



2000 ANNUAL REPORT

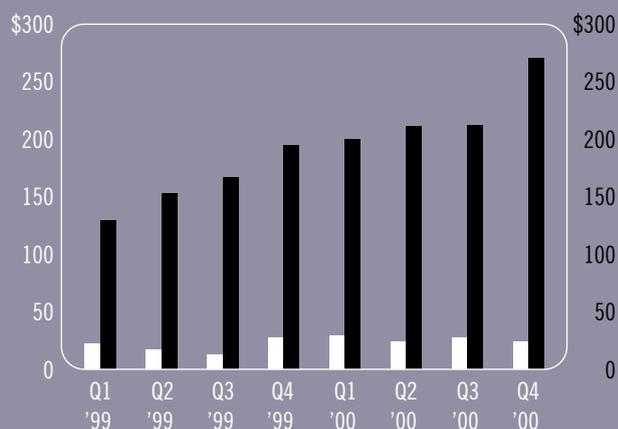
CORPORATE PROFILE

Imation Corp. is a global technology company with core competencies in removable data storage, color and image management, and customer service and support. The Company offers premier data storage media to enterprise data centers, server-based networks, and the mobile and desktop environments. Imation provides industry-leading color proofing, color management, and color software products. Global teams of service and consulting professionals bring technical support and workflow consulting to end-customers and third party original equipment manufacturers.

FINANCIAL CONDITION

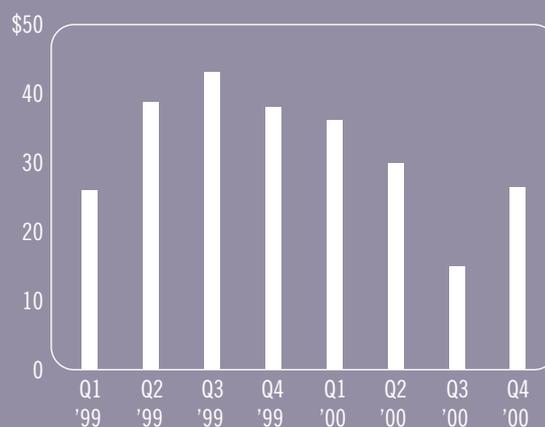
Dollars in Millions

Cash 
Debt 



EBITDA

Dollars in Millions
(Earnings Before Interest, Taxes, Depreciation and Amortization from continuing operations excluding special charges)



FINANCIAL HIGHLIGHTS

*(Excluding special charges and cumulative effect of accounting change; dollars in millions except per share data)

	2000	1999	1998
Revenue	\$1,234.9	\$1,412.6	\$1,328.9
SG&A Expense*	255.0	294.2	366.8
Operating Income (Loss)*	45.9	63.4	(27.8)
Non-Operating Income (Expense)	20.8	5.9	(8.4)
Tax Rate*	5%	39%	48%
Continuing Operations E.P.S. Diluted*	\$ 1.79	\$ 1.12	\$ (0.48)
Continuing Operations E.P.S. Diluted As Reported	\$ (0.03)	\$ 1.12	\$ (0.33)

DEAR SHAREHOLDERS, CUSTOMERS, PARTNERS & EMPLOYEES

The year 2000 was a difficult year for Imation but a year of progress toward sustainable value. Industry conditions were demanding and created a difficult environment. We were challenged by weak revenues and operating earnings. Revenues were down 12.6 percent and operating income, excluding special charges, declined 27.6 percent. As a result, our stock price declined from the highs we achieved following a successful year in 1999, a disappointing result to all of us.

But 2000 was also a year of tremendous accomplishments in a difficult environment, due to the focus, discipline, imagination and energy the Imation employees continue to bring to the business around the world. We announced last October that to insure we maximize shareholder value we had engaged the investment banking firm of Goldman Sachs to help us explore

strategic alternatives for creating value. We continue to work actively with them, guided by a strong sense of urgency.

Despite the past year's financial performance, the hard work of 2000 lays the foundation and positions us well to unleash value in each of our businesses for shareholders, customers and employees in 2001 and beyond. We reduced our overall cost structure through disciplined expense control and aggressive restructuring actions, positioning us well in the event of an economic slowdown. We established greater stability in the second half of 2000 by slowing the decline in some mature businesses and built a solid platform from which to grow as we launched exciting new data storage, color management and digital solutions offerings. Our progress in 2000 includes the following:

- « Newer offerings grew 40 percent year-over-year and now represent over 30 percent of total revenues.
- « Critical research and development projects, key to our future growth, were fully funded while we maintained R&D spending within our target range of 5 percent of revenues.
- « Both gross margins and Selling, General and Administrative (SG&A) spending were maintained within our target ranges – even as we absorbed a \$178 million revenue decline and over \$20 million in lower reimbursements for transition services.
- « Capital expenditures declined to \$50 million as we continue to focus investments on our strategic priorities.
- « Disciplined management of working capital reduced days of inventory and accounts receivables days sales outstanding by a combined 24 days, or almost 18%, and generated \$106 million in cash.
- « Cash at year end stood at an all time high of \$269 million, even as we continued with strategic investments in our businesses and repurchased 2.4 million shares of common stock – nearly seven percent of shares outstanding – for \$66.5 million.
- « We upgraded our IT system, and enhanced the platform for our e-business initiatives while reducing future amortization expense.
- « We re-energized and strengthened the Imation brand identity and Web site to be forward-looking, customer-focused and with much greater impact globally.

CHALLENGING 2000 ENVIRONMENT

Several factors put pressure on both revenue and operating income during much of the year. Softening demand in several markets led to aggressive pricing actions on some products, particularly in data storage. We experienced acceleration in the end-of-product life cycles for more mature products such as 3480/3490 tape cartridges and Matchprint™ analog proofing systems, driven by emerging new technologies from Imation and others. Negative foreign currency pressures, particularly from the weak Euro, impacted results. The strong demand we experienced at the end of 1999 in both the removable data storage and color proofing markets due to Y2K security concerns made for difficult year-over-year revenue comparisons. Finally, we were affected by delays in the introduction of some of our own offerings, particularly DLT tape cartridges.

While reported per share results were negatively impacted by \$67.7 million of primarily non-cash write-offs and charges, non-operating income benefited from nearly \$10.6 million in gains on venture capital investments. Because of divestitures in Europe in 1999, we were able to achieve a significant tax benefit, which substantially lowered our tax rate for 2000. With the inclusion of these achievements below the operating income line, we reported diluted earnings per share from continuing operations, excluding special charges, of \$1.79, up from \$1.12 in 1999. We generated the highest level of cash flow from continuing operations in the Company's history, of \$192 million.

We are encouraged as we enter 2001, based on the financial strength and flexibility we have established, the strong portfolio of new offerings we are developing and the growth of the markets we serve.

GROWING DEMAND FOR DATA STORAGE

From the music and images sent across the Web to the transaction records for an e-commerce site, demand for data storage capacity and functionality continues to explode. Driven by the vital role that data plays for individuals and organizations alike, by increasingly complex networked environments, and by the sheer amount of digital information people use on a daily basis, demand for data storage capacity is growing exponentially. New ways for storing data are continually being designed to meet the fast evolving needs of consumers and businesses. Speed, capacity, performance, reliability, cost and compatibility all enter into the user's decision-making process.

Given the speed of change and the complexity of offerings, customers look for a trusted advisor, a company that knows data storage and has a broad view of the market. Imation's reputation comes from participation in all segments of the market for data storage. We have the broadest portfolio of offerings in removable storage from personal solutions to the large data center, from magnetic media to leading-edge optical solutions. We have the technology strengths to meet customers' needs as their demands increase in the future.

For an IT manager, the proliferation of new storage formats and architectures has created a need for neutral advice on how best to optimize existing investments and where to migrate in the future. Imation's position in the market as a trusted supplier of most formats gives customers confidence that we can provide impartial evaluation and testing of different storage approaches. To help our customers determine the best solution for their business as they manage increasingly complex storage requirements we are developing our storage services solutions business in partnership with others. In our independent Storage Networking Lab, we have more than \$10 million in storage hardware from more than 40 vendors to provide consulting, training, and interoperability testing.

Recent announcements underscore our position as a respected, independent supplier of storage media and consulting services. We are continuing to invest aggressively in development around standardized tape formats such as DLT, SuperDLT and LTO/Ultrium tape cartridges which we expect to have a significant impact in meeting the back-up needs of users. We anticipate availability of these products this year. We introduced the 9940 tape cartridge, which extends the highly successful StorageTek line of high capacity and fast access tape products for the data center market. And, we have signed an agreement with DataPlay, making us a primary distributor of their new high capacity, very small form factor optical storage media, which delivers 500 MB of storage in a one and one-quarter inch disk.

BRAND AND MARKET LEADER FOR PROFESSIONAL COLOR MANAGEMENT

Imation's roots in professional color management go back decades. With Matchprint™ as the global brand and market leader for professional color management in commercial printing, we are extending that position with new product introductions in high-end proofing, color management software and digital workflow applications. At Imation we have been changing

our business model and focus as the graphic arts industry has changed. Image management is rapidly moving to digital workflow processes, with information storage and color accuracy as crucial customer requirements. The transition to a digital workflow continues to drive opportunities for Matchprint™ Digital Halftone Proofing, helping offset declines in analog proofing. We are taking advantage of our experience in the graphic arts industry and our color expertise and digital technology to establish the #1 position in the digital world of high-end color management.

Our Matchprint™ Laser Digital Proofer now hold significant market share and we look to grow this to a leadership position this year. We are extending our Matchprint™ digital offerings with a color front-end software product for the Xerox DocuColor 12 which has been extremely well received in beta tests. Verifi™, our accurate Web color software offering, is nearing the conclusion of beta tests and is set for full commercialization in the first half of this year. With key extensions to the product portfolio, building off the strong brand position as the color experts, we feel confident that we will gain competitive share with customers who are developing their digital environment and with new customers in markets we are just entering. Value creation in the graphic arts and color imaging markets is in color software expertise, digital proofing, and the ability to manage color successfully over the Web, all areas where Imation is well positioned.

DIGITAL SOLUTIONS AND SERVICES ON AN IMPROVEMENT TRACK

We launched significant initiatives last year to add new customers and reduce the cost structure for Digital Solutions and Services (DSS). These efforts demonstrably impacted results in the third and fourth quarters as DSS showed a slight profit for both periods and an improved revenue trend for the fourth quarter compared to the third. We entered into joint marketing agreements with Kip America, Spicer Corp. and mindwrap inc. to help transition document imaging customers to digital workflows. In addition, we continue to add new third party service agreements, putting DSS on a revenue growth and operating profit improvement track for 2001.

AS WE ENTER 2001

We are encouraged as we enter 2001 by the rebound we experienced in the fourth quarter of 2000 both from the third quarter and from the weak demand we experienced for much of the year. We have an improved product portfolio with innovative new offerings in the market, demonstrated operating efficiency and a strong financial position.

Our priorities for 2001 are to aggressively drive sales to maximize our operating income and cash flow. We are targeting operating income growth of five to ten percent in 2001 over the \$45.9 million in operating income in 2000. As we continue to transition our base business to newer offerings, we expect full year 2001 revenues to be roughly flat to up slightly compared to 2000, although we do not expect first half comparisons to be up year-over-year. We will continue to aggressively launch new offerings and drive improvements in productivity, costs, and quality.

The markets for Imation in data storage, color management, and digital workflow solutions offer excellent opportunities. Imation's ability to meet our customers' needs today and in the future, to store, access and manage one of our customers' most valuable assets – their information – presents tremendous opportunities to create value for our shareholders. As we work to grow profitably and to increase shareholder value, we rely on a dedicated and loyal group of employees who are to be congratulated for their ability and willingness to adapt and thrive in the changing work environment. Their skill and commitment is invaluable to our success. Thank you to our employees, shareholders, customers and partners as we look forward to the year ahead.

Sincerely,



WILLIAM T. MONAHAN
Chairman, President and
Chief Executive Officer

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SHAREHOLDER INFORMATION

Investor information is available at www.imation.com or through Imation's shareholder telephone line at 1.888.IMN.NYSE (1.888.466.6973) during the business hours of 7:00 a.m. to 5:30 p.m. (CST).

PRODUCT INFORMATION

Products and services help-line 1.888.466.3456 or visit www.imation.com

ANNUAL SHAREHOLDERS MEETING

Wednesday, May 9, 2001, 9:00 a.m. (CDT)
Wyndham Anatole Hotel, 2201 Stemmons Freeway
Dallas, Texas 75207

IMN
LISTED
NYSE

STOCK LISTINGS

New York and Chicago Stock Exchanges
Ticker symbol: IMN

REGISTRAR & TRANSFER AGENT

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FCTC Website: <http://www.equiserve.com>
Hearing Impaired: TDD 1.201.222.4955

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ENVIRONMENTAL HEALTH & SAFETY REPORT

For a copy of the 1999-2000 Environmental Health & Safety Report, visit www.imation.com or call Environmental Health & Safety Services at 651.704.5763

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Seoul, Korea

www.imation.com

The name IMATION combines the essence of the Company's businesses – digital information and image management – with its core values of imagination and innovation. The correct pronunciation of IMATION is:

^u
im – ā' – shun

- « As in imagine
- « As in innovate
- « As in implement
- « Rhymes with innovation



imaginative solutions.

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