

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, 2000

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

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.

The aggregate market value of voting stock held by non-affiliates of the registrant as of February 23, 2001 was approximately \$4.4 billion. At February 23, 2001, there were 95,857,603 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the registrant's Proxy Statement dated March 7, 2001, issued in connection with the annual meeting of stockholders.

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

PART I

Item 1. BUSINESS

General

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

Through the Company's presence at customer interaction points, such as point-of-sale workstations, automated teller machines (ATMs) and web-enabled kiosks, Retail Store Automation and Financial Self Service solutions enable companies to capture and process consumer transactions. NCR then provides powerful Data Warehousing solutions that help businesses understand and serve each customer as a clearly defined market of one, responding with programs designed to improve customer acquisition, retention and profitability. NCR offers specific solutions for the retail and financial industries and also provides solutions for industries including telecommunications, transportation, insurance, utilities and electronic commerce, as well as consumer goods manufacturers and government entities. These solutions are built on a foundation of long-established industry knowledge and consulting expertise, value-adding software, global customer support services, a complete line of consumable and media products and a range of hardware technology.

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. Effective December 31, 1996, AT&T distributed to its stockholders all of its interest in NCR (the Distribution) on the basis of one share of NCR common stock for each 16 shares of AT&T common stock. The Distribution resulted in approximately 101.4 million shares of NCR common stock outstanding as of December 31, 1996. NCR common stock is listed on the New York Stock Exchange and trades under the symbol "NCR".

Revenue by similar classes of products and services is reported in Note 10, "Segment Information and Concentrations" of Notes to Consolidated Financial Statements included in Item 8 of this report.

Geographic information is reported in Note 10, "Segment Information and Concentrations" of Notes to Consolidated Financial Statements included in Item 8 of this report.

NCR operates in one industry, the information technology industry, and its business is structured along the six operating segments described below. Each segment includes hardware, software, professional consulting and customer support services. Customer support services, including maintenance, staging and implementation, networking, multi-vendor integration, consulting, industry-specific support and outsourcing services, complement each of the Company's solution offerings by supporting the high availability technology environment in which NCR's solutions are utilized.

Data Warehousing Solutions

Products, Services and Solutions

Data Warehousing solutions combine hardware (e.g., servers and disk storage systems), software (e.g., Teradata/(R)/ database and customer relationship management applications), professional consulting services and customer maintenance and support services. Data Warehousing solutions are designed to enable businesses, across a multitude of industries, to simply and quickly leverage detailed customer, supplier and partner information into actionable opportunities.

Target Markets and Distribution Channels

The major industry markets served by NCR's Data Warehousing solutions include the retail, financial, telecommunications, transportation, insurance, utilities and electronic commerce industries, as well as consumer goods manufacturers and government entities.

Data Warehousing solutions are delivered through a combination of direct and indirect channels. In recent years, over 90% of NCR's revenue from the Data Warehousing segment have been generated by the Company's direct sales force. The remaining revenues have historically been generated from the indirect channel and through alliances with value-added resellers, distributors and OEMs.

Competition

NCR faces significant competition in the industries served by the Data Warehousing solutions in all geographic areas where it operates. NCR believes that key competitive factors in these markets are vendor experience, customer

referrals, database sophistication, support and professional service capabilities, quality of the solutions or products, total cost of ownership and industry knowledge of the vendor and platform scalability. In addition, the movement toward common industry standards (such as Intel processors and UNIX/(R)/ and Microsoft operating systems) has accelerated product development, but has also made differentiation more difficult. Hardware and operating system commoditization has extended beyond PCs into the server business. In the markets in which the Data Warehousing solutions compete, customers require applications, database software, system software, hardware, professional services systems integration skills and ongoing solution support. Many competitors offer one or two of these components, but NCR believes it is one of few companies that can provide complete, open solutions that include all of these customer requirements. NCR's competitors include companies such as International Business Machines (IBM) and Oracle Corporation.

Financial Self Service Solutions

Products, Services and Solutions

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

Target Markets and Distribution Channels

NCR's 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. Self service solutions also serve the retail markets through convenience banking products designed to complement their core businesses. Self Service solutions customers are located throughout the world in both established and emerging markets.

NCR has historically distributed most of its Self Service products and services through NCR's direct sales channel, although certain revenues are derived through sales by distributors. Approximately 80% of the traditional Self Service product sales were sold by the direct sales force; the remainder was sold through indirect channels.

Competition

NCR faces significant 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 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. NCR's primary competitor is Diebold, Inc., but other competitors exist and vary by product and service offering, as well as geographic area.

Retail Store Automation Solutions

Products, Services and Solutions

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

Target Markets and Distribution Channels

Primarily serving the retail industry, NCR delivers 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 lodging (hotel/motel), fast food/quick service and other restaurants.

NCR's Store Automation solutions are offered through a combination of direct and indirect channels. The majority (over 90% in recent years) of solutions are sold by NCR's direct sales force, with the remainder sold through alliances with value-added resellers, distributors and dealers. NCR provides supporting services, including collateral sales materials, sales leads, porting facilities and marketing programs to the sales channel.

Competition

NCR faces significant competition in the retail industry in all geographic areas where it operates. The Company believes that key competitive factors can vary by geographic area but typically include 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 and support services. NCR's competitors vary by market segment, product, service offering and geographic area.

Payment and Imaging Solutions

Products, Services and Solutions

Consisting of hardware, software, and professional consulting, outsourcing and customer support services, NCR's comprehensive Payment and Imaging solutions

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

Target Markets and Distribution Channels

NCR's Payment and Imaging solutions primarily serve the financial services industry with particular focus on retail banking, insurance and credit card operations. Efficiently processing high volumes of remittances, Payment and Imaging solutions also serve markets outside of the financial services industries, such as utility companies. Payment and Imaging solutions customers are located throughout the world.

NCR has historically distributed most of its Payment and Imaging products and services through NCR's direct sales channel, although certain revenues are derived through sales by distributors. In recent years, over 90% of the traditional Payment and Imaging product sales were sold by the direct sales force; the remainder was sold through indirect channels.

Competition

NCR faces significant 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 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. NCR's competitors vary by product, service offering and geographic area.

Systemedia Division

Products, Services and Solutions

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

Target Markets and Distribution Channels

The major industry segments targeted by the Systemedia Division include general merchandise, food and drug, hospitality, financial services and consumer goods manufacturing. The Systemedia Division has a direct sales force in 30 countries focused on providing solutions to major accounts. In addition, Systemedia products are sold through office product resellers, value-added resellers and telemarketing.

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 and services. 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.

Other

NCR's Other category accumulates the results of operations not attributable to the segments identified above.

Research and Development

Information regarding research and development activities is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this report under the caption "Operating Expenses".

Seasonality

Information regarding seasonality is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this report under the caption "Operating Results Fluctuations".

Backlog

NCR's operating results and the amount and timing of revenue are affected by numerous factors, including the volume, mix and timing of orders received during a period and conditions in the information technology industry and in the general economy. The Company believes that backlog is not a meaningful indicator of future business prospects due to the shortening of product delivery schedules and the significant portion of revenue related to its customer support services business, for which order information is not recorded. Accordingly, NCR believes that backlog information is not material to an understanding of its business.

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".

Patents and Trademarks

NCR owns approximately 1,400 patents in the United States and 1,500 in foreign countries. The foreign patents are generally counterparts of NCR's United States patents. Many of the patents owned by NCR are licensed to others and NCR is licensed to use certain patents owned by others. In connection with the

Distribution, NCR entered into an extensive cross-licensing agreement with AT&T and Lucent Technologies Inc. ("Lucent"), a former subsidiary of AT&T. 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 mark "NCR" and many of its other trademarks and service marks to be valuable assets.

Employees

At January 31, 2001, NCR had approximately 32,960 employees and contractors.

Environmental Matters

Information regarding environmental matters is included in Note 11, "Commitments and Contingencies", of Notes to Consolidated Financial Statements included in Item 8 of this report.

Item 2. PROPERTIES

As of February 23, 2001, NCR operated approximately 695 facilities consisting of approximately 14.7 million square feet throughout the world. On a square footage basis, approximately 61% are owned and 39% are leased. Within the total facility portfolio, NCR operates approximately 31 research and development and manufacturing facilities totaling approximately 3.9 million square feet, 83% of which is owned. The remaining 10.8 million square feet within the facility portfolio includes office, repair, warehouse, and other miscellaneous sites, and is 53% owned. NCR maintains facilities in 73 countries.

NCR's business units are headquartered in: Dayton, Ohio (Teradata Solutions Division and Systemedia Division); London, United Kingdom (Financial Solutions Group); and Atlanta, Georgia (Retail Solutions Group).

NCR believes its plants and facilities are suitable and adequate, and have sufficient productive capacity to meet its current needs.

Item 3. LEGAL PROCEEDINGS

None.

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

None.

Item 4.(a) EXECUTIVE OFFICERS OF THE REGISTRANT

The Executive Officers of NCR (as of February 23, 2001) are as follows:

| Name | Age | Position and Offices Held |
|-----------------------|-----|--|
| Lars Nyberg | 49 | Chairman of the Board, Chief Executive Officer, and President |
| William Amelio | 43 | Executive Vice President and Chief Operating Officer, Retail and Financial Group |
| David Bearman | 55 | Senior Vice President and Chief Financial Officer |
| Mark V. Hurd | 44 | Executive Vice President and Chief Operating Officer, Teradata Division |
| Wilbert J. M. Buiters | 42 | Senior Vice President, Human Resources |
| Patrick G. Cronin | 40 | Senior Vice President, Financial Solutions Division |
| Robert A. Davis | 50 | Chief Quality Officer and Chief of Staff, Retail and Financial Group |
| Anthony Fano* | 57 | Senior Vice President, Retail Solutions Division |
| Gerald A. Gagliardi | 53 | Senior Vice President, Worldwide Customer Services Division |
| Jonathan S. Hoak | 51 | Senior Vice President and General Counsel |
| Mohsen Sohi | 41 | Senior Vice President, Retail Solutions Division |
| Keith Taylor | 50 | Vice President, Systemedia Division |

* Mr. Fano has announced his intention to retire from the Company effective April 2, 2001.

NCR's Executive Committee

Lars Nyberg. Mr. Nyberg has been Chairman, Chief Executive Officer, and President of NCR since June 1, 1995. Before joining NCR, from 1993 to 1995, Mr. Nyberg was Chairman and Chief Executive Officer of the Communications Division for Philips Electronics NV ("Philips"), an electronics and electrical products company. He also served as a member of the Philips Group Management Committee during that time. In 1992, Mr. Nyberg was appointed Managing Director, Philips Consumer Electronics Division. From 1990 to 1992, he was the Chairman and Chief Executive Officer of Philips Computer Division. Mr. Nyberg is a director of Sandvik AB based in Sweden. He became a director of NCR in 1995.

William Amelio. Prior to joining NCR in July 2000, William Amelio served as President and Chief Executive Officer of the Transportation and Power Systems Division of Honeywell International, Inc. starting December 1999. From April 1997 to December 1999, he was President of the Turbocharging business at AlliedSignal, Inc. before that company's merger with Honeywell. Before joining AlliedSignal in 1997, Mr. Amelio spent 18 years serving in a variety of progressively senior engineering and technical leadership roles at IBM Corporation.

David Bearman. David Bearman joined NCR in September 1998. Before coming to NCR, he was Executive Vice President and Chief Financial Officer for Cardinal Health, Inc. from 1989 to August 1998. Before joining Cardinal Health, he served in various financial leadership positions at General Electric Company from 1965 to 1989.

Mark Hurd. Mark Hurd joined NCR in 1980. After several marketing assignments, he became Vice President of Americas Professional Services in 1994. From 1995 to 1998, he was Vice President, Worldwide Marketing and Americas Sales. Prior to assuming his current position in July 2000, he was Senior Vice President, Teradata Solutions Division from October 25, 1999 to July 2000 and Senior Vice President, National Accounts Solutions Group from November 12, 1998 to October 25, 1999.

NCR's Other Executive Officers

Wilbert Buitter. Prior to joining NCR in August 1998, Wilbert Buitter spent 15 years with Philips Electronics in a variety of operations, staff and managerial human resources assignments. Most recently, from July 1997 to July 1998, he served as Senior Vice President, Human Resources for Philips Consumer Communications, a joint venture between Philips and Lucent Technologies Inc. From 1995 to July 1997, Mr. Buitter was Senior Executive Officer of Philips' Consumer Communications division.

Patrick Cronin. Patrick Cronin joined NCR in 1991 and was named Vice President, Americas Professional Services in 1996. Starting in 1998, prior to his current assignment as Senior Vice President, Financial Solutions Division in 1999, he served as Vice President of Worldwide Professional Services. Prior to that, from 1997 to 1998, Mr. Cronin was Vice President, Professional Services, of NCR's Customer Services Division.

Robert A. Davis. Prior to assuming his current position in September 2000, Rob Davis was Senior Vice President, Communication, Quality and Technology from February 2000 to September 2000. From April 1999 to February 2000 he was Senior Vice President of Quality and Public Relations. From 1995 to March 1999, Mr. Davis was Senior Vice President and Chief Quality Officer for NCR.

Anthony Fano. Anthony Fano joined NCR in 1960 and served in a number of positions in marketing and sales management. He became Vice President for the Latin America/Middle East/Africa Group in 1991 and in 1993 was named Senior Vice President of the quality and reengineering organization. Prior to assuming his current position in 1995, he served as Senior Vice President of the Europe/Middle East/Africa organization. Mr. Fano will retire from NCR in April 2001.

Gerald A. Gagliardi. Gerald Gagliardi joined NCR as Senior Vice President, Worldwide Customer Services Division in January 2001. From June 2000 until that time, he served as a consultant to E. M. Warburg Pincus & Company, LLC, where he was engaged in acquisitions in the services industry. From October 1999 to June 2000, he served as President and Chief Executive Officer of Inacom Corp. Prior to that, he spent 28 years at Unisys Corporation where he held progressively senior management positions in that company's services division, including Executive Vice President and President of Global Customer Services from 1995 to 1999.

Jonathan S. Hoak. Jonathan Hoak joined the Sidley & Austin law firm in 1979, becoming a partner in 1985. He was named general attorney for AT&T Corp.'s Federal Systems Division in 1990 and joined NCR in his current position in 1993.

Mohsen Sohi. Mohsen Sohi joined NCR in January 2001 after more than 14 years at AlliedSignal, Inc. and its post-merger successor Honeywell International Inc. He most recently served as President, Honeywell Electronic Materials from July 2000 to January 2001. From August 1999 to July 2000, Mr. Sohi was President, Commercial Vehicle Systems, at AlliedSignal. Prior to that, from 1997 to August 1999, he was Vice President and General Manager, Turbocharging Systems, and from 1995 to 1997, was Director of Product Development and Technical Excellence, at AlliedSignal.

Keith Taylor. Mr. Taylor has been Vice President, Systemedia Division, since August 1999. From 1998 to August 1999, Mr. Taylor was Vice President, Worldwide Customer Services, Asia/Pacific area. From 1997 to 1998, he was Director of Logistics for NCR's Worldwide Customer Services, Europe/Middle East/Africa area. From 1996 to 1997, Mr. Taylor was Director, Customer Services, Northern Europe area, and from 1994 to July 1996, was Chief Financial Officer for NCR's Worldwide Customer Services Division.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

NCR common stock is listed on the New York Stock Exchange and trades under the symbol "NCR." There were approximately 226,000 registered holders of record of NCR common stock as of February 23, 2001. The following table presents the high and low per share sales prices for NCR common stock for each quarter of 2000 and 1999.

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

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

Item 6. NCR CORPORATION SELECTED FINANCIAL DATA
Dollars in millions, except per share amounts

| At and for the Year Ended December 31 | 2000/1/ | 1999/2/ | 1998/3/ | 1997 | 1996/4/ |
|--|----------|----------|----------|----------|-----------|
| Results of operations | | | | | |
| Revenue | \$ 5,959 | \$ 6,196 | \$ 6,505 | \$ 6,589 | \$ 6,963 |
| Operating expenses | | | | | |
| Cost of revenue | 4,092 | 4,306 | 4,583 | 4,715 | 4,997 |
| Selling, general and administrative expenses | 1,329 | 1,471 | 1,460 | 1,510 | 1,458 |
| Research and development expenses | 333 | 341 | 360 | 383 | 378 |
| Income (loss) from operations | 205 | 78 | 102 | (19) | 130 |
| Interest expense | 13 | 12 | 13 | 15 | 56 |
| Other income, net | 83 | 71 | 68 | 61 | 36 |
| Gain from significant asset dispositions | - | 98 | 55 | - | - |
| Income before income taxes | 275 | 235 | 212 | 27 | 110 |
| Income tax expense (benefit) | 97 | (102) | 90 | 20 | 219 |
| Net income (loss) | \$ 178 | \$ 337 | \$ 122 | \$ 7 | \$ (109) |
| Net income (loss) per common share | | | | | |
| Basic | \$ 1.87 | \$ 3.45 | \$ 1.21 | \$ 0.07 | \$ (1.07) |
| Diluted | \$ 1.82 | \$ 3.35 | \$ 1.20 | \$ 0.07 | \$ (1.07) |

Financial position and other data

| | | | | | |
|---|----------|----------|----------|----------|----------|
| Cash, cash equivalents and short-term investments | \$ 357 | \$ 763 | \$ 514 | \$ 1,129 | \$ 1,203 |
| Accounts receivable, net | 1,338 | 1,197 | 1,556 | 1,471 | 1,457 |
| Inventories, net | 288 | 299 | 384 | 489 | 439 |
| Property, plant and equipment and reworkable service parts, net | 960 | 1,002 | 1,104 | 1,106 | 1,207 |
| Total assets | 5,106 | 4,895 | 4,892 | 5,376 | 5,280 |
| Debt | 107 | 77 | 83 | 94 | 76 |
| Stockholders' equity | \$ 1,758 | \$ 1,596 | \$ 1,447 | \$ 1,353 | \$ 1,396 |
| Cash dividends | - | - | - | - | - |
| Number of employees and contractors | 32,900 | 32,800 | 33,100 | 38,300 | 38,600 |

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

- /2/ Income from operations includes \$125 million for restructuring and other related charges. (See Note 3 of Notes to Consolidated Financial Statements.) Net income for 1999 includes the after-tax impacts of \$125 million for restructuring and other related charges, \$98 million of gains from significant asset dispositions and \$232 million of favorable impact from a tax valuation allowance release. (See Notes 3 and 4 of Notes to Consolidated Financial Statements.) Excluding these items, the 1999 income from operations, net income and net income per common share (diluted) would have been \$203 million, \$162 million and \$1.61, respectively.
- /3/ Income from operations includes a \$50 million non-recurring pension charge. (See Note 6 of Notes to Consolidated Financial Statements.) Net income for 1998 includes the after-tax impacts of \$50 million for a non-recurring pension charge and a \$55 million significant gain from an asset disposition. Excluding these items, the 1998 income from operations, net income and net income per common share (diluted) would have been \$152 million, \$119 million and \$1.17, respectively.
- /4/ Operating expenses include restructuring and other related charges of \$(55) million in 1996. Net loss per share for the year ended December 31, 1996 was calculated by dividing the net loss by 101.4 million shares of common stock. Effective December 31, 1996, AT&T Corp. distributed to its stockholders all of its interest in NCR on the basis of one share of NCR common stock for each 16 shares of AT&T Corp. common stock (the Distribution). The Distribution resulted in 101.4 million shares of NCR common stock outstanding as of December 31, 1996. Such shares are assumed to be outstanding since January 1, 1996.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

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

Revenue and Operating Margin by Solution

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

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

| In millions | 2000 | 1999 | 1998 |
|------------------------------|---------|---------|---------|
| | ----- | ----- | ----- |
| Consolidated revenue | \$5,959 | \$6,196 | \$6,505 |
| Consolidated gross margin/1/ | 1,905 | 1,898 | 1,922 |

Consolidated operating expenses:

| | | | |
|---|--------|--------|--------|
| Selling, general and administrative expenses/2/ | 1,327 | 1,354 | 1,410 |
| Research and development expenses/3/ | 308 | 341 | 360 |
| Consolidated income from operations | \$ 270 | \$ 203 | \$ 152 |

- /1/ Consolidated gross margin excludes the impact of \$37 million and \$8 million for restructuring and other related charges in 2000 and 1999, respectively. The results for 2000 also exclude the impact of \$1 million for integration costs related to the acquisition of 4Front.
- /2/ Selling, general and administrative expenses exclude the impact of \$1 million and \$117 million for restructuring and other related charges in 2000 and 1999, respectively. The results for 2000 also exclude the impact of \$1 million for integration costs related to the acquisition of 4Front. In 1998, selling, general and administrative expenses exclude the impact of a \$50 million non-recurring pension charge.
- /3/ Research and development expenses exclude the impact of \$25 million for in-process research and development charges related to acquisitions completed during 2000.

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

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

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

Data Warehousing Solutions

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

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

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

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

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

Financial Self Service Solutions

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

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

| In millions | 2000 | 1999 | 1998 |
|-------------|------|------|------|
|-------------|------|------|------|

| | | | |
|---|---------|---------|---------|
| Financial Self Service revenue | \$1,511 | \$1,565 | \$1,626 |
| Financial Self Service operating income | \$ 201 | \$ 224 | \$ 283 |

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

growth in the Europe/Middle East/Africa region. The operating income decline in 1999 was driven by lower revenues, mix-influenced lower gross margins and increased selling expenses.

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

Retail Store Automation Solutions - - - - -

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

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

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

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

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

Payment and Imaging Solutions - - - - -

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

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

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

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

Systemedia - - - - -

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

reducing overall costs.

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

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

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

Gross Margin

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

Operating Expenses

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

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

Income Before Income Tax

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

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

Income Tax

Income tax expense (benefit) was \$97 million in 2000, \$(102) million in 1999 and \$90 million in 1998. The 1999 income tax benefit was due primarily to the \$232 million reduction in the Company's U.S. deferred tax valuation allowance as a result of our U.S. operations achieving sustained profitability. Our effective

tax rate was approximately 33%, 38% and 43% in 2000, 1999 and 1998, respectively, excluding the impact of the tax valuation release, restructuring and other related charges, in-process research and development charges, integration costs related to the acquisition of 4Front, significant gains from disposition of assets and the non-recurring pension charge.

Financial Condition, Liquidity and Capital Resources

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

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

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

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

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

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

Restructuring

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

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

As a result of the restructuring, we achieved an estimated savings of more than \$75 million in 2000 due primarily to the elimination of losses in the exited solutions, as well as through cost savings related to employee separations

within our support organizations. In addition, we experienced a revenue decline of approximately \$360 million as a result of our decision to exit specific non-key solutions in certain geographic areas.

Factors That May Affect Future Results

This annual report on Form 10-K and other documents that we file with the Securities and Exchange Commission, as well as other oral or written statements we may make from time to time, contain information based on management's beliefs and include forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that involve a number of known and unknown risks, uncertainties and assumptions. These forward-looking statements are not guarantees of future performance, and there are a number of factors, including those listed below, which could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements. We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Competition

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

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

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

Introduction of New Solutions

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

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

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

Reliance on Third Parties

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Third party suppliers provide important elements to our solutions.

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

could be delayed, impacting our business and operating results.

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

Acquisitions and Alliances

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

As part of our overall solutions strategy, we intend to continue to make investments in companies, products, services and technologies, either through acquisitions, joint ventures or strategic alliances. Acquisitions and alliance activities inherently involve risks. The risks we may encounter include those associated with assimilating and integrating different business operations, corporate cultures, personnel, infrastructures and technologies or products acquired or licensed, retaining key employees and the potential for unknown liabilities within the acquired or combined business. The investment or alliance may also disrupt our

ongoing business, or we may not be able to successfully incorporate acquired products, services or technologies into our solutions and maintain quality. Business acquisitions typically result in intangible assets being recorded and amortized in future years. Future operating results could be impacted if our acquisitions do not generate profitable results in excess of the related amortization expense.

Operating Result Fluctuations

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

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

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

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

Multi-National Operations

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

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

Employees

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

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

Intellectual Property

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

Our intellectual property portfolio is a key component of our ability to be a leading technology and services solutions provider. To that end, we aggressively protect and work to enhance our proprietary rights in our intellectual property through patent, copyright, trademark and trade secret

laws, and if our efforts fail, our business could be impacted. In addition, many of our offerings rely on technologies developed by others, and if we were not able to continue to obtain licenses for such technologies, our business would be impacted. Moreover, from time to time, we receive notices from third parties regarding patent and other intellectual property claims. Whether such claims are with or without merit, they may require significant resources to defend and, if an infringement claim is successful, in the event we are unable to license the infringed technology or to substitute similar non-infringing technology, our business could be adversely affected.

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

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

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

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

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 138

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

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

Staff Accounting Bulletin No. 101

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

Statement of Financial Accounting Standards No. 140

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

Item 7. (a) 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 to changes in currency exchange rates, we enter into various derivative financial instruments such as forward contracts and options. These instruments generally mature within 12 months. At inception, select derivative instruments are designated as hedges of inventory purchases and sales, and of certain financing

transactions that are firmly committed or forecasted. Generally, gains and losses on qualifying hedged transactions are deferred and recognized in the determination of income when the underlying transactions are realized, canceled or otherwise terminated. When hedging certain foreign currency transactions of a long-term investment nature, gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on other foreign exchange contracts are recognized in other income or expense as exchange rates change.

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

respectively. Conversely, a 10% depreciation of the U.S. dollar against foreign currencies from the prevailing market rates would result in a \$1 million increase or a \$22 million increase in the fair value of the hedge portfolio as of December 31, 2000 and 1999, respectively.

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

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

Item 7. (b) RECENT DEVELOPMENTS

In March 2001, we announced concerns about the ability of Credit Card Center (CCC), a leading distributor of ATM equipment into the U.S. small retailer marketplace, to repay an outstanding loan and receivable to NCR. We have worked with CCC to develop stronger customer leasing support, but CCC's revenue growth has outpaced its capital and management resources, resulting in cash flow deficiencies that could impact its ability to repay its obligations to NCR. Although we will continue to work closely with CCC to successfully resolve these issues, we anticipate that we will establish a reserve related to prior business with CCC of approximately \$42 million before tax or \$28 million after tax.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Accountants

To the Board of Directors and
Stockholders of NCR Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of NCR Corporation and its subsidiaries at December 31, 2000 and December 31, 1999, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(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 the financial statement schedule are the responsibility of NCR Corporation's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

NCR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
In millions, except per share amounts

| For the Year Ended December 31 | 2000 | 1999 | 1998 |
|--|---------|---------|---------|
| ----- | | | |
| Revenue | | | |
| Products | \$3,178 | \$3,290 | \$3,641 |
| Services | 2,781 | 2,906 | 2,864 |
| ----- | | | |
| Total revenue | 5,959 | 6,196 | 6,505 |
| ----- | | | |
| Operating expenses | | | |
| Cost of products | 2,000 | 2,099 | 2,380 |
| Cost of services | 2,092 | 2,207 | 2,203 |
| Selling, general and administrative expenses | 1,329 | 1,471 | 1,460 |
| Research and development expenses | 333 | 341 | 360 |
| ----- | | | |
| Total operating expenses | 5,754 | 6,118 | 6,403 |
| ----- | | | |
| Income from operations | 205 | 78 | 102 |
| ----- | | | |
| Interest expense | 13 | 12 | 13 |
| Other income, net | 83 | 169 | 123 |
| ----- | | | |
| Income before income taxes | 275 | 235 | 212 |
| ----- | | | |
| Income tax expense (benefit) | 97 | (102) | 90 |
| ----- | | | |
| Net income | \$ 178 | \$ 337 | \$ 122 |
| ----- | | | |
| Net income per common share | | | |
| ----- | | | |
| Basic | \$ 1.87 | \$ 3.45 | \$ 1.21 |
| Diluted | \$ 1.82 | \$ 3.35 | \$ 1.20 |
| ----- | | | |
| Weighted average common shares outstanding | | | |
| ----- | | | |
| Basic | 95.1 | 97.6 | 101.0 |
| Diluted | 98.0 | 100.6 | 102.1 |

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

NCR CORPORATION
CONSOLIDATED BALANCE SHEETS
In millions, except per share amounts

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

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

NCR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
In millions

| For the Year Ended December 31 | 2000 | 1999 | 1998 |
|---|--------|--------|--------|
| ----- | | | |
| Operating activities | | | |
| Net income | \$ 178 | \$ 337 | \$ 122 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 361 | 358 | 364 |
| Deferred income taxes | 32 | (187) | 54 |
| Net gain on sales of assets | (33) | (107) | (47) |
| Purchased research and development from acquisitions | 25 | - | - |
| Changes in assets and liabilities: | | | |
| Receivables | (80) | 358 | (85) |
| Inventories | 28 | 85 | 15 |
| Current payables | 80 | (41) | (53) |
| Customer deposits and deferred service revenue | (42) | 13 | 4 |
| Timing of disbursements for employee severance and pension | (248) | (148) | (268) |
| Other assets and liabilities | (130) | (61) | (185) |
| ----- | | | |
| Net cash provided by (used in) operating activities | 171 | 607 | (79) |
| ----- | | | |
| Investing activities | | | |
| Purchases of short-term investments | (26) | (354) | (356) |
| Proceeds from sales and maturities of short-term investments | 208 | 189 | 573 |
| Net expenditures and proceeds for service parts | (108) | (104) | (82) |
| Expenditures for property, plant and equipment | (216) | (187) | (205) |
| Proceeds from sales of property, plant and equipment | 173 | 240 | 252 |
| Business acquisitions and investments | (319) | (32) | (274) |
| Other investing activities, net | (79) | (78) | (94) |
| ----- | | | |
| Net cash (used in) investing activities | (367) | (326) | (186) |
| ----- | | | |
| Financing activities | | | |
| Purchases of Company common stock | (110) | (269) | (200) |
| Short-term borrowings, net | 15 | (13) | (9) |
| Long-term borrowings, net | (29) | 7 | (2) |
| Other financing activities, net | 117 | 81 | 57 |
| ----- | | | |
| Net cash (used in) financing activities | (7) | (194) | (154) |
| ----- | | | |
| Effect of exchange rate changes on cash and cash equivalents | (21) | (4) | 21 |
| ----- | | | |
| (Decrease) increase in cash and cash equivalents | (224) | 83 | (398) |
| Cash and cash equivalents at beginning of year | 571 | 488 | 886 |
| ----- | | | |
| Cash and cash equivalents at end of year | \$ 347 | \$ 571 | \$ 488 |
| ----- | | | |
| Supplemental Data | | | |
| Cash paid during the year for: | | | |
| Income taxes | \$ 68 | \$ 61 | \$ 60 |
| Interest | 14 | 16 | 13 |

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

NCR CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
In millions

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

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

Note 1. Description of Business and Significant Accounting Policies

Description of Business

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

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

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

Basis of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates.

Foreign Currency

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

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

foreign exchange option premiums were \$5 million. The applicable amounts at December 31, 1999 were \$3 million and \$15 million, respectively.

Revenue Recognition

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

Warranty, Sales Returns and Post Sales Support

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

Income Taxes

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

Net Income Per Common Share

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

Cash, Cash Equivalents and Short-Term Investments

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

Transfer of Financial Assets

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

Inventories

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

Investments in Marketable Securities

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

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

Long-Lived Assets

Capitalized Software

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

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

Goodwill

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

Property, Plant and Equipment

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

Valuation of Long-Lived Assets

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

Acquisitions and Divestitures

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

Reclassifications

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

Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 and No. 138

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

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

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

Statement of Financial Accounting Standards No. 140

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (SFAS 140). SFAS 140, which replaces Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," revises the standards for accounting for securitizations and other transfers of financial assets and collateral. The standard is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The

Company does not expect adoption of this standard to have any impact to the Company's consolidated financial position, results of operations and cash flows.

Note 2. Supplementary Financial Information

In millions

| For the Year Ended December 31 | 2000 | 1999 | 1998 |
|---|----------|----------|--------|
| ----- | | | |
| Other income | | | |
| Interest income | \$ 31 | \$ 26 | \$ 44 |
| Gain on sales of assets | 33 | 107 | 47 |
| Other, net | 19 | 36 | 32 |
| ----- | | | |
| Total other income, net | \$ 83 | \$ 169 | \$ 123 |
| ----- | | | |
| At December 31 | | 2000 | 1999 |
| ----- | | | |
| Cash, cash equivalents and short-term investments | | | |
| Cash and cash equivalents | \$ 347 | \$ 571 | |
| Short-term investments | 10 | 192 | |
| ----- | | | |
| Total cash, cash equivalents and short-term investments | \$ 357 | \$ 763 | |
| ----- | | | |
| Accounts receivable | | | |
| Trade | \$ 1,255 | \$ 1,047 | |
| Other | 107 | 181 | |
| ----- | | | |
| Accounts receivable, gross | 1,362 | 1,228 | |
| Less: allowance for doubtful accounts | (24) | (31) | |
| ----- | | | |
| Total accounts receivable, net | \$ 1,338 | \$ 1,197 | |
| ----- | | | |
| Inventories | | | |
| Finished goods, gross | \$ 262 | \$ 298 | |
| Work in process and raw materials, gross | 83 | 73 | |
| ----- | | | |
| Inventories, gross | 345 | 371 | |
| Less: inventory allowances | (57) | (72) | |
| ----- | | | |
| Total inventories, net | \$ 288 | \$ 299 | |
| ----- | | | |
| Other current assets | | | |
| Current deferred tax assets | \$ 123 | \$ 167 | |
| Other | 128 | 115 | |
| ----- | | | |
| Total other current assets | \$ 251 | \$ 282 | |
| ----- | | | |
| Reworkable service parts | | | |
| Reworkable service parts, gross | \$ 494 | \$ 516 | |
| Less: accumulated depreciation | (276) | (307) | |
| ----- | | | |
| Total reworkable service parts, net | \$ 218 | \$ 209 | |
| ----- | | | |
| Property, plant and equipment | | | |
| Land and improvements | \$ 103 | \$ 140 | |
| Buildings and improvements | 641 | 701 | |
| Machinery and other equipment | 1,107 | 1,170 | |
| ----- | | | |
| Property, plant and equipment, gross | 1,851 | 2,011 | |
| Less: accumulated depreciation | (1,109) | (1,218) | |
| ----- | | | |
| Total property, plant and equipment, net | \$ 742 | \$ 793 | |
| ----- | | | |
| Other assets | | | |
| Prepaid pension cost | \$ 932 | \$ 811 | |
| Goodwill, net | 532 | 118 | |
| Other | 448 | 423 | |
| ----- | | | |
| Total other assets | \$ 1,912 | \$ 1,352 | |
| ----- | | | |

| | | |
|---|---------|-------|
| Accumulated other comprehensive (loss) income, net of tax | | |
| Currency translation adjustments | \$ (12) | \$ 30 |
| Unrealized gains on securities | 1 | 39 |
| Additional minimum pension liability and other | (32) | (21) |
| ----- | | |
| Total accumulated other comprehensive (loss) income | \$ (43) | \$ 48 |
| ----- | | |

Note 3. Business Restructuring

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

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

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

Note 4. Income Taxes

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

| In millions | 2000 | 1999 | 1998 |
|-----------------------------------|--------|--------|--------|
| Income (loss) before income taxes | | | |
| U.S. | \$ 319 | \$ 264 | \$ 272 |
| Foreign | (44) | (29) | (60) |
| Total income before income taxes | \$ 275 | \$ 235 | \$ 212 |

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

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

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

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

NCR's tax provisions include a provision for income taxes in those tax jurisdictions where its subsidiaries are profitable, but reflect only a portion of the tax benefits related to certain foreign subsidiaries' tax losses due to

the uncertainty of the ultimate realization of future benefits from these losses. Due primarily to sustained U.S. profitability, a release of the Company's federal and a portion of its state valuation allowance was recognized in 1999 as U.S. tax losses and valuation allowance.

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

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

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

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

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

Note 5. Debt Obligations

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

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

Note 6. Employee Benefit Plans

Pension and Postretirement Plans

NCR sponsors defined benefit plans for substantially all U.S. employees and the majority of international employees. For salaried employees, the defined benefit plans are based primarily upon compensation and years of service. For certain hourly employees in the United States, the benefits are based on a fixed dollar amount per year of service. NCR's funding policy is to contribute annually not less than the minimum required by applicable laws and regulations.

Assets of NCR's defined benefit plans are primarily invested in publicly traded common stocks, corporate and government debt securities, real estate investments and cash or cash equivalents.

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

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

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

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

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

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

| In millions | Pension Benefits | | Postretirement Benefits | |
|--|------------------|---------|-------------------------|----------|
| | 2000 | 1999 | 2000 | 1999 |
| Reconciliation to balance sheet | | | | |
| Funded status | \$ 947 | \$1,245 | \$ (332) | \$ (326) |
| Unrecognized net (gain) loss | (380) | (779) | 6 | (15) |
| Unrecognized prior service cost | 66 | 38 | (36) | (46) |
| Unrecognized transition asset | (25) | (47) | - | - |
| Net amount recognized | \$ 608 | \$ 457 | \$ (362) | \$ (387) |
| Total recognized amounts consist of: | | | | |
| Prepaid benefit cost | \$ 932 | \$ 811 | \$ - | \$ - |
| Accrued benefit liability | (366) | (380) | (362) | (387) |
| Intangible asset | 4 | 5 | - | - |
| Accumulated other comprehensive income | 38 | 21 | - | - |
| Net amount recognized | \$ 608 | \$ 457 | \$ (362) | \$ (387) |

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

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

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

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

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

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

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

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

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

Savings Plans

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

Other Postemployment Benefits

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

Note 7. Business Combinations and Equity Investments

During 2000, NCR completed the following acquisitions that were accounted for as purchase business combinations: KM Aspac Pte. Limited (d/b/a Memorex Telex Asia Pacific), Strategic Technologies and Systems, Stirling Douglas Group, Research

Computer Services, Inc. and Ceres Integrated Solutions, LLC. These acquisitions resulted in total goodwill of \$107 million that is being amortized over various periods of five to seven years, and in-process research and development charges of \$25 million. The total amount of stock issued as part of these acquisitions was \$64 million.

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

Company had incurred approximately \$2 million of integration costs related to the acquisition. These costs were expensed as incurred.

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

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

Note 8. Stock Compensation Plans, Purchases of Company Common Stock and Put Options

Stock Compensation Plans

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

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

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

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

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

| 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 |
|--------------------------|--------|---|---------------------------------|--------|---------------------------------|
| \$9.68 to \$14.02 | 26 | 1.16 years | \$11.22 | 26 | \$11.22 |
| \$16.78 to \$29.22 | 541 | 2.89 years | 25.18 | 482 | 25.02 |
| \$30.31 to \$51.63 | 15,348 | 6.65 years | 36.96 | 7,862 | 35.34 |
| Total | 15,915 | | \$36.52 | 8,370 | \$34.67 |

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

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

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

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

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

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

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

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

Purchase of Company Common Stock

On December 8, 2000, NCR's Board of Directors approved a share repurchase program authorizing the systematic repurchase of shares of Company common stock to offset the dilutive effect of the employee stock plans. The systematic repurchase program will be funded by the proceeds from the purchase of shares under the Company's Employee Stock Purchase Plan and the exercise of options. Stock will be repurchased periodically on an ongoing basis in the open market or through privately negotiated transactions at management's discretion. As of December 31, 2000, the Company had committed approximately \$88 million to the repurchase of shares under this program. The repurchased shares will be added to NCR's authorized, but unissued shares. During 2000, approximately 1.8 million shares were repurchased under this program at an average price of \$48.75 per share. This program is expected to continue into 2001.

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

Put Options

At times, the Company sells put options that entitle the holder of each option to sell to the Company, by physical delivery, shares of common stock at a specified price. In a single private placement during the fourth quarter of 1999, the Company sold put options for 400 thousand shares of common stock. These options expired unexercised in the first quarter of 2000. During 2000, in

a series of private placements, the Company sold put options for 2.0 million shares of common stock. Of these 2.0 million options, 1.6 million expired unexercised during the year and 400 thousand were exercised during the third quarter at an average price of \$37.00 per share. There were no options outstanding at December 31, 2000.

The put option activity is summarized as follows:

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

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

Note 9. Financial Instruments

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

Letters of Credit

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

Fair Value of Financial Instruments

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

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

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

Concentration of Credit Risk

NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, short-term

investments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to

potential losses are adequate. At December 31, 2000 and 1999, NCR did not have any major concentration of credit risk related to financial instruments.

Note 10. Segment Information and Concentrations

Operating Segment Information

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

Designed to help businesses gain insight into consumers' activities and choices, asset use, and operations and financial results, Data Warehousing solutions provide the hardware, software and related services necessary to transform large volumes of information into actionable opportunities. NCR's Data Warehousing solutions serve a multitude of industries including retail, financial, telecommunications, transportation, insurance, utilities and electronic commerce, as well as consumer manufacturing and government entities. The Company's Self Service solutions offer a complete line of ATM hardware and software, and related services, enabling businesses to reduce costs, generate new revenue streams and build customer loyalty. Self Service solutions primarily serve the financial services industry, with particular focus on retail banking. NCR's Store Automation solutions are designed to improve selling productivity and checkout processes, and increase service levels. Primarily serving the retail industry, Store Automation solutions deliver traditional point-of-sale, web-enabled kiosk, self-checkout and electronic shelf label solutions. The Company's Payment and Imaging solutions are designed to digitally capture, process and retain item-based transactions, thereby helping businesses reduce operating costs and increase efficiency. Payment and Imaging solutions primarily serve the financial services industry. Systemedia develops, produces and markets consumable media products principally for customers in industries served by NCR's other operating segments. NCR's Other segment accumulates the revenue and operating income not attributable to the above operating segments, as well as unallocated corporate expenses.

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

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

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

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

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

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

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

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

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

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

Concentrations

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

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

Note 11. Commitments and Contingencies

Contingencies

In the normal course of business, NCR is subject to various regulations, proceedings, lawsuits, claims and other matters, including actions under laws and regulations related to the environment and health and safety, among others. NCR believes the amounts provided in its consolidated financial statements, as prescribed by generally accepted accounting principles, are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to discharge alleged liabilities from various

lawsuits, claims, legal proceedings and other matters, including the Fox River matter discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's consolidated financial statements or will not have a material adverse effect on its consolidated results of operations, financial condition and cash flows. Any amounts of costs that may be incurred in excess of those amounts provided as of December 31, 2000 cannot currently be determined.

Environmental Matters

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

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

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

Leases

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

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

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

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

Note 12. Quarterly Information (Unaudited)

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

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

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

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

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

Teradata is either a registered trademark or trademark of NCR International, Inc. in the United States and/or other countries. NCR Relationship Optimizer and Relationship Technology are either registered trademarks or trademarks of NCR Corporation in the United States and/or other countries. TeraCube is either a registered trademark or trademark of MicroStrategy Incorporated. TOP END is either a registered trademark or trademark of BEA Systems, Inc. in the United States and/or other countries. UNIX is either a registered trademark or trademark of The Open Group in the United States and/or other countries. Windows NT is either a registered trademark or trademark of Microsoft Corporation in the United States and/or other countries.

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Most of the information required by this Item with respect to directors of NCR is included on pages 5-7 of NCR's Proxy Statement, dated March 7, 2001, and is incorporated herein by reference. In addition, the following information is provided with respect to Mr. Bohnett, one of NCR's directors who has chosen not to stand for reelection at the Company's 2001 Annual Meeting of Stockholders:

David Bohnett, 44, served as Chairman and Secretary of GeoCities, Inc., which he founded, from 1994 until May 1999, when GeoCities merged with Yahoo!. From 1994 to 1998, Mr. Bohnett also served as GeoCities' Chief Executive Officer and President. From 1994 to 1997, Mr. Bohnett also served as GeoCities' Chief Financial Officer. Prior to founding GeoCities, from 1990 to 1994, Mr. Bohnett served as Director of Product Marketing at Goal Systems International Inc., which merged with Legent Corp., a software company. Mr. Bohnett is a director of Stamps.com Inc. and other privately-held ventures. He became a director of NCR on August 10, 1999.

Information regarding executive officers is furnished in a separate disclosure in Part I of this report because the Company did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A.

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 9 of NCR's Proxy Statement, dated March 7, 2001, and is incorporated herein by reference.

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 13-19 of NCR's Proxy Statement, dated March 7, 2001, 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 8-9 of NCR's Proxy Statement, dated March 7, 2001, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 7, 2001, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

PART IV

Item 14. FINANCIAL STATEMENT SCHEDULES, REPORTS ON FORM 8-K AND EXHIBITS

(a) The following documents are filed as part of this report:

- (1) See index to consolidated financial statements on page 15 of this form 10-K.
- (2) Financial Statement Schedule:

For each of the three years in the period ended December 31, 2000:
Schedule II - Valuation and Qualifying Accounts

(b) Reports on Form 8-K

No reports filed on Form 8-K for the quarter ended December 31, 2000.

(c) Exhibits:

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 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 February 3, 2000 (Exhibit 3.2 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 NCR Annual Report")). |
| 4.1 | Common Stock Certificate of NCR Corporation (Exhibit 4.1 to 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). |
| 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 | Volume Purchase Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation (Exhibit 10.3 to the 1996 NCR Annual Report). |
| 10.4 | 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). |
| 10.5 | 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). |
| 10.6 | 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). |
| 10.7 | NCR Management Stock Plan (Exhibit 10.8 to the 1996 NCR Annual Report). |
| 10.8 | NCR WorldShares Plan (Exhibit 10.9 to the 1996 NCR Annual Report). |
| 10.9 | NCR Senior Executive Retirement, Death & Disability Plan (Exhibit 10.10 to the NCR Corporation Registration Statement on Form 10 (No. 001-00395), dated November 25, 1996 (the |

"NCR Registration Statement"))).

10.10 The Retirement Plan for Officers of NCR (Exhibit 10.11 to the NCR Registration Statement).

10.11 Credit Agreement, dated as of November 20, 1996, among NCR Corporation, The Lenders Party thereto, The Chase Manhattan Bank, as Administrative Agent, and Bank of America National Trust & Savings Association, as Documentation Agent (Exhibit 10.15 to the NCR Registration Statement).

- 10.12 NCR Change-in-Control Severance Plan for Executive Officers (Exhibit 10.16 to the 1996 NCR Annual Report).
- 10.13 Change-in-Control Agreement by and between NCR and Lars Nyberg (Exhibit 10.2 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
- 10.14 NCR Director Compensation Program (Exhibit 10.18 to the 1996 NCR Annual Report).
- 10.14.1 First Amendment to the NCR Director Compensation Program (Exhibit 10.14.1 to the 1999 NCR Annual Report).
- 10.14.2 Second Amendment to the NCR Director Compensation Program (Exhibit 10.14.2 to the 1999 NCR Annual Report).
- 10.15 NCR Long Term Incentive Program and NCR Management Incentive Program (Exhibit 10.19 to the 1996 Annual Report).
- 10.16 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).
- 10.17 NCR Mid-Career Hire Supplemental Pension Plan, restated effective January 1, 1997 (Exhibit 10.2 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
- 10.18 NCR Nonqualified Excess Plan, restated effective January 1, 1996 (Exhibit 10.3 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
- 10.19 Purchase and Manufacturing Agreement, effective April 27, 1998, by and between NCR Corporation and Solectron Corporation (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1998). Certain portions of this exhibit have been granted confidential treatment by the Securities & Exchange Commission.
- 10.20 Agreement and Plan of Merger by and among NCR Corporation, NCR Merger Sub Inc. and 4Front Technologies, Inc. dated August 2, 2000 (Annex A from the 4Front Technologies, Inc. Notice of Annual Meeting of Stockholders and Proxy Statement dated September 25, 2000).
- 10.21 Amendment to Agreement and Plan of Merger by and among NCR Corporation, NCR Merger Sub Parent, Inc., NCR Merger Sub Inc., and 4Front Technologies, Inc. dated October 6, 2000 (Exhibit 10.1(b) to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
- 10.22 Letter Agreement dated August 5, 1998 (Exhibit 10.2 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
- 10.23 Termination Agreement dated May 26, 1999 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
- 10.24 Employment Agreement with Lars Nyberg (Exhibit 10.22 to the 1999 NCR Annual Report).
- 10.25 Letter Agreement dated June 20, 2000 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).
- 10.26 Letter Agreement dated October 18, 2000.
- 10.27 Letter Agreement dated January 15, 2001.
- 21 Subsidiaries of NCR Corporation.
- 23.1 Consent of independent accountants.

NCR will furnish, without charge, to a security holder upon written request a copy of the 2001 Proxy Statement, portions of which are incorporated herein by reference. NCR will furnish any other exhibit at cost. Document requests are available by calling or writing to:

NCR - Investor Relations
1700 South Patterson Boulevard
Dayton, OH 45479
Phone: 937-445-5905
investor.relations@ncr.com
http://www.ncr.com/about_NCR/ir/invest_rel.asp

NCR Corporation

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
(In millions)

| Description | Column A ----- Balance at Beginning of Period | Column B ----- Additions Charged to Costs & Expenses | Column C ----- Charged to Other Accounts | Column D ----- Deductions | Column E ----- Balance at End of Period |
|--|---|---|--|---------------------------------|---|
| Year Ended December 31, 2000 | | | | | |
| Allowance for doubtful accounts | \$ 31 | \$ 17 | \$ - | \$ 24 | \$ 24 |
| Deferred tax asset valuation allowance | 285 | - | 19 | - | 304 |
| Inventory valuation reserves | 67 | 27 | - | 41 | 53 |
| Reserves related to business restructuring | 73 | - | (37) | 36 | - |
| Year Ended December 31, 1999 | | | | | |
| Allowance for doubtful accounts | \$ 47 | \$ 7 | \$ - | \$ 23 | \$ 31 |
| Deferred tax asset valuation allowance | 498 | 59 | - | 272 | 285 |
| Inventory valuation reserves | 93 | 21 | - | 47 | 67 |
| Reserves related to business restructuring | - | 83 | - | 10 | 73 |
| Year Ended December 31, 1998 | | | | | |
| Allowance for doubtful accounts | \$ 36 | \$ 26 | \$ - | \$ 15 | \$ 47 |
| Deferred tax asset valuation allowance | 553 | 103 | - | 158 | 498 |
| Inventory valuation reserves | 142 | 24 | - | 73 | 93 |
| Reserves related to business restructuring | 165 | - | (111) | 54 | - |

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 8, 2001

By: /s/ Lars Nyberg

Lars Nyberg, Chairman of the
Board, Chief Executive Officer
and President

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/ Lars Nyberg ----- Lars Nyberg | Chairman of the Board, Chief Executive Officer and President |
| /s/ David Bearman ----- David Bearman | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) |
| /s/ David Bohnett ----- David Bohnett | Director |
| /s/ David R. Holmes ----- David R. Holmes | Director |
| /s/ Linda Fayne Levinson ----- Linda Fayne Levinson | Director |
| /s/ James R. Long ----- James R. Long | Director |
| /s/ Ronald A. Mitsch ----- Ronald A. Mitsch | Director |
| ----- C. K. Prahalad | Director |
| /s/ James O. Robbins ----- James O. Robbins | Director |
| /s/ William S. Stavropoulos ----- William S. Stavropoulos | Director |

Date: March 8, 2001

Lars Nyberg
Chairman and CEO

1700 South Patterson Boulevard
Dayton, Ohio 45479

October 18, 2000

Mr. Mohsen Sohi
29279 Hampshire Place
Westlake, Ohio 44145

Dear Mohsen:

I am delighted to extend to you an offer of employment with NCR Corporation as Senior Vice President of the Retail Solutions Group. As you know, this offer is contingent on the approval of NCR Board of Directors. In this position, you will report directly to Bill Amelio, Chief Operating Officer of the Retail/Financial Group. We'll need to discuss a mutually agreeable start date. Other details of your offer are as follows.

Annual Base Salary - Your base salary will be \$375,000, commencing as of your effective start date. You will be paid on a bi-weekly pay schedule, one week in arrears. Your paycheck will be automatically deposited in the bank of your choice via our convenient Easipay plan.

Sign-On Bonus - You will be extended a \$100,000 gross sign-on bonus within thirty days of your effective start date. All applicable taxes will be withheld from this award. Your sign-on bonus will not be treated as compensation for purposes of determining employee pensions and benefits.

Incentive Award - You will be eligible to participate in the Management Incentive Plan for Executive Officers (MIP), which provides year-end incentive awards based on the success of NCR in meeting annual performance objectives. For your position, the targeted incentive opportunity is 60% of your salary (\$225,000) and the maximum award is 120% (\$450,000) of your salary. Given the fact that you will forfeit your 2000 bonus at your current company, NCR will guarantee an incentive award of \$215,000 for 2000. This will be paid within thirty days of your effective start date

For 2001, compensation objectives are yet to be established, but will probably include revenue growth, profit and asset management measures.

Equity

Stock Options- You will receive an initial stock option grant, as of your effective start date, for 130,000 shares of NCR common stock. The grant price will be determined by the fair market value of the average of the high and low share price of the Company's common stock on your first date of employment. These options will be subject to terms and conditions determined by the NCR Board of Directors. These stock options include a non-competition provision, have a ten-year term, and vest as follows:

Initial Vesting Date - 1 year anniversary of start date - 1/3 of the grant
Next Vesting Date - 2 year anniversary of start date - 1/3 of the grant
Final Vesting Date - 3 year anniversary of start date - 1/3 of the grant

Note that the grant above includes your 2001 management stock option grant which is typically awarded to NCR management in Q1, 2001.

Restricted Stock - You will receive a special restricted stock grant, as of your first date of employment, for 25,000 shares of NCR common stock. These shares will be set up in a record account in your name with NCR's Transfer Agent and Stock Registrar (American Stock Transfer), and will vest (become transferable) as follows:

Initial Vesting Date - January 1, 2002 - 60% of the grant
Final Vesting Date - January 1, 2003 - 40% of the grant

Incentives in General - For an officer in your position, short and long-term incentives at NCR currently take the form of the MIP and stock options. Since these incentives are designed to address the conditions of an ever-changing marketplace, NCR cannot make any definitive representations concerning the continuation of either program or the size of the individual awards.

Vacation - In recognition of your prior work experience, you will be

eligible for four weeks of paid vacation.

NCR Benefits - On your first day of employment with NCR, the company

provides you and your eligible dependents with the following core benefit
coverage:

- NCR Health Care Coverage
- NCR Dental Care Coverage
- Short-Term and Long-Term Disability Coverages
- Life Insurance Coverage
- Accidental Death and Dismemberment Insurance Coverage

As a new employee of NCR, you have the opportunity to design your own
personalized benefit program through Personal Choice, the company's
flexible benefits program. After your employment commences, you will
receive the NCR Benefits Information Package, and a Benefit representative
will meet with you to guide you through any questions you may have.

Additionally, you will be eligible to participate in the NCR Pension Plan,
the NCR Savings Plan (401k), and the NCR Stock Purchase Plan. The attached
Benefits Overview provides more information about NCR benefits.

Retirement - In addition to your participation in the NCR Pension Plan

(qualified plan), you will also participate in the following nonqualified
pension plans:

The Retirement Plan for Officers of NCR Corporation (SERP II) - The plan,
which is described in more detail in the attached summary, provides a
career average pension of 2.5% of the total of your base salary and MIP
award, times your years of service as an Officer and less pension accrued
as an Officer in other NCR sponsored plans. While this plan currently vests
after ten years of officer service, NCR plans to recommend to the
Compensation Committee of the Board of Directors that the vesting take
place after five years, which is more in line with competitive analogs and
mirrors the qualified pension plan vesting pertaining to all employees.
However, there can be no assurance that this proposed change will be
adopted.

The NCR Mid-Career Hire Supplemental Pension Plan - This plan, described in
more detail in the attached summary, provides a pension supplement to make
up for lost pension that could result from not having a "full career" with
one company. This pension supplement is in addition to the SERP II
benefit.

Financial Counseling - You will be eligible to participate in a financial

counseling program provided through one of three consulting firms
designated by the Company. The Company will pay up to \$8,000 annually for
financial planning, estate planning and tax preparation plus a gross-up for
the tax impact of this service. Further information on this program will
be provided separately.

Relocation - You will be eligible for relocation benefits under NCR's

Relocation Policy with two notable exceptions described below.

- 1) With respect to the money you have put down on a house in California,
NCR will cover up to a maximum of \$20,000 gross if you cannot get your
money back. We understand the risk of you not receiving your down
payment back is low, but are willing to provide you this "safety net"
given proof of your loss.
- 2) With respect to the sale of your current house in Westlake, Ohio, NCR's
relocation policy provides a "third-party buy-out process" that
provides up to a \$15,000 gross payment in the event of a qualifying
loss on sale. Given your circumstances, NCR will provide up to a
\$50,000 gross payment in the event of a loss on the sale of your home.

Change in Control - You will participate in NCR's current Change in Control

Severance Plan for Executive Officers. In the event of a qualified Change-
In-Control (as defined in this Plan), you will receive three times your
base salary and targeted bonus plus immediate vesting of your NCR stock
options and restricted stock.

Special Severance - In the event of a Company initiated termination other

than for "cause" (defined in the same manner as in the NCR Change-in-
Control Severance Plan for Executive Officers), you will receive a cash

payment of one times your annual base salary and immediate vesting of your NCR restricted stock.

This letter reflects the entire agreement regarding the terms and conditions of your employment. Accordingly, it supersedes and completely replaces any prior oral or written communication on this subject. This letter is not an employment contract and should not be construed or interpreted as containing any guarantee of continued employment. The employment relationship at NCR is by mutual consent ("Employment-At-Will"). This means that managers have the right to terminate their employment at any time and for any reason. Likewise, the Company reserves the right to discontinue your employment with or without cause at any time and for any reason.

Mohsen, we are enthusiastic about the contributions, experience and vision you can bring to NCR. The company is positioned well in our market to be exceedingly successful and I personally would like to extend this opportunity for you to be a part of my senior management team.

If you have any questions concerning the details of the appointment, please feel free to contact Wilbert Buitter or me.

Sincerely,

/s/LarsNyberg

Lars Nyberg

/s/ Mohsen Sohi

October 30, 2000

Agreed and Accepted
Mohsen Sohi

Date

pc: W. Buitter
W. Amelio

Attachments: Benefits Overview
Summary of SERP II
Summary of Mid-Career Hire Plan
NCR Relocation Policy

William J. Amelio
 Executive Vice President & COO
 Retail and Financial Group

1700 South Patterson Boulevard
 Dayton, Ohio 45479

January 15, 2001

Mr. Gerald A. Gagliardi
 Tinker Lane
 Lyme, Connecticut 06371

Dear Gerald:

I am delighted to extend to you an offer of employment with NCR Corporation as Senior Vice President of the Worldwide Services Division. As you know, this offer is contingent on the approval of NCR Board of Directors. In this position, you will report directly to me. We'll need to discuss a mutually agreeable start date, but other details of your offer are as follows.

Annual Base Salary - Your base salary will be \$430,000, commencing as of

 your effective start date. You will be paid on a bi-weekly pay schedule, one week in arrears. Your paycheck will be automatically deposited in the bank of your choice via our convenient Easipay plan.

Sign-On Bonus - You will be extended a \$175,000 gross sign-on bonus in two

 increments. \$100,000 will be paid to you within thirty days of your effective start date. All applicable taxes will be withheld from this award. Your sign-on bonus will not be treated as compensation for purposes of determining employee pensions and benefits. Assuming continued employment with NCR, a second gross payment of \$75,000 will be paid to you after one year in the position described above.

Incentive Award - You will be eligible to participate in the Management

 Incentive Plan for Executive Officers (MIP), which provides year-end incentive awards based on the success of NCR in meeting annual performance objectives. For your position, the targeted incentive opportunity is 60% of your salary (\$258,000) and the maximum award is 120% (\$516,000) of your salary. For 2001, compensation objectives will include revenue growth, profit and asset management measures.

Equity Awards -

 Stock Option Award- You will receive a stock option grant, as of your effective start date, for 100,000 shares of NCR common stock. The grant price will be determined by the fair market value of the average of the high and low share price of the Company's common stock on your first date of employment. These options will be subject to terms and conditions determined by the NCR Board of Directors. Future grants are discretionary and set annually by the Board of Directors. These stock options include a non-competition provision, have a ten-year term, and vest as follows:

Initial Vesting Date - 1 year anniversary of start date - 1/3 of the grant

Next Vesting Date - 2 year anniversary of start date - 1/3 of the grant

Final Vesting Date - 3 year anniversary of start date - 1/3 of the grant

The grant above includes your 2001 management stock option grant which is typically awarded to NCR managers in Q1 of each calendar year. You will be eligible for future management stock option grants based on market considerations. Although we cannot make a commitment about future stock option awards, given past awards for this position and current expectations, we would anticipate that the award of stock options would have an approximate face value of \$2 million or more. Again, as I know you appreciate, any actual award will be as finally determined by NCR's Compensation Committee of the Board of Directors.

Restricted Stock - You will receive a special restricted stock grant, as of your first date of employment, for 20,000 shares of NCR common stock. These shares will be set up in a record account in your name with NCR's Transfer Agent and Stock Registrar (American Stock Transfer), and will vest (become transferable) as follows:

Initial Vesting Date - 1 year anniversary of start date - 1/4 of the grant

Next Vesting Date - 2 year anniversary of start date - 1/4 of the grant

Next Vesting Date - 3 year anniversary of start date - 1/4 of the grant

Final Vesting Date - 4 year anniversary of start date - 1/4 of the grant

In addition, the restricted stock will vest in full in the event of a Company initiated termination other than for "cause" or termination for "Good Reason" (defined in the same manner as in the NCR Change-in-Control Severance Plan for

Executive Officers). The restricted stock will be subject to other terms and conditions determined by the NCR Board of Directors, including a non-competition provision.

Incentives in General - For an officer in your position, short- and long-

term incentives at NCR currently take the form of the MIP and stock options. Since these incentives are designed to address the conditions of an ever-changing marketplace, NCR cannot make any definitive representations concerning the continuation of either program or the size of the individual awards.

Vacation - In recognition of your prior work experience, you will be

eligible for four weeks of paid vacation.

NCR Benefits - On your first day of employment with NCR, the company

provides you and your eligible dependents with the following core benefit coverage:

- NCR Health Care Coverage
- NCR Dental Care Coverage
- Short-Term and Long-Term Disability Coverages
- Life Insurance Coverage
- Accidental Death and Dismemberment Insurance Coverage

As a new employee of NCR, you have the opportunity to design your own personalized benefit program through Personal Choice, the company's flexible benefits program. After your employment commences, you will receive the NCR Benefits Information Package, and a Benefit representative will meet with you to guide you through any questions you may have.

Additionally, you will be eligible to participate in the NCR Pension Plan, the NCR Savings Plan (401k), and the NCR Stock Purchase Plan.

Retirement - In addition to your participation in the NCR Pension Plan

(qualified plan), you will also participate in the following nonqualified pension plans:

The Retirement Plan for Officers of NCR Corporation (SERP II) - The plan, provides a career average pension of 2.5% of the total of your base salary and MIP award, times your years of service as an Officer and less pension accrued as an Officer in other NCR sponsored plans. While this plan currently vests after ten years of officer service, NCR plans to recommend to the Compensation Committee of the Board of Directors that the vesting take place after five years. However, there can be no assurance that this proposed change will be adopted.

The NCR Mid-Career Hire Supplemental Pension Plan - This plan, provides a pension supplement to make up for lost pension that could result from not having a "full career" with one company. This pension supplement is in addition to the SERP II benefit.

Financial Counseling - You will be eligible to participate in a financial

counseling program provided through one of three consulting firms designated by the Company. The Company will pay up to \$8,000 annually for financial planning, estate planning and tax preparation plus a gross-up for the tax impact of this service. Further information on this program will be provided separately.

Relocation - You will be eligible for relocation benefits under NCR's

Relocation Policy under "Tier IIB" executive benefits. In addition, NCR will pay you a \$15,000 gross payment to assist you in your special relocation needs in both 2001 and 2002.

Change in Control - You will participate in NCR's current Change in Control

Severance Plan for Executive Officers. In the event of a qualified Change-In-Control (as defined in this Plan), you will receive three times your base salary and targeted bonus plus immediate vesting of your NCR stock options and restricted stock.

Special Severance - In the event of a Company initiated termination other

than for "cause" or termination for "Good Reason" (defined in the same manner as in the NCR Change-in-Control Severance Plan for Executive Officers), you will receive a cash payment of one times your annual base salary and immediate vesting of your NCR restricted stock.

This letter reflects the entire agreement regarding the terms and conditions of your employment. Accordingly, it supersedes and completely replaces any prior oral or written communication on this subject. This letter is not an employment contract and should not be construed or interpreted as containing any guarantee of continued employment. The employment relationship at NCR is by mutual consent ("Employment-At-Will"). This means that managers have the right to terminate their employment at any time and for any reason. Likewise, the Company reserves the right to discontinue your employment with or without cause at any time and for any reason. Also, this offer is contingent upon completion of full reference checks.

Gerald, we are enthusiastic about the contributions, experience and vision you can bring to NCR. The company is positioned well in our market to be exceedingly successful and I personally would like to extend this opportunity for you to be a part of my senior management team.

If you have any questions concerning the details of the appointment, please feel free to contact Wilbert Buitter or me.

Sincerely,

/s/ Bill Amelio

Bill Amelio
Executive Vice President & COO
Retail and Financial Group

/s/ Gerald Gagliardi

January 16, 2001

Agreed and Accepted
Gerald Gagliardi

Date

pc: W. Buitter

SUBSIDIARIES OF NCR CORPORATION

Organized under the
Laws of

| | |
|---|--------------------|
| ActivityPath, Inc. | Delaware |
| Compris Technologies, Inc. | Georgia |
| CVSI Inc. | Delaware |
| CVSI Holdings, Inc. | Delaware |
| Data Pathing Incorporated | Delaware |
| Gasper Corporation | Ohio |
| International Investments Inc. | Delaware |
| The Microcard Corporation | Delaware |
| The National Cash Register Company | Maryland |
| NCR Autotec Inc. | Delaware |
| NCR European Logistics, Inc. | Delaware |
| The NCR Foundation | Ohio |
| NCR Government Systems Corporation | Delaware |
| NCR International, Inc. | Delaware |
| NCR International Holdings, Inc. | Delaware |
| NCR Ivory Coast, Inc. | Delaware |
| NCR Merger Sub Parent, Inc. | Delaware |
| NCR Nigeria Holdings Inc. | Delaware |
| NCR Overseas Trade Corporation | Delaware |
| NCR Personnel Services Inc. | Delaware |
| NCR Scholarship Foundation | Ohio |
| NCR Venture Fund, L.L.C. | Delaware |
| North American Research Corporation | Delaware |
| Old River Software Inc. | Delaware |
| The Permond Solutions Group, Inc. | Delaware |
| Quantor Corporation | Delaware |
| Research Computer Services, Inc. | Delaware |
| Sparks, Inc. | Ohio |
| Teradata Corporation | Delaware |
| Teradata International Corporation | Delaware |
| NCR Argentina S.A. | 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 |
| CV Services International BVBA/SPRL | Belgium |
| NCR (Bermuda) Limited | Bermuda |
| NCR Services Limited | Bermuda |
| Global Assurance Limited | Bermuda |
| NCR Brasil Ltda | Brazil |
| NCR Monydata Ltda. | Brazil |
| NCR Canada Ltd. | Canada |
| The Permond Solutions Group Limited | Canada |
| Stirling Douglas Group Inc. | Ontario |
| NCR de Chile, S.A. | Chile |
| NCR (Shanghai) Technology Services Ltd. | China |
| NCR Colombia S.A. | 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 |
| CV Services International SA | France |
| NCR Gabon S.A.R.L. | Gabon |
| NCR Holding GmbH | Germany |
| NCR GmbH | Germany |
| NCR OEM Europe GmbH | Germany |
| NCR Central and Eastern Europe GmbH | Germany |
| CVSI Services International GmbH | Germany |
| NCR Czeska republika spol. s.r.o. | Czech Republic |
| NCR Ghana Limited | Ghana |
| NCR (Hellas) S.A. | Greece |
| NCR Foreign Sales Corporation | Guam |
| NCR (Hong Kong) Limited | Hong Kong |
| NCR (China) Limited | Hong Kong |
| NCR (Asia) Limited | Hong Kong |
| NCR Asia Pacific Logistics Center Limited | Hong Kong |
| NCR Magyarország Kft. | Hungary |
| NCR Corporation India Private Limited | India |
| P. T. NCR Rencana | Indonesia |
| NCR Global Holdings Limited | Ireland |
| NCR Global Solutions Limited | Ireland |
| NCR International Finance Limited | Ireland |
| NCR Italia S.p.A. | Italy |
| CVSI Srl | Italy |
| NCR Japan, Ltd. | Japan |
| NCR Japan Sales Co., Ltd. | Japan |
| NCR Holdings Ltd. | Japan |
| Nihon CVSI Inc. | 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.A. de C.V. | Mexico |
| NCR Nederland N.V. | Netherlands |
| NCR European Logistics Center BV | Netherlands |
| NCR EMEA Regional Care Center B.V. | Netherlands |
| NCR Financial Shared Services Center B.V. | Netherlands |
| CVSI Holdings BV | Netherlands |
| CVSI Netherlands BV | Netherlands |
| NCR (NZ) Corporation | New Zealand |
| NCR (Nigeria) PLC | Nigeria |
| NCR Norge A/S | Norway |
| NCR Corporation de Centro-America, S.A. | Panama |
| NCR del Peru S.A. | Peru |
| NCR Corporation (Philippines) | Philippines |
| NCR Software Corporation (Philippines) | Philippines |
| NCR Polska Sp.z.o.o. | Poland |
| NCR Portugal-Informatica, Lda | Portugal |
| NCR Corporation of Puerto Rico | Puerto Rico |
| 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.A. | Spain |
| CV Services International Sverige AB | Sweden |
| NCR (Switzerland) | Switzerland |
| National Registrierkassen AG | Switzerland |

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|--|----------------|
| NCR Systems Taiwan Limited | Taiwan |
| NCR Taiwan Software Ltd | Taiwan |
| NCR (Thailand) Limited | Thailand |
| NCR Bilisim Sistemleri, A.S. | Turkey |
| NCR UK Group Limited | United Kingdom |
| NCR Limited | 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 Plc | United Kingdom |
| 4Front Group UK Ltd. | United Kingdom |
| 4Front Technologies UK Limited | United Kingdom |
| Firstpoint Limited | United Kingdom |
| 4Front Networks Limited | United Kingdom |
| Datapro Computers Group Limited | United Kingdom |
| 4Front Consulting Limited | United Kingdom |
| 4Front e-cademy.com Limited | United Kingdom |
| Eurographic Industries Limited | United Kingdom |
| CV Services International (UK) Limited | United Kingdom |
| 4Soft Limited | United Kingdom |
| CV Services International (UK) Ltd | United Kingdom |
| NCR Zimbabwe (Private) Limited | Zimbabwe |
| N Timms & Co. (Private) Limited | Zimbabwe |

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (nos. 333-18797, 333-18799, 333-18801 and 333-18803) of NCR Corporation of our report dated January 22, 2001, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Dayton, Ohio
March 8, 2001