were negative cash flow impacts from net decreases in current payables (largely payroll liabilities) of $37 million and other liabilities of $50 million driven largely by timing of payments.

In 2005, our capital expenditures decreased to $241 million from $254 million in 2004. We expect capital expenditures for 2006 to be approximately $275 million. We expect net cash provided by operating activities less capital expenditures, otherwise defined as free cash flow, to be about $310 to $320 million in 2006.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. These other investing activities included net proceeds of $11 million from the sale of real estate and $25 million of cash used for mainly acquisition-related activity. Our financing activities in 2005 mainly consisted of cash outflows from our share repurchase activities and cash inflows from the issuance of shares through our employee stock plans. During 2005, we purchased 12.1 million shares of NCR common stock for $415 million as compared to 17.2 million shares purchased for $428 million in 2004. Shares for 2005 and 2004 reflect the impact of a two-for-one stock split effective January 21, 2005. Cash inflows from stock plans were $138 million in 2005 compared to $260 million in 2004, the decrease was driven by a decline in the number of options exercised by employees. The net impact of our share purchases and issuances in 2005 was a reduction of 4.9 million shares outstanding as compared to 2004. The share purchases are part of a systematic purchase program authorized by NCR's Board of Directors. We will continue this program in 2006; however, the amount of stock purchases may vary from past years depending on several factors, including the amount of exercises of stock compensation awards and employee stock purchase plan activity.

Contractual Obligations In the normal course of business, we enter into various contractual obligations that impact, or could impact, the liquidity of our operations. The following table and discussion outlines our material obligations at December 31, 2005, with projected cash payments in the years shown:

In millions	Total Amounts	2006	2007-2008	2009-2010	2011 and thereafter
Debt obligations	$ 307	$ 2	$—	$300	$ 5
Lease obligations	224	46	67	41	70
Purchase obligations	545	399	57	40	49
Total debt, lease and purchase obligations	**$ 1,076**	**$447**	**$124**	**$381**	**$ 124**

As of December 31, 2005, we have short- and long-term debt totaling $307 million, of which a significant portion is from our senior unsecured notes due in 2009. As previously discussed, $50 million of the notes were converted to a variable rate in November 2003 through an interest rate swap agreement. Interest payments for the debt are payable semi-annually in arrears on each June 15 and December 15, and contain certain covenants typical of this type of debt instrument.

Our lease obligations are primarily for certain sales and manufacturing facilities in various domestic and international locations. Purchase obligations represent committed purchase orders and other contractual commitments for goods or services. The purchase obligation amounts were determined through information in our procurement systems and payment schedules for significant contracts. Included in the amounts are committed payments in relation to the long-term service agreement with Accenture.

We have short- and long-term liabilities in relation to the Fox River environmental matter that may require future cash payments. We also have product warranties and several guarantees to third parties that may affect future cash flow. These “Commitments and Contingencies” are not included in the table of obligations shown above, and are described in detail in Note 11 of Notes to Consolidated Financial Statements.

Our U.S. and international employee benefit plans, which are described in Note 9 of Notes to Consolidated Financial Statements, “Employee Benefit Plans,” could require significant future cash payments. The unfunded status of NCR’s U.S. retirement plans increased to $274 million in 2005 from $178 million in 2004. The increase is attributable to an increase in benefit obligations resulting from the reduction in the discount rate used to calculate the present value of future pension liabilities and the use of updated mortality tables, which was partially offset by a better than estimated return on pension assets. The unfunded status of our international retirement plans decreased from $281 million to $184 million. Asset returns, Company contributions and foreign currency translation adjustments contributed positively, but were partially offset by increases in our benefit obligations due to reductions in our discount rate assumptions and additional benefit accruals. The Company did not make any contributions to its U.S. qualified pension plan in 2005, and we do not expect to be required to make any contributions in 2006. Several legislative changes were recently proposed that would impact our U.S. pension plans, if adopted. These proposals would alter the manner in which liabilities and asset values are determined for the purpose of calculating required pension contributions and the timing and manner in which required contributions to under-funded pension plans would be made. The proposals are being discussed and debated; however, many details need to be specified, and the proposals then would have to be approved by the U.S. Congress. The funding requirements for our U.S. pension plan could be significantly affected by these proposed changes, if they are adopted. Contributions to international and executive pension plans are expected to increase from $110 million in 2005 to approximately $130 million in 2006.

In October 2004, the Company replaced a $200 million 364-day unsecured credit facility with a $200 million five-year unsecured credit facility with a syndicate of financial institutions. In addition to the $200 million facility, the Company has a $400 million, five-year unsecured revolving credit facility that the Company entered into in October 2001. The credit facilities contain certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. Interest rates charged on borrowings outstanding under the credit facilities are based on prevailing market rates. No amounts were outstanding under the facilities at December 31, 2005 and 2004.

Our cash, cash equivalents and short-term investments totaled $810 million as of December 31, 2005. We believe our cash flows from operations, the credit facilities (existing or future arrangements), and other short- and long-term debt financing, will be sufficient to satisfy our future working capital, research and development activities, capital expenditures, pension contributions and other financing requirements for the foreseeable future. Our ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described below in “Factors That May Affect Future Results.” If we are unable to generate sufficient cash flows from operations, or otherwise comply with the terms of our credit facilities and senior notes, we may be required to refinance all or a portion of our existing debt or seek additional financing alternatives.

Off-Balance Sheet Arrangements As part of our ongoing business, 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 ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2005, we are not involved in any material unconsolidated SPE transactions.

Please see Note 11, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information on guarantees associated with NCR's business activities.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Economic Pressures *Our business is affected by the global economies in which we operate.* The current economic climate, which includes decreased and/or more closely scrutinized capital spending by many industries, could impact our ability to meet our commitments to customers, the ability of our suppliers to meet their commitments to us, the timing of purchases by our current and potential customers, or the ability of our customers to fulfill their obligations to us on a timely basis. The extent of this impact, if any, is dependent on a number of factors, including the duration of the current economic climate, its effect on the markets and other general economic and business conditions.

Competition *Our ability to compete effectively within the technology industry is critical to our future success.* We operate in the intensely competitive information technology industry. This industry is characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, price and cost reductions, and increasingly greater commoditization of products, making differentiation difficult. Our competitors include other large companies in the technology industry such as: International Business Machines, Inc., Oracle Corporation, Diebold, Inc., Wincor Nixdorf GmbH & Co., Getronics NV, Fujitsu, and Unisys Corporation, some of which have widespread distribution and penetration of their platforms and service offerings. In addition, we compete with companies in specific markets such as entry-level ATMs, payment and imaging, and business consumables and media products.

Our future competitive performance and market position depend on a number of factors, including our ability to: react to competitive product and pricing pressures (particularly in the ATM marketplace); penetrate and meet the changing competitive requirements and deliverables in developing and emerging markets, such as India and China in the ATM business; rapidly and continually design, develop and market, or otherwise maintain and introduce solutions and related products and services for our customers that are competitive in the marketplace; react on a timely basis to shifts in market demands; compete in reverse auctions for new and continuing business; take advantage of data warehousing market demands; reduce costs without creating operating inefficiencies; maintain competitive operating margins; improve product and service delivery quality; and effectively market and sell all of our diverse solutions. Our business and operating performance could be impacted by external competitive pressures, such as increasing price erosion and the addition of new competitors.

Our customers sometimes finance our product sales through third-party financing companies. In case of customer default, these financing companies may be forced to resell this equipment at discounted prices impacting our ability to sell incremental units. The impact of these product and pricing pressures could include lower customer satisfaction, decreased demand for our solutions, loss of market share and reduction of operating profits.

Operating Result Fluctuations *Our revenue and operating results could fluctuate for a number of reasons, including:*

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

Foreign Currency Our revenue and operating income are subject to variability due to the effects of foreign currency fluctuations against the U.S. Dollar. We have exposure to approximately 50 functional currencies, in which our primary exposure is from fluctuations in the Euro, British Pound and Japanese Yen. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. Although the foreign currency environment is difficult to predict, the effects of currency fluctuations are partially mitigated by our hedging strategy.

Cost/Expense Reductions We are actively working to reduce our costs and expenses to improve operating profitability without jeopardizing the quality of our products or the efficiencies of our operations. Our success in achieving targeted cost and expense reductions depends on a number of factors, including our ability to achieve infrastructure rationalizations, drive lower component costs, improve supply chain efficiencies, and optimize the efficiency of our customer services resources, among other things. If we do not successfully complete our cost reduction initiatives, our results of operations or financial condition could be adversely affected.

Contractual Obligations of Consulting Services We maintain a professional services consulting workforce to fulfill contracts that we enter into with our customers that may extend to multiple periods. Our profitability is largely a function of performing to customer contractual arrangements within the estimated costs to perform these obligations. If we exceed these estimated costs, our profitability related to these contracts may be negatively impacted. In addition, if we are unable to maintain appropriate utilization rates for our consultants, we may not be able to sustain profitability on these contracts.

Acquisitions and Divestitures As part of our strategy, we intend to selectively acquire and divest technologies, products and businesses. As these acquisitions and divestitures take place and we begin to include, or exclude as the case may be, the financial results related to these transactions, it could cause our operating results to fluctuate.

Pension Funds Consistent with local competitive practice and regulations, we sponsor pension plans in many of the countries where we do business. A number of these pension plans are supported by pension fund investments that are subject to financial market risk. The liabilities, assets and costs of these plans are reported in our financial statements in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), "Employer's Accounting for Pensions." In conforming to the requirements of SFAS 87, we are required to make a number of actuarial assumptions for each plan, including expected long-term return on plan assets and discount rate. Our future financial results could be materially impacted by volatility in financial market performance, changes in regulations regarding funding requirements, and changes in the actuarial assumptions, including those described in our "Critical Accounting Policies and Estimates." Consistent with the requirements of paragraphs 44-45 of SFAS 87, we estimate our discount rate and long-term expected rate of return on asset assumptions on a country-by-country basis after consultation with independent actuarial consultants. We examine interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our expected future benefit payments to determine our discount rate assumptions. Our long-term expected rate of return on asset assumptions are developed by considering the asset allocation and implementation strategies employed by each pension fund relative to capital market expectations. Many countries around the world are in the process of updating their laws and regulations regarding pension funding, including the United States. These initiatives could require the Company to make significantly larger contributions to its pension plans in future years and increase the volatility of these contribution requirements.

Stock Option Accounting Similar to other companies, we use stock options as a form of compensation for certain employees. Currently, the expense of these stock options is not reflected in our operating results under accounting guidance from Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), "Share-Based Payment." The Company will adopt SFAS 123R beginning January 1, 2006. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The amount recognized for stock compensation could vary depending on a number of assumptions or changes. For example, assumptions such as risk-free rate and expected volatility that drive our valuation model could change. Other examples that could have an impact include changes in the mix and type of awards, changes in our compensation plans or tax rate, or an unusually high amount of expirations of stock options.

Income Taxes We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes," which recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. 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. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, or if the tax laws change unfavorably, then we could be required to increase our valuation allowance against our deferred tax assets, resulting in an increase in our effective tax rate.

Real Estate Our strategy over the past several years with respect to owned and leased real estate has been to reduce our holdings of excess real estate. In line with this strategy, we anticipate the exit of facilities, which may affect net income. Adverse real estate markets could impede our ability to reduce the size of our real estate portfolio.

Multinational Operations *Generating substantial revenues from our multinational operations helps to balance our risks and meet our strategic goals.* In 2005, the percentage of revenues from outside of the United States was 56%. We believe that our geographic diversity may help to mitigate some risks associated with geographic concentrations of operations (e.g., adverse changes in foreign currency exchange rates and deteriorating economic environments or business disruptions due to economic or political uncertainties). However, our ability to sell our solutions domestically in the United States and internationally is subject to the following risks, among others: general economic and political conditions in each country that could adversely affect demand for our solutions in these markets; currency exchange rate fluctuations that could result in lower demand for our products as well as generate currency translation losses; changes to and compliance with a variety of local laws and regulations that may increase our cost of doing business in these markets or otherwise prevent us from effectively competing in these markets; changing competitive requirements and deliverables in developing and emerging markets; and the impact of civil unrest relating to war and terrorist activity on the economy or markets in general, or on our ability, or that of our suppliers, to meet commitments.

Introduction of New Solutions *The solutions we sell are very complex, and we need to rapidly and successfully develop and introduce new solutions in a competitive, rapidly changing environment.* The development process for our solutions, including our software application development programs and the migration of our Teradata Data Warehousing solution to the latest software and hardware platforms, requires high levels of innovation from both our software developers and our suppliers of the components embedded in our solutions. In addition, the development process can be lengthy and costly, and requires us to commit a significant amount of resources to bring our business solutions to market.

If we are unable to anticipate our customers' needs and technological trends accurately, or are otherwise unable to complete development efficiently, we would be unable to introduce new solutions into the market on a timely basis, if at all, and our business and operating results could be impacted. Likewise, we sometimes make assurances to customers regarding new technologies, and our results could be impacted if we are unable to deliver such technologies as planned. Also, if we cannot successfully market and sell both existing and newly developed solutions, our business and operating results could be impacted.

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

Reliance on Third Parties *Third-party suppliers provide important elements to our solutions.* In most cases, there are a number of vendors providing the services and producing the parts and components that we utilize. However, there are some components that are purchased from single sources due to price, quality, technology or other reasons. For example, we depend on transaction processing services from Accenture, silicon computer chips and microprocessors from Intel Corporation, and operating systems from Microsoft Corporation. Certain parts and components used in the manufacture of our ATMs and the delivery of many of our Retail Store Automation solutions are also supplied by single sources. In addition, there are a number of key suppliers for our businesses who provide us with critical products for our solutions. If we were unable to purchase the necessary services, parts, components or products from a particular vendor and we had to find an alternative supplier, our new and existing product shipments and solutions deliveries could be delayed, impacting our business and operating results.

We have, from time to time, formed alliances with third parties that have complementary products, software, services and skills. Many different relationships are formed by these alliances, such as outsourcing arrangements to manufacture hardware and subcontract agreements with third parties to perform services and provide products and software to our customers in connection with our solutions. For example, we rely on third parties for cash replenishment services for our ATM products.

Also, some of these third parties have access to confidential NCR and customer data, the integrity and security of which we need to ensure. These alliances introduce risks that we cannot control, such as nonperformance by third parties and difficulties with or delays in integrating elements provided by third parties into our solutions.

Lack of information technology infrastructure, shortages in business capitalization, manual processes and data integrity issues of smaller suppliers can also create product time delays, inventory and invoicing problems, and staging delays, as well as other operating issues. The failure of third parties to provide high-quality products or services that conform to required specifications or contractual arrangements could impair the delivery of our solutions on a timely basis, create exposure for non-compliance with our contractual commitments to our customers and impact our business and operating results.

Intellectual Property *As a technology company, our intellectual property portfolio is key to our continuing ability to be a leading technology and services solutions provider.* To that end, it is critical that we continue to develop leading technologies to protect and enhance our proprietary rights in our intellectual property through patent, copyright, trademark and trade secret laws. These efforts include protection of the products and application, diagnostic and other software we develop. To the extent we are not successful, our business could be adversely impacted. Also, many of our offerings rely on technologies developed by others, and if we are unable to continue to obtain licenses for such technologies, our business would be impacted.

There has been a recent increase in the issuance of software and business method patents, and more companies are aggressively enforcing their intellectual property rights. This trend could impact NCR because, from time to time, we receive notices from third parties regarding patent and other intellectual property claims. Whether such claims are with or without merit, they may require significant resources to defend. If an infringement claim is successful, in the event we are unable to license the infringed technology or to substitute similar non-infringing technology, our business could be adversely affected.

Work Environment

Restructuring and Re-engineering As part of our ongoing efforts to optimize our cost structure, from time to time, we shift and realign our employee resources, which could temporarily result in substandard productivity levels. In addition to reducing costs and expenses, our plan includes initiatives to grow revenue, such as improving sales training, addressing sales territory requirements, maintaining and monitoring customer satisfaction with our solutions, and focusing on our strong value propositions. We currently have many initiatives underway. If we are not successful in managing these initiatives and minimizing any resulting loss in productivity, our business and operating results could be impacted.

Employees Our employees are vital to our success. Our ability to attract and retain highly skilled technical, sales, consulting and other key personnel is critical, as these key employees are difficult to replace. Our current re-engineering efforts may adversely impact our workforce. If we are unable to attract or retain highly qualified employees by offering competitive compensation, secure work environments and leadership opportunities now and in the future, our business and operating results could be impacted.

Internal Controls / Accounting Policies and Practices Our internal controls, accounting policies and practices, and internal information systems enable us to capture and process transactions in a timely and accurate manner in compliance with accounting principles generally accepted in the United States of America, laws and regulations, taxation requirements and federal securities laws and regulations. Our internal controls and policies are being closely monitored by management as we implement a worldwide ERP system and complete the transition of our transaction support functions to Accenture. While we believe these controls, policies, practices and systems are adequate to ensure data integrity, unanticipated and unauthorized actions of employees (both domestic and international), temporary lapses in internal controls due to shortfalls in transition planning and oversight, or resource constraints could lead to improprieties and undetected errors that could impact our financial condition or results of operations. Moreover, while management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2005 (as set forth in "Report of Management" included later in this annual report), due to their inherent limitations, such controls may not prevent or detect misstatements in our reported financial statements. Such limitations include, among other things, the potential for human error or circumvention of controls. Further, the Company's internal control over financial reporting is subject to the risk that controls may become inadequate because of a failure to remediate control deficiencies, changes in conditions or a deterioration of the degree of compliance with established policies and procedures.

Information Systems It is periodically necessary to replace, upgrade or modify our internal information systems. If we are unable to replace, upgrade or modify such systems in a timely and cost-effective manner, especially in light of demands on our information technology resources, our ability to capture and process financial transactions and therefore our financial condition or results of operations may be impacted.

Acquisitions and Alliances *Our ability to successfully integrate acquisitions or effectively manage alliance activities will help drive future growth.* As part of our overall solutions strategy, we intend to make investments in companies, products, services and technologies, either through acquisitions, joint ventures or strategic alliances. Acquisitions and alliance activities inherently involve risks. The risks we may encounter include those associated with assimilating and integrating different business operations, corporate cultures, personnel, infrastructures and technologies or products acquired or licensed, and the potential for unknown liabilities within the acquired or combined business. The investment or alliance may also disrupt our ongoing business, or we may not be able to successfully incorporate acquired products, services or technologies into our solutions and maintain quality. Further, we may not achieve the projected synergies once we have integrated the business into our operations. This may lead to additional costs not anticipated at the time of acquisition.

Environmental *Our historical and ongoing manufacturing activities subject us to environmental exposures.* Our facilities and operations are subject to a wide range of environmental protection laws, and we have investigatory and remedial activities underway at a number of facilities that we currently own or operate, or formerly owned or operated, to comply, or to determine compliance, with such laws. As further described in Note 1 of Notes to Consolidated Financial Statements, as a result of the Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the "WEEE Directive"), our product distribution, logistics and waste management costs may increase and may adversely impact our financial condition. Given the uncertainties inherent in such activities, there can be no assurances that the costs required to comply with applicable environmental laws will not impact future operating results.

We have also been identified as a potentially responsible party in connection with certain environmental matters, including the Fox River matter, as further described in "Environmental Matters" under Note 11 of Notes to Consolidated Financial Statements, "Commitments and Contingencies," and in the "Critical Accounting Policies and Estimates" section of this MD&A, and we incorporate such disclosures by reference and make them a part of this risk factor. As described in more detail in such disclosures, we maintain an accrual for our potential liability relating to the Fox River matter that represents certain critical estimates and judgments made by us regarding our potential liability; however, both the ultimate costs associated with the Fox River matter and our share of those costs are subject to a wide range of potential outcomes.

Contingencies *Like other technology companies, we face uncertainties with regard to regulations, lawsuits and other related matters.* In the normal course of business, we are subject to proceedings, lawsuits, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property and other regulatory compliance and general matters. Because such matters are subject to many uncertainties, their outcomes are not predictable. While we believe that amounts provided in our consolidated financial statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Additionally, we are subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, which are rapidly changing and subject to many possible changes in the future. Although we do not believe that recent regulatory and legal initiatives will result in significant changes to our internal practices or our operations, rapid changes in accounting standards, taxation requirements, and federal securities laws and regulations, among others, may substantially increase costs to our organization and could have an impact on our future operating results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated 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 which 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 continually 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. Our senior management has reviewed these critical accounting policies and related disclosures with our independent auditors and the Audit Committee of our Board of Directors (see Note 1 of Notes to Consolidated Financial Statements, which contains additional information regarding our accounting policies and other disclosures required by GAAP).

Revenue Recognition Consistent with other companies that provide similar solution offerings that include hardware, software, professional consulting and support services, revenue recognition is often complex and subject to multiple accounting pronouncements. These include Statement of Position 97-2, "Software Revenue Recognition," Staff Accounting Bulletin No. 104 (SAB 104), "Revenue Recognition," Emerging Issues Task Force No. 00-21 (Issue 00-21), "Revenue Arrangements with Multiple Deliverables," and other applicable revenue recognition guidance and interpretations.

We consider revenue realized, or realizable, and earned when persuasive evidence of an arrangement exists, the products or services have been provided to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured. Please refer to Note 1 of Notes to Consolidated Financial Statements for a description of our revenue recognition policies.

Revenue recognition for complex contractual arrangements requires a greater degree of judgment, including a review of specific contracts, past experience, creditworthiness of customers, international laws and other factors. Changes in judgments about these factors could impact the timing and amount of revenue recognized between periods.

Allowance for Doubtful Accounts We evaluate the collectibility of our accounts receivable based on a number of factors. We establish provisions for doubtful accounts using percentages of our accounts receivable balances as an overall proxy to reflect historical average credit losses and provision for known issues. These percentages are applied to aged accounts receivable balances. Aged accounts are determined based on the number of days the receivable is outstanding, measured from the date of the invoice, or from the date of revenue recognition. As the age of the receivable increases, the provision percentage also increases. This policy is applied to all of our operating segments.

Based on the factors below, we periodically review customer account activity in order to assess the adequacy of the allowances provided for potential losses. Factors include economic conditions and judgments regarding collectibility of account balances, each customer's payment history and creditworthiness.

The allowance for doubtful accounts as of December 31 was $25 million in 2005, $24 million in 2004, and $27 million in 2003. These allowances represent as a percent of gross receivables 1.9% in 2005, 1.8% in 2004 and 2.1% in 2003. Although no near-term changes are expected, unforeseen changes to future allowance percentages could materially impact overall financial results.

Given our experience, we believe that the reserves for potential losses are adequate, but if one or more of our larger customers were to default on its obligations, we could be exposed to potentially significant losses in excess of the provisions established. If economic conditions deteriorate, we may increase our reserves for doubtful accounts.

Inventory Valuation Inventories are stated at lower of cost or market. Each quarter, our business segments reassess raw materials, work-in-process, parts and finished equipment inventory costs for purchase or usage variances from standards, and valuation adjustments are made. Additionally, to properly provide for potential exposure due to slow-moving, excess, obsolete or unusable inventory, a reserve against inventory is established. This reserve is established based on forecasted usage, orders, technological obsolescence and inventory aging. These factors are impacted by market conditions, technology changes, and changes in strategic direction, and require estimates and management judgment that may include elements that are uncertain. On a quarterly basis, we review the current market value of inventory and require each business segment to ensure that inventory balances are adjusted for any inventory exposure due to age or excess of cost over market value.

We have inventory in more than 40 countries around the world. We transfer inventory from our plants to our distribution and sales organizations. This inventory is transferred at cost plus mark-up. This mark-up is referred to as inter-company profit. Each quarter we review our inventory levels and analyze our inter-company profit for each of our segments to determine the amount of inter-company profit to eliminate. Key assumptions are made to estimate product gross margins, the product mix of existing inventory balances and current period shipments. Over time, we refine these estimates as facts and circumstances change. If our estimates require refinement, our results could be impacted.

Our excess and obsolete reserves for inventory were $52 million in 2005, $56 million in 2004 and $50 million in 2003. These reserves represent as a percent of gross inventory 12.7% in 2005, 13.5% in 2004 and 13.9% in 2003. Although we strive to achieve a balance between market demands and risk of inventory obsolescence or excess quantities caused by these factors, it is possible that, should conditions change, additional reserves may be needed. Any changes in reserves will impact operating income during a given period. This policy is consistently applied to all of our operating segments and we do not anticipate any changes to our policy in the near term.

Warranty Reserves One of our key objectives is to provide superior quality products and services. To that end, we provide a standard manufacturer's warranty extending up to 12 months such that, should products under warranty require repair, no additional cost of that repair will be charged to our customers. A corresponding estimated liability for potential warranty costs is also recorded at the time of the sale. We sometimes offer extended warranties to our customers for purchase. We defer the fair value of these revenues and recognize revenue over the life of the warranty.

Future warranty obligation costs are based upon historic factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. Each segment consummating a sale recognizes the total customer revenue and records the associated warranty liability based upon an estimated cost to provide the service over the warranty period.

Total warranty costs were $52 million in 2005, $44 million in 2004 and $43 million in 2003. Warranty costs as a percent of total product revenues were 1.6% in 2005, 1.4% in 2004 and 1.5% in 2003. Historically, the principal factor used to estimate our warranty costs has been service calls per machine. Significant changes in this factor could result in actual warranty costs differing from accrued estimates. Although no near-term changes in our estimated warranty reserves are currently anticipated, in the unlikely event of a significant increase in warranty claims by one or more of our larger customers, costs to fulfill warranty obligations would be higher than provisioned, thereby impacting results.

Pension, Postretirement and Postemployment Benefits We account for defined benefit pension plans in accordance with SFAS 87, which requires that amounts recognized in financial statements be determined on an actuarial basis. Our postretirement plans are accounted for in accordance with Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," and our postemployment plans are accounted for in accordance with Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." We have significant pension, postretirement and postemployment benefit costs and credits, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions we make about interest rates, expected investment return on plan assets, rate of increase in health care costs, total and involuntary turnover rates, and rates of future compensation increases. In addition, our actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop our valuations. We generally review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension, postretirement or postemployment benefits expense we have recorded or may record. Postretirement and postemployment expenses impact all of our segments, while pension expense is reported at the corporate level.

The key assumptions used in developing our 2005 pension and postretirement plan expense were discount rates of 5.75% and 5.25%, respectively, and expected return on assets assumption of 8.5% for our U.S. plans, which represent 64% and 100% of pension and postretirement plan obligations, respectively. Holding all other assumptions constant, a 0.25% change in the discount rate used for the U.S. plans would have increased or decreased pre-tax 2005 income by approximately $11 million ($11 million in pension expense and $0.1 million in postretirement expense). Likewise, a 0.25% change in the expected rate of return on plan assets assumption for the U.S. pension plan would have increased or decreased pre-tax 2005 income by approximately $5 million. Our expected return on plan assets has historically been and will likely continue to be material to net income. While it is required that we review our actuarial assumptions each year at the measurement date, we generally do not change them between measurement dates. We use a measurement date of December 31 for all of our plans. In determining 2006 pension and postretirement expense for the U.S. plans, we intend to use discount rates of 5.5% and 5.25%, respectively, and an expected rate of return on assets assumption of 8.5%. The most significant assumption used in developing our 2005 postemployment plan expense was the assumed rate of involuntary turnover of 5%. The involuntary turnover rate is based on historical trends and projections of involuntary turnover in the future. A 0.25% change in the rate of involuntary turnover would have increased or decreased pre-tax 2005 expense by approximately $5 million. The sensitivity of the assumptions described above is specific to each individual plan and not to our pension, postretirement and postemployment plans in the aggregate.

Mortality assumptions were updated as of December 31, 2005 for our U.S. Pension Plan to a newer mortality table that better reflects our employees' demographic base. This resulted in an increase in our pension obligation of approximately $65 million. Additionally, this change is expected to increase 2006 pension expense by approximately $13 million.

Environmental and Legal Contingencies Each quarter, we review the status of each claim and legal proceeding and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss, in accordance with Statement of Financial Accounting Standards No. 5 (SFAS 5), "Accounting for Contingencies." To the extent the amount of a probable loss is estimable only by reference to a range of equally likely outcomes, and no amount within the range appears to be a better estimate than any other amount, we accrue for the low end of the range. Because of uncertainties related to these matters, the use of estimates, assumptions and judgments, and external factors beyond our control, accruals are based on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position. Except for the sharing agreement with Appleton Papers Inc. (API) described in Note 11 of Notes to Consolidated Financial Statements, "Commitments and Contingencies," with respect to the Fox River matter (Note 11), when insurance carriers or third parties have agreed to pay any amounts related to costs, and we believe that it is probable that we can collect such amounts, those amounts would be reflected as receivables in our consolidated financial statements.

The most significant legal contingency impacting our Company relates to the Fox River matter, which is further described in detail in Note 11. This matter impacts our Company overall and does not affect the financial results of any one of its segments. As described in Note 11, NCR was identified as a potentially responsible party (PRP) at the Fox River site in Wisconsin because of polychlorinated biphenyl (PCB) discharges from two carbonless paper manufacturing facilities previously owned by NCR located along the Fox River.

Our reserve for the Fox River matter was revised as of December 31, 2005, and it is now approximately $58 million (after taking into consideration amounts expected to be recovered under an indemnity agreement and insurance settlement agreements, discussed in Note 11). The considerations we took into account in revising our reserve are set forth in Note 11. The Company regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments.

As described below and in Note 11, while progress has been made in the engineering design of the Fox River clean-up, the extent of our potential liability continues to be subject to significant uncertainties, including the amount of dredging that will be required by the U.S. Environmental Protection Agency and the Wisconsin Department of Natural Resources (the Governments); how contaminated sediments will be managed; the accuracy of existing cost estimates; and the extent of NCR's eventual liability.

In setting our reserve, we attempt to estimate a range of reasonably possible outcomes for relevant factors, although each range is itself highly uncertain. We use our best estimate within the range if that is possible. Where there is a range of equally likely outcomes, and there is no amount within that range that appears to be a better estimate than any other amount, we use the low end of the range. Our eventual liability, which we expect will be paid out over a period of at least ten to twenty years, will depend on a number of factors, the most significant of which include:

- The total clean-up costs for the site (we now use the best estimate within a range of reasonably possible outcomes – $551 million – which consists of the current estimate of the lower river clean-up developed by the engineering firms working on the design, the projected costs of the upper river clean-up, plus a 20% contingency for both);
- The total natural resource damages for the site (we now use the best estimate within a range of reasonably possible outcomes – $131 million – which is based on current information available to us);
- The share NCR and API will jointly bear of the total clean-up costs and natural resource damages (we use the low end of the range, which is based primarily on an estimate of the joint NCR/API percentage of direct discharges of PCBs to the Fox River);
- The share NCR will bear of the joint NCR/API payments for clean-up costs and natural resource damages (we use 45% for the first $75 million and 40% for amounts in excess of $75 million; these percentages are set by an agreement between NCR and API, and an arbitration award); and
- Our transaction costs to defend NCR in this matter (we have estimated the costs we are likely to incur through 2013, the end of the time period the Governments have projected it will take to design and implement the remedy for the Fox River).

AT&T Inc. and Lucent Technologies, Inc. are jointly responsible for indemnifying NCR for a portion of amounts for the Fox River incurred by NCR over a certain threshold. NCR's estimate of what AT&T and Lucent will pay under the indemnity is recorded as a long-term receivable of $8 million and is deducted in determining the net amount discussed above. Also, NCR has reached settlement agreements with two of its insurance carriers and has recorded a receivable of $19 million, which is also deducted in determining the net amount discussed above.

While it remains difficult to predict, there could be some significant near-term changes to some of the above-described assumptions that could have a material effect on the amount of our accrual. Also, there are other estimates for some of these factors that are significantly higher than the estimates described above, and with regard to the third factor – the NCR/API share of total Fox River costs - there is such uncertainty that we cannot quantify the high end of the range of such estimates. In any event, assuming, for example, that the assumptions described above are each doubled (except where that would be inconsistent with an existing agreement or arbitration award), our payments for the potential liabilities for the Fox River matter would be approximately $174 million (to be paid out over at least the ten-year period ending in 2013, and likely as long as twenty years). As discussed above, AT&T and Lucent are jointly responsible for indemnifying us for a portion of amounts incurred by our Company over a certain threshold, and we have reached settlements with two of our insurance carriers. The $174 million estimate assumes that AT&T, Lucent and the insurance carriers will make such payments. If we were in fact required to pay an amount such as $174 million for NCR's share of the Fox River liabilities, it would have a moderate but manageable impact on our liquidity and capital resources, assuming that such amount were required to be paid over the time frame currently contemplated. However, if such an amount were required to be paid in a shorter time period, it could have a material impact on our liquidity or capital resources.

Income Taxes We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes," which recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on our expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and our tax methods of accounting. We also review our liabilities under SFAS No. 5, which requires an accrual for estimated losses when it is probable that a liability has been incurred and the amount can be reasonably estimated. The Company regularly evaluates its estimates and judgments related to uncertain tax positions, including transfer pricing related risks and, when necessary, establishes contingency reserves to account for its uncertain tax positions. As we obtain more information via the settlement of tax audits and through other pertinent information, these projections and estimates are reassessed and may be adjusted accordingly.

If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, or if the tax laws change unfavorably, then we could be required to increase our valuation allowance against our deferred tax assets, resulting in an increase in our effective tax rate. The impact to our effective tax rate would be an increase of one percentage point for each increase of $4 million to the valuation allowance as of December 31, 2005.

We had a valuation allowance of $542 million as of December 31, 2005, related to certain deferred income tax assets, primarily tax loss carryforwards, in jurisdictions where there is uncertainty as to ultimate realization of a benefit from those tax assets. As of December 31, 2004, the valuation allowance was $585 million. The decrease in the valuation allowance related to the settlement of international tax audits during the year and changes in local country profitability. Future changes in local country profitability may result in discrete changes affecting the need for valuation allowances.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A discussion of recently issued accounting pronouncements is described in Note 1 of Notes to Consolidated Financial Statements, and we incorporate such discussion in this MD&A by reference and make it a part hereof.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in foreign currency exchange rates and interest rates. We use a variety of measures to monitor and manage these risks, including derivative financial instruments. Since a substantial portion of our operations and revenue occur outside the United States, and in currencies other than the U.S. Dollar, our results can be significantly impacted by changes in foreign currency exchange rates. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward contracts. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by the marketing units and of foreign currency denominated inventory sales by the manufacturing units. All of these transactions are firmly committed or forecasted. These foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses are deferred in other comprehensive income and recognized in the determination of income when the underlying hedged transaction impacts earnings. As we hedge inventory purchases, the ultimate gain or loss from the derivative contract is recorded in cost of revenue when the inventory is sold to an unrelated third party.

We have exposure to approximately 50 functional currencies, in which our primary exposure is from fluctuations in the Euro, British Pound and Japanese Yen. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. The U.S. Dollar was slightly weaker in 2005 as compared to 2004 based on comparable weighted averages for our functional currencies. This had a favorable impact of less than 1% on 2005 revenue versus 2004 revenue. This excludes the effects of our hedging activities and, therefore, does not reflect the actual impact of fluctuations in exchange rates on our operating income.

Our strategy is to hedge, on behalf of each subsidiary, a portion of our non-functional currency denominated cash flows for a period of up to 15 months. In this way, some of the impact of currency fluctuations on non-functional currency denominated transactions (and hence on subsidiary operating income, as stated in the functional currency) is mitigated in the near term. The amount we hedge and the length of time hedge contracts are entered into may vary significantly. In the longer term (longer than the hedging period of up to 15 months), the subsidiaries are still subject to the impacts of foreign currency fluctuations. In addition, the subsidiary results are still subject to any impact of translating the functional currency results to U.S. Dollars. When hedging certain foreign currency transactions of a long-term investment nature (net investments in foreign operations), the gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on other foreign exchange contracts are recognized in other income or expense as exchange rates change.

For purposes of potential risk analysis, we use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our hedge portfolio related to firmly committed or forecasted transactions. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. A 10% appreciation in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would result in increases of $10 million at December 31, 2005 and $20 million at December 31, 2004 in the fair value of the hedge portfolio. Conversely, a 10% depreciation of the U.S. Dollar against foreign currencies from the prevailing market rates would result in decreases of $10 million at December 31, 2005 and $20 million at December 31, 2004 in the fair value of the hedge portfolio.

The interest rate risk associated with our borrowing and investing activities at December 31, 2005 was not material in relation to our consolidated financial position, results of operations or cash flows. In 2003, we swapped a portion of our senior unsecured notes from the fixed rate to a variable rate. The swap is described in more detail in Note 10 of Notes to Consolidated Financial Statements.

We utilize non-exchange traded financial instruments, such as foreign exchange forward contracts that we purchase exclusively from highly-rated financial institutions. We record these contracts on our balance sheet at fair market value based upon market price quotations from the financial institutions. We do not enter into non-exchange traded contracts that require the use of fair value estimation techniques, but if we did, they could have a material impact on our financial results. Also, we do not enter into hedges for speculative purposes.

We are potentially subject to concentrations of credit risk on accounts receivable and financial instruments, such as hedging instruments, short-term investments, and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Our business often involves large transactions with customers for which we do not require collateral. If one or more of those customers were to default in its obligations under applicable contractual arrangements, we could be exposed to potentially significant losses. Moreover, a downturn in the global economy could have an adverse impact on the ability of our customers to pay their obligations on a timely basis. We believe that the reserves for potential losses are adequate. At December 31, 2005 and 2004, we did not have any major concentration of credit risk related to financial instruments.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Responsibility for Financial Statements

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

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

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

/s/ William Nuti	/s/ Peter Bocian
William Nuti	**Peter Bocian**
President and	Senior Vice President and
Chief Executive Officer	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NCR Corporation:

We have completed integrated audits of NCR Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of NCR Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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.

/s/ PricewaterhouseCoopers LLP
Dayton, Ohio
March 6, 2006

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Consolidated Statements of Operations

In millions, except per share amounts

For the year ended December 31	2005	2004	2003
Revenue			
Product revenue	$3,208	$3,164	$2,835
Service revenue	2,820	2,820	2,763
Total revenue	6,028	5,984	5,598
Operating expenses			
Cost of products	2,057	2,037	1,800
Cost of services	2,240	2,331	2,264
Selling, general and administrative expenses	1,076	1,141	1,171
Research and development expenses	245	242	233
Total operating expenses	5,618	5,751	5,468
Income from operations	410	233	130
Interest expense	23	23	26
Other (income) expense, net	(9)	(41)	32
Income before income taxes	396	251	72
Income tax (benefit) expense	(133)	(39)	14
Net income	$ 529	$ 290	$ 58
Net income per common share			
Basic	$ 2.86	$ 1.55	$ 0.31
Diluted	$ 2.80	$ 1.51	$ 0.30
Weighted average common shares outstanding			
Basic	185.0	187.6	190.0
Diluted	189.1	191.5	191.7

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

Shares outstanding and per share amounts reflect a two-for-one stock split effective on January 21, 2005.

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Consolidated Balance Sheets

In millions, except per share amounts

At December 31	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 810	$ 750
Accounts receivable, net	1,305	1,304
Inventories, net	361	355
Other current assets	217	224
Total current assets	2,693	2,633
Reworkable service parts and rental equipment, net	235	224
Property, plant and equipment, net	378	446
Goodwill	129	124
Prepaid pension cost	976	1,446
Deferred income taxes	522	372
Other assets	354	309
Total assets	$5,287	$5,554
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	$ 2	$ 2
Accounts payable	490	492
Payroll and benefits liabilities	292	328
Customer deposits and deferred service revenue	444	407
Other current liabilities	417	495
Total current liabilities	1,645	1,724
Long-term debt	305	307
Pension and indemnity plan liabilities	557	517
Postretirement and postemployment benefits liabilities	259	244
Income taxes	307	500
Other liabilities	158	158
Minority interests	21	18
Total liabilities	3,252	3,468
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding at December 31, 2005 and 2004, respectively	—	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 181.7 and 186.6 shares issued and outstanding at December 31, 2005 and 2004, respectively	2	2
Paid-in capital	794	1,030
Retained earnings	1,518	989
Accumulated other comprehensive (loss) income	(279)	65
Total stockholders' equity	2,035	2,086
Total liabilities and stockholders' equity	$5,287	$5,554

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

Shares issued reflect a two-for-one stock split effective on January 21, 2005

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Consolidated Statements of Cash Flows

In millions

For the year ended December 31	2005	2004	2003
Operating activities			
Net Income	$ 529	$ 290	$ 58
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	247	275	315
Deferred income taxes	55	(15)	9
Non-cash income tax adjustment	(214)	(85)	—
Other adjustments to income, net	3	(19)	1
Changes in assets and liabilities:			
Receivables	5	(70)	(26)
Inventories	(6)	(46)	(45)
Current payables	(37)	91	122
Customer deposits and deferred service revenue	34	43	22
Employee severance and pension	42	(3)	(7)
Other assets and liabilities	(50)	(25)	(8)
Net cash provided by operating activities	608	436	441
Investing activities			
Purchases of short-term investments	—	(30)	(77)
Proceeds from sales and maturities of short-term investments	—	80	67
Net expenditures and proceeds for reworkable service parts	(94)	(92)	(96)
Expenditures for property, plant and equipment	(73)	(77)	(63)
Proceeds from sales of property, plant and equipment	11	68	7
Additions to capitalized software	(74)	(85)	(70)
Other investing activities, net	(25)	(36)	(3)
Net cash used in investing activities	(255)	(172)	(235)
Financing activities			
Purchases of Company common stock	(415)	(428)	(90)
Short-term borrowings, additions	—	1	1
Short-term borrowings, repayments	—	(2)	(3)
Long-term debt, additions	—	—	1
Proceeds from employee stock plans	138	260	35
Other financing activities, net	—	—	(20)
Net cash used in financing activities	(277)	(169)	(76)
Effect of exchange rate changes on cash and cash equivalents	(16)	16	23
Increase in cash and cash equivalents	60	111	153
Cash and cash equivalents at beginning of year	750	639	486
Cash and cash equivalents at end of year	$ 810	$ 750	$ 639
Supplemental data			
Cash paid during the year for:			
Income taxes	$ 50	$ 61	$ 43
Interest	$ 23	$ 23	$ 21

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

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Consolidated Statements of Changes in Stockholders' Equity

In millions

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
December 31, 2002	**97**	**$ 1**	**$1,217**	**$ 641**	**$ (534)**	**$1,325**
Employee stock purchase and stock compensation plans	2	—	39	—	—	39
Purchase of Company common stock	(4)	—	(90)	—	—	(90)
Subtotal	95	1	1,166	641	(534)	1,274
Net income	—	—	—	58	—	58
Other comprehensive income, net of tax:						
Currency translation adjustments	—	—	—	—	48	48
Unrealized gains on securities	—	—	—	—	5	5
Changes in additional minimum pension liability	—	—	—	—	490	490
Unrealized gains on derivatives	—	—	—	—	—	—
Comprehensive income	—	—	—	58	543	601
December 31, 2003	**95**	**$ 1**	**$1,166**	**$ 699**	**$ 9**	**$1,875**
Employee stock purchase and stock compensation plans	7	—	293	—	—	293
Purchase of Company common stock	(9)	—	(428)	—	—	(428)
Stock split in the form of a stock dividend	94	1	(1)	—	—	—
Subtotal	187	2	1,030	699	9	1,740
Net income	—	—	—	290	—	290
Other comprehensive income (loss), net of tax:						
Currency translation adjustments	—	—	—	—	58	58
Unrealized gains on securities	—	—	—	—	4	4
Changes in additional minimum pension liability	—	—	—	—	—	—
Unrealized losses on derivatives	—	—	—	—	(6)	(6)
Comprehensive income	—	—	—	290	56	346
December 31, 2004	**187**	**$ 2**	**$1,030**	**$ 989**	**$ 65**	**$2,086**
Employee stock purchase and stock compensation plans	7	—	179	—	—	179
Purchase of Company common stock	(12)	—	(415)	—	—	(415)
Subtotal	182	2	794	989	65	1,850
Net income	—	—	—	529	—	529
Other comprehensive (loss) income, net of tax:						
Currency translation adjustments	—	—	—	—	(98)	(98)
Unrealized gains on securities	—	—	—	—	4	4
Changes in additional minimum pension liability	—	—	—	—	(269)	(269)
Unrealized gain on derivatives	—	—	—	—	19	19
Comprehensive loss	—	—	—	529	(344)	185
December 31, 2005	**182**	**$ 2**	**$ 794**	**$ 1,518**	**$ (279)**	**$2,035**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of Business and Significant Accounting Policies

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

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

Basis of Consolidation The consolidated financial statements include the accounts of NCR and its majority-owned subsidiaries. Long-term investments in affiliated companies in which NCR owns between 20% and 50%, and therefore exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which NCR does not exercise significant influence (generally, when NCR has an investment of less than 20% and no representation on the company's board of directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. In addition, the Company is required to determine whether it is the primary beneficiary of economic income or losses that may be generated by variable interest entities in which the Company has such an interest. In circumstances where the Company has determined it is the primary beneficiary, consolidation of that entity is required.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States (otherwise referred to as GAAP) requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates.

The results for 2005 include the benefit of a $7 million ($5 million after-tax) reduction of accruals made in previous periods for purchased goods and services. The reversal resulted in a reduction of selling, general and administrative expenses of $3 million and a reduction of cost of products and services of $4 million. The over-accrual was primarily due to the incorrect acknowledgement of goods and services received. The Company has taken actions, such as increased user training and enhanced monitoring controls, to mitigate the potential for replicating this matter. The Company has determined that the impact of this item in all prior interim and annual periods and to 2005 results was immaterial to the results of operations.

Revenue Recognition NCR's revenue recognition policy is consistent with the requirements of Statement of Position 97-2 (SOP 97-2), "Software Revenue Recognition," Staff Accounting Bulletin No. 104 (SAB 104), "Revenue Recognition," Emerging Issues Task Force Issue No. 00-21 (Issue 00-21), "Revenue Arrangements with Multiple Deliverables," and other applicable revenue recognition guidance and interpretations. The Company records revenue when it is realized, or realizable, and earned. The Company considers these requirements met when persuasive evidence of an arrangement exists, the products or services have been provided to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured.

Typically, NCR does not sell its software products without the related hardware. The majority of the Company's solutions contain software that is more than incidental to the hardware and services included in the arrangement. The Company's typical solution requires no significant production, modification or customization of the software or hardware after it is shipped. For these arrangements, revenue is recognized upon shipment, delivery, installation or customer acceptance of the product, as defined in the customer contract. Revenue for services-only contracts is typically recognized when the services are complete or ratably over the period services are provided.

As a solutions provider, the Company's sales arrangements often include support services in addition to hardware and software. These services could include hardware and software maintenance, customer support and professional consulting services. Revenue for the Company's arrangements that include multiple elements is allocated to each element based on vendor-specific objective evidence of the fair value of each element as defined in SOP 97-2. Allocated revenue for each element is recognized when revenue recognition criteria have been met for each element. Vendor-specific objective evidence of fair value is determined based on the price charged when each element is sold separately. For transactions with no software elements, or for which software is incidental, the guidance in Issue 00-21 on multiple deliverables is followed to determine if separate units of accounting exist and, if so, how the contractual consideration should be allocated to the individual elements. The allocation of the arrangement fee to the various deliverables is based upon the relative fair value of each of the deliverables.

NCR’s customers may request that certain transactions be on a bill and hold basis. For these transactions, the Company recognizes revenue in accordance with SAB 104. Typically, the amount from bill and hold transactions makes up approximately 1% of consolidated revenue.

Cash, Cash Equivalents and Short-Term Investments All short-term, highly liquid investments having original maturities of three months or less are considered to be cash equivalents. Short-term investments include securities generally having maturities of 90 days to one year. The Company had no short-term investments as of December 31, 2005 and December 31, 2004.

Transfer of Financial Assets NCR offers its customers the option to acquire its products and services through payment plans, financing or leasing contracts. From time to time, the Company has factored certain receivables, or transfers future payments under these contracts, to financing institutions on a non-recourse basis. NCR may act as servicing agent for the purchaser and retain collection and administrative responsibilities. These transfers are recorded as sales of the related accounts receivable when NCR is considered to have surrendered control of such receivables. The Company had factored receivables of $1 million at December 31, 2005, $3 million at December 31, 2004 and $11 million at December 31, 2003. The related cost of the factoring was immaterial to the Company’s consolidated financial results.

Allowance for Doubtful Accounts NCR establishes provisions for doubtful accounts using both percentages of accounts receivable balance to reflect historical average credit losses and specific provisions for known issues. Given this experience, NCR believes that the reserves for potential losses are adequate, but if one or more of the Company’s larger customers were to default on its obligations under applicable contractual arrangements, NCR could be exposed to potentially significant losses in excess of the provisions established.

Inventories Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis. Excess and obsolete reserves are established based on forecasted usage, orders, technological obsolescence and inventory aging.

Investments in Marketable Securities Typically, marketable securities, which are included in other assets, are deemed by management to be available-for-sale and are reported at fair value with net unrealized gains or losses reported, net-of-tax, within stockholders’ equity. If a decline in the fair value of a marketable security is deemed by management to be other than temporary, the cost basis of the investment is written down to fair value, and the amount of the write-down is included in the determination of income. Realized gains and losses are recorded based on the specific identification method and average cost method, as appropriate, based upon the investment type.

Long-Lived Assets

Capitalized Software Certain direct development costs associated with internal-use software are capitalized within other assets and are amortized over the estimated useful lives of the resulting software. NCR typically amortizes capitalized internal-use software on a straight-line basis over four years beginning when the asset is substantially ready for use.

Costs incurred for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These costs are included within other assets and are amortized over the estimated useful lives of the resulting software. The Company typically amortizes capitalized software on a sum-of-the-years’ digits basis over three years beginning when the product is available for general release. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility and after general release are expensed as incurred.

The following table identifies the activity relating to capitalized software.

In millions	2005	2004	2003
Beginning balance at January 1	**$109**	$100	$ 99
Capitalization	**73**	79	69
Amortization	**(72)**	(70)	(68)
Ending balance at December 31	**$110**	$109	$100

Goodwill Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," requires the identification of reporting units, which NCR has deemed to be the operating segments described in Note 12 of Notes to Consolidated Financial Statements, with the exception of Retail Store Automation, which is further divided between self-service technologies and traditional POS. Goodwill is allocated to the reporting units for the purposes of goodwill impairment testing, which is performed at least annually. The impairment test is also performed if an event occurs or when circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Property, Plant and Equipment Property, plant and equipment, reworkable service parts, 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. Buildings are depreciated over 25 to 45 years, machinery and other equipment over three to ten years and reworkable service parts over three to six years. Reworkable service parts are those parts that can be reconditioned and used in installation and ongoing maintenance services and integrated service solutions for NCR's customers. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter.

Property, Plant and Equipment Held for Sale Long-lived assets to be sold are classified as held for sale in the period for which they meet the criteria outlined in Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Assets classified as held for sale are carried at the lower of their carrying amount or fair value, and are not depreciated while classified as held for sale.

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

Asset Retirement Obligations for Electrical Equipment For company owned electrical and electronic equipment that falls under the WEEE Directive adopted by the European Union, we establish reserves associated with the retirement of assets in an environmentally sound manner based on the current fair value of the obligation. Upon initial recognition of a liability, we capitalize an asset retirement cost by increasing the carrying amount of the related asset by the same amount as the liability. In the periods subsequent to the initial recognition of a liability, we recognize changes to the liability based on the passage of time or revisions in the original estimates consistent with the guidance in Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

For sales of the Company's products placed on the market after August 13, 2005, the Company records a non-current accrued liability based on an estimate of the per unit costs to recycle or otherwise dispose of the equipment in an environmentally sound manner.

Warranty, Post-Sales Support and Sales Returns Provisions for product warranties, post-sales support and sales returns and allowances are recorded in the period in which the related revenue is recognized. The Company accrues warranty reserves and sales return and allowances using percentages of revenue to reflect the Company's historical average warranty and sales return claims.

In addition to the standard product warranty, the Company offers extended warranties to its customers. NCR considers extended warranties to be no different than a normal service contract and therefore accounts for the extended warranty by deferring revenue equal to the fair value of the warranty and recognizes the deferred revenue over the extended warranty term.

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

Leases The Company accounts for material escalation clauses, free or reduced rents and landlord incentives on a straight-line basis over the lease term, including any reasonably assured lease renewals. For leasehold improvements that are funded by the landlord, the Company records the incentive as deferred rent. The deferred rent is then amortized as reductions to lease expense over the lease term.

Pension, Postretirement and Postemployment Benefits NCR has significant pension, postretirement and postemployment benefit costs, which are developed from actuarial valuations. Actuarial assumptions are established to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions the Company makes about interest rates, expected investment return on plan assets, rate of increase in health care costs, total and involuntary turnover rates, and rates of future compensation increases. In addition, NCR's actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop the Company's valuations. NCR generally reviews and updates these assumptions on an annual basis. NCR is required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that NCR uses 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 amount of pension, postretirement or postemployment benefits expense the Company has recorded or may record.

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

Derivative Instruments In the normal course of business, NCR enters into various financial instruments, including derivative financial instruments. The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivatives and Hedging Activities," as amended. The standard requires the recognition of all derivative instruments as either assets or liabilities in the balance sheet at fair value and recognition of the resulting gains or losses as adjustments to earnings or other comprehensive income. The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. Hedging activities are transacted only with highly-rated institutions, reducing the exposure to credit risk in the event of nonperformance.

The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company has designated the hedging instrument, based on the exposure being hedged, as either a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation. For derivative instruments designated as fair value hedges, the effective portion of the hedge is recorded as an offset to the change in the fair value of the hedged item, and the ineffective portion of the hedge, if any, is recorded in the income statement. For derivative instruments designated as cash flow hedges and determined to be highly effective, the gains or losses are deferred in other comprehensive income and recognized in the determination of income as adjustments of carrying amounts when the underlying hedged transaction is realized, canceled or otherwise terminated. When hedging certain foreign currency transactions of a long-term investment nature (net investments in foreign operations), gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on foreign exchange contracts that are not used to hedge currency transactions of a long-term investment nature, or that are not designated as cash flow or fair value hedges, are recognized in other income or expense as exchange rates change.

Environmental and Legal Contingencies In the normal course of business, NCR is subject to various regulations, proceedings, lawsuits, claims and other matters, including actions under laws and regulations related to the environment and health and safety, among others. NCR believes the amounts provided in its consolidated financial statements, as prescribed by GAAP, are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including the Fox River environmental matter discussed below in Note 11 of Notes to Consolidated Financial Statements, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's consolidated financial statements or will not have a material adverse effect on the consolidated results of operations, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of December 31, 2005 cannot currently be reasonably determined.

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

Earnings Per Share Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares added from stock options and restricted stock awards. Please refer to Note 8 of Notes to Consolidated Financial Statements for share information on NCR's stock compensation plans.

The components of basic and diluted earnings per share are as follows (in millions, except earnings per share):

For the year ended December 31	2005	2004	2003
Net income available for common stockholders	**$ 529**	$ 290	$ 58
Weighted average outstanding shares of common stock	**185.0**	187.6	190.0
Dilutive effect of employee stock options and restricted stock	**4.1**	3.9	1.7
Common stock and common stock equivalents	**189.1**	191.5	191.7
Earnings per share:			
Basic	**$ 2.86**	$ 1.55	$ 0.31
Diluted	**$ 2.80**	$ 1.51	$ 0.30

Options to purchase an additional 1.7 million shares of common stock for 2005 and 16.5 million in 2003 were outstanding but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive. There were no such options outstanding in 2004.

Reclassifications Certain prior year amounts have been reclassified to conform to the 2005 presentation.

Stock Compensation NCR accounts for its stock-based employee compensation plans using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25), which requires compensation expense for options to be recognized when the market price of the underlying stock exceeds the exercise price on the date of grant. In addition, no compensation expense is recorded for purchases under the Employee Stock Purchase Plan (ESPP) in accordance with APB No. 25. If NCR recognized stock option-based compensation expense based on the fair value of stock option grants, restricted stock grants and employee stock purchases under the ESPP at the grant date, net income and net income per diluted share for the years ended December 31 would have been as follows:

In millions, except for per share data	Years ended December 31		
	2005	2004	2003
Net income	**$ 529**	$ 290	$ 58
Stock-based employee compensation expense included in reported net income (pre-tax)	**5**	5	4
Tax benefit of stock-based employee compensation included in reported net income	**(1)**	(1)	(1)
Subtotal: Add to net income	**4**	4	3
Total stock-based employee compensation expense determined under fair value-based method for awards (pre-tax)	**26**	33	43
Tax (benefit) expense of stock-based employee compensation determined under fair value- based method for awards	**(7)**	(6)	11
Subtotal: Deduct from net income	**19**	27	54
Pro forma net income	**$ 514**	$ 267	$ 7
Basic net income per share:			
As reported:	**$2.86**	$1.55	$0.31
Pro forma:	**$2.78**	$1.42	$0.04
Diluted net income per share:			
As reported:	**$2.80**	$1.51	$0.30
Pro forma:	**$2.72**	$1.39	$0.04

Per share amounts reflect a two-for-one stock split effective on January 21, 2005.

The pro forma amounts listed above are not necessarily indicative of the effects on net income and net income per diluted share in future years. See Factors That May Affect Future Results under Management's Discussion and Analysis for further discussion of stock compensation accounting and its impact on NCR.

Departures of certain senior executives in 2003 caused an unusually high amount of expirations of stock options. The effect of these events on the pro forma expense for the year ended December 31, 2003 was the recognition of a significant amount of pro forma tax expense from the write-off of pro forma deferred tax assets. These deferred tax assets would have been recorded as the options were vesting if NCR accounted for stock compensation in accordance with Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." The pro forma tax expense for the year ended December 31, 2003 is unusually higher than other periods because of these events.

The pro forma net income and net income per diluted share for all periods presented were computed using the fair value of options as calculated using the Black-Scholes option-pricing method. The following weighted average assumptions were used to calculate the fair value of stock option grants using Black-Scholes for the periods shown in the above table:

	2005	2004	2003
Dividend yield	**—**	—	—
Risk-free interest rate	**4.04%**	2.99%	3.08%
Expected volatility	**36%**	45%	45%
Expected holding period (years)	**5.5**	5.0	5.0

The weighted average fair value of NCR stock options calculated using Black-Scholes for options granted was $14.94 per share in 2005, $9.76 per share in 2004 and $5.11 per share in 2003 on a post stock-split basis.

During the first quarter of 2005, the Company evaluated the expected volatility assumption used to calculate the fair value of the 2005 employee stock option grants. Prior option grants (valuations) have used historical volatility to estimate the expected volatility. In addition to historical volatility, the Company believes it is important to consider how future experiences may differ from the past. The expected volatility for 2005 incorporated a blend of both historical and implied volatility as management believes this is more representative of prospective trends. This change in estimate applied to the 2005 grant of management stock options. This change did not have a material impact on the 2005 pro forma stock-based employee compensation expense.

Please refer to Note 8 of Notes to Consolidated Financial Statements for more information on NCR's stock compensation plans.

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 123 (revised 2004) In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R). SFAS 123R requires that all share-based payments to employees, including grants of stock options, be recognized in the financial statements based on their fair value beginning with the first interim or annual reporting period that begins after June 15, 2005. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC Staff's interpretation of SFAS 123R and provides the Staff's views regarding interactions between SFAS 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. In April 2005, the SEC amended Regulation S-X to amend the date for compliance with SFAS 123R so that each registrant (that is not a small business issuer) will be required to prepare financial statements in accordance with SFAS 123R beginning with the first interim reporting period for the registrant's first fiscal year beginning on or after June 15, 2005. The Company will adopt SFAS 123R beginning January 1, 2006. While the expense impact cannot be precisely estimated at this time, the Company believes its stock compensation expense for 2006 will be approximately 10 cents per share.

FASB Interpretation No. 47 In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47), an interpretation of SFAS No. 143, "Accounting for Asset Retirement Obligations." FIN 47 states that the term conditional asset retirement obligation refers to an unconditional, legal obligation to perform an asset retirement obligation activity in which the timing and/or method of settlement are uncertain and conditional on a future event. If sufficient information exists for fair value measurement of the obligation, FIN 47 requires the Company to recognize a liability when incurred. The Company adopted FIN 47 in the fourth quarter of 2005. The adoption of FIN 47 did not have a material impact on our consolidated results of operations, financial position or cash flows.

FASB Staff Position No. FAS 143-1 In June 2005, the FASB issued FSP No. FAS 143-1, "Accounting for Electronic Equipment Waste Obligations" (FSP 143-1). FSP 143-1 clarifies the accounting for obligations associated with the WEEE Directive adopted by the European Union (EU). The WEEE Directive directs EU-member countries to adopt legislation to regulate the collection, treatment, recovery and environmentally sound disposal of electrical and electronic waste equipment. The WEEE Directive concludes that commercial users are obligated to retire, in an environmentally sound manner, specific assets that qualify as historical waste (purchased August 13, 2005 and before). FSP 143-1 requires commercial users to apply the provisions of SFAS 143, "Accounting for Asset Retirement Obligations," and the related FIN 47, "Accounting for Conditional Asset Retirement Obligations," when establishing the commercial user liability. The provisions of FSP 143-1 are effective the later of the first reporting period ending after June 8, 2005, or the date of the adoption of the law by the applicable EU-member country. As a result of adopting FSP 143-1, the Company recorded an immaterial net charge in 2005 for assets owned by the Company.

For sales of the Company's products placed on the market after August 13, 2005, the Company has recorded, and expects to continue recording each period, a non-current accrued liability. The amount recorded in 2005 was immaterial to our results of operations. However, we do expect this accrual to increase as more products are placed on the market.

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Note 2 Supplemental Financial Information (in millions)

For the year ended December 31	2005	2004	2003
Other expense (income)			
Interest income	**$ (21)**	$ (10)	$ (9)
Net gains on real estate	**(13)**	(17)	—
Fox River provision (see Note 11)	**—**	—	37
Impairment of equity investment (see Note 4)	**10**	—	—
Other, net	**15**	(14)	4
Other (income) expense, net	**(9)**	(41)	32
Interest expense	**23**	23	26
Total interest and other expense (income), net	**$ 14**	$ (18)	$ 58

At December 31	2005	2004
Accounts receivable		
Trade	**$1,276**	$1,291
Other	**54**	37
Accounts receivable, gross	**1,330**	1,328
Less: allowance for doubtful accounts	**25**	24
Total accounts receivable, net	**$1,305**	$1,304
Inventories		
Finished goods, net	**$ 265**	$ 258
Work in process and raw materials, net	**96**	97
Total inventories, net	**$ 361**	$ 355
Other current assets		
Current deferred tax assets	**$ 95**	$ 96
Other	**122**	128
Total other current assets	**$ 217**	$ 224
Reworkable service parts and rental equipment		
Reworkable service parts and rental equipment, gross	**$ 443**	$ 464
Less: accumulated depreciation	**208**	240
Total reworkable service parts and rental equipment, net	**$ 235**	$ 224
Property, plant and equipment		
Land and improvements	**$ 68**	$ 80
Buildings and improvements	**391**	434
Machinery and other equipment	**928**	1,008
Property, plant and equipment, gross	**1,387**	1,522
Less: accumulated depreciation	**1,016**	1,092
	371	430
Land and improvements held for sale, net	**2**	2
Buildings and improvements held for sale, net	**5**	14
Total property, plant and equipment, net	**$ 378**	$ 446

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Note 2 Supplemental Financial Information (in millions, continued)

At December 31	2005	2004
Accumulated other comprehensive (loss) income, net of tax		
Currency translation adjustments	**$ 58**	$156
Unrealized gain on securities	**15**	11
Unrealized gain (loss) on derivatives	**4**	(15)
Additional minimum pension liability [1]	**(356)**	(87)
Total accumulated other comprehensive (loss) income	**$(279)**	$ 65

[1] See Note 9 of Notes to Consolidated Financial Statements for details on the change in additional minimum pension liability.

Note 3 Restructuring and Real Estate Transactions

In the third quarter of 2002, NCR announced re-engineering plans to improve operational efficiency throughout the Company. The Company is targeting process improvements to drive simplification, standardization, globalization and consistency across the organization. Key business processes and supporting functions are being re-engineered to improve efficiency and lower costs and expenses. Management is taking action to shorten the Company's product and service offer development cycles and to improve its sales and order management processes. To improve accounts receivables collections and cash flow, management implemented plans to drive efficiencies for the Company's invoicing and collection activities.

To further improve profitability in Customer Services, NCR offered an early retirement program to qualified Customer Service engineers in the United States. As a result of participant election, the Company recorded a non-cash increase in pension expense during the second quarter of 2005 of $19 million.

During 2005, the Company recognized $13 million ($11 million after-tax) in net gains from the disposal of real estate. The net book value of the properties sold was $30 million. Related to the sale of one of these properties, the Company received proceeds of $5 million in cash at the closing and a note receivable for the balance. The balance of $20 million is payable in equal annual installments plus interest over the next four years. The Company recognized a loss of $2 million related to a sales-leaseback transaction in the fourth quarter of 2005. For that transaction, $4 million in cash was received at the closing and a note receivable of $15 million plus interest is payable over the next two years. The terms of the lease provide that the Company lease back a portion of the property for ten years at market terms.

During the fourth quarter of 2002, in connection with announced restructuring efforts, NCR's management approved a real estate consolidation and restructuring plan designed to accelerate the Company's re-engineering strategies. A pre-tax restructuring charge of $16 million was recorded in the fourth quarter of 2002 under EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," to provide for contractual lease termination costs. The balance of this recorded liability at December 31, 2004, was $6 million. The Company reviews this reserve on a quarterly basis to determine whether the reserve is adequate based on current market conditions. In the third quarter of 2005, based on our quarterly assessment, the reserve was increased by $6 million. The increase was taken to account for the anticipated vacant periods, free rent and loss on subleases that are expected based on current market conditions. During 2005, the Company utilized $4 million of the reserve. The remaining lease obligations will expire over various dates through 2015. The remaining balance of this recorded liability on December 31, 2005 was $8 million.

Note 4 Business Combinations, Divestitures and Equity Investments

The Company completed four acquisitions during fiscal 2005 for a total cost of approximately $30 million, which was paid in cash and one acquisition during fiscal 2004 for a total cost of approximately $26 million, which was paid in cash. A description of each acquisition is as follows:

- Acquisition of InfoWise Solutions, Inc. on March 23, 2005 to enhance the Company's business intelligence platform by providing users with a personalized view of key performance indicators, alerts and content.
- Acquisition of InfoAmerica on May 16, 2005 to enhance the Company's self-service offering in the quick-service restaurant industry through kiosk solutions enabling self-service ordering.
- Acquisition of DecisionPoint Software on November 30, 2005 to add to the Company's data warehouse offering by integrating data from financial and non-financial sources in near real-time.

- Acquisition of Galvanon, Inc. on December 19, 2005 to extend the Company's self-service competency into the health care industry through kiosks and web self-service applications.
- Acquisition of Kinetics, Inc. on September 30, 2004 to enable the Company to extend its market reach and leadership to additional market segments like airline and hotel check-in, quick-service food ordering and event ticketing.

Goodwill recognized in these transactions amounted to $9 million in 2005 and $18 million in 2004, and the amount is expected to be fully deductible for tax purposes. Goodwill of $5 million in 2005 and $18 million in 2004 was assigned to the Retail Store Automation segment and $4 million in 2005 was assigned to the Data Warehousing segment. The total amount for purchased intangible assets was $21 million in 2005 and $8 million in 2004. The weighted-average amortization period is 4.8 years for the purchased intangible assets, which consist primarily of intellectual property associated with software, as well as a non-compete arrangement with the former owners of Galvanon.

The operating results of these businesses have been included with NCR's results as of the respective closing dates of the acquisitions. The pro forma disclosures required under FASB Statement No. 141, "Business Combinations," are not being provided because the impact of the transactions is not material. The purchase prices of these businesses, reported under Other Investing Activities in the Consolidated Statements of Cash Flows, have been allocated to the estimated fair value of net tangible and intangible assets acquired, with any excess recorded as goodwill.

During 2003, NCR had no significant acquisition or divestiture activity. Also, in 2005, 2004 and 2003, NCR completed other investments and sold assets related to portions of its businesses to third parties, all of which were insignificant.

In the first quarter of 2005, the Company wrote down the book value of an equity investment made in 1997 by $10 million to the estimated fair market value. The Company concluded that the decline in market value was not temporary and it was unlikely that we could recover the carrying amount of our investment.

Note 5 Goodwill and Other Intangible Assets

The carrying amounts of goodwill by operating segment for the year ended December 31, 2005 were as follows:

In millions	Balance December 31, 2004	Additions	Other Adjustments	Balance December 31, 2005
Goodwill				
Data Warehousing	$ 80	$ 4	$ (3)	**$ 81**
Financial Self Service	15	—	(1)	**14**
Retail Store Automation	18	5	—	**23**
Customer Services	8	—	—	**8**
Systemedia	—	—	—	**—**
Payment & Imaging and Other	3	—	—	**3**
Total goodwill	$ 124	$ 9	$ (4)	**$ 129**

The increase in goodwill since December 31, 2004 is due to the acquisitions of DecisionPoint Software in our Data Warehousing segment and Galvanon and InfoAmerica in our Retail Store Automation segment. Additional information is provided under Note 4 to Notes to Consolidated Financial Statements. The decreases are due to foreign currency fluctuations. In the fourth quarter of 2005, in accordance with SFAS 142, NCR performed its annual impairment test using the same methodology used in previous years. No goodwill impairment losses were realized.

NCR's other intangible assets, reported under Other Assets in the Consolidated Balance Sheets, which were specifically identified when acquired, are deemed to have finite lives and are being amortized over original periods ranging from four to ten years. The gross carrying amount and accumulated amortization for NCR's other intangible assets were as follows:

In millions	December 31, 2005 Gross Carrying Amount	December 31, 2005 Accumulated Amortization	December 31, 2004 Gross Carrying Amount	December 31, 2004 Accumulated Amortization
Other intangible assets				
Patents	**$ 14**	**$ (13)**	$ 14	$ (12)
Intellectual property	**53**	**(12)**	28	(7)
Total other intangible assets	**$ 67**	**$ (25)**	$ 42	$ (19)

The increase in the intellectual property since December 31, 2004 is primarily due to the purchase of intellectual property licenses from various vendors and intellectual property associated with our acquisitions described above in Note 4.

The aggregate amortization expense (actual and estimated, in millions) for other intangible assets for the following periods is:

	Actual 2005	Estimated 2006	2007	2008	2009	2010
Amortization expense	**$ 8**	$10	$ 9	$ 9	$ 8	$ 4

Note 6 Debt Obligations

In June 2002, the Company issued $300 million of senior unsecured notes with an interest rate of 7.125% due in 2009. The net proceeds from the issuance totaled $296 million, after discount and expenses, and were used to repay short-term debt with the remainder available for general corporate purposes. In the fourth quarter of 2003, the Company entered into an interest rate swap that effectively converted $50 million of the notes to floating rate debt. See Note 10 of Notes to Consolidated Financial Statements for further details of the interest rate swap.

The most significant portion of the Company's other long-term debt consists of notes payable originating in the United States with maturities of $0.6 million at a rate of 9.4% in 2010 and $5 million at a rate of 9.49% in 2020.

In October 2004, the Company replaced a $200 million, 364-day unsecured credit facility with a $200 million, five-year unsecured credit facility with a syndicate of financial institutions. In addition to the $200 million facility, the Company has a $400 million, five-year unsecured revolving credit facility, which the Company entered into in October 2001. The credit facilities contain certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. Interest rates charged on borrowings outstanding under the credit facilities are based on prevailing market rates. No amounts were outstanding under the facilities at December 31, 2005 and 2004.

Note 7 Income Taxes

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

In millions	2005	2004	2003
Income (loss) before income taxes			
United States	**$233**	$101	$ 98
Foreign	**163**	150	(26)
Total income before income taxes	**$396**	$251	$ 72

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

In millions	2005	2004	2003
Income tax (benefit) expense			
Current			
Federal	**$ (11)**	$ 3	$(39)
State and local	**1**	(1)	3
Foreign	**33**	58	37
Deferred			
Federal	**(179)**	(80)	(55)
State and local	**6**	—	5
Foreign	**17**	(19)	63
Total income tax (benefit) expense	**$(133)**	$ (39)	$ 14

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

In millions	2005	2004	2003
Income tax expense at the U.S. federal tax rate of 35%	**$ 139**	$ 88	$ 25
Foreign income tax differential	**(51)**	(56)	(10)
U.S. permanent book/tax differences	**(2)**	(3)	3
Tax audit settlements	**(222)**	(66)	(6)
Other, net	**3**	(2)	2
Total income tax (benefit) expense	**$(133)**	$(39)	$ 14

NCR's tax provisions include a provision for income taxes in those tax jurisdictions where its subsidiaries are profitable, but reflect only a portion of the tax benefits related to certain foreign subsidiaries' tax losses due to the uncertainty of the ultimate realization of future benefits from these losses. In 2005, the Company realized $214 million in income tax benefits resulting from a successful resolution of prior year tax audits through 2002. The income tax benefit for 2005 also includes a non-cash $9 million benefit from an adjustment to the Company's tax accounts in the United Kingdom. The adjustment related to tax items that were originally recorded in years prior to 2003. The Company has determined that the impact of this adjustment was immaterial to the results of operations for all current and prior periods. In 2004, the Company realized an $85 million income tax benefit resulting from the favorable settlement of tax audit issues relating to the period when NCR was a subsidiary of AT&T.

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

In millions	2005	2004
Deferred income tax assets		
Employee pensions and other benefits	**$ 188**	$ 28
Other balance sheet reserves and allowances	**132**	136
Tax loss and credit carryforwards	**697**	856
Capitalized research and development	**297**	224
Property, plant and equipment	**38**	15
Other	**48**	41
Total deferred income tax assets	**1,400**	1,300
Valuation allowance	**(542)**	(585)
Net deferred income tax assets	**858**	715
Deferred income tax liabilities		
Property, plant and equipment	**58**	25
Employee pensions and other benefits	**276**	353
Other	**48**	31
Total deferred income tax liabilities	**382**	409
Total net deferred income tax assets	**$ 476**	$ 306

NCR recorded valuation allowances related to certain deferred income tax assets due to the uncertainty of the ultimate realization of future benefits from those assets. The valuation allowance covers deferred tax assets, primarily tax loss carryforwards, in tax jurisdictions where there is uncertainty as to the ultimate realization of a benefit from those tax losses. As of December 31, 2005, NCR had U.S. federal and foreign tax loss carryforwards of approximately $1,828 million. The tax loss carryforwards subject to expiration expire in the years 2006 through 2025.

NCR did not provide for U.S. federal income taxes or foreign withholding taxes on approximately $410 million and $682 million of undistributed earnings of its foreign subsidiaries as of December 31, 2005 and 2004, respectively, because such earnings are intended to be reinvested indefinitely.

The income tax (benefit) expense related to other comprehensive income was $(134) million for 2005, $(10) million for 2004 and $345 million for 2003.

Note 8 Employee Stock Compensation Plans

The NCR Management Stock Plan provides for the grant of several different forms of stock-based benefits, including stock options, relating to shares of NCR common stock. Stock options are generally granted at the fair market value of the common stock at the date of grant, generally have a ten-year term and vest within four years of the grant date. Grants that were issued before 1998 generally had a four-year vesting period, grants between 1999 and 2004 had a three-year vesting period, and grants issued in 2005 had a four-year vesting period. Future grants are likely to have a four-year vesting period. Options to purchase common stock may be granted under the authority of the Board of Directors. Option terms as determined by the Compensation Committee of the Board of Directors will not exceed ten years, as consistent with the Internal Revenue Code. The plan was adopted by the Board of Directors, with stockholder approval, effective January 1, 1997. The plan contains an evergreen provision that initially authorized and made available for grant 5.6% of the outstanding shares as of January 1, 1997, as well as sufficient shares to replace all outstanding awards held by active NCR employees for shares of AT&T stock. Thereafter, the number of shares authorized under the plan increases each calendar year by 4% of the outstanding shares on the first day of the year for the ten-year term of the plan without the need for additional Board approval. At December 31, 2005, 73 million shares of common stock were authorized and 62 million shares were available for grant under this plan. However, the number of options granted has steadily declined as a percentage of the number of outstanding shares. In 2005, the number of options granted was approximately 1% of total outstanding shares.

On February 14, 2005, the Compensation and Human Resource Committee amended the standard forms of the Stock Option Agreement and Restricted Stock Agreement used in connection with the Company's 2005 annual long-term incentive awards granted by this committee under the NCR Management Stock Plan. The vesting periods under each of these agreements was extended from three equal annual installments to four equal annual installments.

At its meeting on April 26, 2005, the Compensation and Human Resource Committee approved the standard form of the Company's Restricted Stock Agreement to be used in connection with awards for retention, promotion and other special circumstances. Under this agreement, restricted stock awards will vest in full three years from their grant date if the recipient is still employed by NCR.

Please refer to Note 1 of Notes to Consolidated Financial Statements for the expense impact and option valuation information of the Company's stock compensation plans.

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A summary of stock option activity under the NCR Management Stock Plan is as follows (the share and per share amounts disclosed within this Note reflect a two-for-one stock split effective January 21, 2005):

Shares in thousands	2005 Shares Under Option	2005 Weighted Average Exercise Price	2004 Shares Under Option	2004 Weighted Average Exercise Price	2003 Shares Under Option	2003 Weighted Average Exercise Price
Outstanding at beginning of year	16,743	$ 18.71	27,612	$ 18.17	32,752	$ 19.11
Granted	1,889	$ 37.26	2,325	$ 22.66	3,698	$ 11.58
Exercised	(6,276)	$ 18.70	(13,181)	$ 18.38	(1,052)	$ 15.35
Canceled	(1,065)	$ 24.33	(65)	$ 15.95	(1,812)	$ 17.79
Forfeited	(151)	$ 17.77	52	$ 19.20	(5,974)	$ 19.99
Outstanding at end of year	11,140	$ 21.53	16,743	$ 18.71	27,612	$ 18.17

The following table summarizes information about stock options outstanding at December 31, 2005:

shares in thousands	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$8.76 to $14.49	2,215	7.12	$ 12.03	1,460	$ 12.26
$15.13 to $23.87	7,091	5.23	$ 20.77	5,852	$ 20.43
$24.09 to $39.44	1,834	8.95	$ 35.99	259	$ 28.96
Total	11,140		$ 21.53	7,571	$ 19.14

There were approximately 11.5 million stock options exercisable with a weighted average exercise price of $19.35 at December 31, 2004. At December 31, 2003, there were approximately 20.6 million stock options exercisable with a weighted average exercise price of $19.08.

The NCR Employee Stock Purchase Plan (ESPP) enables eligible employees to purchase NCR's common stock at a discount to the average market price at the end of the last trading day of each month. In 2006, the ESPP discount will be reduced from 15% to 5% of the average market price. This change in plan will result in the expense related to the ESPP to be non-compensatory under SFAS 123R. Employees may authorize payroll deductions up to 10% of eligible compensation for common stock purchases. Employees purchased approximately 0.7 million shares in 2005, 1.0 million shares in 2004 and 1.8 million shares in 2003 of NCR common stock for approximately $20 million in 2005, $19 million in 2004 and $19 million in 2003. As of December 31, 2005, approximately 16 million shares were authorized and 2.1 million shares were available for grant under this plan.

The NCR Management Stock Plan provides for the issuance of restricted stock to certain employees. For substantially all restricted stock grants, at the date of grant, the recipient has all rights of a stockholder, subject to certain restrictions on transferability and a risk of forfeiture. Restricted shares typically vest over a three- to four-year period beginning on the date of grant. The cost of the awards, determined to be the fair market value of the shares at the date of grant, is expensed ratably over the period the restrictions lapse. The Company had 0.9 million shares of restricted stock outstanding at December 31, 2005, 0.7 million shares of restricted stock outstanding at December 31, 2004 and 0.6 million shares of restricted stock outstanding at December 31, 2003. Compensation expense recognized for restricted stock grants was approximately $5 million in 2005, $5 million in 2004 and $4 million in 2003.

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Note 9 Employee Benefit Plans

Pension and Postretirement Plans NCR sponsors defined benefit plans for many of its U.S. employees and international employees. For salaried employees, the defined benefit plans are based primarily upon compensation and years of service. For certain hourly employees in the United States, the benefits are based on a fixed dollar amount per year of service. During 2004, NCR made changes to its U.S. defined benefit pension plans in order to limit participation in the plans to U.S.-based employees who were at least 40 years old and hired by August 31, 2004. The plans are closed to new participants as of September 1, 2004. Certain international plans are also closed to new participants. NCR's funding policy is to contribute annually not less than the minimum required by applicable laws and regulations. Assets of NCR's defined benefit plans are primarily invested in publicly traded common stocks, corporate and government debt securities, real estate investments and cash or cash equivalents.

Prior to September 1998, substantially all U.S. employees who reached retirement age while working for NCR were eligible to participate in a postretirement benefit plan. The plan provides medical care and life insurance benefits to retirees and their eligible dependents. In September 1998, the plan was amended whereby U.S. participants who had not reached a certain age and years of service with NCR were no longer eligible for such benefits. In September 2003, the plan was amended to eliminate the postretirement life insurance benefit for both active and non-active employees. In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law in the United States. This new law will not have any material impact on NCR's postretirement plan liabilities or expense as the Company does not provide prescription drug benefits to its Medicare-eligible retirees. Non-U.S. employees are typically covered under government-sponsored programs, and NCR generally does not provide postretirement benefits other than pensions to non-U.S. retirees. NCR generally funds these benefits on a pay-as-you-go basis.

NCR uses a December 31 measurement date for all of its plans.

Pension Plans

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2005	2004	2005	2004	2005	2004
Change in benefit obligation						
Benefit obligation at January 1	**$ 3,194**	$ 2,960	**$1,939**	$1,635	**$ 5,133**	$ 4,595
Gross service cost	**43**	47	**45**	45	**88**	92
Interest cost	**177**	180	**85**	85	**262**	265
Amendments	**—**	—	**1**	1	**1**	1
Actuarial loss	**126**	181	**162**	142	**288**	323
Other	**—**	—	**9**	—	**9**	—
Benefits paid	**(187)**	(166)	**(100)**	(106)	**(287)**	(272)
Curtailment	**—**	(8)	**—**	(1)	**—**	(9)
Special termination benefits	**19**	—	**—**	—	**19**	—
Currency translation adjustments	**—**	—	**(209)**	138	**(209)**	138
Benefit obligation at December 31	**$ 3,372**	$ 3,194	**$1,932**	$1,939	**$ 5,304**	$ 5,133
Accumulated benefit obligation as of December 31	**$ 3,254**	$ 3,088	**$1,824**	$1,819	**$ 5,078**	$ 4,907

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

In millions	U.S. Pension Benefits 2005	U.S. Pension Benefits 2004	International Pension Benefits 2005	International Pension Benefits 2004	Total Pension Benefits 2005	Total Pension Benefits 2004
Change in plan assets						
Fair value of plan assets at January 1	**$ 3,016**	$ 2,797	**$1,658**	$1,397	**$ 4,674**	$ 4,194
Actual return on plan assets	**260**	376	**257**	141	**517**	517
Company contributions	**9**	9	**101**	102	**110**	111
Benefits paid	**(187)**	(166)	**(100)**	(106)	**(287)**	(272)
Currency translation adjustments	**—**	—	**(180)**	121	**(180)**	121
Other	**—**	—	**10**	—	**10**	—
Plan participant contributions	**—**	—	**2**	3	**2**	3
Fair value of plan assets at December 31	**$ 3,098**	$ 3,016	**$1,748**	$1,658	**$ 4,846**	$ 4,674

In 2005, global capital market developments resulted in a decline in the discount rates used to estimate the pension liability. As a result, the accumulated benefit obligation of certain plans exceeded the fair value of plan assets for those plans and NCR was required to adjust the minimum liability recorded in the consolidated balance sheet. This $403 million charge decreased prepaid pension costs by $316 million, increased pension liabilities by $87 million, increased deferred taxes by $134 million and increased other comprehensive loss by $269 million.

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

In millions	U.S. Pension Benefits 2005	U.S. Pension Benefits 2004	International Pension Benefits 2005	International Pension Benefits 2004	Total Pension Benefits 2005	Total Pension Benefits 2004
Reconciliation to balance sheet						
Funded status	**$ (274)**	$ (178)	**$(184)**	$ (281)	**$ (458)**	$ (459)
Unrecognized net loss	**522**	489	**848**	977	**1,370**	1,466
Unrecognized prior service cost (benefit)	**1**	1	**15**	24	**16**	25
Unrecognized transition asset	**—**	(1)	**—**	1	**—**	—
Net amount recognized	**$ 249**	$ 311	**$ 679**	$ 721	**$ 928**	$ 1,032
Total recognized amounts consist of:						
Prepaid benefit cost	**$ —**	$ 397	**$ 954**	$1,044	**$ 954**	$ 1,441
Accrued benefit liability	**(156)**	(109)	**(378)**	(405)	**(534)**	(514)
Intangible asset	**1**	—	**2**	3	**3**	3
Accumulated other comprehensive income	**404**	23	**101**	79	**505**	102
Net amount recognized	**$ 249**	$ 311	**$ 679**	$ 721	**$ 928**	$ 1,032

For pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were $3,871 million, $3,732 million and $3,203 million, respectively, at December 31, 2005, and $654 million, $601 million and $92 million, respectively, at December 31, 2004.

The net periodic benefit cost (income) of the pension plans for years ended December 31 was as follows:

In millions	U.S. Pension Benefits 2005	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	International Pension Benefits 2005	International Pension Benefits 2004	International Pension Benefits 2003	Total Pension Benefits 2005	Total Pension Benefits 2004	Total Pension Benefits 2003
Net service cost	**$ 43**	$ 47	$ 48	**$ 44**	$ 42	$ 40	**$ 87**	$ 89	$ 88
Interest cost	**177**	180	179	**85**	85	77	**262**	265	256
Expected return on plan assets	**(223)**	(207)	(200)	**(128)**	(128)	(131)	**(351)**	(335)	(331)
Settlement charge	**—**	—	—	**4**	6	11	**4**	6	11
Curtailment charge	**—**	1	—	**1**	—	—	**1**	1	—
Special termination benefits	**19**	—	—	**—**	—	—	**19**	—	—
Amortization of:									
Transition asset	**(1)**	(2)	(2)	**—**	—	—	**(1)**	(2)	(2)
Prior service cost	**—**	—	5	**6**	5	5	**6**	5	10
Actuarial loss	**56**	64	55	**67**	42	18	**123**	106	73
Net benefit cost	**$ 71**	$ 83	$ 85	**$ 79**	$ 52	$ 20	**$ 150**	$ 135	$ 105

The weighted average rates and assumptions used to determine benefit obligations at December 31 were as follows:

	U.S. Pension Benefits 2005	U.S. Pension Benefits 2004	International Pension Benefits 2005	International Pension Benefits 2004	Total Pension Benefits 2005	Total Pension Benefits 2004
Discount rate	**5.5%**	5.8%	**4.2%**	4.7%	**5.0%**	5.4%
Rate of compensation increase	**4.2%**	4.2%	**3.3%**	3.3%	**3.9%**	3.9%

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

	U.S. Pension Benefits 2005	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	International Pension Benefits 2005	International Pension Benefits 2004	International Pension Benefits 2003	Total Pension Benefits 2005	Total Pension Benefits 2004	Total Pension Benefits 2003
Discount rate	**5.8%**	6.3%	6.8%	**4.7%**	5.2%	5.6%	**5.4%**	5.9%	6.4%
Expected return on plan assets	**8.5%**	8.5%	8.5%	**7.3%**	7.3%	8.1%	**8.1%**	8.1%	8.4%
Rate of compensation increase	**4.2%**	4.2%	4.4%	**3.3%**	3.4%	3.7%	**3.9%**	3.9%	4.2%

The discount rate used to determine year-end 2005 U.S. benefit obligations was derived by matching the plans' expected future cash flows to the corresponding yields from the Citigroup Pension Discount Curve. This yield curve has been constructed to represent the available yields on high-quality fixed-income investments across a broad range of future maturities. International discount rates were determined by examining interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our future expected cash flows.

NCR employs a building block approach as its primary approach in determining the long-term expected rate of return assumption for plan assets. Historical market returns are studied and long-term relationships between equities and fixed income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a higher return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The expected long-term portfolio return is established for each plan via a building block approach with proper rebalancing consideration. The result is then adjusted to reflect additional expected return from active management net of plan expenses. Historical plan returns, the expectations of other capital market participants, and peer data are all used to review and check the results for reasonableness and appropriateness. The actual asset returns realized during 2005 exceeded expectations for the majority of NCR's pension plans.

The expected return on plan assets component of pension expense for our U.S. pension plan was determined using the expected rate of return and a calculated value of assets, referred to as the "market-related value." The market-related value for this plan was $2,907 million and $2,713 million as of December 31, 2005 and 2004, respectively, which is less than the fair value of plan assets by $189 million and $301 million. Differences between the assumed and actual returns are amortized to the market-related value on a straight-line basis over a five-year period. Differences in excess of 10% of the market value are recognized immediately. Similar approaches are employed in determining expense for NCR's international plans.

Gains and losses have resulted from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and differences between actual and assumed asset returns. These gains and losses (except those differences being amortized to the market-related value) are only amortized to the extent that they exceed 10% of the higher of the market-related value or the projected benefit obligation of each respective plan. As a result, for the U.S. Pension Plan, unrecognized net losses of $325 million are not expected to be amortized during fiscal 2006. The remaining unrecognized net losses of $353 million are being amortized over the expected remaining service periods of active plan participants (approximately 7 years during fiscal 2006). Similar approaches are employed in amortizing gains and losses for NCR's other U.S. and international plans.

Plan Assets The weighted average asset allocations at December 31, 2005 and 2004 by asset category are as follows:

	U.S. Pension Fund			International Pension Funds		
	Actual Allocation of Plan Assets at December 31		Target Asset Allocation	Actual Allocation of Plan Assets at December 31		Asset Allocation Target
	2005	2004		2005	2004	
Equity securities	**73%**	73%	68-75%	**60%**	64%	54-65%
Debt securities	**19%**	19%	18-22%	**35%**	29%	30-42%
Real estate	**8%**	8%	7-9%	**4%**	6%	3-6%
Other	**0%**	0%	0-1%	**1%**	1%	0-1%
Total	**100%**	100%		**100%**	100%	

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

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Postretirement Plans

Reconciliation of the beginning and ending balances of the benefit obligation for NCR's U.S. postretirement plan were:

In millions	Postretirement Benefits 2005	Postretirement Benefits 2004
Change in benefit obligation		
Benefit obligation at January 1	**$ 187**	$ 187
Gross service cost	**—**	—
Interest cost	**9**	11
Amendments	**(3)**	(7)
Actuarial loss	**7**	33
Plan participant contributions	**12**	7
Benefits paid	**(32)**	(44)
Benefit obligation at December 31	**$ 180**	$ 187

Accrued postretirement liabilities included in NCR's consolidated balance sheet at December 31 were:

In millions	Postretirement Benefits 2005	Postretirement Benefits 2004
Reconciliation to balance sheet		
Benefit obligation	**$ (180)**	$ (187)
Unrecognized net loss	**99**	99
Unrecognized prior service benefit	**(141)**	(151)
Net amount recognized	**$ (222)**	$ (239)

The net periodic benefit cost of the postretirement plan for the years ended December 31 were:

In millions	Postretirement Benefits 2005	2004	2003
Interest cost	**$ 9**	$ 11	$ 20
Net service cost	**—**	—	—
Expected return on plan assets	**—**	—	—
Curtailment charge (credit)	**—**	—	(12)
Amortization of:			
Prior service cost	**(13)**	(13)	(6)
Actuarial loss	**7**	5	6
Net benefit cost	**$ 3**	$ 3	$ 8

The assumptions utilized in accounting for the postretirement plan for the years ended December 31 were:

	Postretirement Benefits 2005	2004	2003
Discount rate	**5.3%**	5.3%	6.3%

Assumed health care cost trend rates at December 31 were:

	2005 Pre-65 Coverage	2005 Post-65 Coverage	2004 Pre-65 Coverage	2004 Post-65 Coverage
Health care cost trend rate assumed for next year	**10.0%**	**6.0%**	9.0%	6.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0%**	**5.0%**	5.0%	5.0%
Year that the rate reaches the ultimate rate	**2012**	**2012**	2009	2009

In addition, a one percentage point change in assumed health care cost trend rates would have the following effect on the postretirement benefit costs and obligation:

In millions	1% Increase	1% Decrease
2005 service cost and interest cost	$ —	$ (1)
Postretirement benefit obligation at December 31, 2005	$ 9	$ (9)

Cash Flows Related to Employee Benefit Plans

Cash Contributions NCR does not expect to contribute to our U.S. qualified pension plan in 2006; however, the Company plans to contribute approximately $120 million to our international pension plans and $10 million to our executive pension plan in 2006. We also expect to make contributions of $27 million to our U.S. postretirement plan in 2006.

Estimated Future Benefit Payments NCR expects to make the following benefit payments reflecting past and future service from its pension and postretirement plans:

In millions	U.S. Pension Benefits	International Pension Benefits	Total Pension Benefits	Postretirement Benefits
Year				
2006	$ 185	$ 83	$ 268	$ 27
2007	$ 189	$ 86	$ 275	$ 25
2008	$ 193	$ 93	$ 286	$ 23
2009	$ 198	$ 93	$ 291	$ 21
2010	$ 201	$ 91	$ 292	$ 19
2011-2015	$ 1,048	$ 457	$ 1,505	$ 66

Savings Plans U.S. employees and many international employees participate in defined contribution savings plans. These plans generally provide either a specified percent of pay or a matching contribution on participating employees' voluntary elections. NCR's matching contributions typically are subject to a maximum percentage or level of compensation. Employee contributions can be made pre-tax, after-tax or a combination thereof. The expense under the U.S. plan was approximately $23 million in 2005, $24 million in 2004 and $23 million in 2003. The expense under international and subsidiary savings plans was $16 million in 2005, $16 million in 2004 and $13 million in 2003.

Other Postemployment Benefits NCR offers various postemployment benefits to involuntarily terminated and certain inactive employees after employment but before retirement. These benefits are paid in accordance with NCR's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, and continuation of health care benefits and life insurance coverage. NCR provides appropriate accruals for these postemployment benefits. These postemployment benefits are funded on a pay-as-you-go basis. The expense under these plans was approximately $84 million in 2005, $95 million in 2004 and $79 million in 2003. The accrued postemployment liability was $124 million at December 31, 2005 and $101 million at December 31, 2004.

Note 10 Financial Instruments

In the normal course of business, NCR enters into various financial instruments, including derivative financial instruments. A description of these derivative instruments is as follows.

Cash Flow Hedges NCR primarily uses foreign exchange forward contracts to reduce the Company's exposure to changes in currency exchange rates, primarily as it relates to inventory purchases by marketing units and inventory sales by manufacturing units. The majority of the contracts were to exchange Euros, British Pounds and Japanese Yen, and generally mature within 15 months. Foreign exchange contracts used as a part of NCR's risk management strategy, which are designated at inception as highly effective cash flow hedges, are measured for effectiveness both at inception and on an ongoing basis. For foreign exchange contracts designated as highly effective cash flow hedges, the gains or losses are deferred in other comprehensive income and recognized in the determination of income as adjustments of carrying amounts when the underlying hedged transaction is realized, canceled or otherwise terminated. NCR recognized an immaterial amount of net gains and losses for the years ended December 31, 2005, 2004 and 2003 resulting from the discontinuance of cash flow hedges. The net impact related to the ineffectiveness of all cash flow hedges was not material during 2005, 2004 and 2003. At December 31, 2005, before-tax deferred net gains recorded in other comprehensive income related to cash flow hedges were $4 million, and are expected to be reclassified to earnings during the next 12 months.

Fair Value Hedges NCR entered into an interest rate swap agreement (swap) in 2003 as part of its risk management strategy. The swap utilized by the Company effectively modifies a portion of the Company's exposure to interest rate risk by converting a portion of the Company's fixed-rate debt to a floating rate. This agreement involves the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of the underlying principal amount. This swap was designated as a highly effective fair value hedge of $50 million of the $300 million senior unsecured notes due in 2009 (see Note 6 of Notes to Consolidated Financial Statements for a description of the senior unsecured notes). As the terms of the swap are identical to the terms of the senior unsecured notes, the swap qualifies for an assumption of no ineffectiveness under the provisions of SFAS 133. Therefore, there was no gain or loss recognized in earnings due to ineffectiveness of the swap during the years ended December 31, 2005, 2004 and 2003.

Other Hedges When hedging certain foreign currency transactions of a long-term investment nature (net investments in foreign operations), gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on foreign exchange contracts that are not used to hedge currency transactions of a long-term investment nature, or that are not designated as cash flow hedges, are recognized in other income or expense as exchange rates change. The impact of these hedging activities was not material to the Company's consolidated financial position, results of operations or cash flows.

Fair Value of Financial Instruments The fair values of debt and foreign exchange contracts are based on market quotes of similar instruments and represent estimates of possible value that may not be realized in the future. The table below presents the fair value, carrying value and notional amount of foreign exchange contracts, interest rate swap and debt at December 31, 2005 and 2004. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based, and are an indication of the extent of NCR's involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments.

In millions	Contract Notional Amount	Carrying Amount Asset	Carrying Amount Liability	Fair Value Asset	Fair Value Liability
2005					
Foreign exchange forward contracts	**$ 332**	**$ 8**	**$ 4**	**$ 8**	**$ 4**
Interest rate swap	**$ 50**	**—**	**(1)**	**—**	**(1)**
Debt	**—**	**—**	**$ 307**	**—**	**$ 326**
2004					
Foreign exchange forward contracts	$ 330	$ 4	$ 22	$ 4	$ 22
Interest rate swap	$ 50	—	—	—	—
Debt	—	—	$ 309	—	$ 340

Concentration of Credit Risk NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, short-term investments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses are adequate. At December 31, 2005 and 2004, NCR did not have any major concentration of credit risk related to financial instruments.

Investments in Marketable Securities The fair value of the Company's investments in marketable securities in aggregate was $42 million at December 31, 2005 and $52 million at December 31, 2004. The cost basis of the Company's investments in marketable securities was $25 million at December 31, 2005 and $37 million at December 31, 2004. As of December 31, 2005, there were no individual investments that were in an unrealized loss position.

Note 11 Commitments and Contingencies

In the normal course of business, NCR is subject to various regulations, proceedings, lawsuits, claims and other matters, including actions under laws and regulations related to the environment and health and safety, among others. NCR believes the amounts provided in its consolidated financial statements, as prescribed by U.S. GAAP, are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including the Fox River environmental matter discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's consolidated financial statements or will not have a material adverse effect on its consolidated results of operations, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of December 31, 2005 cannot currently be reasonably determined.

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

NCR is one of eight entities that have been formally notified by governmental and other entities (such as local Native American tribes) that they are PRPs for environmental claims under CERCLA and other statutes arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay, in Wisconsin. NCR was identified as a PRP because of alleged PCB discharges from two carbonless copy paper manufacturing facilities it previously owned, which are located along the Fox River. Some parties contend that NCR is also responsible for PCB discharges from paper mills owned by other companies because carbonless paper manufactured by NCR was purchased by those mills as a raw material for their paper making processes. NCR sold the facilities in 1978 to Appleton Papers Inc. (API), which has also been identified as a PRP. The other Fox River PRPs include P.H. Glatfelter Company, Fort James Operation Company (a subsidiary of Georgia-Pacific Corp., which was recently acquired by Koch Industries), WTM I Co. (formerly Wisconsin Tissue Mills, now owned by Chesapeake Corporation), Riverside Paper Corporation, Sonoco-U.S. Paper Mills, Inc. (owned by Sonoco Products Company), and Menasha Corporation.

The governmental and other entities making such claims against NCR and the other PRPs have been coordinating their actions, including the assertion of claims against the PRPs. Additionally, certain claimants have notified NCR and the other PRPs of their intent to commence a natural resource damage (NRD) lawsuit, but have not as yet instituted litigation; and one of the claimants, the U.S. Environmental Protection Agency (USEPA), formally proposed the Fox River site for inclusion on the CERCLA National Priorities List, but no action has yet been taken on this proposal.

In the fourth quarter of 2005, NCR revised the basis of its reserve for the Fox River matter. The factors considered in revising the reserve are discussed below. After taking into account receivables for certain probable insurance and indemnity recoveries (also discussed below), the reserve at December 31, 2005 is approximately $58 million. The reserve at the end of the third quarter of 2005 was $60 million. NCR regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments.

In July 2003, USEPA and Wisconsin Department of Natural Resources (WDNR) issued their final clean-up plan (known as a Record of Decision, or ROD) for the largest portion of the Fox River. The ROD addressed the lower part of the Fox River and portions of Green Bay, where USEPA and WDNR (the Governments) estimate the bulk of the sediments that need to be remediated are located. In two portions of the lower part of the Fox River covered by the ROD – Operable Units (OUs) 3 and 4 – the Governments selected large-scale dredging as the clean-up approach. In the ROD document, the Governments estimated that approximately 6.5 million cubic yards of sediment would be removed from these portions at an estimated cost of approximately $284 million. The Governments also identified "capping" the river bed with appropriate materials as a "contingent remedy" to be evaluated during the remedial design process. For Green Bay, or OU-5, the Governments selected monitored natural attenuation as the clean-up approach at an estimated cost of approximately $40 million. The Governments also indicated that some limited dredging near the mouth of the river might be required, but this will be determined during the design stage of the project. Earlier, in January 2003, the Governments issued their ROD for the upper portions of the Fox River – OUs 1 and 2. Combining the cost estimates from both RODs, it appeared that the Governments expected the selected remedies for all five OUs to cost approximately $400 million exclusive of contingencies.

By letter dated September 30, 2003, the Governments notified NCR and seven other PRPs of their potential liability for remediation of the lower portions of the Fox River and requested that one or more of the PRPs enter into an agreement with the Governments to perform the engineering design work for the clean-up of OUs 2-5. In response, NCR and Georgia-Pacific (G-P) in March 2004 entered into an Administrative Order on Consent (AOC) with the Governments to perform this design work, which is not expected to be completed until 2007. While there is ongoing debate within the scientific, regulatory, legal, public policy and legislative communities over how to properly manage large areas of contaminated sediments, NCR believes that the remedy to be implemented at the Fox River will address in excess of 7 million cubic yards of sediment.

The extent of NCR's potential liability remains subject to many uncertainties. NCR's eventual liability – which is expected to be paid out over a period of at least ten to twenty years – will depend on a number of factors. In general, the most significant factors include: (1) the total clean-up costs for the site; (2) the total natural resource damages for the site; (3) the share NCR and API will jointly bear of the total clean-up costs and natural resource damages as former and current owners of paper manufacturing facilities located along the Fox River; (4) the share NCR will bear of the joint NCR/API payments for clean-up costs and natural resource damages; and (5) NCR's transaction costs to defend itself in this matter. In setting the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself highly uncertain. NCR uses its best estimate within the range if that is possible. Where there is a range of equally likely outcomes, and there is no amount within that range that appears to be a better estimate than any other amount, NCR uses the low end of the range. These factors are discussed below. Adjustments to the first, second, fourth and fifth factors, along with an increase in the net amount of receivables for insurance and indemnity recoveries, resulted in the 2005 change to the reserve.

- For the first factor described above, total clean-up costs for the site, NCR previously determined that there was a range of equally likely outcomes, and that no estimate within that range was better than the other estimates. Accordingly, NCR used the low end of that range, which was $480 million. This amount was derived by taking the Governments' ROD estimate for total clean-up costs – $400 million – and increasing it by 20% to reflect NCR's analysis that the Governments' own cost estimates were understated. As the engineering design work has progressed, some of the uncertainty surrounding clean-up costs has been reduced. While there is a range of reasonably possible outcomes for clean-up costs, based on information currently available, a best estimate within that range can now be made. That estimate is $551 million, which includes the expected costs of the clean-up work in OU 1 and OUs 2-5, plus a 20% contingency for both. The range of reasonably possible outcomes is now estimated to be between $459 million (assuming no contingencies) and $874 million (depending on how the remedy is implemented). However, there can be no assurances that these amounts will not be significantly higher. For example, one consultant has expressed an opinion that total clean-up costs for the site could be approximately $1.1 billion.
- Second, for total natural resource damages, NCR previously determined that there was a range of equally likely outcomes, and that no estimate within that range was better than the other estimates. Accordingly, NCR used the low end of that range, which was the lowest estimate in the Governments' 2000 report on natural resource damages. That amount was $176 million. Based on confidential settlement discussions held during the third and fourth quarters of 2005, along with NCR's assessment of the trustees' positions and prior NRD settlements, a best estimate of the remaining total NRD liability can now be made, and that amount is $131 million. There is still a range of reasonably possible outcomes, and that range is between $10 million and $176 million.
- Third, for the NCR/API share of clean-up costs and natural resource damages, NCR has examined figures developed by several independent, nationally-recognized engineering and paper-industry experts, along with those set forth in draft government reports. NCR has determined that there is a range of equally likely outcomes, and that no estimate within that range is better than the other estimates. Accordingly, NCR uses the low end of that range, which is based primarily on an estimate of the joint NCR/API percentage of direct discharges of PCBs to the river. There are other estimates that are significantly higher; however, NCR believes there is such uncertainty surrounding these estimates that it cannot quantify the high end of the range, although NCR does not believe it is near 100%.
- Fourth, for the NCR share of the joint NCR/API payments, NCR previously estimated that it would pay 45 percent of all costs attributable to the joint NCR/API share. NCR and API are parties to a sharing agreement that requires NCR to pay 45 percent of the first $75 million in total costs attributable to the joint NCR/API share, and provides for an arbitration to determine shares for amounts in excess of $75 million. The arbitration was held in the fourth quarter of 2005, and the arbitrators determined that NCR will pay 40 percent of costs in excess of $75 million. NCR's estimate has been revised to be consistent with the arbitration award. NCR's analysis of this factor assumes that API is able to pay its share of the NCR/API joint share.
- Finally, NCR estimated the transaction costs it is likely to incur to defend this matter through 2013, the time period the Governments projected in the RODs it will take to design and implement the remedy for the river. This estimate is based

on an analysis of NCR's costs since this matter first arose in 1995 and estimates of what NCR's defense and transaction costs will be in the future. NCR expects that the bulk of these transaction costs will be incurred in the earlier years of this time period, when the remedy will be designed and the initial clean-up activities will begin. NCR believes that once clean-up is underway, its transaction costs may decrease significantly on an annual basis.

Given the ongoing remedial design work being conducted by NCR and G-P (see above), it is possible there could be some additional changes to some elements of the reserve within the next year, although that is difficult to predict.

In December 2001, NCR and API entered into an interim settlement with the Governments that limited NCR/API's joint cash payouts to $10 million per year over a four-year period beginning at the time of such interim settlement. Any portion of an annual $10 million installment not paid out in a given year was rolled over and made available for payment during subsequent years up until December 10, 2005. In exchange for these payments, the Governments agreed not to take any enforcement actions against NCR and API during the term of the settlement. These payments were shared by NCR and API under the terms of the sharing agreement discussed above and are to be credited against NCR's long-term exposure for this matter. NCR's share of these payments was taken into account in determining its reserve to the extent that NCR can relate specific payments to clean-up work that was considered in estimating NCR's long-term liability. NCR and API used $7 million of the amounts paid under the interim settlement to fund part of the design work NCR and G-P are performing under the AOC discussed above. The parties to the interim settlement – NCR, API and the Governments – recently reached an agreement to extend the settlement for another year, but to limit the extension to just NRD matters.

The Governments have recently demanded that NCR and Sonoco-U.S. Paper Mills undertake in 2007 a removal action involving an area of elevated PCBs just downriver of the De Pere Dam. The costs of this project are included in the $551 million estimate discussed in the first factor above.

AT&T Inc. and Lucent Technologies, Inc. are jointly responsible for indemnifying NCR for a portion of amounts incurred by NCR for the Fox River matter over a certain threshold. NCR's estimate of what AT&T and Lucent will pay under the indemnity is recorded as a long-term receivable of $8 million and is deducted in determining the net amount discussed above. In 2005, AT&T Corp. merged with SBC Communications Corp., and the resulting entity is named AT&T Inc. NCR does not expect that the AT&T and SBC merger will have an impact on AT&T's indemnification obligation to NCR.

NCR has reached settlement agreements with two of its principal insurance carriers for settlements in a combined total of approximately $29 million. Of this, $1 million has already been paid, approximately $9 million will be held in escrow pending a determination of competing claims by another party and the remainder will be paid upon execution of the settlement agreements. Pending receipt of the insurance proceeds, a receivable of approximately $19 million has been recorded.

It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR records environmental provisions when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based primarily on internal and third-party environmental studies (except for the Fox River site, where the estimated clean-up costs and natural resource damages are estimated as described above), estimates as to the number and participation level of any other PRPs, the extent of the contamination, and the nature of required clean-up and restoration actions. Reserves are adjusted as further information develops or circumstances change. Management expects that the amounts reserved from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites. The amounts provided for environmental matters in NCR's consolidated financial statements are the estimated gross undiscounted amounts of such liabilities, without deductions for insurance or third-party indemnity claims. Except for the sharing agreement with API described above with respect to the Fox River site, in those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectibility of such amounts is probable, the amounts would be reflected as receivables in the consolidated financial statements. For the Fox River site, assets relating to the AT&T and Lucent indemnity and certain insurance recoveries have been recognized, since payment is deemed probable.

Guarantees and Product Warranties Guarantees associated with NCR's business activities are reviewed for appropriateness and impact to the Company's financial statements. Periodically, NCR's customers enter into various leasing arrangements coordinated by NCR with a leasing partner. In some instances, NCR guarantees the leasing partner a minimum value at the end of the lease term on the leased equipment or guarantees lease payments between the customer and the leasing partner. As of December 31, 2005, the maximum future payment obligation of this guaranteed value and the associated liability balance was $7 million.

NCR has an equity investment in a certain affiliate in which the Company has issued debt guarantees originally five years in length for the affiliate to third-party lending institutions. These guarantees expire at various dates in 2007. If default occurs, NCR's maximum amount of future payment obligation on these guarantees would be $1 million at December 31, 2005. The Company has not recorded a liability in connection with these guarantees as the likelihood of default is low.

NCR 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 historic factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. Each business unit consummating a sale recognizes the total customer revenue and records the associated warranty liability using pre-established warranty percentages for that product class. From time to time, product design or quality corrections are accomplished through modification programs. When identified, associated costs of labor and parts for such programs are estimated and accrued as part of the warranty reserve.

The following table identifies the activity relating to the warranty reserve:

In millions	2005	2004	2003
Warranty reserve liability			
Beginning balance at January 1	**$ 21**	$ 18	$ 16
Accruals for warranties issued	**50**	47	45
Settlements (in cash or in kind)	**(52)**	(44)	(43)
Ending balance at December 31	**$ 19**	$ 21	$ 18

NCR also offers extended warranties to its customers as maintenance contracts. NCR accounts for these contracts by deferring the related maintenance revenue over the extended warranty period. Amounts associated with these maintenance contracts are not included in the table above.

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

Purchase Commitments

The Company has purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. This includes a long-term service agreement with Accenture under which many of NCR's key transaction processing activities and functions are performed by Accenture.

Leases NCR conducts certain of its sales and manufacturing operations using leased facilities, the initial lease terms of which vary in length. Many of the leases contain renewal options and escalation clauses that are not material to the overall lease portfolio. Future minimum lease payments, in millions, under non-cancelable leases as of December 31, 2005, for the following fiscal years were:

In millions	2006	2007	2008	2009	2010	Thereafter
Minimum lease obligations	$46	$38	$29	$23	$18	$ 70

Total rental expense for operating leases was $48 million in 2005, $57 million in 2004 and $71 million in 2003.

Note 12 Segment Information and Concentrations

Operating Segment Information Beginning with the first quarter of 2005, the Company realigned its reporting of its financial results with organizational changes in its Customer Services business. Revenue and profitability associated with selling third-party hardware is now presented within the Company's Customer Services operating segment, instead of the "Other" operating segment. The remaining business activity that was previously reported in the Company's "Other" operating segment relates to a small business in Japan, and is combined with the Payment & Imaging business segment activity. This new operating segment is now named "Payment & Imaging and Other."

NCR is now managed through the following businesses, which are also the Company's operating segments: (1) Data Warehousing, (2) Financial Self Service, (3) Retail Store Automation, (4) Customer Services, (5) Systemedia and (6) Payment & Imaging and Other. The 2004 and 2003 results presented within this Note have been reclassified to conform to this presentation.

NCR's Data Warehousing solutions serve several industries including retail, financial, telecommunications, transportation and insurance, as well as consumer goods manufacturing and government entities. NCR's data warehousing solutions combine Teradata hardware, software (i.e., Teradata database, data mining and application software), professional consulting services and customer support services. Our Data Warehousing solutions also include third-party products and services from leading technology and service partners. The Company's Financial Self Service solutions offer a complete line of ATM hardware and software, and related services, enabling businesses to reduce costs, generate new revenue streams and build customer loyalty. Financial Self Service solutions primarily serve the financial services industry, with particular focus on retail banking. NCR's Retail Store Automation solutions are designed to improve selling productivity and checkout processes, and increase service levels. Primarily serving the retail industry, Retail Store Automation solutions deliver traditional point-of-sale and innovative self-checkout solutions, among other things. Systemedia develops, produces and markets a complete line of business consumables and products. Payment & Imaging and Other includes solutions that are designed to digitally capture, process and retain item-based transactions, thereby helping businesses reduce operating costs and increase efficiency. Also included in this segment are the financial results from a business in Japan that is not aligned with any of our other segments. Payment & Imaging and Other solutions mainly serve the financial services industry. Services are an essential component of each of our complete solution offerings, and the Customer Services Division provides maintenance of ATMs, Retail systems, and Payment & Imaging systems, as well as the maintenance and sale of third-party products and services.

In the case of Payment & Imaging and Other, it was determined that these two operating businesses could be aggregated in accordance with Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." Management concluded that aggregation was consistent with the objectives and basic principles of SFAS 131 due to similar economic characteristics; nature of products and services; types of customers; methods used to distribute their products and services; and the nature of the regulatory environment. Both of these businesses are managed by the same segment decision-maker.

In recognition of the volatility of the effects of pension on operating income and to maintain operating focus on and analysis of business performance, pension expense or income is excluded from segment operating income or loss when evaluating business unit performance and is separately delineated to reconcile back to total Company reported operating income. Also, management does not consider in its decision-making activities certain charges that are not related to the operational performance of the segments. These amounts are separately identified in the operating income (loss) by segment table that follows.

Installation-related services constitute implementation and installation services within each operating segment and are an integral part of NCR's Customer Services segment. Operating management teams in Data Warehousing, Financial Self Service, Retail Store Automation, and Payment & Imaging and Other are accountable for the installation-related services revenue and profitability of this activity. Except in the Data Warehousing segment, Customer Services has shared responsibilities for installation-related services revenue and profitability of these services. As such, this revenue and operating income is also included in the results of the Customer Services segment. The operating income associated with this revenue is based on a standard percent of revenue. The standard percent is updated annually based on an analysis of the historical results, pricing reviews and assumptions looking forward. To reconcile to total Company reported revenue and operating income, the installation-related services included in both the operating segments and the Customer Services segment are adjusted as reflected in the following tables.

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The following table presents revenue and operating income (loss) by Segment:

In millions	2005	2004	2003
Revenue by segment			
Data Warehousing			
Products	$ 786	$ 728	$ 624
Professional and installation-related services	381	341	325
Total Data Warehousing solution	1,167	1,069	949
Data Warehousing support services	313	292	264
Total Data Warehousing revenue	1,480	1,361	1,213
Financial Self Service (ATMs)			
Products	1,122	1,102	913
Professional and installation-related services	268	268	236
Total Financial Self Service revenue	1,390	1,370	1,149
Retail Store Automation			
Products	641	627	558
Professional and installation-related services	212	237	239
Total Retail Store Automation revenue	853	864	797
Customer Services			
Customer Service Maintenance:			
Financial Self Service	607	576	546
Retail Store Automation	464	462	467
Payment & Imaging and Other	128	127	126
Third-Party Products and Exited Businesses	279	342	390
Total Customer Services Maintenance	1,478	1,507	1,529
Third-Party Product Sales	55	80	114
Professional and installation-related services	292	326	320
Total Customer Services revenue	1,825	1,913	1,963
Systemedia	504	512	494
Payment & Imaging and Other			
Products	100	115	132
Professional and installation-related services	65	58	59
Total Payment & Imaging and Other	165	173	191
Elimination of installation-related services revenue included in both the Customer Services segment and other segments	(189)	(209)	(209)
Total Revenue	$6,028	$5,984	$5,598
Operating Income (Loss) by Segment			
Data Warehousing	$ 309	$ 223	$ 145
Financial Self Service (ATMs)	212	222	165
Retail Store Automation	31	26	—
Customer Services	50	(57)	(39)
Systemedia	—	8	14
Payment & Imaging and Other	16	10	16
Elimination of installation-related services operating income included in both the Customer Services segment and other segments	(58)	(64)	(66)
Subtotal - Segment operating income	560	368	235
Pension expense	(150)	(135)	(105)
Total income from operations	$ 410	$ 233	$ 130

The assets attributable to NCR's operating segments consist primarily of accounts receivable, inventories, manufacturing assets, capitalized software and goodwill dedicated to a specific solution. Assets not attributable to operating segments because they are not dedicated to a specific segment consist primarily of deferred tax assets, prepaid pension costs, cash and cash equivalents. Segment assets at December 31 were:

In millions	2005	2004	2003
Segment assets			
Data Warehousing	**$ 631**	$ 609	$ 569
Financial Self Service	**609**	544	511
Retail Store Automation	**360**	363	287
Customer Services	**468**	494	498
Systemedia	**165**	187	192
Payment & Imaging and Other	**55**	64	79
Total segment assets	**2,288**	2,261	2,136
Assets not allocated to the segments:			
Cash, cash equivalents and short-term investments	**810**	750	689
Prepaid pension cost	**976**	1,446	1,386
Deferred income taxes	**617**	468	361
Other assets not attributable to segments	**596**	629	625
Consolidated total assets	**$5,287**	$5,554	$5,197

Revenues are attributed to the geographic area/country to which the product is delivered or in which the service is provided. The following table presents revenue by geographic area for NCR for the years ended December 31:

In millions	2005	%	2004	%	2003	%
Revenue by geographic area						
United States	**$2,637**	**44%**	$2,570	43%	$2,405	43%
Americas (excluding United States)	**431**	**7%**	386	6%	343	6%
Europe/Middle East/Africa	**1,934**	**32%**	1,933	32%	1,793	32%
Japan	**433**	**7%**	457	8%	460	8%
Asia/Pacific (excluding Japan)	**593**	**10%**	638	11%	597	11%
Consolidated revenue	**$6,028**	**100%**	$5,984	100%	$5,598	100%

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

In millions	2005	2004	2003
Long-lived assets			
United States	**$ 659**	$1,023	$1,060
United Kingdom	**743**	808	740
Japan	**131**	145	180
All other countries	**510**	529	482
Consolidated long-lived assets	**$2,043**	$2,505	$2,462

Concentrations No single customer accounts for more than 10% of NCR's consolidated revenue. As of December 31, 2005, NCR 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 NCR's operations. NCR also lacks a concentration of available sources of labor, services, licenses or other rights that could, if suddenly eliminated, have a material adverse effect on its operations.

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

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Note 13 Quarterly Information (unaudited)

In millions, except per share amounts	First	Second	Third	Fourth [1, 2]
2005				
Total revenues	**$1,343**	**$1,470**	**$1,498**	**$ 1,717**
Gross margin	**$ 371**	**$ 396**	**$ 436**	**$ 528**
Operating income	**$ 54**	**$ 73**	**$ 112**	**$ 171**
Net income	**$ 30**	**$ 127**	**$ 222**	**$ 150**
Net income per share:				
Basic	**$ 0.16**	**$ 0.68**	**$ 1.20**	**$ 0.82**
Diluted	**$ 0.16**	**$ 0.67**	**$ 1.18**	**$ 0.81**
2004				
Total revenues	$1,290	$1,452	$1,454	$ 1,788
Gross margin	$ 322	$ 393	$ 395	$ 506
Operating (loss) income	$ (8)	$ 53	$ 59	$ 129
Net (loss) income	$ (5)	$ 122	$ 44	$ 129
Net (loss) income per share:				
Basic	$ (0.03)	$ 0.65	$ 0.23	$ 0.69
Diluted	$ (0.03)	$ 0.63	$ 0.23	$ 0.68

1 Excluding $13 million of benefits from the favorable settlement of prior year tax audits and $4 million of benefits from an adjustment to the Company's tax accounts in the United Kingdom, our tax rate for the fourth quarter of 2005 was 20%, which was lower than the 22% annual effective tax rate, excluding discrete items, that was expected. The lower tax rate was due to an increased percentage of operating profits attributable to foreign operations.

2 Our tax rate for the fourth quarter of 2004 was 13%, which was lower than the 25% annual effective tax rate, excluding discrete items, that was expected. The lower tax rate was due to an increased percentage of operating profits attributable to foreign operations which have lower effective tax rates due to prior year losses.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NCR has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) to ensure that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Based on their evaluation as of the end of the fourth quarter of 2005, conducted under their supervision and with the participation of management, the Company's Chief Executive and Chief Financial Officers have concluded that NCR's disclosure controls and procedures are effective, in all material respects, to meet such objective and that NCR's disclosure controls and procedures adequately alert them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in NCR's Exchange Act filings.

Changes in Internal Control over Financial Reporting

In 2003, the Company entered into a service agreement pursuant to which many of NCR's key transaction processing activities were agreed to be transitioned to Accenture. As of June 30, 2004, as part of the transition of transaction processing, Accenture assumed the primary responsibility for processing the period-end financial close activities, including the majority of transaction processing for general ledger activities. As of December 31, 2005, a majority of the remaining transaction processing activities have transitioned to Accenture. We believe this was a significant change with respect to the personnel responsible for the effectiveness of transaction processing activities in NCR's control environment. NCR is providing appropriate oversight for these Accenture administered functions and support during these transitions. Additional transition activities are occurring in the first quarter of 2006 and are expected to continue throughout 2006.

In connection with the Company's assessment of its internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, management identified a number of improvements to our control environment that we are in the process of implementing. During 2005, these improvements were made in a number of areas throughout the Company, including improved monitoring controls, management reporting, employee training and information technology controls. We do not believe that any of these changes had a material impact, or reasonably are likely to have a material impact on, our internal control over financial reporting when considered individually; however, when viewed in the aggregate, these changes could be considered material.

Other than as discussed in the preceding paragraphs, there have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The 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 due to, for example, the potential for human error or circumvention of controls, 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.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, we determined that, as of December 31, 2005, the Company's internal control over financial reporting was effective based on those criteria. Management's assessment of the effectiveness of NCR's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report, which appears on page 33 of this Annual Report on Form 10-K.

/s/ William Nuti	/s/ Peter Bocian
William Nuti	**Peter Bocian**
President and	Senior Vice President and
Chief Executive Officer	Chief Financial Officer

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Most of the information required by this Item 10 with respect to directors of NCR is included on pages 7- 8 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

The Executive Officers of NCR (as of March 1, 2006) are as follows:

Name	Age	Position and Offices Held
William Nuti	42	President and Chief Executive Officer
Eric Berg	43	Senior Vice President and Chief Administrative Officer
Peter Bocian	51	Senior Vice President and Chief Financial Officer
Malcolm Collins	45	Senior Vice President, Financial Solutions Division
Jonathan Hoak	56	Senior Vice President, General Counsel and Secretary
Michael Koehler	53	Senior Vice President, Teradata Division
Mark Quinlan	53	Vice President, Systemedia Division
Lee Schram	44	Senior Vice President, Retail Solutions Division
Christine Wallace	53	Senior Vice President, Worldwide Customer Services Division

NCR's Executive Officers

William (Bill) Nuti is President and Chief Executive Officer (CEO) of NCR Corporation. Before joining NCR in August 2005, Mr. Nuti was President, Chief Executive Officer and a director of Symbol Technologies, Inc. ("Symbol") from December 2003 to August 2005. Prior to that, from July 2002 through December 2003, he was President and Chief Operating Officer of Symbol. Mr. Nuti joined Symbol from Cisco Systems, Inc. ("Cisco"), where he was Senior Vice President of U.S. Theatre and Worldwide Service Provider Operations. During his 10-year career at Cisco, Mr. Nuti served as President of EMEA operations, Senior Vice President for Worldwide Service Provider Operations, Vice President for Cisco Asia Pacific Region, and in various sales management positions. Prior to joining Cisco in 1992, Mr. Nuti held sales and management positions at IBM Corporation, Netrix Corporation and Network Equipment Technologies. Mr. Nuti became a director of NCR on August 7, 2005.

Eric Berg is Senior Vice President and Chief Administrative Officer of NCR. Mr. Berg joined the Company in July 2003 from The Goodyear Tire & Rubber Company (Goodyear) where he had served as its Chief Information Officer since 2000. From 2001 to 2003, he also served as the Vice President e-Commerce at Goodyear. Prior to that, from 1996 to 1999, he was the Pacific Northwest Region Vice President for the Frito-Lay Division of Pepsico, Inc. Mr. Berg has also held a number of senior management positions with consulting firm McKinsey & Company, Inc.

Peter Bocian became NCR's Senior Vice President and Chief Financial Officer on September 1, 2004. From October 2003 until that time, he served as Vice President, Finance and Interim Chief Financial Officer. He was Chief Financial Officer of the Company's Retail and Financial Group, from 2002 to 2003, with responsibility for the combined financial and administration functions for the four business units comprising that group. From 1999 to 2002, he was Chief Financial Officer and Vice President of the Retail Solutions Division. Mr. Bocian began his career at NCR in 1983 and has since held a number of positions of increasing responsibility in the areas of finance, general management and logistics.

Malcolm Collins joined NCR on March 1, 2006 as Senior Vice President, Financial Solutions Division. Prior to joining NCR, he was President, Enterprise Networks, for Nortel Networks, Inc. ("Nortel") from December 2002 to September 2005. From 2001 to November 2002, he was President, Northern Region (United Kingdom and Northern Europe), and from 1999 to 2001, President, Next Generation Service Providers, for Nortel. He joined Nortel in 1992 as Vice President of Sales.

Jonathan Hoak has served as Senior Vice President and General Counsel for NCR since 1993 and was appointed Corporate Secretary on February 10, 2004. Prior to joining the Company, he was general attorney for AT&T Corp.'s Federal Systems Division for three years and before that a partner at a prominent national law firm.

Michael Koehler has served as NCR's Senior Vice President, Teradata Division since March 2003. From September 2002 until that time, he was the Interim Teradata Division Leader, Teradata Data Warehousing Division. From 1999 to 2002, Mr. Koehler was Vice President, Global Field Operations, Teradata Data Warehousing Division, and from June 1997 to October 1999, he was Vice President, Americas, Retail Solutions Group. Mr. Koehler began his career at NCR in 1975 and has since held a number of positions of increasing responsibility in the areas of marketing and sales management.

Mark Quinlan has served as Vice President and General Manager of NCR's Systemedia Division since September 2001. He was also the Acting Vice President of the Systemedia Division from May 2001 until that time. Since joining NCR in 1984, Mr. Quinlan has held a number of positions of increasing responsibility, including Vice President, Americas Sales for the Systemedia Division from 1999 to 2001, and Vice President, Global Marketing, Systemedia Division from 1996 to 1999.

Lee Schram has served as NCR's Senior Vice President, Retail Solutions Division since March 2003. From January 2002 to March 2003, he was Vice President and General Manager, Payment Solutions, Financial Solutions Division, and from September 2000 to January 2002, he was Chief Financial Officer, Retail and Financial Group. Since joining NCR in 1983, Mr. Schram has held a variety of positions of increasing responsibility in both domestic and international assignments, including Corporate Controller, Finance and Administration from 1999 to 2000.

Christine Wallace became NCR's Senior Vice President, Worldwide Customer Services Division, on March 1, 2006. From January 2004 until that time, she was Senior Vice President, Human Resources. From 2001 until January 2004, she was Vice President, Global Customer Services, Teradata Data Warehousing Division. Since she began her career at NCR in 1978, Ms. Wallace has held numerous managerial assignments of increasing responsibility throughout the Company, including Vice President and Corporate Treasurer, Vice President, Americas Sales and Service, Teradata Data Warehousing Division from 1998 to 2000, and other senior positions within the finance and administration organization at both the corporate and regional level.

Information regarding Section 16(a) beneficial ownership reporting compliance of the Company's executive officers and directors is included in the material captioned "Section 16(a) Beneficial Ownership Reporting Compliance" on page 15 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

Information regarding NCR's determination of an "audit committee financial expert" is included in the material captioned "Committees of the Board" on page 10 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

The Company has a Code of Conduct that sets the standard for ethics and compliance for all of its employees. NCR's Code of Conduct is filed (by reference) as Exhibit 14 of this Form 10-K.The Company intends to disclose any amendments to or waivers of the Code of Conduct or the Code of Ethics on behalf of the Executive Officers on the Company's investor relations website at investor.ncr.com under the heading "Corporate Governance," and on NCR's corporate governance website at www.ncr.com/corpgovernance/corpgov_code_conduct.htm, promptly following the date of such amendment or waiver.

Item 11. EXECUTIVE COMPENSATION

The information regarding the Company's compensation of its named executive officers is included in the material captioned "Executive Compensation" on pages 22-26 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference. The information regarding the Company's compensation of its directors is included in the material captioned "Compensation of Directors" on pages 12-14 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is included in the material captioned "Stock Ownership" on pages 4-5 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

Information regarding aggregate equity compensation plans is included in the material captioned "Equity Compensation Plan Information" on page 31 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information described under the caption "Certain Relationships and Related Transactions" on page 32 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding fees paid to the Company's independent registered public accounting firm is included in the material captioned "Fees Paid to the Company's Independent Registered Public Accounting Firm" on pages 32-34 of NCR's Proxy Statement, dated March 10, 2006, and is incorporated herein by reference.

The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC), has recently notified the Company and the Audit Committee of the Company's Board of Directors that certain non-audit work performed by PwC's affiliate in Japan for NCR's Japanese subsidiary was potentially violative of the SEC Independence Rules on scope of services.

PwC performs expatriate and local staff tax return preparation services for certain of the Company's employees in Japan. In conjunction with these services, PwC's affiliated firm in Japan took custody, through a trust arrangement, of funds intended to satisfy the employees' tax obligations and remitted payment of those funds to the local taxing authorities on behalf of the employees. As a result, PwC had custody of funds that may have belonged to the Company, which is not permitted under SEC auditor independence rules. The payment aspect of the tax return preparation services was discontinued in April 2003. The fees paid to PwC for these tax services in Japan totaled approximately $5,100 from March 2001 to April 2003.

PwC has concluded that its objectivity and impartiality were unaffected by these services and therefore its independence has not been impaired. This conclusion is based upon the nature of services, the size of the fees associated therewith, the fact that none of its personnel who were involved in providing these tax services performed any audit or audit-related services for the Company and that those professionals who did conduct the audit were unaware of the payment aspect of the tax services. In January 2006, PwC issued its latest Independence Standards Board Standard No. 1 independence letter to the Audit Committee of the Company's Board of Directors and therein reported that it is independent under applicable standards in connection with its audit opinion for the financial statements contained in this Annual Report on Form 10-K.

The Audit Committee has discussed with PwC its independence from the Company and considered whether the non-audit services described above impaired the firm's independence. The committee concurred with PwC that its independence was not impaired by the provision of these services, and agreed with the bases for PwC's conclusion regarding independence listed above.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Index

1. Financial Statements: The consolidated financial statements of the Company and the Report of Independent Auditors and set forth in Part II, Item 8 of this Form 10-K report:

2. Financial Statement Schedule: Financial Statement Schedule II – Valuation and Qualifying Accounts is included in this Form 10-K report on page 76. All other schedules are not required under the related instructions or are not applicable.

3. Exhibits: See Index of Exhibits below for a listing of all exhibits to this Form 10-K report.

(b) Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto.

Exhibit No.	Description
3.1	Articles of Amendment and Restatement of NCR Corporation, as amended May 14, 1999 (Exhibit 3.1 to the NCR Corporation Form 10-Q for the period ended June 30, 1999) and Articles of Amendment and Restatement and Articles Supplementary of NCR Corporation (Exhibit 3.1 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 NCR Annual Report")).
3.2	Bylaws of NCR Corporation, as amended and restated on January 25, 2006 (Exhibit 3.1 to the NCR Corporation Form 8-K filed January 30, 2006).
4.1	Common Stock Certificate of NCR Corporation (Exhibit 4.1 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 NCR Annual Report")).
4.2	Preferred Share Purchase Rights Plan of NCR Corporation, dated as of December 31, 1996, by and between NCR Corporation and The First National Bank of Boston (Exhibit 4.2 to the 1996 NCR Annual Report).
4.3	NCR Corporation hereby agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument which defines the rights of holders of long-term debt of NCR Corporation and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed, and which does not exceed 10% of the total assets of NCR Corporation and its subsidiaries on a consolidated basis.
4.4	Indenture, dated as of June 1, 2002, between NCR Corporation and The Bank of New York (Exhibit 3.2 to the NCR Corporation Quarterly Report on Form 10-Q for the period ended June 30, 2002 (the "June 30, 2002 Quarterly Report")).
4.5	Registration Rights Agreement, dated June 6, 2002, by and between NCR Corporation and Salomon Smith Barney Inc., Banc One Capital Markets, Inc., BNY Capital Markets, Inc., Fleet Securities, Inc., J.P. Morgan Securities Inc. and McDonald Investments Inc., relating to $300,000,000 principal amount of 7.125% senior Notes due 2009 (Exhibit 4.5 to the June 30, 2002 Quarterly Report).

4.6(a-c)	Terms of 7.125% Senior Notes due 2009, including the form of notes (Exhibit 4.6(a-c) to the June 30, 2002 Quarterly Report).
10.1	Separation and Distribution Agreement, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.1 to the Lucent Technologies Inc. Registration Statement on Form S-1 (No. 333-00703) (the “Lucent Registration Statement”)).
10.2	Employee Benefits Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation (Exhibit 10.2 to the 1996 NCR Annual Report).
10.3	Patent License Agreement, effective as of March 29, 1996, by and among AT&T Corp., NCR Corporation, and Lucent Technologies Inc. (Exhibit 10.7 to the Lucent Registration Statement).
10.4	Amended and Restated Technology License Agreement, effective as of March 29, 1996, by and among AT&T Corp., NCR Corporation, and Lucent Technologies Inc. (Exhibit 10.8 to the Lucent Registration Statement).
10.5	Tax Sharing Agreement, dated as of February 1, 1996, and amended and restated as of March 29, 1996, by and among AT&T Corp., NCR Corporation, and Lucent Technologies Inc. (Exhibit 10.6 to the Lucent Registration Statement).
10.6.1	NCR Management Stock Plan (Exhibit 10.8 to the 1996 NCR Annual Report).
10.6.2	First Amendment to the NCR Management Stock Plan dated April 30, 2003 (Exhibit 10.4 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
10.6.3	Form of Stock Option Agreement under the NCR Management Stock Plan.
10.6.4	Form of Restricted Stock Agreement under the NCR Management Stock Plan.
10.7.1	The Retirement Plan for Officers of NCR (Exhibit 10.11 to the NCR Corporation Registration Statement on Form 10 (No. 001-00395), dated November 25, 1996 (the “NCR Registration Statement”).
10.7.2	Second Amendment to the Retirement Plan for Officers of NCR Corporation effective January 1, 2001 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
10.7.3	Third Amendment to the Retirement Plan for Officers of NCR Corporation effective June 1, 2002 (Exhibit 10.8.3 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 2002 (the “2002 Annual Report”)).
10.7.4	Fourth Amendment to the Retirement Plan for Officers of NCR effective January 1, 2006.
10.8	NCR Officer Plan effective June 1, 2002 (Exhibit 10.9 to the 2002 Annual Report).
10.8.1	First Amendment to the NCR Officer Plan, executed December 17, 2004 (Exhibit 10.1 to the Current Report on Form 8-K dated December 17, 2004).
10.8.2	Second Amendment to the NCR Officer Plan effective January 1, 2006.
10.9	NCR Change in Control Severance Plan, dated December 13, 2005 and effective January 1, 2006 (Exhibit 10.1 to the Current Report on Form 8-K filed December 19, 2005).
10.10	NCR Director Compensation Program dated April 27, 2005 (Exhibit 10.1 to the NCR Corporation Current Report on Form 8-K filed May 2, 2005).
10.10.1	Form of Director Option Grant Statement under the NCR Management Stock Plan (Exhibit 10.2 to the Quarterly Report on Form 8-K filed May 2, 2005).
10.10.2	Form of Restricted Stock Agreement under the NCR Management Stock Plan (for non-annual grants) (Exhibit 10.3 to the Quarterly Report on Form 8-K filed May 2, 2005).

10.11	NCR Management Incentive Program for Executive Officers (Exhibit 10.19 to the 1996 Annual Report).
10.12	NCR Supplemental Pension Plan for AT&T Transfers, restated effective January 1, 1997 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (the "March 31, 1998 Quarterly Report")).
10.12.1	First Amendment to the NCR Supplemental Pension Plan for AT&T Transfers effective January 1, 2006.
10.13.1	NCR Mid-Career Hire Supplemental Pension Plan, restated effective January 1, 1997 (Exhibit 10.2 to the March 31, 1998 Quarterly Report).
10.13.2	Amendment to the Mid-Career Hire Supplemental Pension Plan effective June 1, 2002 (Exhibit 10.15.2 to the 2002 Annual Report).
10.13.3	Second Amendment to the NCR Mid-Career Hire Supplemental Pension Plan effective January 1, 2006.
10.14	NCR Nonqualified Excess Plan, restated effective January 1, 1996 (Exhibit 10.3 to the March 31, 1998 Quarterly Report).
10.14.1	First Amendment to the NCR Nonqualified Excess Plan, executed December 17, 2004 (Exhibit 10.2 to the Current Report on Form 8-K dated December 17, 2004).
10.14.2	Second Amendment to the NCR Nonqualified Excess Plan effective January 1, 2006.
10.15	NCR Change-In-Control Severance Plan for Key At-Risk Employees adopted effective January 1, 2003 (Exhibit 10.17 to the 2002 Annual Report).
10.16	Purchase Agreement, dated June 6, 2002, by and between NCR Corporation and Salomon Smith Barney Inc., Banc One Capital Markets, Inc., BNY Capital Markets, Inc., Fleet Securities, Inc., J.P. Morgan Securities Inc. and McDonald Investments Inc., relating to $300,000,000 principal amount of 7.125% Senior Notes due 2009 (Exhibit 10.1 to the June 30, 2002 Quarterly Report).
10.17	Letter Agreement with Gerald Gagliardi dated January 15, 2001 (Exhibit 10.27 to the 2000 Annual Report).
10.18	Letter agreement with Mark Hurd dated March 6, 2003 (Exhibit 10.28 to the 2002 Annual Report).
10.18.1	Letter agreement dated March 29, 2005 by and between NCR Corporation and Mark Hurd (Exhibit 10.1 to the Current Report on Form 8-K filed March 30, 2005).
10.19	Letter agreement with Eric Berg dated July 3, 2003 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
10.20	Employment Agreement with James M. Ringler, dated July 11, 2005 (Exhibit 10.1 to the NCR Corporation Current Report on Form 8-K filed July 13, 2005).
10.21	Stock Option Agreement with James M. Ringler, dated July 11, 2005 (Exhibit 10.2 to the NCR Corporation Current Report on Form 8-K filed July 13, 2005).
10.22	Employment Agreement with William Nuti, dated July 29, 2005 (Exhibit 10.1 to the NCR Corporation Current Report on Form 8-K filed August 2, 2005).
10.23	Letter Agreement with Malcolm Collins dated February 5, 2006 (Exhibit 10.1 to the NCR Corporation Current Report on Form 8-K filed February 9, 2006).
10.24	Summary of Director Compensation, as amended (incorporated by reference to the NCR Corporation Current Report on Form 8-K filed May 2, 2005).
10.25	Letter Agreement with Gerald Gagliardi dated February 28, 2006 (Exhibit 10.1 to the NCR Corporation Current Report on Form 8-K filed March 6, 2006).

10.26	Letter Agreement with Keith Taylor dated February 28, 2006 (Exhibit 10.2 to the NCR Corporation Current Report on Form 8-K filed March 6, 2006).
14	Code of Conduct for associates of NCR Corporation.
21	Subsidiaries of NCR Corporation.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated March 10, 2006.
31.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated March 10, 2006.
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated March 10, 2006.
99.1	Letter to Shareholders included in the 2005 Annual Report to Shareholders.

NCR Corporation

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In millions)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 31, 2005					
Allowance for doubtful accounts	$ 24	$ 4	$ —	$ 3	$ 25
Deferred tax asset valuation allowance	585		—	43	542
Inventory excess and obsolete reserves	56	36	—	40	52
Reserves related to business restructuring	6	6	—	4	8
Year Ended December 31, 2004					
Allowance for doubtful accounts	$ 27	$ 5	$ —	$ 8	$ 24
Deferred tax asset valuation allowance	546	39	—	—	585
Inventory excess and obsolete reserves	50	28	—	22	56
Reserves related to business restructuring	10	1	—	5	6
Year Ended December 31, 2003					
Allowance for doubtful accounts	$ 25	$ 6	$ —	$ 4	$ 27
Deferred tax asset valuation allowance	357	189	—	—	546
Inventory excess and obsolete reserves	51	24	—	25	50
Reserves related to business restructuring	16	1	—	7	10

SIGNATURES

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

NCR CORPORATION

Date: March 10, 2006

By: /s/ Peter Bocian
Peter Bocian
Senior Vice President and
Chief Financial Officer

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

Signature	Title
/s/ William Nuti William Nuti	Director, President and Chief Executive Officer
/s/ Peter Bocian Peter Bocian	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ James M. Ringler James M. Ringler	Chairman of the Board of Directors
/s/ Edward P. Boykin Edward P. Boykin	Director
/s/ Mark P. Frissora Mark P. Frissora	Director
/s/ Linda Fayne Levinson Linda Fayne Levinson	Director
/s/ Victor L. Lund Victor L. Lund	Director
/s/ C.K. Prahalad C.K. Prahalad	Director
/s/ William S. Stavropoulos William S. Stavropoulos	Director

Date: March 10, 2006

Exhibit 10.6.3

2006 Stock Option Agreement
NCR Management Stock Plan
(Non-Statutory Stock Option)

You have been granted an option (the “Option”) under the NCR Management Stock Plan (the “Plan”) of NCR Corporation (“NCR”) to purchase from NCR a number of common shares of NCR (“Shares”) at the price per Share as listed on the Certificate of Stock Option Grant on the stock option plan website (the “Certificate”), subject to the terms and conditions of this agreement and the Plan.

1. Your right to exercise this Option will expire ten (10) years from the grant date, unless sooner terminated due to your termination of employment as described below. If the expiration date falls on a Saturday, Sunday or holiday, it will be deemed to occur on the next following business day.

2. This Option will vest and may be exercised at any time prior to its expiration as follows: 25% (rounded down to the nearest whole share) of the Option Shares on the first anniversary of the grant date; an additional installment of 25% (rounded down to the nearest whole share) of the Option Shares on the second and third anniversaries of the grant date, and on the fourth anniversary of the grant date, this Option will be fully vested and exercisable; provided, however, that you are continuously employed by NCR or any of its Affiliate companies (referred to collectively herein as “NCR”) until the vesting dates. In the event your employment terminates prior to the fourth anniversary of the date of grant, this Option shall terminate with respect to the unvested installments, except as provided below.

3. This Option will vest in full if you (i) die while actively employed by NCR; or (ii) cease to be actively employed by NCR because you qualify for benefits from the NCR Long Term Disability Plan or another long term disability plan sponsored by NCR (“Disability”). In such cases, the Option may be exercised during the one-year period following the date of death or Disability, regardless of the expiration date of the Option. If death or Disability occurs on or after attainment of age 55, the Option may be exercised until the earlier of (a) the three-year period following death or Disability, or (b) the expiration date of the Option, but in no event earlier than one year following the date of death or Disability.

4. If you terminate employment with NCR due to Retirement, as defined below, the unvested portion of this Option will terminate and the vested portion may be exercised until the earlier of (a) the expiration of the three year period following your termination date, or (b) the expiration date of the Option. For purposes of this paragraph, “Retirement” means termination of employment at or after age 55.

5. Upon the occurrence of a Change-in-Control, as defined in the Plan, if the continuing company assumes or replaces this Option, the Option will continue according

to its terms. In such case, if you are involuntarily terminated other than for Cause or voluntarily terminated for Good Reason within two years after the Change-in-Control, this Option will vest in full and be exercisable until the later of (1) the last date on which it would be exercisable in the absence of the Change-in-Control, and (2) the first anniversary of termination of employment, but in either case no later than the expiration date of the option. If the continuing company does not assume or replace this Option, it will vest in full upon the Change-in-Control. Upon a Change-in-Control, the Compensation & Human Resource Committee of the Board of Directors (the "Committee") in its discretion may (1) terminate this Option upon a after providing advance notice to exercise the vested and unvested portion, or (2) cash out this Option, as provided in the Plan. This paragraph 5 is a summary of the Change-in-Control provisions of the Plan, and other provisions of the Plan may apply.

6. If your NCR employment is involuntarily terminated for Cause, as defined in the Plan, this Option will be forfeited.

7. If you terminate from NCR for any other reason, including reduction-in-force, the unvested portion of this Option will terminate and the vested portion may be exercised through the 59th day after your date of termination of employment, or the expiration date, if earlier.

8. If you die during employment or after termination of employment but while this Option remains exercisable, this Option will be exercisable by your beneficiary or heir for one year after the date of death, regardless of the expiration date of the Option.

9. This Option will be cancelled if the Committee determines that you engaged in misconduct in connection with your employment.

10. This Option shall be exercised in accordance with procedures established by the administrator of NCR's stock option program, including broker-assisted cashless exercises. In countries where deemed mandatory, upon exercise, the purchase price will be paid by simultaneous sale of the shares exercised, in such a manner that the optionee is not subject to taxation upon grant of the option award. Any taxes required by law to be withheld or paid with respect to exercise of this Option shall be deducted from the proceeds of the Option exercise. If NCR or the administrator of the stock option program is unable to withhold required taxes from the proceeds of the exercise, you or your legal representative or beneficiary will be required to pay such amounts, and NCR may take any action necessary to satisfy such obligation, including but not limited to withholding cash from your compensation otherwise due to you, or withholding from the shares such numbers of Shares as it, in its sole discretion, shall determine to be required to satisfy such withholding requirements.

11. Within a reasonable period after the Option is exercised, NCR will instruct its Transfer Agent and Stock Registrar to credit you or your successor with the number of Shares with respect to which you exercised the Option. Neither you nor your legal representative shall be, or have any of the rights and privileges of, a stockholder of NCR in respect of any Shares purchasable upon the exercise of this Option, in whole or in part, unless and until the Company credits you with such Shares.

12. This Option is not transferable by you otherwise than by beneficiary designation, will or the laws of descent and distribution, and during your lifetime the Option may be exercised only by you or your guardian or legal representative.

13. You may designate one or more beneficiaries to receive all or part of this Option in case of your death, and you may change or revoke such designation at any time. In the event of your death, any portion of this Option that is subject to such a designation will be distributed to such beneficiary or beneficiaries in accordance with this agreement. Any other portion of this Option shall be distributable to your estate. If there is any question as to the legal right of any beneficiary to receive a distribution hereunder, the Shares in question may be purchased by and distributed to your estate, in which event NCR shall have no further liability to anyone with respect to such Shares.

14. In exchange for this Option, you agree that during your employment with NCR and for a period of eighteen months after termination of your NCR employment for any reason, without the prior written consent of the Chief Executive Officer of NCR, you will not (1) render services directly or indirectly to any Competing Organization (as defined below) involving the development, manufacture, marketing, advertising or servicing of any product, process, system or service upon which you worked or in which you participated during the last three years of your NCR employment, (2) directly or indirectly recruit, hire, solicit or induce, or attempt to induce, any exempt employee of NCR to terminate their employment with or otherwise cease their relationship with NCR, (3) canvass or solicit business with any firm or company with whom you worked during the preceding five years while employed by NCR, including customers of NCR, or (4) disclose to any third party any NCR confidential, technical, marketing, business, financial or other information not publicly available. If you breach the terms of this paragraph 14, in addition to recovering damages for breach, this Option will be immediately cancelled, and you agree to pay to NCR the difference between the exercise price and the fair market value on the date of exercise of any shares received in connection with exercise of this Option on or after the date which is 12 months prior to the date of the breach.

As used in this paragraph 14, “Competing Organization” means an organization identified by the Chief Executive Officer of NCR at the beginning of the year in which your employment with NCR terminates as a Competing Organization, and any other person or organization which is engaged in or about to become engaged in research on or development, production, marketing, leasing, selling or servicing of a product, process, system or service which is the same or similar to or competes with a product, process, system or service manufactured, sold, serviced or otherwise provided by NCR to its customers.

You understand that if you breach this section, NCR may sustain irreparable injury and may not have an adequate remedy at law. As a result, you agree that in the event of your breach of this section, NCR may, in addition to any other remedies available to it, bring an action or actions for injunction, specific performance, or both, and have entered a temporary restraining order, preliminary or permanent injunction, or order compelling specific performance.

15. By accepting this Option, you agree that, where permitted by local law, any controversy or claim related to your employment relationship with NCR shall be resolved by first exhausting any NCR internal dispute resolution process and policy, and then by arbitration pursuant to such policy. If you are employed in the U.S., the arbitration shall be pursuant to the NCR dispute resolution policy and then current rules of the American Arbitration Association and shall be held in Dayton, Ohio. If you are employed outside the U.S., where permitted by local law, the arbitration shall be conducted in the headquarters city of for the business unit in which you work. The arbitration shall be held before an arbitrator who is an attorney knowledgeable of employment law. The arbitrator's decision and award shall be final and binding and may be entered in any court having jurisdiction thereof. For arbitration held in the U.S., issues of arbitrability shall be determined in accordance with the federal substantive and procedural laws relating to arbitration; all other aspects shall be interpreted in accordance with the laws of the State of Ohio. Each party shall bear its own attorney's fees associated with the arbitration and other costs and expenses of the arbitration shall be borne as provided by the rules of the American Arbitration Association for an arbitration held in the U.S., or similar applicable rules for an arbitration held outside the U.S. If any portion of this paragraph is held to be unenforceable, it shall be severed and shall not affect either the duty to arbitrate or any other part of this paragraph.

16. The terms of this Option as evidenced by this agreement may be amended by the NCR Board of Directors or its Compensation Committee, provided that no such amendment shall impair your rights hereunder without your consent.

Exhibit 10.6.4

2006 Restricted Stock Agreement
Performance Based Restricted Stock
NCR Management Stock Plan

You have been awarded a number of restricted shares of NCR common stock (the "Restricted Shares") under the NCR Management Stock Plan (the "Plan") of NCR Corporation ("NCR") as listed on the Certificate of Restricted Stock Grant on the restricted stock website ("Certificate"), subject to the terms and conditions of this agreement and the Plan.

1. All or a portion of the Restricted Shares will become nonforfeitable ("Vested") on the third anniversary of the award date ("Vesting Date"), provided that you are continuously employed by NCR or any of its Affiliate companies (referred to collectively herein as "NCR") until the vesting date, and provided that the applicable performance measures as described in paragraph 2 are met.

2. The number of Restricted Shares that will vest on the Vesting Date will depend on NCR's achievement of Cumulative Net Operating Profit (as defined below) for the period from January 1, 2006 through December 31, 2008 ("CNOP"), as follows:

Cumulative Net Operating Profit	% of Shares Earned
Threshold	25%
Target	100%
Maximum	150%

For amounts of CNOP between Threshold and Target, straight line interpolation, rounded up to the next whole share, will be used to determine the number of Restricted Shares vested. The amount of CNOP at Threshold, Target and Maximum levels will be determined by the Compensation & Human Resource Committee of the NCR Board of Directors, and will be communicated in your award letter.

CNOP is defined as (A – (B times C)), where A equals Non-Pension Operating Income as currently reported by NCR for each quarterly reporting period during the performance period; B equals controllable capital, which is defined as working capital (accounts receivable plus inventory minus accounts payable minus deferred revenue minus customer deposits), plus the sum of PP&E, other current assets excluding taxes, and capitalized S/W, minus the sum of payroll and employee benefits plus other current liabilities excluding taxes and severance (FAS 112 liability); and C equals 10%, which approximates the Company's weighted average cost of capital.

3. If CNOP exceeds Target, additional shares of NCR common stock ("Additional Shares") will be issued to you, effective as of the Vesting Date. The number of Additional Shares will be determined as a percentage of the number of shares in your initial award, with 0% at Target and 50% at Maximum, with straight line interpolation, rounded up to the next whole share, for amounts of CNOP between Target and Maximum.

4. Notwithstanding any other provision of this agreement, the Restricted Shares will vest and Additional Shares will be issued only if NCR achieves a Return on Capital goal for the 2006-2008 cycle of 40%.

5. If your employment with NCR terminates prior to the Vesting Date due to (i) your death, (ii) your Disability (defined as ceasing to be actively employed by NCR because you qualify for benefits under the NCR Long Term Disability Plan or another long term disability plan sponsored by NCR), (iii) Retirement (defined as termination of employment at or after age 55) or (iv) reduction-in-force, a pro rata amount of the Restricted Shares will Vest, and a pro rata amount of Additional Shares will be issued, if applicable, effective as of the Vesting Date, according to actual results of CNOP. The pro rata portion will be determined by calculating the total number of shares you would have received (through vesting of Restricted Shares and issuance of Additional Shares) if your NCR employment had not terminated, and multiplying this amount by a fraction, the numerator of which is the number of full and partial months of employment after the grant date, and the denominator of which is 36. If your employment terminates prior to the Vesting Date for any reason other than death, Disability, Retirement, or reduction-in-force, the Restricted Shares will be terminated and no Additional Shares will be issued.

6. By signing this agreement, you agree to keep this agreement confidential and not to disclose its contents to anyone except your attorney, your immediate family, or your financial consultant, provided such persons agree in advance to keep such information confidential and not disclose it to others. The Restricted Shares will be forfeited if you fail to keep this agreement confidential.

7. Promptly after the award date, NCR will instruct its Transfer Agent and Stock Registrar to create a record account for you credited with the number of Restricted Shares, subject to the restrictions described in this agreement.

8. You will be the record owner of the Restricted Shares until such shares are forfeited, and as the record owner you will be entitled to all rights of a common shareholder of NCR, including without limitation, voting rights and rights to cash and in-kind dividends, if any, on the Restricted Shares; provided, however, that the right to dividends will be subject to paragraph 10 below. As soon as practicable after your Vesting Date, subject to paragraph 11 below, NCR will instruct its Transfer Agent and Stock Registrar to release the restrictions on your record account and the Restricted Shares will become freely transferable.

9. At all times before your Vesting Date, the Restricted Shares may not be sold, transferred, pledged, assigned or otherwise alienated, except by beneficiary designation, will or by the laws of descent and distribution upon your death.

10. Any cash dividends declared before your Vesting Date on the Restricted Shares shall not be paid currently, but shall be reinvested in common shares of NCR. Any shares resulting from such reinvestment (the “Dividend Shares”) will be considered Restricted Shares for purposes of this agreement and will be subject to all of its provisions. As of each dividend payment date, the number of Dividend Shares will be determined by dividing the amount of dividends otherwise attributable to the Restricted Shares but not paid on such date by the

average of the high and low per share price of NCR’s common stock on the dividend payment date. The Compensation Committee of the NCR Board of Directors (“Committee”) may, in its discretion, take such action as it deems appropriate regarding in-kind dividends or distributions with respect to the Restricted Shares prior to your Vesting Date, which actions may include, without limitation, current distribution or liquidation or reinvestment in Restricted Shares. Any securities or property so distributed may, in the Committee’s discretion, be subject to any or all of the forfeiture provisions set forth in this Agreement.

11. NCR will have the right to deduct or cause to be deducted from, or collect or cause to be collected with respect to the taxation of any Restricted Shares, any country, Federal, state or local taxes required by law to be withheld or paid with respect to such Restricted Shares and you or your legal representative or beneficiary will be required to pay any such amounts. By signing this agreement, you consent and direct that, if you are paid through NCR’s U.S. payroll system at the time the restricted stock vests, NCR’s stock plan administrator will withhold the number of shares of restricted stock from your award as NCR in its sole discretion deems necessary to satisfy such withholding requirements. If you are paid through a non-U.S. NCR payroll system, you agree that NCR may satisfy any withholding obligations by withholding cash from your compensation otherwise due to you or by any other action as it may deem necessary to satisfy the withholding obligation.

12. By accepting the Restricted Shares, you agree that, where permitted by local law, any controversy or claim related to your employment relationship with NCR shall be resolved by first exhausting any NCR internal dispute resolution process and policy, and then by arbitration pursuant to such policy. If you are employed in the U.S., the arbitration shall be pursuant to the NCR dispute resolution policy and then current rules of the American Arbitration Association and shall be held in Dayton, Ohio. If you are employed outside the U.S., where permitted by local law, the arbitration shall be conducted in the headquarters city of for the business unit in which you work. The arbitration shall be held before an arbitrator who is an attorney knowledgeable of employment law. The arbitrator’s decision and award shall be final and binding and may be entered in any court having jurisdiction thereof. For arbitration held in the U.S., issues of arbitrability shall be determined in accordance with the federal substantive and procedural laws relating to arbitration; all other aspects shall be interpreted in accordance with the laws of the State of Ohio. Each party shall bear its own attorney’s fees associated with the arbitration and other costs and expenses of the arbitration shall be borne as provided by the rules of the American Arbitration Association for an arbitration held in the U.S., or similar applicable rules for an arbitration held outside the U.S. If any portion of this paragraph is held to be unenforceable, it shall be severed and shall not affect either the duty to arbitrate or any other part of this paragraph.

13. The Restricted Shares will be forfeited if the Committee determines that you engaged in misconduct in connection with your employment.

14. Where permitted by local law, in exchange for the Restricted Shares, you agree that during your employment with NCR and after your termination of employment for any reason, without the prior written consent of the Chief Executive Officer of NCR, you will not (1) render services directly or indirectly to any Competing Organization (as defined below) involving the development, manufacture, marketing, advertising or servicing of any product, process, system or service upon which you worked or in which you participated during the

last three years of your NCR employment, (2) directly or indirectly recruit, hire, solicit or induce, or attempt to induce, any exempt employee of NCR to terminate their employment with or otherwise cease their relationship with NCR, (3) canvass or solicit business with any firm or company with whom you worked during the preceding five years while employed by NCR, including customers of NCR, or (4) disclose to any third party any NCR confidential, technical, marketing, business, financial or other information not publicly available. If you breach the terms of this paragraph 14, in addition to recovering damages for breach, any unvested Restricted Shares will be immediately forfeited, and you agree to pay to NCR the fair market value of any Restricted Shares that vested or Additional Shares that were issued during the 12 months prior to the date of your termination of employment.

As used in this paragraph 14, “Competing Organization” means an organization identified by the Chief Executive Officer of NCR as a Competing Organization for the year in which your employment with NCR terminates, and any other person or organization which is engaged in or about to become engaged in research on or development, production, marketing, leasing, selling or servicing of a product, process, system or service which is the same or similar to or competes with a product, process, system or service manufactured, sold, serviced or otherwise provided by NCR to its customers.

You understand that if you breach this section, NCR may sustain irreparable injury and may not have an adequate remedy at law. As a result, you agree that in the event of your breach of this section, NCR may, in addition to any other remedies available to it, bring an action or actions for injunction, specific performance, or both, and have entered a temporary restraining order, preliminary or permanent injunction, or order compelling specific performance.

15. You may designate one or more beneficiaries to receive all or part of any Restricted Shares to be distributed in case of your death, and you may change or revoke such designation at any time. In the event of your death, any Restricted Shares distributable hereunder that are subject to such a designation will be distributed to such beneficiary or beneficiaries in accordance with this agreement. Any other Restricted Shares will be distributable to your estate. If there shall be any question as to the legal right of any beneficiary to receive a distribution hereunder, the Restricted Shares in question may be transferred to your estate, in which event NCR will have no further liability to anyone with respect to such Restricted Shares.

16. The terms of this award of Restricted Shares as evidenced by this agreement may be amended by the NCR Board of Directors or the Committee, provided that no such amendment shall impair your rights hereunder without your consent.

Exhibit 10.7.4

FOURTH AMENDMENT TO THE RETIREMENT PLAN FOR OFFICERS OF NCR

AMENDMENT TO THE RETIREMENT PLAN FOR OFFICERS OF NCR (the "Plan") as restated and in effect January 1, 1997 by NCR Corporation ("NCR").

WHEREAS, the Plan was amended and restated effective January 1, 1997, amended by a First Amendment executed August 15, 1997, a Second Amendment executed October 24, 2001, and a Third Amendment effective June 1, 2002 that closed the Plan to new Participants effective June 1, 2002, and

WHEREAS, NCR desires to amend the Plan to conform the eligibility requirements to the Company's new job evaluation system that designates positions grades instead of bands effective January 1, 2006;

NOW, THEREFORE, NCR does hereby amend the Plan, effective January 1, 2006, as follows:

1. ARTICLE V, as amended by the First Amendment, is hereby further amended by replacement of the second paragraph with the following:

"Participation shall cease on the earlier of the date on which the Participant terminates employment with the Company or dies."

IN WITNESS WHEREOF, NCR has caused this amendment to the Plan to be executed this 27th day of February, 2006.

FOR NCR CORPORATION

By: /s/ Christine Wallace
Christine Wallace
Senior Vice President, Human Resources

Exhibit 10.8.2

SECOND AMENDMENT
TO THE NCR OFFICER PLAN

AMENDMENT TO THE NCR OFFICER PLAN (the "Plan") as restated and in effect January 1, 1997 by NCR Corporation ("NCR").

WHEREAS, the Plan was amended and restated effective January 1, 1997, and amended by a First Amendment that closed the Plan to new Participants effective September 1, 2004; and

WHEREAS, NCR desires to amend the Plan to conform the eligibility requirements To the Company's new job evaluation system that designates positions grades instead of bands effective January 1, 2006;

NOW, THEREFORE, NCR does hereby amend the Plan, effective January 1, 2006, as follows:

1. Section 2.3 Termination of Participation is hereby amended in its entirety to read as follows:

"2.3 Termination of Participation. Accrual of benefits under the Plan ceases on the earlier of the date on which the Participant terminates employment with the Company or dies."

IN WITNESS WHEREOF, NCR has caused this amendment to the Plan to be executed this 27^{th} day of February, 2006.

FOR NCR CORPORATION

By: /s/ Christine Wallace
Christine Wallace
Senior Vice President, Human Resources

Exhibit 10.12.1

FIRST AMENDMENT TO THE NCR SUPPLEMENTAL PENSION PLAN FOR AT&T TRANSFERS

AMENDMENT TO THE NCR SUPPLEMENTAL PENSION PLAN FOR AT&T TRANSFERS (the "Plan") as restated and in effect January 1, 1997 by NCR Corporation ("NCR").

WHEREAS, the Plan was amended and restated effective January 1, 1997; and

WHEREAS, Plan was effectively closed to new participants when NCR spun off from AT&T Corp. effective January 1, 1997, and as of December 31, 2005, all eligible participants had retired from NCR except for two active employees; and

WHEREAS, NCR desires to amend the Plan to conform the eligibility requirements To the Company's new job evaluation system that designates positions grades instead of bands effective January 1, 2006;

NOW, THEREFORE, NCR does hereby amend the Plan, effective January 1, 2006, as follows:

1. Section 2.2 Participation of ARTICLE II is hereby amended in its entirety to read as follows:

An eligible individual shall become a Participant in this Plan when he or she terminates employment with the Company at age 55 or older.

IN WITNESS WHEREOF, NCR has caused this amendment to the Plan to be executed this 27th day of February, 2006.

FOR NCR CORPORATION

By: /s/ Christine Wallace
Christine Wallace
Senior Vice President, Human Resources

Exhibit 10.13.3

SECOND AMENDMENT TO THE NCR MID-CAREER HIRE SUPPLEMENTAL PENSION PLAN

AMENDMENT TO THE NCR MID-CAREER HIRE SUPPLEMENTAL PENSION PLAN (the “Plan”) as restated and in effect January 1, 1997 by NCR Corporation (“NCR”).

WHEREAS, the Plan was amended and restated effective January 1, 1997, and amended by a First Amendment (incorrectly identified in its heading as the “Third Amendment”) that closed the Plan to new participants as of June 1, 2002; and

WHEREAS, NCR desires to amend the Plan to conform the eligibility requirements for the frozen group of participants to the Company’s new job evaluation system that designates positions grades instead of bands effective January 1, 2006;

NOW, THEREFORE, NCR does hereby amend the Plan, effective January 1, 2006, as follows:

1. Section 2.2 Participation of ARTICLE II is hereby amended by the addition of the following new sentence at the end thereof:

Notwithstanding the above, effective January 1, 2006, individuals who are eligible to participate in the Plan on December 31, 2005, shall continue to be eligible to participate in the Plan, regardless of any subsequent changes in their band or grade level, and shall be entitled to a benefit from this Plan if they terminate from the Company at or after age 55, with five or more years of service, regardless of band or grade level.

IN WITNESS WHEREOF, NCR has caused this amendment to the Plan to be executed this 27th day of February, 2006.

FOR NCR CORPORATION

By: /s/ Christine Wallace

Christine Wallace

Senior Vice President, Human Resources

Exhibit 10.14.2

SECOND AMENDMENT
TO THE NCR NONQUALIFIED EXCESS PLAN

AMENDMENT TO THE NCR NONQUALIFIED EXCESS PLAN (the "Plan") as restated and in effect January 1, 1996 by NCR Corporation ("NCR").

WHEREAS, the Plan was amended and restated effective January 1, 1996, and amended by a First Amendment effective September 1, 2004, to admit no new participants in the Plan and cease benefit accruals for all participants other than a grandfathered group; and

WHEREAS, NCR desires to amend the Plan to conform the eligibility requirements for the frozen group of participants to the Company's new job evaluation system that designates positions grades instead of bands effective January 1, 2006;

NOW, THEREFORE, NCR does hereby amend the Plan, effective January 1, 2006, as follows:

1. Section 2.1 Participation of ARTICLE II is hereby amended by the addition of the following new sentence at the end thereof:

Notwithstanding the above, effective January 1, 2006, individuals who are eligible to participate in the Plan on December 31, 2005, shall continue to be eligible to participate in the Plan, regardless of any subsequent changes in their band or grade level, and shall be entitled to a benefit from this Plan if they terminate from the Company at or after age 55, regardless of band or grade level.

IN WITNESS WHEREOF, NCR has caused this amendment to the Plan to be executed this 27th day of February, 2006.

FOR NCR CORPORATION

By: /s/ Christine Wallace
Christine Wallace
Senior Vice President, Human Resources

Exhibit 14

Message from our President and Chief Executive Officer

Welcome to NCR's Code of Conduct. As a global company that has been in business for more than 120 years, our reputation is one of our most important assets. Even in today's environment of transparency and full disclosure, we continue to witness numerous organizations that have had serious breaches of trust, unprecedented levels of greed, disrespect for the law, and a breakdown in the fundamental principles that these organizations were built upon. Since John H. Patterson founded our company, NCR has seen many changes. However, what has not changed is NCR's ability to redefine itself, adapt and adjust to business and global needs while operating with the highest level of integrity. As was true in the past, and also is true today, we have strong, ethical leadership which provides direction, clarity and a passion to succeed.

The NCR Code of Conduct, along with our Shared Values, are valuable resources for understanding the specific behaviors NCR expects all employees to exhibit in their day-to-day interactions and relationships and provides a framework for our daily decision making. NCR recently undertook a company-wide initiative to gather input on how to make our Shared Values even stronger. Our employees overwhelmingly confirmed that "integrity" remains our most important value. Our refreshed values are:

Integrity: Highest Standard of Integrity
Respect & Teamwork: Respect for Each Other; Work as a Team
Customer Dedication: Passion for Our Customers and Their Success
Performance: Commitment to Performance Excellence
Innovation: Pursuit of Innovation

NCR's future is bright and we believe that our Code of Conduct provides an excellent framework to continue our journey of innovation and providing solutions that deliver value to our customers. Each year our employees, including me, are required to certify their understanding of and compliance to the Code of Conduct. And we expect that our vendors, suppliers and customers will abide by similar principles in their daily operations. Through this certification process, we commit to all of our stakeholders – customers, employees, partners, suppliers and shareholders – that we will utilize our Shared Values and our Code of Conduct to ensure that the NCR name and brand continues to be worthy of trust.

Regards,

William Nuti
President and CEO

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NCR SHARED VALUES

NCR Shared Values form the foundation of our business relationships with each other, our customers, partners and suppliers. They define a global, consistent framework for conducting business. We use NCR Shared Values to direct our behavior and guide our decisions as we drive to achieve our business objectives.

INTEGRITY: Highest Standards of Integrity

We must act ethically and with courage, fairness and honesty in all our business dealings. We must keep our commitments, admit our mistakes and learn from our experiences. We are accountable for what we achieve and how we achieve it. We know our reputation is directly affected by the conduct of each and every employee and we strive to ensure the NCR name remains worthy of trust.

PERFORMANCE: Commitment to Performance Excellence

We commit to high performance in all functions. We must take personal ownership for the success of our company and work together to continuously improve and achieve best-in-class performance. We must deliver the highest quality products and services to our internal and external customers. And we realize that profitable growth is the means to develop new business solutions for our customers and create opportunities for employees, as well as reward the trust of our shareowners and the performance of employees.

CUSTOMER DEDICATION: Passion for Our Customers and Their Success

We genuinely care about our customers and are dedicated to serving them well. We learn their markets, understand their specific goals and objectives, and develop solutions that deliver business value. We must build teams with each other and with our customers to maximize our ability to deliver the highest possible value. We must always respond with a sense of urgency. And we must strive to develop long-term customer relationships by consistently delivering quality, innovation, and business value that meet or exceed our customers' expectations – with no surprises.

INNOVATION: Pursuit of Innovation

We must be in constant pursuit of innovation – both process and technology innovation. Throughout our history, NCR's ability to harness the power of new ideas and put them to work for our customers in the real world has defined our company and fueled our leadership. From the way we search for new and more effective ways to run our business to the dynamic new technologies we deliver to our customers, innovation powers the engine that drives our success now and in the future.

RESPECT & TEAMWORK: Respect for Each Other, Work as a Team

We base our working relationships upon trust and respect and recognize the contributions of every member of the NCR team. We value the unique qualities, abilities and perspectives each person brings to a challenge or opportunity, and we also know that as a team we can achieve together what would remain out of reach for us individually. And we communicate openly and candidly with each other and extend our respect and team spirit to customers, partners, suppliers and the communities in which we live and work.

INTRODUCTION/EXPLANATION

Purpose of this Code of Conduct

The NCR Code of Conduct is our single worldwide code of conduct. It is our guide and point of reference for upholding our corporate values. While our principles for business conduct are described in these pages, our code does not cover every situation, nor establish every rule. NCR's corporate policies and procedures, as well as our individual commitment to ethical and legal behavior must also guide NCR employees.

This code applies to all NCR employees, including senior management, directors, independent contractors, and agents. Any waiver of the code for executive officers or directors can only be approved by the NCR Board of Directors or its Committee on Directors and Governance and must be properly disclosed to shareholders. It affirms our commitment to the highest standards of integrity in our relationships with one another and with our customers, suppliers, and shareholders. We expect the suppliers and contractors with whom we do business to embrace similar values and standards. Because all NCR employees are expected to abide by the provisions of this code of conduct, employees are expected to read it, understand it, and conduct themselves in keeping with its guidelines. And, whenever questions arise, employees are responsible for seeking clarification from their managers, Human Resources, the Ethics & Compliance Officer, NCR AlertLine, the Law Department, or Corporate Security.

Ethics & Compliance Program

This code of conduct is an important component of our corporate Ethics & Compliance Program. The NCR Board of Directors, Committee on Directors and Governance provides guidance and direction on the company's Ethics & Compliance Program and assigns oversight responsibility for NCR's business ethics program to a committee. This committee, known as the Ethics & Compliance Leadership Team is comprised of a number of executive officers of the company. Each business unit and infrastructure organization within NCR is responsible for helping to ensure legal and ethical compliance by everyone within his or her organization.

The Ethics & Compliance Officer supports the efforts of these organizations. The Ethics & Compliance Officer assists business unit, regional, and department heads in their efforts to ensure that NCR is following this code of conduct, corporate policies, and other applicable laws. When employees are not comfortable going to their manager, the Ethics & Compliance Officer or the NCR AlertLine anonymous reporting system serve as additional front-line resources if employees suspect compliance violations or have questions or concerns about compliance issues within NCR. The Law Department, Global Human Resources, Corporate Audit, the Corporate Controller's Division, and Corporate Security will support the efforts of the Ethics & Compliance Officer and Ethics & Compliance Committee.

Compliance with ethical and legal standards is everyone's responsibility. We are often faced with ethical dilemmas and the best course of action is not always clear. The following questions can help when employees are not sure what to do.

- What feels wrong about this situation?
- Is this situation against company policy or the law?
- How will our stakeholders be affected?
- How will I be affected?

Moreover, employees who supervise others have a special responsibility to show, through words and actions, their personal commitment to the highest standards of integrity. In particular, managers are responsible for:

- Ensuring that their team members understand NCR Shared Values and the provisions of this code and providing them with additional training when appropriate.
- Taking reasonable steps to ensure that unethical conduct within their areas of responsibility is detected, addressed, and reported.
- Considering whether an employee follows our code before placing them in a position of responsibility.
- Creating an environment that promotes compliance, encourages employees to raise policy questions and concerns, and prohibits retribution.

Every NCR employee must comply with all applicable laws, with the provisions of this code of conduct, and with other company policies and procedures. However, when working in a country where local laws conflict with the provisions of this code, employees should follow the local legal requirements.

Ultimately, our conduct is our own responsibility. None of us should ever commit dishonest, destructive, or illegal acts - - even if directed to do so by a manager or co-worker - nor should we direct others to act improperly. Additionally, no employee should deviate from NCR's policies or instructions, even if doing so appears to be to the company's advantage. If you have questions or concerns about the application of a particular policy, check the policy manual or contact the policy owner.

Reporting Non-Compliance / NCR AlertLine

If you suspect, observe or learn of unethical or illegal conduct, you are required to immediately notify your manager, the Law Department, Human Resources, the Ethics & Compliance Office, or Corporate Security, as appropriate. You may also contact the NCR AlertLine to report anonymously any non-compliance issue. Due to data protection and privacy issues, some countries may preclude the reporting of certain types of concerns through the NCR AlertLine. Within the United States, the NCR AlertLine number is 1-888-256-5678; outside the United States, the NCR AlertLine can be accessed by calling AT&T Direct. If you don't know the AT&T Direct number in your country, call your international operator and ask for AT&T Direct. Once you have accessed AT&T Direct, dial 888-256-5678.

NCR is committed to achieving compliance with all applicable securities laws and regulations, accounting standards, accounting controls and audit practices. NCR policy CFAP #109 clarifies the types of issues that need to be reported and how such matters are to be handled internally. Employees with information concerning wrongdoing or questionable conduct at NCR should contact the Ethics & Compliance Office, the NCR AlertLine, the Law Department, Internal Audit or Corporate Security.

Reports of misconduct, including those made anonymously, will be investigated and feedback will be provided when appropriate. U.S. law provides protection against retaliatory termination or adverse employment action by NCR, and its officers, employees and agents, against any employee who (i) provides information to a supervisor, the federal government or Congress that the employee reasonably believes relates to federal securities or anti-fraud violations, or (ii) files, testifies, participates in, or otherwise assists in any actions involving conduct that the employee reasonably believes relates to federal securities or anti-fraud violations. ANYONE MAKING A GOOD FAITH COMPLAINT OR REPORTING AN IRREGULARITY WILL NOT BE SUBJECT TO DISMISSAL OR RETALIATION OF ANY KIND. Any retaliation for making a good faith complaint or reporting an irregularity is in itself a serious violation of this code and will be subject to discipline up to and including termination. NCR will not condone reprisals against people who report suspected violations in good faith, and their identities will be protected to the maximum extent possible consistent with law and NCR policy.

Similarly, employees who deliberately misreport will be subject to disciplinary action, up to and including termination.

For more information about the Ethics & Compliance Program and Reporting, please see **Corporate Management Policy 900: "Ethics & Compliance Process".**

How to Locate NCR Policies Referred to in this Code of Conduct

Several important NCR policies are referred to in this code of conduct. The complete text of these policies is easy to find on NCR's internal computer network. Follow these instructions for accessing corporate policies:

1. Go to http://www.iis.ncrnet.ncr.com/cfo/cfo/corppolicies.html

2. Click on "Corporate Finance & Accounting Policies (CFAP)" or "Corporate Management Policies (CMP)".

3. Click on the policy you wish to access.

WORKPLACE

Conflict Resolution

NCR recognizes that conflicts may arise among individuals who bring different skills, qualities, and personalities into the workplace. To keep all employees focused on our primary objective — profitable growth — early resolution of conflicts is in everyone's best interest. Throughout the company, NCR provides processes and procedures to help employees and managers resolve conflicts related to almost any workplace issue. We encourage all employees to seek information about conflict resolution from your manager or from your local Global Human Resources representative. Many NCR area and country organizations have dispute resolution processes spelled out in their employee guides or special booklets provided to each employee. In the United States, for example, Internal Dispute Resolution (IDR)) provides a two-step dispute resolution process covering workplace issues for all non-bargaining unit employees.

For more information about IDR and conflict resolution at NCR, please see **Corporate Management Policy 706: "IDR: Internal Dispute Resolution"*****. For additional guidance, please see Questions and Answers or Your Responsibilities.***

Workplace Violence

NCR is committed to providing a safe and secure work environment for its employees and visitors to NCR facilities. All individuals on NCR premises must treat one another with respect and courtesy. NCR will not tolerate acts or threats of violence. To support NCR's "zero tolerance" position toward workplace violence, both employees and visitors to NCR's facilities must report instances of actual or threatened violence on NCR premises.

NCR's Workplace Violence Policy provides guidelines on the appropriate actions if employees and visitors witness actual or threatened acts of violence. Depending upon the nature and severity of the incident, NCR will engage local law enforcement authorities, on-site security guards, community mental health advisors, or Human Resources Representatives to take prompt action to remove, discipline, counsel or prosecute any individual on NCR premises who poses a safety risk or commits an act of violence.

NCR prohibits the possession of weapons in the workplace.

For more information about Workplace Violence at NCR, please see **Corporate Management Policy 708: "Workplace Violence"** ***. For additional guidance, please see Questions and Answers or Your Responsibilities.***

Non-Discrimination

NCR is committed to providing a work environment free from any illegal discrimination based on race, color, religion, national origin, gender, age, disability, sexual orientation, gender identity or expression, marital status, or any other unlawful factor to the fullest extent required by local law. Decisions concerning hiring, performance appraisals, and promotions will be based only on those factors permitted by law. For example, in the United States, these factors are limited to an employee's qualifications, skills, and achievements.

To help achieve this, NCR complies with applicable human rights and employment-equity legislation. And, we do not discriminate unlawfully in any aspect of employment, including recruiting, hiring, compensation, promotion, or termination.

Equal Employment Opportunity / Affirmative Action

NCR affirms its commitment to providing equal opportunity to all employees and applicants for employment in accordance with all applicable laws, directives, and regulations of federal, state and local governing bodies and agencies. We want to make sure that as a company, we treat our employees with respect and that, when making any employment-related decision, we only consider relevant performance factors.

Specifically, it is NCR's policy to:

- Comply with both the letter and the spirit of all applicable laws and regulations governing employment
- Provide equal opportunity to all employees and to all applicants for employment
- Take appropriate affirmative action to make equal opportunity a reality
- Make reasonable accommodations to the limitations of qualified employees or applicants with disabilities
- Ensure that maximum opportunity is afforded to minority and women-owned businesses to participate as suppliers, contractors, and subcontractors of goods and services to NCR; and
- Comply with regulatory agency requirements and with federal, state, and local procurement regulations and programs

Each employee has a responsibility to support the company's equal opportunity and affirmative action commitment. NCR managers should understand and carryout all aspects of our equal opportunity policy. Because nearly one half of all NCR employees live in the United States, it is particularly important that this code call attention to the U.S. Equal Employment Opportunity and Affirmative Action laws. Your local Global Human Resources representative and the Law Department can answer any specific questions that you may have.

For more information about non-discrimination at NCR, please see* Corporate Management Policies 701: "Non-Discrimination-Equal Employment Opportunity," *and* 705: "Diversity in the Global Workplace." *For additional guidance, please see Questions and Answers or Your Responsibilities.

Harassment

NCR does not tolerate conduct that creates an intimidating or offensive work environment. Such conduct includes, but is not limited to (a) racial, religious, sexual, or ethnic comments or jokes; (b) unwelcome sexual advances or inappropriate physical contact; or (c) unwelcome sexually-oriented gestures, pictures, jokes or statements.

If you believe that you are the victim of discriminatory or harassing conduct, report it to your manager or to your Global Human Resources representative. You may also report such conduct anonymously to the NCR AlertLine. Due to data protection and privacy issues, some countries may preclude the reporting of certain types of concerns through the NCR AlertLine. All good faith complaints will be investigated promptly and without retaliation to the report originator.

For more information about zero tolerance of harassment at NCR, please see* Corporate Management Policy 702: "Harassment." *For additional guidance, please see Questions and Answers or Your Responsibilities

Drug-Free Workplace

NCR is committed to a drug-free workplace. The misuse of drugs, both legal and illegal, while on company premises or during company business is prohibited. NCR prohibits the use, possession, distribution, or sale of illegal drugs on its premises, in its vehicles, and while conducting NCR business. Furthermore, it is expected that employees will not conduct NCR business while under the influence of alcohol or illegal drugs. To promote this policy, to the extent permitted by local law, NCR requires a drug-screening test of all that apply for employment.

For more information about NCR's commitment to a drug-free workplace, please see* Corporate Management Policy 219: "Drug-Free Workplace." *For additional guidance, please see Questions and Answers or Your Responsibilities.

Consensual Relationships

NCR does not seek to insert itself into employees' personal relationships. However, when an employee has a significant personal relationship with another employee, complications can sometimes arise that may cause problems in the workplace. To minimize the chances of any adverse impact on the workplace, it is essential that employees conduct themselves in a fully professional, appropriate, and mature manner.

Additionally, employees with management responsibilities should be aware that having an intimate relationship with a lower-level employee in their organization might limit their ability to manage certain aspects of the business or otherwise cause problems in the workplace. Therefore, the company strongly discourages employees from living with, dating, or becoming involved in a romantic relationship with another person over whom the employee has supervisory, hiring, or disciplinary authority. Managers/subordinates who have or enter into such a relationship are required to immediately disclose the existence of the relationship to Human Resources or the Ethics & Compliance Officer, so that the Company may take appropriate action to address issues that may arise.

Infrastructure Technology Resources

NCR's electronic information exchange and infrastructure systems are to be used in the furtherance of NCR business. No NCR employee, contractor, or partner should use these electronic resources to espouse personal, political, or religious views or to solicit support for any non-business cause or event. It is the responsibility of each individual to utilize the company's IT infrastructure resources in a responsible, ethical, and lawful manner. Employees may occasionally use Company resources such as printers, copy machines, Internet access, telephone or e-mail for personal use. Personal use of Company resources on an occasional and limited basis is acceptable as long as NCR's Information Technology and other policies are followed; there are no measurable costs or negative impact on NCR's business; and co-workers are not distracted. The use of IT resources to access any service on the public Internet is reserved for NCR employees and NCR contractors for the direct support of legitimate NCR business objectives but employees may use occasionally subject to the criteria listed above.

Internet material that conflicts with NCR's Shared Values and is not compatible with a productive work environment should not be accessed. Access to such material can also result in potential legal liabilities to NCR. Examples of restricted sites include, but are not limited to, those with information or activities involving non-business related chat groups, pornography, criminal skills and illegal activities (including those related to the circumvention of network security controls), dating services and discussions, the purchase and use of illegal or recreational drugs, extreme or obscene material, gambling, hate speech, games, and entertainment.

For NCR employees, any communication relating to the Company posted in Internet chat rooms is subject to NCR's policies on disclosure of confidential and proprietary information. Many Internet users who participate in investor-related discussion groups claim to have "inside" information about a company. Others post messages spreading innuendo and rumors. Employees who participate in these Internet discussion groups are reminded that they must adhere to the following rules based on NCR's policies and applicable law:

- Don't participate in chat rooms about NCR or companies doing business with NCR
- Don't disclose material, inside information or other confidential and/or proprietary information about NCR or another company that you learn of through your work at NCR and
- Don't create or comment on rumors

In addition, e-mail should not be used, among other things, to create or exchange offensive, harassing, obscene or threatening messages; to send proprietary registered information, or to create or exchange advertisements, solicitations, chain letters and other unsolicited non-business related e-mail.

For more information about the use of NCR's information technology resources, please see **<u>Corporate Management Policy 1404: "Information Technology Infrastructure Policy".</u>** ***For additional guidance, please see Questions and Answers or Your Responsibilities.***

Employee Privacy / Employment References

NCR acquires and maintains only those employee records required for business, legal, or contractual reasons. We also limit access to these records to people who need the information for legitimate purposes. When asked to provide an employment reference or verification, NCR will only verify dates of employment and the position(s) held. NCR also acquires and maintains customer data for use according to customer's instructions or as required by law.

NCR will limit the collection and use of employee and customer information to that which is necessary or helpful for valid business purposes or to comply with local law and such data will be obtained only by fair and lawful means. NCR may disclose such information to its affiliates or independent service providers or subcontractors or unaffiliated third parties, subject to certain limitations, as needed to support the use described above. This may include transferring data outside of a country. NCR will not sell, rent or lease lists of such information except as part of a sale of that business

For more information about employee privacy at NCR, please see **<u>Corporate Management Policies 204: "Protection of Personal Data"</u>** ***and*** **<u>205: "Privacy of Protected Health Information".</u>** ***For additional guidance, please see Questions and Answers or Your Responsibilities. Laws may vary significantly from country to country on matters of employee privacy and other workplace issues. For more information about workplace policies, please contact your local Global Human Resources representative or the Law Department.***

CONFLICTS OF INTEREST

Conflicts of interest arise when the personal interests of an NCR employee influence, or appear to influence, his or her judgment or ability to act in NCR's best interest. In general, you must always act on an arm's length basis and in the best interests of NCR when conducting business with outside parties on behalf of NCR and avoid taking any actions or acquiring any interests that may make it difficult to perform your work for NCR objectively and effectively. You must also deal with all outside parties in a fair and objective manner, without favor or preference based upon personal considerations. You are encouraged to communicate potential conflicts of interest with your manager, Human Resources representative, the Law Department or the Ethics & Compliance Office as described below. NCR's directors must confirm on an annual basis that they have no conflicts of interest in their relationships with NCR. All employees are required to disclose potential conflicts of interest during the Code of Conduct certification process. However, once a potential conflict of interest issue arises, it should be reported immediately.

Competing or Doing Business with NCR

Our policy regarding competition with NCR is clear: you should not engage in activities that compete with NCR's current or prospective business activities, nor engage in activities that give the appearance that you are doing so. In addition, you may not act for NCR and directly or indirectly on the behalf of an affiliated firm that does business with NCR or is seeking to do business with NCR (such as a current or potential customer, supplier or strategic partner). Interests in affiliated firms or competitors that may create conflicts of interest include, among other things, a major equity investment, a close relative with a position at such firm, or a consulting or part-time position with such firm.

Improper Personal Benefits

NCR's employees receive compensation and reimbursement of expenses in the ordinary course of its business. Conflicts of interest may arise, however, if employees receive improper personal benefits from the company. To avoid even the appearance of impropriety, personal loans or guarantees of personal obligations by the company are prohibited. Examples of other improper personal benefits that may give rise to a conflict of interest include personal uses of company property that are not permitted under NCR's policies, as well as personal travel expense, personal entertainment and related expenses that are paid by NCR, among other things.

Gifts and Favors, Entertainment, and Bribes

Gifts and Favors

Gift-giving practices vary around the world. Generally, gifts are given to create goodwill and, in some parts of the world, declining a gift may insult the giver. On the other hand, accepting a gift may create a conflict of interest or the appearance of a conflict. To avoid any conflicts of interest, do NOT (1) solicit gifts from anyone doing business with NCR (such as customer, supplier or strategic partner), (2) accept gifts that are expensive or likely to influence your judgment, (3) accept – under any circumstances – payments, loans, kickbacks, special privileges, or services from anyone in return for NCR business, or (4) give – under any circumstances – payments, loans, kickbacks, special privileges, or services to current or potential customers, suppliers or strategic partners.

If NCR's Conflicts of Interest policy requires you to decline a gift or favor, you should politely explain that NCR policy prohibits you from accepting it. Also, please keep in mind that in parts of the world where gift-giving is common practice and not accepting a gift could reflect badly on NCR, it may be appropriate to accept the gift — as long as doing so would not violate any laws or in any way discredit NCR, and the gift is unsolicited and not given to influence your judgment. In such circumstances, you may accept the gift on behalf of NCR; however, you must immediately notify your manager and relinquish the gift to NCR.

Entertainment

Except when working with government employees, you may accept inexpensive meals or other modestly priced forms of entertainment from outside parties as a courtesy extended during the normal course of business. Employees who work with government employees are responsible for knowing the local rules and regulations regarding government employee buyer-and-seller relationships.

Bribes to Obtain or Retain Business

Providing favors, money, inappropriate gifts, or anything else of unusual or expensive value to obtain or retain business may be considered bribery. Bribery violates NCR policy and the laws of many of the countries where NCR conducts business. You may not accept or give bribes in any form – regardless of whether this is culturally acceptable.

For more information about conflicts of interest and NCR, please see* <u>**Corporate Management Policies 901: "Conflicts of Interest"**</u> *and* <u>*912: "Gifts & Entertainment."*</u>*" For additional guidance, please see Questions and Answers or Your Responsibilities.

For more information about NCR's position on gifts, entertainments, and favors, please see* <u>**Corporate Management Policies 904: "Standards for Business Conduct (Foreign Corrupt Practices Act)**</u>**,"** *and* <u>**901: "Conflicts of Interest."**</u>**"** *For additional guidance, please see Questions and Answers or Your Responsibilities. The Law Department and Global Procurement can provide further information.

NCR employees involved in government contracts should seek further guidance regarding gifts, entertainment, and favors from the Law Department.

PROTECTION OF COMPANY ASSETS

Company Funds and Property

All NCR employees are responsible for protecting company assets from loss, theft, or unauthorized uses. Company assets include trademarks and service marks; company time; money and charge cards; land and buildings; records; vehicles; equipment, including fax machines, copiers, and telephones; computer hardware and software; Internet, intranet, and other networks; scrap and obsolete equipment.

NCR's electronic information exchange systems are to be used in the furtherance of NCR business. Employees may occasionally use Company assets such as printers, copy machines, Internet access, telephone or e-mail for personal use. Personal use of Company assets on an occasional and limited basis is acceptable as long as NCR's Information Technology and other policies are followed; there are no measurable costs or negative impact on NCR's business; and co-workers are not distracted. No NCR employees should use the electronic information exchange systems to espouse personal, political, or religious views or to solicit support for any cause or event. NCR has the right to review any material sent, received, or stored on its electronic information exchange systems

Corporate Opportunities

Employees, officers and directors are prohibited from taking for themselves personally opportunities that are discovered through the use of corporate property, information or position; using corporate property, information or position for personal gain; and competing with the company. Employees, officers and directors owe a duty to the company to advance its legitimate interest when the opportunity to do so arises.

Proprietary Information

Proprietary information is knowledge that NCR has determined must not be disclosed to others, except as required by law or as permitted by company policy. Proprietary information includes all non-public information that might be of use to NCR's competitors, or harmful to the company or its customers such as, among other things:

- Research and development, including inventions, patent applications, and engineering and laboratory notebooks.
- Employee, customer, stockholder, and supplier information.
- Network management information.
- Confidential manufacturing processes or procedures.
- Business strategies and results, information about unannounced products or services, concepts and designs, marketing plans, pricing, and financial data.

- Confidential organizational information, including organizational charts.
- Confidential information NCR obtains from third parties.
- Information concerning potential acquisitions or divestitures.
- Company financial outlooks and projections.

Disclosure of proprietary information could damage NCR competitively or financially. In some cases, its release could also embarrass our employees, customers, suppliers, or partners. Disclosure may also be prohibited simply because the information belongs to others and NCR has agreed to keep it private. When a legitimate business need to disclose proprietary information outside NCR arises, a legally binding non-disclosure agreement may be appropriate. Consult the Law Department in these situations.

Acquiring and Using Information about Competitors

In the normal course of business, it is not unusual to acquire public information about other organizations, including our competitors, through legal and ethical means. However, NCR employees should avoid seeking or receiving information about a competitor through other non-public means if they know or have reason to believe the information is proprietary or confidential. Obtaining propriety information without the owner's consent or inducing such disclosures by past or present employees of other companies is prohibited. Also, NCR employees may not use third parties to acquire information by improper means. Consult the Law Department for further guidance regarding acquiring or using information about competitors.

Accuracy and Retention of Company Records

NCR must have accurate and complete records to meet financial, legal, and management obligations. This information is used to fulfill our obligations to customers, suppliers, shareholders, employees, and government agencies. Company records include general and subsidiary ledgers, employee and payroll records, vouchers, customer invoices, time reports, contracts, billing records, benchmark and measurement data, employee and customer survey results, performance and production records, and other essential data for financial and business decisions. You should follow the company's internal controls and procedures to ensure that (1) all transactions are properly authorized, (2) NCR's assets are safeguarded against unauthorized or improper use, and (3) all transactions are properly recorded and reported in accordance with NCR's policies.

Proper record retention is important to ensure records are systematically maintained and available to satisfy corporate and governmental requirements. Every NCR organization is responsible for maintaining a comprehensive record retention schedule providing not only the criterion for the retention of records but for the systematic disposal of records.

For additional information regarding NCR's record retention policy, please see **<u>Corporate Finance & Accounting Policy 111: "Record Retention".</u>**

Financial Reporting

NCR expects ethical conduct in the practice of financial management and requires all of its finance and administration employees to affirm annually their compliance with NCR's Code of Conduct. NCR's financial reporting must be timely, accurate, and supported by appropriate underlying records and documents. Moreover, all information required to be disclosed by the company in the reports that it files or submits to the United States Securities and Exchange Commission must be properly recorded, processed, summarized and reported to NCR's senior management as appropriate to allow timely decisions regarding required disclosure. Senior financial management should be informed of all material non-financial information, as well as financial information, impacting NCR.

The Corporate Finance & Accounting Policy Manual and the Finance & Administration section of the Corporate Management Policy Manual provides detailed information specific to protecting NCR's information and other assets. Employees should be familiar with all policies, but specifically with **<u>Corporate Finance & Accounting Policies 112: "Signature Authorization for Expenditures</u>,"** ***and*** **<u>Corporate Management Policy 1402: "Protecting Information within NCR.</u>"** ***Additionally, refer to the Corporate Finance & Accounting Policy***

Manual's 1800 Series of policies regarding Internal Accounting Control (IAC). For additional guidance, please see Questions and Answers or Your Responsibilities.

The Chief Financial Officer's organization (937-445-7801) can be contacted for more guidance.

Investment Rules and "Insider Trading"

Securities laws and NCR policy prohibit employees from trading, directly or indirectly, in NCR securities while in possession of material inside information about the company. This prohibition also includes trading the securities of other publicly held companies on the basis of material inside (or non-public) information. It is also illegal and against company policy to "tip" others by disclosing material inside information about NCR or another company to your friends, family members, or other third parties.

Material inside information is generally defined as any information that has not been widely disclosed to the public and is likely to influence an investor to buy, sell, or hold NCR stock. Material inside information can take many forms. Examples include acquisition or divestiture plans; actual or projected financial information; new contracts, products, or discoveries; major organizational changes; or other business plans. Keep in mind that often your job may provide you with material inside information about a company other than NCR. To comply with NCR's insider trading policy you should (1) never provide material inside information about NCR to others who might buy or sell stock based on that information, (2) take precautions to restrict access to material inside information about NCR or another company to those employees who "need-to-know" that information for business reasons, (3) avoid advising or encouraging another person to trade in a company's stock if you have material inside information about that company, and (4) never buy or sell NCR securities or another company's publicly traded stock while in possession of material information that has not been released to the public.

Because violations of insider trading securities laws can result in serious financial and criminal penalties, NCR's policy also prohibits certain transactions to avoid even the appearance of impropriety. First, because of the nature of their positions within NCR, certain NCR employees ("restricted insiders") may not purchase or sell NCR securities during defined "blackout periods" before and after the announcement of the company's annual and quarterly earnings results unless such trades occur under a company-approved, pre-arranged trading plan. This restriction includes changing your investment direction in the Employee Stock Purchase Plan (by increasing or decreasing the amount of NCR stock you purchase) or the company's Savings Plan (by investing more or less money in NCR securities) during a blackout period. Second, **all** NCR employees are prohibited from trading in NCR derivative securities at any time. Derivative securities generally include "put" and "call" options (publicly available "rights" to sell or buy securities within a certain number of months at a specified price) and "short sales" (selling borrowed securities which the seller hopes can be purchased at a lower price when they are due for delivery). Finally, employees cannot engage in any transaction where they may profit from the short-term speculative swings in the value of NCR securities.

For additional information regarding NCR's insider trading policy, please see **Corporate Management Policy 922: "Insider Trading,"** ***and*** **922Q: "NCR's Insider Trading Policy Employee Q&As".** ***For additional guidance, please see Questions and Answers and Your Responsibilities. Additionally, the Law Department can provide further guidance.***

Inspection Requests or Litigation

Because NCR is a large and diverse organization, its operations are regulated by many different governmental agencies around the world. As a result, various governmental agents, auditors, investigators, police, prosecutors, attorneys and other officials visit or contact NCR employees requesting information. NCR insists all employees in locations comply with applicable laws, regulations, and ethical standards. The company cooperates with all governmental inquiries consistent with respect for the legal rights of our shareholders and employees.

The Company's Law Department will handle all legal affairs involving the Company and its subsidiaries. The Law Department may choose to provide legal services directly or to retain the assistance of outside counsel. The Law Department must be notified immediately of all litigation involving NCR or any of its subsidiaries.

For additional information, all employees should be familiar with Corporate Management Policy 916:" Responding to Governmental Requests for Information and Facility Inspections" and Corporate Management Policy 918: "Retention of, and Subsequent Relationship with, Outside Legal".

CONDUCT IN THE MARKETPLACE

As a publicly traded company, NCR releases information and communicates with the media regularly. It is important that these communications be accurate, consistent and timely given the importance of the media's audience – employees, investors, customers, prospective customers and suppliers. *For additional information, all employees should be familiar with* Corporate Management Policy 1104: "Media Relations".

NCR and its employees should endeavor to deal fairly with the company's customers, suppliers, strategic partners, employees and competitors. This means that we will not take advantage of anyone through misrepresenting facts, manipulation, fraud, abuse of confidential information, or any other unfair practice.

Private-Sector Customers

NCR can succeed only by exceeding customer expectations with our products and services and by fulfilling our commitments.

Government Customers

Special care must be taken when dealing with government customers. Activities that might be appropriate when working with private-sector customers may be considered improper and even illegal when dealing with government employees.

For additional information, employees who work with the U.S. government should consult the **NCR Corporate/Personal Integrity Program (C/PIP)** ***manual. Employees, including those who work with other governments, may also contact the Law Department for more information.***

Suppliers

NCR chooses suppliers based on merit, taking into account factors such as price, quality, delivery capability, technology, design and reputation for service and integrity.

Reciprocal Agreements

It is NCR policy to refrain from entering into reciprocal buying or selling arrangements – i.e., an agreement that a first party will buy from the second party, on the express condition that the second party will buy from the first party.

For additional information about relationships with NCR customers and suppliers, please see **Corporate Management Policies 901: "Conflicts of Interest;" 104: "Multinational Marketing;" 904: "Standards for Business Conduct (Foreign Corrupt Practices Act);" 905: "Product Promotion Material;" 913: "Contracts;" 1016: "NCR Multinational Account Marketing Policy - Intellectual Properties;" 902: "NCR U.S. Anti-trust Compliance;"** ***and*** **CFAP 815, Global Procurement Policy."** ***In addition, the Purchasing and Supplier Relations (Global Procurement) manual can provide additional counsel. For additional guidance, please see Questions and Answers and Your Responsibilities.***

Competitors

Many countries have antitrust or competition laws designed to benefit consumers by promoting competition. While varying in scope, these laws prohibit monopolization and illegal agreements among competitors. NCR's policy is to comply with the antitrust and competition laws of all countries where we do business.

Copyrights and "Fair Use"

International copyright laws protect original expression such as written materials, works of art and music. These laws prohibit the unauthorized duplication, distribution, display, and performance of protected expressions. In particular, NCR employees should be careful to avoid using unlicensed software, which would constitute copyright infringement. Copyright infringement can result in legal penalties for our company and for individuals.

For more information about copyrights and NCR, please see **<u>Corporate Management Policy 906: "Copyright Policy."</u>**

GLOBAL COMMERCE

Export Controls

High-tech companies such as NCR must be concerned with export control laws regulating the export and re-export of its products. As a U.S. company, NCR must be particularly aware of U.S. export controls. Under export control laws, hardware, software, and technical information may be controlled when shipped, carried, or transmitted from one country to another, or even when released within one country to a citizen of another country. All forms of communication (e.g. telephone conversations, faxes, electronic mail, etc.) that contain technical information, when sent to another country or to a citizen of another country, may also be considered a controlled export.

Export control laws are relevant to NCR sales organizations and others that support the sales process since they may restrict the customers or countries to which our products may be sold.

Export laws typically require consideration of the following questions:

1. **What** is the commodity, software, or technical information to be exported?
2. **Where** will the product be exported?
3. **Who** is the intended end-user?
4. **How** will the product be used?

The Corporate Export Compliance organization is responsible for coordinating NCR's compliance with export control laws. In addition, selected organizations are responsible for designating an Export Compliance Manager to implement NCR's export compliance program within their organization.

For more information about export controls and NCR, please contact the Corporate Export Compliance organization at 937-445-2070, and see **<u>Corporate Management Policy 919: "Export Control Compliance."</u>** ***For additional guidance, please see Questions and Answers or Your Responsibilities.***

Import Laws

Most countries, including the United States, have laws controlling imports and regulating import duties on merchandise imported into that country. These laws typically govern what can be imported into the country, how the articles must be marked, how the imported merchandise must be valued, and what duties must be paid. NCR's compliance with import laws is coordinated through the Corporate Import/Export Compliance organization. All organizations that are involved in import activities should designate an Import Compliance Coordinator within their organization.

For more information about import controls and NCR, please contact the Import Compliance organization, and see **<u>Corporate Management Policy 917: "Import Compliance".</u>**

International Economic Boycotts

As a U.S. company, NCR must comply with U.S. regulations prohibiting the participation in economic boycotts not condoned by the U.S. government, such as the Arab League boycott of Israel. NCR must report to the U.S. government any boycott-related requests it receives, even if NCR refuses to honor the request. Boycott-related requests can be received orally or in bid invitations, tender documents, purchase orders, contracts, letters of credit, shipping documents, or other written communications.

U.S. anti-boycott regulations prohibit NCR from:

- Refusing to do business with a boycotted country, its nationals, or its businesses.
- Discriminating for boycott purposes against any person on the basis of race, religion, sex or national origin.

- Furnishing information about NCR's business relationship with a boycotted country, its nationals, or blacklisted companies or persons.
- Furnishing for boycott purposes information about any person's race, religion, gender, national origin, or charitable activities.
- Implementing or honoring letters of credit containing prohibited boycott conditions.

For more information about NCR's anti-boycott policy, please see **Corporate Management Policy 903, "Anti-boycott Law Compliance."** ***For additional guidance, please see Questions and Answers or Your Responsibilities.***

Foreign Corrupt Practice Act (FCPA)

As a U.S. company, NCR must comply with the provisions of the U.S. Foreign Corrupt Practice Act. The FCPA prohibits NCR from providing or promising money or anything of value to government officials outside the United States for the purpose of obtaining or retaining government business. (Such conduct is also prohibited within the United States under other U.S. laws, including criminal statutes.) It is equally impermissible to use an intermediary (such as an agent) to provide such payments. To ensure that payments are legitimate, the FCPA requires NCR to maintain accurate and complete accounting records.

Minor payments to government officials to expedite the performance of routine governmental actions (sometimes referred to as facilitating payments) are not prohibited under the FCPA. Because the line between a facilitating payment and a violation of the law may not be clear, you should check with the Law Department before making any such payments.

For more information about NCR policy and the provisions of the U.S. Foreign Corrupt Practices Act, please see **Corporate Management Policy 904: "Standards for Business Conduct (Foreign Corrupt Practices Act)."** ***For additional guidance, please see Questions and Answers or Your Responsibilities.***

ENVIRONMENT/OCCUPATIONAL SAFETY & HEALTH/PRODUCT SAFETY

Environment

It is NCR's policy to comply with applicable laws and regulations related to protecting the environment and to minimize undesirable environmental impacts from our business operations.

For more information about environmental protection and NCR, please see Corporate Management Policy Series 600: "Environmental Safety."

Occupational Safety & Health

It is NCR's policy to comply with applicable health and safety regulations related to protecting human health and providing working conditions that are free from recognized hazards that may cause death, physical harm, or illness.

For more information about health & safety and NCR, please **see Corporate Management Policy 602: "Environmental Health & Safety Training."**

Product Safety

NCR is committed to providing products that are safe for our customers to use and that complies with applicable laws and accepted industrial and governmental standards.

For more information about product safety and NCR, please see **Corporate Management Policy 1303: "Product Certification and Compliance."**

For more information about specific environmental, health and safety related initiatives, please contact your local or business unit Environmental & Safety Manager. For additional guidance, please refer to Questions and Answers or Your Responsibilities, or contact the Law Department.

COMMUNITY ACTIVITY

Charitable Contributions

Around the world, NCR encourages employees to participate in charitable organizations and community activities. Employees should ensure, however, that no conflict of interest — either actual or potential — exists between their NCR employment and their duties in public or civic affairs, whether elective or appointed, paid or voluntary. While NCR employees are encouraged to become actively involved in community activities, all employee participation, whether in the form of time, money, or other resources, must always be voluntary.

Political Contributions

NCR supports employee participation in the political process, for example, voting in elections or making personal contributions to support candidates or parties of their choice. Employees may express their views on government, legislation, and other matters of local and national interest. Such activities, however, must be undertaken on an employee's own time and expense. Further, NCR will not dictate to an employee or anyone else which political party or view to support. Under no circumstances will any employee be compensated or reimbursed for personal political contributions or be given or denied employment or promotion as a result of making, or failing to make, a political contribution.

In many countries where NCR does business, laws prohibit NCR from making direct or indirect contributions to a political party or candidate in connection with a government election. This includes contributions in the form of cash, goods, services, loans, property, or the use of NCR's facilities. (In the United States, this prohibition is not intended to interfere with NCR's administration of the NCR Citizenship Fund, which accepts voluntary personal contributions from eligible, salaried employees). As a result, do NOT (1) commit company funds or other assets to political candidates, parties or other political activities, including public policy initiatives or referendums, without the prior approval of NCR's Vice President, Government Affairs, (2) provide or promise money or anything of value to a government official to obtain or retain business, or (3) permit company facilities or equipment to be used for political activities without the prior consent of NCR's Vice President, Government Affairs.

The NCR Government Affairs office in Washington, D.C., can provide further guidance about political activity in the United States and the European Community, and can be contacted at 202-347-6744. For additional guidance, please see Questions and Answers or Your Responsibilities. For information about political activities in other countries, contact the Law Department.

IN SUMMARY

Every NCR employee is responsible for upholding NCR Shared Values and following this code of conduct. In living up to this responsibility, we may sometimes want the help of others in our decision-making. Most often, your manager will be your best source for counsel; however, there may be times when you require input from others. In addition to contacting those persons or organizations referred to throughout the code (including the Law Department, the Ethics & Compliance Office, and Corporate Security), questions or concerns about business practices and behaviors can be clarified through NCR AlertLine.

COMMUNITY ACTIVITY

Questions & Answers

Q: I am running for public office in my community. How might this affect my job at NCR?

A: NCR encourages employees’ active involvement in community affairs. As an NCR employee, it is acceptable to seek and hold public office as long as such responsibilities do not diminish your ability to carry out your duties to NCR. Employees who seek public office may not campaign or solicit support of fellow employees, nor may they use company time or resources in such pursuits. If in the course of your civic duties a situation arises requiring a decision that specifically involves NCR, you must abstain from the decision-making process.

Questions & Answers

Q: May NCR employees give gifts of value to customers or suppliers?

A: In most circumstances, NCR employees may give inexpensive promotional items or gifts. However, NCR employees may not give gifts to any customer or supplier that may influence, or create the appearance of an attempt to influence, the judgment of the supplier or customer in its business with NCR.

Q: After a particularly long project at a customer site, I have been offered a gift of a gold wrist watch. May I accept this offer of thanks?

A: No. NCR employees may not accept a gratuity or gift offered in connection with their job when doing so may adversely affect their judgment in the performance of their duties at NCR. One of the criteria employees should consider is the value of the gift.

Q: My spouse, who is not an NCR employee, is accompanying me on a business trip. The supplier that I am visiting for NCR has offered to pay my spouse's travel expenses. May I accept?

A: No. You, or in certain cases, NCR, are responsible for expenses generated by having your spouse travel with you. NCR employees may not accept expensive gifts from customers or suppliers.

Questions & Answers

Q: If I spill a small amount of solvent that is labeled as "hazardous," why can't I simply clean it up?

A: Always immediately report spills of any amount of a hazardous material to your local Environmental & Safety Manager. NCR has employees who are specially trained in handling such spills and the company may be required by law to report such occurrences. Unless you have received proper training in hazardous materials response and have appropriate equipment and supplies for proper disposal, do not attempt any clean-up or disposal.

Q: What if test results make our product look bad?

A: Set up and perform every test according to approved, written procedures. Under no circumstances should you alter test results to make NCR products appear better. All test results must be accurately recorded and reported.

Questions & Answers

Q: My spouse runs a small temporary-employment agency and has asked me whether it is OK to market its services to NCR. What should I say?

A: Provided you or your spouse do not in any way use your relationship with NCR to influence the outcome of such marketing activity, this would be acceptable. However, you must first disclose to your management that the supplier seeking NCR business is related to you, and you cannot be involved in or influence the supplier selection.

Q: My child is seeking employment and has expressed interest in NCR. What role can I play in helping explore opportunities for my child?

A: Your child is free to seek employment with NCR. However, you may not use your position to influence the hiring process in any way. Further, your child may not report to you and care should be taken to ensure that normal business controls, checks, and balances are not compromised.

Q: My spouse works for a large computer company that is a direct competitor of NCR. Does this constitute a conflict of interest?

A: Maybe, depending on your spouse's position for that company. You should disclose this relationship to your manager to make this determination. Additionally, you should be especially careful to follow Corporate Management Policies regarding proprietary information.

Q: For NCR, I develop and design computer systems for financial customers. May I work on my own time as a computer systems consultant for companies that are not NCR customers?

A: No. Generally, you are prohibited from engaging in any outside employment that is substantially similar to your job at NCR. In this particular case, such activity would place you in competition with NCR.

Q: In my off hours, I work as a freelance writer. May I offer my services to NCR?

A: No. NCR employees may not act as suppliers to NCR.

Q: Does ownership of stock in any NCR competitor create a conflict of interest?

A: Not necessarily. The amount of stock that you hold generally will determine whether your personal holdings must be reported. A financial interest in a competitor does not necessarily constitute a conflict of interest. It does mean, however, that such holdings are subject to review. Generally, owning stock in a mutual fund that invests in a competitor's securities is acceptable.

Q: What forms of customer entertainment are appropriate?

A: In most circumstances, entertaining customers and potential customers at NCR-sponsored cultural and sporting events and providing occasional modest business meals are acceptable, provided that such activity does not violate the other company's guidelines. However, if the customer in question is a governmental entity, you should not engage in such activities without first consulting the Law Department.

Q: I do a lot of business and personal travel. Can I keep non-cash benefits I receive from business travel (for example, frequent flyer credits) and apply them to my personal travel plans?

A: Yes. You can keep frequent flyer credits and use them for personal travel. However, you cannot influence or change the travel plans made by the company's authorized travel agents to receive these or other similar non-cash promotional benefits. Doing so violates NCR policy in two ways. First, you have a conflict of interest between your personal interests and company requirements to use the lowest logical airfare. Second, you are misusing company funds if your travel is more expensive than the authorized travel agent could have arranged.

Questions & Answers

Q: I do not work in the United States. In my country, payments to government officials are an accepted way of obtaining business. Would the payments violate the Foreign Corrupt Practices Act?

A: Even though it is an accepted way of doing business in your country, the payment may well violate the U.S. Foreign Corrupt Practices Act. You should consult with the Law Department.

Q: I have been asked by a customer to certify that a product was not manufactured in Israel. How should I respond?

A: Providing this type of certification would violate the U.S. anti-boycott regulations. You should not respond to any boycott-related requests without first contacting the Corporate Import/Export Compliance organization in the Law Department for guidance.

Q: A potential new customer wants to order a sophisticated computer system but does not require any installation or other support and refuses to disclose the intended use of the system. Can we accept the order?

A: The customer's conduct reflects warning signs that the product may be intended for an inappropriate end-use, such as nuclear, chemical, or missile proliferation activities or for diversion to an unauthorized destination. You should not accept the order without contacting the Corporate Import/Export Compliance organization in the Law Department for guidance.

Q: My organization has received an order from a distributor. We have reason to believe that the distributor intends to re-sell the product to an end-user in Iran. Can we accept the order?

A: The United States has imposed a trade embargo on certain countries, including Iran. Accepting an order when you have reason to believe that the transaction involves an embargoed destination may violate U.S. law. You should not accept the order without contacting the Corporate Import/Export Compliance organization in the Law Department for guidance.

Questions & Answers

Q: How can I determine whether company information is proprietary if it is not specifically labeled as such?

A: If you are uncertain, you should assume that the information is proprietary. Then, contact the employee or organization that generated the information. That employee or organization is responsible for determining whether the information is proprietary. In all cases, use the following criteria, in accordance with Corporate Management Policy 1402: "Protecting Information within NCR."

- The nature of the information
- The sensitivity of the information
- The information's value to NCR
- The information's recipient — employees, contractors, suppliers, potential clients, or the public.

If you remain unclear about whether the information in question is proprietary, please seek counsel from your manager, the Law Department, or Global Information Security.

Q: What should I do if I discover an infringement or misuse of an NCR copyright or trademark?

A: To protect NCR's rights, employees should promptly report such instances to the Law Department.

Q: NCR's insider trading policy prohibits "short-term speculation" in NCR securities. What does this mean?

A: Some types of legal trading can appear to be based on the misuse of inside information. To avoid even the appearance of misconduct, you should not buy and sell NCR securities in the open market (such as the New York Stock Exchange) within any 6-month period. For example, if you buy 100 shares of NCR stock in October, you cannot turn around and sell 25 shares of NCR stock in December. However, this rule does not apply if two circumstances are present: (a) you have valid personal reasons for selling your NCR stock that are unrelated to the investment value of the securities; for example, you have emergency medical expenses; and (b) you do not have material inside information about NCR.

Q: If I know material inside information about NCR, can I sell NCR stock for personal reasons only? For example, if I need the money for vacation?

A: No. To avoid even the appearance of impropriety, you must wait until you no longer possess material inside information before selling your NCR stock.

Q: Does the insider trading policy cover my investments in NCR stock under the NCR Savings Plan?

A: Generally, no. Ongoing investments in NCR stock made by the trustee of the NCR Savings Plan are exempt from the policy. However, if you decide to change your investment direction under the Savings Plan — by investing more or less money in NCR stock or moving all or a portion of the balance of your Savings Plan account in and out of the NCR stock fund — you must follow the rules of the policy.

Q: Is there anything wrong with copying software programs and installing them on my PC at work?

A: Only properly licensed and NCR-approved software programs are to be installed on your PC.

Q: A customer's finance manager wants information on some of our financial control procedures for a benchmark analysis her company is preparing. Can I release this information?

A: Requests for any type of NCR financial records need to be reviewed on a case-by-case basis. Depending on the situation, the risks could range from compromising company security to violating securities and antitrust laws. In such cases, contact the Law Department for guidance.

Q: Do I have to protect proprietary information even after I no longer work for NCR?

A: Yes. You may not use or disclose NCR proprietary information even after you are no longer employed by NCR.

Questions & Answers

Q: I have occasionally overheard racial and sexual comments in front of my manager. I know the comments aren't right, but I don't want to be seen as a non-team player or even lose my job. What are my options?

A: Your manager's tolerance of such behavior is not acceptable at NCR. Employees who encounter such situations can call the NCR AlertLine to file an anonymous report, contact senior management for action, or — for those in the United States — seek resolution through IDR. Due to data protection and privacy issues, some countries may preclude the reporting of certain types of concerns through the NCR AlertLine. All good faith reports are investigated immediately and without reprisal to the originator of the report.

Q: Doesn't affirmative action mean that NCR has quotas for hiring and promoting minorities and women?

A: No. NCR does not use quotas. Quotas undermine the principles of equal employment opportunity. NCR only considers lawful factors when hiring or promoting employees.

Q: My manager has asked me several times to meet socially after work. Each time, I have refused, but the invitations persist, and I am concerned this may be affecting my career. What should I do?

A: If you have concerns, contact your local Global Human Resources representative or the NCR AlertLine.

COMPANY FUNDS & PROPERTY
YOUR RESPONSIBILITIES

- Keep accurate and complete records of funds spent.
- Make sure expenditures are for legitimate business purposes.
- Use corporate charge cards only for business purposes or as specified in company instructions.
- Make sure computer and communications equipment and systems (including passwords or other methods used to access or transmit data) and the information they contain are protected against unauthorized access, use, or disclosure. Please see Corporate Management Policy 1404: "Information Technology Infrastructure."
- Use NCR's trademarks and service marks only in accordance with company guidelines. Please see Corporate Management Policy 907: "Trademarks."
- Remember that misdirected e-mail messages or unauthorized access to NCR's information systems may result in inadvertent disclosure of NCR confidential information.
- Do not provide Internet access to non-NCR individuals or organizations, except in accordance with NCR policy.

Immediately report actual or suspected loss, damage, misuse, theft, or destruction of company assets to your manager or Corporate Security, according to Corporate Finance Accounting Policy 109: "Irregularities," or report the incident to NCR AlertLine.

COMPETITORS
YOUR RESPONSIBILITIES

- Never discuss or agree with competitors to fix prices or divide markets.
- Be careful when attending meetings or social events where competitors are present and current or future prices, costs, profits, market shares, or other competitive subjects may be discussed. You must not participate in conversations that could give the appearance of collusion with competitors in our industry.
- When attending trade association meetings, be sure that matters about competition in the industry are not discussed. When in doubt, seek counsel from the Law Department.
- Do not enter into any understanding with a competitor that restricts either party's discretion to (a) manufacture any products, (b) offer any service, or (c) limit selling to, or buying from, a third party.
- Do not enter into any understanding with a customer that might restrict the customer's discretion to use or re-sell NCR products or that might condition the sale of a product or service on the customer's purchase of another product or service from NCR.
- When attending trade shows, do not participate in any discussions with competitors about pricing, profit margins or costs, bids, terms or conditions of sale, sales territories, market share, distribution practices, or other competitive information. If you find yourself involved in this type of discussion, excuse yourself and report the incident to the Law Department. With guidance from the Law Department, limited exceptions may be made for competitors who are also NCR customers, suppliers, or prospective partners.

CONFLICTS OF INTEREST
YOUR RESPONSIBILITIES

- Do not own or have a major financial stake in a competing business or in any of NCR's suppliers and customers.
- Do not compete with NCR or assist any unauthorized person outside of NCR — including family members — to compete with NCR through the sale, design, servicing, distribution or promotion of products or services that compete with those of NCR or that could be provided by NCR.
- Do not engage in NCR business (on your own or with a relative), unless it is approved by your manager and the Law Department in advance.
- Do not take a position with another business (such as NCR's suppliers or customers) that could influence or interfere with your NCR responsibilities.
- Inform your manager or Global Human Resources representative of any outside business position (other than charitable, educational, or religious) that might be viewed as conflicting with your NCR responsibilities.
- Disclose any major financial interest or position (including work as a consultant or advisor) with any NCR competitor, supplier, or customer.

COPYRIGHTS & FAIR USE
YOUR RESPONSIBILITIES

- Do not reproduce, distribute, or alter copyrighted materials from books, trade journals, computer software, newspapers, magazines, musical recordings or tapes without permission of the copyright owner or its authorized agents.
- Ensure that software used in connection with NCR business is properly licensed and paid for and used only in accordance with that license.
- Do not duplicate NCR proprietary or trademarked software for personal use.

DRUG-FREE WORKPLACE
YOUR RESPONSIBILITIES

- Do not bring illegal drugs onto NCR property or use illegal drugs while employed by NCR.
- Do not conduct NCR business while under the influence of drugs or alcohol.

EMPLOYEE PRIVACY
YOUR RESPONSIBILITIES

- Take precautions to ensure that personal information about fellow employees is treated with care and respect.
- Observe all applicable laws regarding employee information, including those which limit the movement of personnel data across national borders.
- Refer all requests for employment references or verifications of employment to your Global Human Resources representative. If an NCR employee or manager is asked to provide a reference for a current or former employee, they are not required to do so. If they do choose to provide the reference, they should make it clear that they are not acting on behalf of NCR, but rather are simply stating their personal opinion.

ENTERTAINMENT
YOUR RESPONSIBILITIES

- Use good judgment. Do not accept any offers of entertainment that would reflect negatively on NCR.
- Reciprocate with similar modest hospitality within a reasonable time; however, do not reciprocate if you are working with government employees.
- If a customer or supplier proposes entertainment that is more than modest, consult your manager before accepting the invitation.

ENVIRONMENT
YOUR RESPONSIBILITIES

- Know and comply with all applicable environmental laws, regulations, and NCR practices relating to operations within your area of responsibility.
- Cooperate with government agencies, suppliers, and communities in their efforts to protect the environment.
- Be environmentally aware, and consider environmental impacts in your decision-making.

EXPORT CONTROLS
YOUR RESPONSIBILITIES

- Understand and comply with the export control laws applicable to your sales or export activities.
- Work with your local Export Compliance Coordinator and the Corporate Import/Export Compliance organization to implement and follow NCR’s export compliance program within your organization.
- Be aware of abnormal circumstances suggesting that an export may be destined for an inappropriate end-use, end-user, or destination.
- If you encounter such warning signs or have other export control issues, contact the Corporate Import/Export Compliance organization in the Law Department.

FAVORS
YOUR RESPONSIBILITIES

- Do not solicit anything of personal value in exchange for NCR business.
- Do not provide anything of unusual value to obtain or retain business.
- Do not provide or promise money or anything of value to a government official to obtain or retain business.

FCPA
YOUR RESPONSIBILITIES

- Do not provide or promise money or anything of value to a government official to obtain or retain business.
- Do not use an agent to provide payments to a government official that could not be made by NCR.
- Maintain complete and accurate accounting records reflecting all payments.
- Contact the Law Department regarding whether routine payments are properly characterized as facilitating payments.
- Be familiar with FCPA reporting requirements.

FINANCIAL REPORTING
YOUR RESPONSIBILITIES

- Never intentionally make an inaccurate, false, or misleading entry in company books and records.
- If you are responsible for recording transactions, summarizing transaction activity, or preparing financial reports, understand and follow NCR accounting policies and internal control procedures.
- Immediately report any concerns you have regarding compliance in this area to your manager or Corporate Security, according to Corporate Finance Accounting Policy 109: "Irregularities," or report the incident to NCR AlertLine.

GIFTS
YOUR RESPONSIBILITIES

- Never solicit gifts from any customer or supplier.
- Do not accept gifts that are expensive or likely to influence your judgment.* Politely decline the gift and explain that NCR policy prohibits you from accepting it.
- Do not accept — under any circumstances — payments, loans, kickbacks, special privileges, or services from anyone in return for NCR business.
- Do not give — under any circumstances — payments, loans, kickbacks, special privileges, or services to current or potential customers or suppliers.

GOVERNMENT CUSTOMERS
YOUR RESPONSIBILITIES

- Understand and comply with government procurement laws when working with government customers.
- Do not provide or promise money or anything of value to a government official to obtain or retain business.
- Do not use an agent to provide payments to a government official that could not be made by NCR.

HARASSMENT
YOUR RESPONSIBILITIES

- Do not make or tolerate racial, sexual, religious, or ethnic jokes, comments about a person's body, graphic statements about sexual matters, or engage in offensive behavior of a sexual nature.
- Never make an unwelcome sexual advance toward a co-worker or to any other person you come in contact with in the course of your duties as an NCR employee.
- Do not display sexually suggestive objects or pictures at work.

IMPORT LAWS
YOUR RESPONSIBILITIES

- Understand and comply with the import laws applicable to your import activities.
- Contact the Corporate Import/Export Compliance organization or the Law Department for guidance on import compliance.

INTERNATIONAL ECONOMIC BOYCOTTS
YOUR RESPONSIBILITIES

- Understand the U.S. anti-boycott regulations, particularly if you are involved in doing business with Middle Eastern countries.
- Immediately report any boycott-related request to the Corporate Import/Export Compliance organization in the Law Department.

INVESTMENT RULES & INSIDER TRADING
YOUR RESPONSIBILITIES

- Never provide material inside information about NCR to others who might buy or sell stock based on that information. You should also avoid advising or encouraging another person to trade in a company's stock if you have material inside information about that company.
- Never buy or sell NCR or another company's publicly traded stock while in possession of material information that has not been released to the public.
- Do not trade if you are in doubt as to whether the information has been released to the public. Generally, wait at least two days after NCR issues a press release regarding such information, particularly earnings data, before buying or selling securities.
- Check with your manager or the Law Department if you are unsure whether you are a restricted insider subject to the blackout period restrictions. Note that those employees who were granted stock options under the most recent company-wide grant made under the NCR Management Stock Plan are subject to this restriction.
- Do not discuss material inside information with family, friends, or anyone else; do not talk about it in public places; do not fax it to unattended fax machines; and do not mail it electronically to non-NCR general information broadcast repositories.
- Take reasonable precautions to restrict access to material inside information about NCR or another company to those employees who "need-to-know" for business reasons.
- Label all material inside information "NCR Confidential" when providing it to others who have a "need to know."
- Do not change your investment direction with respect to your participation in the Employee Stock Purchase Plan (by increasing or decreasing the amount of NCR stock you purchase) or the company Savings Plan (by investing more or less money in NCR securities) while in possession of material inside information about NCR.

NON-DISCRIMINATION
YOUR RESPONSIBILITIES

- Know, understand, and follow the non-discrimination laws in your local area.
- Do not treat any employee differently because of race, religion, sex, national origin, age, disability, sexual preference or orientation, marital or family status, veteran status, or other illegal consideration.

OCCUPATIONAL HEALTH & SAFETY
YOUR RESPONSIBILITIES

- Know and comply with all applicable occupational health and safety laws, regulations, and NCR practices relating to operations within your area of responsibility.
- Use common sense to avoid accidents and injuries.
- Call management attention to any circumstances that might, without correction, lead to an avoidable accident, injury, or illness.

POLITICAL CONTRIBUTIONS
YOUR RESPONSIBILITIES

- Take an active interest in the well-being of the community where you live and work.
- Do not commit company funds or other assets to political candidates, parties or other political activities, including public policy initiatives or referendums, without the prior approval of NCR’s Vice President, Government Affairs.
- Do not permit company facilities or equipment to be used for political activities without the prior consent of NCR’s Vice President, Government Affairs.
- Do not provide or promise money or anything of value to a government official to obtain or retain business.

PRIVATE SECTOR CUSTOMERS
YOUR RESPONSIBILITIES

- Never misrepresent our products and services, even if it means losing a sale.
- Share information when silence about a fact could mislead a customer.
- Communicate clearly and precisely so customers understand the terms of our contracts, including performance criteria, schedules, prices, and responsibilities.
- Never interview, recruit, or attempt to hire an NCR customer’s employee without prior approval from the sales director who has responsibility for the account.

PRODUCT SAFETY
YOUR RESPONSIBILITIES

- Know, understand, and comply with applicable legal, industrial, and governmental standards relating to your area of responsibility.

PROPRIETARY INFORMATION
YOUR RESPONSIBILITIES

- If you create or otherwise become responsible for confidential information, mark the documentation as proprietary in accordance with Corporate Management Policies 1402: "Protecting Information Within NCR," and 911: "Publication of Proprietary Technical Information."
- Install and use all NCR-required security software in accord with policies and procedures, and always store NCR proprietary information in a safe place.
- Do not discuss NCR proprietary information in public places such as airplanes, elevators, and restaurants, and when using portable communications devices.
- Disclose NCR information and records only as authorized by Corporate Management Policies 110: "Information and Inquiries on Material Corporate Developments," 1402: "Protecting Information Within NCR," 820: "Sharing NCR Financial Information," 911: "Publication of Proprietary Technical Information," 916: "Providing Legal Information, Documents to Outside Sources," 1104: "News Media Relations," and Corporate Finance & Accounting Policy 106: "External Reporting."
- Respond "no comment" to any inquiry about a material corporate development made by someone who does not have a clear "need to know" such information for NCR business reasons.
- Do not discuss NCR proprietary information with family or friends — they may not understand its significance and may unknowingly pass it to someone who should not have it.
- Immediately report actual or suspected loss, misuse, or theft of proprietary information to your manager or Corporate Security, according to Corporate Finance Accounting Policy 109:" Irregularities," or report the incident to NCR AlertLine or the Information Protection Team.

SUPPLIERS
YOUR RESPONSIBILITIES

- Disclose to your manager any personal relationships or interests that you have that may influence your judgment when dealing with a supplier.
- Never agree to work for or represent the interests of a supplier.
- Never promise NCR business in exchange for a supplier's purchase of goods or services from NCR.

TRADE SECRETS
YOUR RESPONSIBILITIES

- Never misappropriate confidential competitive information.
- Never bribe a competitor's employee or otherwise obtain competitive information from a competitor's employee in breach of his/her obligations to that competitor.
- Never misrepresent your status as an NCR employee.

Exhibit 21

SUBSIDIARIES OF NCR CORPORATION

	Organized under the Laws of
DecisionPoint Applications, Inc.	Oregon
First Level Technology LLC	Delaware
InfoAmerica/USA, Inc.	Colorado
NCR European and South American Holdings LLC	Delaware
NCR Self-Service LLC	Delaware
NCR Government Systems LLC	Delaware
NCR Holdings LLC	Delaware
NCR Indonesia LLC	Delaware
NCR Central Europe LLC	Delaware
NCR Latin American Holdings LLC	Delaware
NCR Michigan LLC	Delaware
NCR Solutions (Arabia) LLC	Delaware
NCR EasyPoint LLC	Delaware
Data Pathing LLC	Delaware
Quantor Holdings LLC	Delaware
Compris Technologies, Inc.	Georgia
Data Pathing Incorporated	Delaware
International Investments Inc.	Delaware
The Microcard Corporation	Delaware
The National Cash Register Company	Maryland
The NCR Foundation	Ohio
NCR International, Inc.	Delaware
NCR International Holdings, Inc.	Delaware
NCR Scholarship Foundation	Ohio
North American Research Corporation	Delaware
Old River Software Inc.	Delaware
Prime Technology LLC	Delaware
Quantor Corporation	Delaware
Research Computer Services, Inc.	Delaware
Sparks, Inc.	Ohio
Teradata Corporation	Delaware
NCR Argentina S.R.L.	Argentina
NCR Australia Pty. Limited	Australia
NCR Superannuation Nominees, Ltd.	Australia
NCR Oesterreich Ges.m.b.H.	Austria
NCR (Bahrain) W.L.L.	Bahrain
NCR Belgium & Co. SNC	Belgium

NCR Services Limited	Bermuda
NCR (Bermuda) Holdings Limited	Bermuda
NCR Treasury Finance Limited	Bermuda
NCR Treasury Financing Limited	Bermuda
Global Assurance Limited	Bermuda
NCR Brasil Ltda	Brazil
NCR Monydata Ltda.	Brazil
NCR Financial Solutions of Brasil Ltda.	Brazil
NCR Canada Ltd.	Canada
NCR de Chile Industrial y Comercial Limitada	Chile
NCR (Shanghai) Technology Services Ltd.	China
NCR Information Systems (Beijing) Limited	China
NCR (Beijing) Financial Equipment System Co., Ltd.	China
NCR (Guangzhou) Technology Co., Ltd.	China
NCR Colombia Ltda.	Colombia
NCR (Cyprus) Limited	Cyprus
NCR (Middle East) Limited	Cyprus
NCR (North Africa) Limited	Cyprus
NCR (IRI) Ltd.	Cyprus
NCR Danmark A/S	Denmark
NCR Dominicana C. por A.	Dominican Republic
NCR Finland Oy	Finland
NCR France SNC	France
NCR Antilles S.A.R.L.	France
4Front Technologies SA France	France
NCR Gabon S.A.R.L.	Gabon
NCR GmbH	Germany
NCR Czeska Republika spol. s.r.o.	Czech Republic
NCR Ghana Limited	Ghana
NCR (Hellas) S.A.	Greece
NCR (Hong Kong) Limited	Hong Kong
NCR (China) Limited	Hong Kong
NCR Magyarorszag Kft.	Hungary
NCR Corporation India Private Limited	India
P. T. NCR Indonesia	Indonesia
NCR Global Holdings Limited	Ireland
NCR Global Solutions Limited	Ireland
NCR International Finance Limited	Ireland
NCR Airside Ireland Limited	Ireland
NCR Italia S.r.l.	Italy
NCR Japan, Ltd.	Japan
NCR Holdings Ltd.	Japan
NCR (Kenya) Limited	Kenya
Afrique Investments Ltd.	Kenya
Data Processing Printing and Supplies Limited	Kenya
NCR Korea YH	Korea

NCR (Macau) Limited	Macau
NCR (Malaysia) Sdn. Bhd.	Malaysia
EPNCR (Malaysia) Sdn. Bhd.	Malaysia
Compu Search Sdn Bhd	Malaysia
NCR de Mexico, S de R.L. de C.V.	Mexico
NCR Nederland N.V.	Netherlands
NCR EMEA Regional Care Center B.V.	Netherlands
NCR Financial Shared Services Center B.V.	Netherlands
NCR Dutch Holdings B.V.	Netherlands
NCR Dutch Holdings C.V.	Netherlands
NCR Aftermarket B.V.	Netherlands
NCR EMEA Service Logistics Center, B.V.	Netherlands
NCR (NZ) Corporation	New Zealand
NCR (Nigeria) PLC	Nigeria
NCR Norge A/S	Norway
NCR del Peru S.A.	Peru
NCR Corporation (Philippines)	Philippines
NCR Software Corporation (Philippines)	Philippines
NCR Cebu Development Center, Inc.	Philippines
NCR Polska Sp.z.o.o.	Poland
NCR Portugal-Informatica, Lda	Portugal
NCR A/O	Russia
NCR Singapore Pte Ltd	Singapore
NCR Asia Pacific Pte Ltd.	Singapore
NCR International (South Africa) (Pty) Ltd.	South Africa
NCR Espana, S.L.	Spain
NCR (Switzerland) GmbH	Switzerland
National Registrierkassen AG	Switzerland
NCR Systems Taiwan Limited	Taiwan
NCR (Thailand) Limited	Thailand
NCR Bilisim Sistemleri LS	Turkey
NCR UK Group Limited	United Kingdom
NCR UK Holdings Limited	United Kingdom
NCR UK Partners LLP	United Kingdom
NCR UK Finance Limited	United Kingdom
NCR Limited	United Kingdom
Law 2299 Ltd.	United Kingdom
Fluiditi Ltd.	United Kingdom
NCR Properties Limited	United Kingdom
NCR Financial Solutions Group Limited	United Kingdom
Regis Court Management Limited	United Kingdom
Melcombe Court Management (Marylebone) Limited	United Kingdom
4Front Group UK Ltd.	United Kingdom
4Front Networks Limited	United Kingdom
Eurographic Industries Limited	United Kingdom
4Soft Limited	United Kingdom
NCR Zimbabwe (Private) Limited	Zimbabwe
N Timms & Co. (Private) Limited	Zimbabwe

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-18797, 333-18799, 333-18801, 333-18803 and 333-110327) of NCR Corporation of our report dated March 6, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Dayton, Ohio
March 10, 2006

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES
EXCHANGE ACT RULE 13a-14

I, William Nuti, certify that:

1. I have reviewed this annual report on Form 10-K of NCR Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 10, 2006

/s/ William Nuti
William Nuti
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES
EXCHANGE ACT RULE 13a-14**

I, Peter Bocian, certify that:

1. I have reviewed this annual report on Form 10-K of NCR Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2006

/s/ Peter Bocian
Peter Bocian
Senior Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of NCR Corporation, a Maryland corporation (the "Company"), on Form 10-K for the period ending December 31, 2005 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002), that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

The foregoing certification (i) is given to such officers' knowledge, based upon such officers' investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document.

Dated: March 10, 2006

/s/ William Nuti
William Nuti
President and Chief Executive Officer

Dated: March 10, 2006

/s/ Peter Bocian
Peter Bocian
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to NCR Corporation and will be retained by NCR Corporation and furnished to the United States Securities and Exchange Commission or its staff upon request.

Exhibit 99.1

LETTER TO SHAREHOLDERS

Dear Shareholders,

Our company ended 2005 nearly a year ahead of schedule in the execution of our multiyear profit improvement plan, having achieved over $300 million of the $350 million targeted cost reductions announced in 2003. These lower costs, combined with an improved revenue mix, resulted in a 76 percent increase in operating income and nearly a 3 point increase in operating margin compared to 2004. This performance also helped our company enter 2006 with a strong cash position, having generated $367 million of free cash flow in 2005, double the amount generated in 2004. Even through a CEO transition our employees maintained their focus and momentum. As a result, NCR achieved earnings-per-share growth of over 80% compared to 2004, and is now in a position to execute a growth-oriented strategy.

While our solid financial results these past few years have largely been attributed to general and administrative cost reductions, our future will be focused on three key areas – productivity, profitable growth, and culture. These three strategic imperatives are outlined in more detail later on in this letter.

2005 BUSINESS UNIT RESULTS

The continued momentum in Teradata Data Warehousing reflected the strong market demand for our industry-leading technology and our penetration of new industry verticals. Revenue growth of 9% enabled our Teradata Data Warehousing business to drive a 39% improvement in operating income from 2004.

NCR's Financial Self Service division delivered good operating results in an ATM market that experienced significant price erosion in 2005. With more sales resources targeting the U.S. community bank market, we estimate that our market share expanded in this segment in 2005. Banks purchased ATMs at slightly higher levels than in an exceptionally strong 2004, even as they were busy constructing the back-office infrastructure required for image-enabled deposit automation that will allow them to take advantage of the recently enacted Check 21 legislation. When the banks have their infrastructure rebuilt for the electronic clearing of checks, they will have the opportunity to meaningfully reduce their operating costs by using our deposit automation technologies.

Despite a more aggressive pricing environment, profitability remained roughly stable year-over-year as we closely managed costs, maintained our pricing discipline, and effectively sold the added value of NCR's ATM technology and services. In late 2005, we began manufacturing ATMs in Budapest, Hungary, to respond to increasing demand in Eastern Europe and to further improve our cost structure.

As the retail industry felt its profits being compressed as a result of economic pressures, NCR's Retail Store Automation solutions helped retailers reduce cost and improve customer satisfaction at the checkout lane through the deployment of self-checkout systems. Although the traditional point-of-sale product revenue was down year-over-year, our self-checkout and self-service kiosks generated double-digit growth and solid operating margins in 2005. Retailers, hotel operators, airlines, and other businesses are rapidly recognizing the operational and customer service benefits afforded by self-service technologies.

Our Customer Services division achieved meaningful profit improvement as we continued our multiyear plan to reduce cost and exit lower profit business. By favorably shifting the revenue mix and reducing costs, we increased operating income by more than $100 million. Although we improved Customer Services operating margin by 6 points on about 30 percent of the company's revenue, we feel there is opportunity to further improve margins and achieve a more acceptable level of profitability in years to come.

LOOKING FORWARD

There are three key components to further establishing NCR as a great company. First, we must continue to reduce our overall cost structure. We have more work to do to improve our efficiency and productivity, specifically in areas that relate to "cost of goods sold," such as supply chain and manufacturing costs. Second, we will reinvigorate NCR through promoting a customer-focused, high performance culture, a critical enabler for our ability to innovate and grow.

The third component of our strategy is to make targeted investments in our existing businesses for future top-line revenue growth. NCR is intensely focused on the markets for enterprise analytics and self-service technologies, as these markets exhibit continued growth potential and fit well with our core capabilities.

In the enterprise analytics market, our Teradata® data warehousing technology continues to be recognized as the leader in the rapidly growing enterprise data warehouse market. Companies continue to invest in data warehouse infrastructure and enterprise analytical applications because these investments lower their costs while enabling them to make better, faster business decisions that improve their competitiveness.

We remain focused on leveraging the full potential of Teradata's leadership position through further investment in R&D, expansion of demand creation headcount, and the extension of our ecosystem. For example, the 2005 acquisition of DecisionPoint® software has extended Teradata's capability in the financial management market.

A global leader in self-service software and solutions, NCR will exploit this key opportunity for growth. NCR is uniquely positioned to meet the ever-increasing "anytime, anywhere" expectations of consumers.

To strengthen our core competency in self-service and to access new and significant market segments beyond the retail and banking sectors, NCR acquired the assets of self-service solution providers Galvanon and InfoAmerica. These acquisitions extended our self-service offering into the health care and fast-food industries.

The use of self-service technologies will transcend multiple industries and applications as consumer demand for do-it-yourself convenience continues to grow while the value self-service solutions bring to our customers increases. To meet that demand, we are better aligning our assets and identifying opportunities for convergence in our solutions. We are identifying ways to leverage best practices, core components, and capabilities across our divisions to develop end-to-end solutions for our customers.

In addition, we will pursue very targeted growth opportunities within our other businesses. For example, NCR can expand beyond our traditional break-fix maintenance services to provide Managed Services. This opportunity enhances our ability to become a trusted and mission-critical partner with deeper, more strategic customer relationships. We have built an unmatched customer service infrastructure made up of globally consistent processes, applications, and analytical intelligence based on our own Teradata Data Warehouse architecture. Leveraging this infrastructure, along with our deep services knowledge, allows us to manage selected IT operations for our customers, increasing the efficiency and cost effectiveness of their technology investments.

Another example of a targeted growth opportunity exists in our Retail Store Automation business as we explore the ability to offer compelling point-of-sale solutions to small and medium-sized retail businesses through a value-added partner network. NCR's heritage began with retail point-of-sale, and we will leverage our industry expertise and global footprint to extend our market position in this space.

Our future success is linked to growth where we have core competencies and market leadership, and where the potential for profitable growth is greatest. Continuing to execute on our cost structure improvement plan and delivering quality bottom-line results are critical to fuel investment and prime the "growth machine" for our future.

We're very proud of our employees around the world and thank them for their hard work, dedication and results in 2005. And we're confident that with our ongoing emphasis on lasting cost structure improvements, combined with a renewed focus on targeted growth, we can continue to increase shareholder value in the years ahead – and further transform NCR into a truly great company.

Thank you for your continued interest and support.

William R. Nuti
President and Chief Executive Officer

James M. Ringler
Chairman of the Board