

2014 ANNUAL REPORT

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2014 FINANCIAL REPORT

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

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

BUSINESS OVERVIEW

Teradata is a global leader of analytic data platforms, marketing and analytic applications, and related services. Our analytic data platforms are comprised of software, hardware, and related business consulting and support services – for data warehousing, and big data analytics. Through our Teradata Unified Data Architecture (a comprehensive enterprise framework for organizations to integrate and analyze all types of data across multiple Teradata and third-party provided technologies), we help customers access and manage data and extract business value and insight from their data. Our applications are designed to leverage data to: improve organizations' effectiveness in marketing to their customers, determine customer and product profitability, forecast consumer demand, and discover new insights. Our consulting services allow customers to maximize use and leverage the value of their analytic data and marketing investments through a broad range of offerings including consulting to help organizations design and optimize their analytic and big data environments, create and execute marketing strategies and programs, cloud (software as a service, platform as a service), hosting, platform management, and related installation services (collectively, "consulting services") and support services.

2014 FINANCIAL OVERVIEW

As more fully discussed in later sections of this MD&A, the following are the financial highlights for 2014:

- Revenue increased 1% in 2014 from 2013 to \$2,732 million.
- Gross margin was 54.1% in 2014, down from 54.7% in 2013, which was largely due to increased amortization of previously capitalized software.
- Operating income was \$503 million in 2014, down from \$532 million in 2013. The reduction was driven by lower overall gross margins as well as an increase in operating expenses.
- Net income of \$367 million in 2014 decreased from \$377 million in 2013. Net income per common (diluted) share was \$2.33 in 2014 compared to \$2.27 in 2013. Net income for 2014 includes approximately \$45 million in after-tax impacts of acquisition-related transaction, integration and reorganization expenses, and amortization of acquired intangible assets, compared to \$49 million of such costs and expenses, in 2013. Additionally, 2014 net income includes a \$6 million after-tax net loss on an equity investment arising from an impairment of carrying value accounted for under the cost method.

STRATEGY OVERVIEW

Teradata helps companies achieve competitive advantage and win in their markets by empowering them to become "data-driven businesses" capable of exploiting data for insight and value. With Teradata's industry-leading analytic data platforms, marketing applications and proven consulting experience and expertise, companies can become more competitive by leveraging data insights to reduce costs, improve business processes, enhance customer relationships, improve their marketing and drive innovation.

Our strategy encompasses three large and growing markets: data warehousing, big data analytics and marketing applications. We continue to focus on the following key initiatives to broaden our position in the market and take advantage of these market opportunities.

- Be the trusted advisor for enabling data-driven business and continue investing in business and technical consulting via organic growth and targeted strategic acquisitions;
- Invest to expand our leading Unified Data Architecture, data warehouse software and platform family, big data discovery platforms, Hadoop-based data management platforms, and marketing applications to address multiple market segments through internal development and targeted strategic acquisitions;
- Deliver our solutions via the cloud (as a service) or on-premises with offerings that support applications as a service, data warehousing as a service, discovery analytics as a service and data management as a service;
- Continue investing in partnerships to increase the number of solutions available on Teradata platforms, maximize customer value, and increase our market coverage; and
- Continue to seek opportunities to expand our sales resources and reach, both in our data analytics and marketing applications businesses.

FUTURE TRENDS

We believe that demand for our analytic data platforms will continue to increase due to the continued growth of data volumes and types of data, the scale and complexity of business requirements, and the growing use of new data elements and more analytics over time. The adoption by customers of a broader set of analytics including predictive analytics, path analysis, network analysis/graph, and many others is driving more applications, usage and capacity. This increased breadth of analytics also drives the need for an overall architecture to manage an increasingly complex analytics environment. As a result, we expect that Teradata's leadership in analytic data platforms and Unified Data Architecture positions us for future growth. In addition, we believe that our competitive position in integrated marketing cloud applications, including our marketing operations, campaign management and digital messaging offerings, will contribute to our growth and are synergistic with the Company's big data analytics business as companies gain competitive advantage through data-driven marketing with their customers.

This growth, however, is not expected to be without its challenges from general economic conditions, competitive pressures, alternative technologies, and other risks and uncertainties. Since mid-2012, Teradata has seen a change in customers' buying patterns, particularly in the Americas region, with respect to large capital investments and related services. Currently, we believe that the greatest challenge for future revenue growth relates to pressures on large capital expenditures. We believe that a number of factors are contributing to a slowdown in our revenue growth, including: information technology budget constraints; the relatively recent investments made by several of our existing customers to build out their Teradata integrated data warehousing ("IDW") environments; a current focus of investments in their analytical ecosystems which have lower average selling prices than IDW environments; and to a lesser degree the transfer of some IDW workloads to other platforms in the ecosystem.

Overall, we believe that IDW will remain a critical part of companies' analytical ecosystems and Teradata's technology is highly differentiated with our ability to handle the concurrency and service level agreements of hundreds to thousands of mission-critical users and applications. Further, we believe the Company has the opportunity for continued revenue growth from both the expansion of our existing customers' analytical ecosystems (through growth in IDW, Teradata big data analytics and integrated marketing cloud applications) as well as the addition of new customers.

Although we did not experience significant changes for the year ended December 31, 2014 due to competitive and/or pricing trends for our analytic data platforms, there is risk that pricing and competitive pressures on our solutions could occur in the future as major customers evaluate and rationalize their analytics infrastructure, particularly to the extent that cost becomes a top priority in companies and lower-cost alternatives are more seriously and frequently considered. However, such alternatives generally do not enable companies to perform mission-critical, complex business analytic workloads or provide a Unified Data Architecture to address mission-critical analytics, discovery analytics, and data management such as those enabled by Teradata's offerings. As described above, we continue to believe that analytics will remain a high priority for companies and will drive growth for Teradata's leading solutions. Moreover, we will continue to be committed to new product development and achieving a positive yield from our research and development spending and resources, which are intended to drive future demand. In addition, as we broaden our product portfolio and market reach, we could see smaller deal sizes and more revenue derived from our appliances which could lead to overall lower product gross margins.

As a portion of the Company's operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, the Company is exposed to fluctuations in foreign currency exchange rates. In 2015, Teradata is expecting approximately five percentage points of adverse impact from currency translation on our reported revenue growth rate and a corresponding currency impact on operating income, based on currency rates as of January 30, 2015.

RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31:

	2014	% of Revenue	2013	% of Revenue	2012	% of Revenue
<i>In millions</i>						
Product revenue	\$ 1,227	44.9%	\$ 1,230	45.7%	\$ 1,297	48.7%
Service revenue	1,505	55.1%	1,462	54.3%	1,368	51.3%
Total revenue	2,732	100%	2,692	100%	2,665	100%
Gross margin						
Product gross margin	784	63.9%	797	64.8%	881	67.9%
Service gross margin	695	46.2%	676	46.2%	610	44.6%
Total gross margin	1,479	54.1%	1,473	54.7%	1,491	55.9%
Operating expenses						
Selling, general and administrative expenses	770	28.2%	757	28.1%	728	27.3%
Research and development expenses	206	7.5%	184	6.8%	183	6.9%
Total operating expenses	976	35.7%	941	35.0%	911	34.2%
Operating income	\$ 503	18.4%	\$ 532	19.8%	\$ 580	21.8%

Revenue

Total revenue increased 1% in 2014 compared to 2013. The 1% reported revenue increase included a 2% adverse impact from foreign currency fluctuations. The general lack of meaningful revenue growth was due primarily to tightly constrained information technology budgets, extended sales cycles, a reduction in large customer orders, as well as the impact currency translation had on reported revenue growth. Product revenue was flat in 2014 from 2013. Service revenue increased 3% in 2014 from 2013, with an underlying 7% increase in maintenance services revenue, as compared to 2013. Consulting services revenue was flat in 2014 compared to 2013.

In 2013, total revenue increased 1% in 2013 compared to 2012. The revenue increase included a 1% adverse impact from foreign currency fluctuations. Product revenue decreased 5% in 2013 from 2012, due primarily to macro-economic conditions in certain geographical territories throughout the world, extended sales cycles and a reduction in large customer orders. Additionally, service revenue in 2013 increased 7% from 2012, with an underlying 9% increase in maintenance services revenue, as compared to 2012. Consulting services revenue increased 5% in 2013 compared to 2012.

Gross Margin

Gross margin was 54.1% in 2014 down from 54.7% in 2013. Product gross margin decreased to 63.9% in 2014, compared to 64.8% 2013, primarily the result of increased amortization of previously capitalized software. Additionally, product gross margins were adversely impacted by product mix and were partially offset by improved deal mix. Service gross margin was 46.2% in 2014, the same as in 2013.

In 2013, gross margin was 54.7% in 2013 down from 55.9% in 2012, as a result of a shift in the product mix. Product gross margin decreased to 64.8% in 2013, compared to 67.9% in 2012, primarily the result of lower product revenue volume, product mix, and higher amortization of capitalized software. Service gross margin increased to 46.2% in 2013 compared to 44.6% in 2012, driven by higher maintenance revenues and improved consulting margins.

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

- **Revenue Mix** - The proportion of products and services that comprise the total revenue of the Company. Changes in revenue mix can have an impact on overall gross margin even if total revenue remains unchanged.
- **Services Mix** - The proportion of higher-margin maintenance revenue versus lower-margin consulting revenue that comprises the total services revenue of the Company.
- **Product Mix** - The proportions of various products that comprise the total product revenue of the Company. For example, a higher mix of IDW products versus departmental data mart, Aster, our Extreme Data Appliance or Hadoop products would have a positive impact on product gross margins. This definition would also include the mix of Company sourced and third party products.
- **Deal Mix** - Refers to the type of deals closed within the period and includes such items as capacity on demand (“COD”), floor sweeps versus expansions, hardware versus software, and discounting (new customers versus existing customers, large customers versus smaller customers).
 - **COD** is a common offering used by Teradata and other information technology vendors that allows the customer to purchase extra capacity in the future, which is already delivered and integrated into their existing systems, typically within 12-18 months. COD enables customers to “activate” or add capacity quickly. Product cost is recognized upon delivery with no corresponding revenue. When customers activate the COD, we record and recognize the revenue associated with the added capacity and the gross margin is recovered.
 - **Floor sweeps** take place when an existing customer replaces their older Teradata platform for a new Teradata platform, which can drive a larger revenue transaction, but typically also results in a higher mix of lower-margin hardware-related revenue versus higher-margin software-related revenue.

Operating Expenses

Total operating expenses, including Selling, General and Administrative (“SG&A”) and Research and Development (“R&D”) expenses, totaled \$976 million in 2014 compared to \$941 million in 2013. SG&A increased by \$13 million or 2%. R&D expenses increased \$22 million due to expenses related to a voluntary early-retirement program during the first quarter of 2014, incremental headcount for our recent complementary technology acquisitions and our internal planned investments on future releases.

In 2013, total operating expenses, including SG&A and R&D expenses, totaled \$941 million in 2013 compared to \$911 million in 2012. SG&A increased by \$29 million, and was primarily driven by higher selling expense, resulting from our strategic initiative to add sales territories and related headcount, which was offset in part by lower variable incentive based compensation expense. R&D expenses increased \$1 million and included \$3 million less in capitalization of software development costs, which were offset by lower variable incentive based compensation expense.

Other Expense, net

Other expense was \$9 million in 2014 compared to \$24 million in 2013 and \$2 million in 2012. In 2014, other expense primarily included a loss of \$9 million on an equity investment arising from an impairment of carrying value. In 2013, other expense included a loss of \$25 million on an equity investment arising from an impairment of carrying value, partially offset by a \$3 million gain on sale.

Income Taxes

The effective income tax rate was 25.7%, 25.8% and 27.5% for the years ended December 31, 2014, 2013 and 2012, respectively. There were no material discrete tax items impacting the effective tax rate for full-year 2014. The tax rate for 2013 included a \$4 million discrete tax benefit for the 2012 U.S. Federal Research and Development Tax Credit (the “R&D tax credit”), that was recognized in January of 2013 when the tax credit was retroactively reinstated. Due to a change in tax law enacted in the state of California in the fourth quarter of 2012, the Company established a valuation allowance to partially offset its California Research & Development tax credit carryforward deferred tax asset, as the Company expects to continue to generate excess California Research & Development tax credits into the foreseeable future. However, the discrete tax impact of establishing the

valuation allowance was fully offset with a favorable discrete tax impact resulting from a decrease in the Company's effective state tax rate resulting from the California change in tax law, resulting in no material net impact to the Company's overall effective tax rate for the fourth quarter and full year ended December 31, 2012.

We currently estimate our full-year effective tax rate for 2015 to be approximately 26%. This estimate takes into consideration, among other things, the forecasted earnings mix by jurisdiction for 2015, and assumes that the R&D tax credit, which expired as of December 31, 2014, will be reinstated sometime during 2015. If the credit is not reinstated during 2015, we estimate our effective tax rate will be negatively impacted by approximately 80 basis points. For additional information, see "Note 4-Income Taxes" in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Revenue and Gross Margin by Operating Segment

Teradata has historically managed its business in two geographic regions, which are also the Company's operating segments: the Americas and International regions. Teradata believes this format is useful to investors because it allows analysis and comparability of operating trends by operating segment. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess our financial performance. The discussion of our segment results describes the changes in results as compared to the prior-year period.

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

	2014	% of Revenue	2013	% of Revenue	2012	% of Revenue
<i>In millions</i>						
Revenue						
Americas	\$ 1,619	59.3%	\$ 1,633	60.7%	\$ 1,619	60.8%
International	1,113	40.7%	1,059	39.3%	1,046	39.2%
Total revenue	\$ 2,732	100%	\$ 2,692	100%	\$ 2,665	100%
Gross margin						
Americas	\$ 943	58.2%	\$ 947	58.0%	\$ 967	59.7%
International	536	48.2%	526	49.7%	524	50.1%
Total gross margin	\$ 1,479	54.1%	\$ 1,473	54.7%	\$ 1,491	55.9%

Americas: Revenue decreased \$14 million or 1%, in 2014 from 2013, with an underlying 3% increase in services revenue offset by a 4% decrease in product revenue. The revenue decrease included a 1% adverse impact from foreign currency fluctuations. Gross margins were 58.2% for 2014, up from 58.0% in 2013.

In 2013, revenue increased \$14 million or 1% from 2012, with an underlying 7% increase in services revenue offset in part by a 4% decrease in product revenue. The revenue increase was not materially impacted by foreign currency fluctuations. Gross margins were 58.0% for 2013, down from 59.7% in 2012, as higher maintenance services margins and improved consulting services margins were more than offset by unfavorable revenue mix (a greater proportion of services revenue in relation to product revenue), compared to the prior-year period.

International: Revenue increased \$54 million or 5%, in 2014 from 2013. Product revenue increased by 8% and services revenue increased by 3%. The revenue increase included a 3% adverse impact from foreign currency fluctuations. Gross margins decreased to 48.2% in 2014, down from 49.7% in 2013, as improved consulting services and maintenance services margins were more than offset by lower product margin rates due to increased amortization of previously capitalized software and deal mix.

In 2013, revenue increased \$13 million or 1% from 2012, as a 7% increase in services revenue was largely offset by a 7% reduction in product revenue. The increase in services revenue was largely driven by revenue from the acquisition of eCircle. The revenue increase included a 3% adverse impact from foreign currency fluctuations. Gross margins decreased slightly to 49.7% in 2013, down from 50.1% in 2012, as improved consulting services and maintenance services margins were more than offset by a greater proportion of services (in relation to product revenue), compared to the prior-year period.

Changes in segment reporting. Beginning January 2015, the Company will change its operating segments and report future results as two new separate segments: (a) data and analytics and (b) marketing applications.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Teradata ended 2014 with \$834 million in cash and cash equivalents, a \$139 million increase from the December 31, 2013 balance, after using approximately \$551 million for repurchases of Company common stock, and approximately \$69 million for acquisitions and investment activities which were completed during the year. Cash provided by operating activities increased by \$170 million to \$680 million in 2014. The increase in cash provided by operating activities was primarily due to a positive change in working capital, largely driven by decreased receivables, along with a smaller decrease in current payables and accrued expenses as compared to the prior year.

Teradata's management uses a non-GAAP measure called "free cash flow," which is not a measure defined under accounting principles generally accepted in the United States of America ("GAAP"). We define free cash flow as net cash provided by operating activities less capital expenditures for property and equipment, and additions to capitalized software, as one measure of assessing the financial performance of the Company, and this may differ from the definition used by other companies. The components that are used to calculate free cash flow are GAAP measures taken directly from the Consolidated Statements of Cash Flows. We believe that free cash flow information is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures for, among other things, investments in the Company's existing businesses, strategic acquisitions and repurchase of Teradata common stock. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other non-discretionary expenditures that are not deducted from the measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP.

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

	2014	2013	2012
<i>In millions</i>			
Net income	\$367	\$377	\$419
Net cash provided by operating activities	\$680	\$510	\$575
Less:			
Expenditures for property and equipment	(54)	(60)	(67)
Additions to capitalized software	(75)	(78)	(81)
Free cash flow	\$551	\$372	\$427

Financing activities and certain other investing activities are not included in our calculation of free cash flow. In 2014 and 2013, these other investing activities primarily consisted of immaterial complementary business acquisitions and equity investment activities that were closed during these years. Other investing activities in 2012 primarily consisted of Teradata's acquisition of eCircle, as well as other smaller equity investment activities.

Teradata's financing activities for the years ended December 31, 2014 primarily consisted of cash outflows for share repurchases and \$220 million in proceeds from the Company's credit facility, as discussed below. Teradata's financing activities for the years ended December 31, 2013 and 2012 primarily consisted of cash outflows for share repurchases. The Company purchased 13 million shares of its common stock at an average price per share of \$43.09 in 2014, 7.8 million shares at an average price per share of \$48.53 in 2013 and 4.5 million shares at an average price per share of \$62.53 in 2012. Share repurchases were made under two share repurchase programs initially authorized by our Board of Directors in 2008. The first program (the "dilution offset program") authorizes the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan ("ESPP") to offset dilution from shares issued pursuant to these plans. On February 6, 2012, the board approved a new \$300 million share repurchase authorization to replace a prior \$300 million authorization under the Company's second share repurchase program (the "general share repurchase program"), that was to expire on February 10, 2012. Since February 2012 Teradata's board of directors has approved, in \$300 million increments, additional share repurchase authorizations for a total of \$1.2 billion under the Company's general share repurchase program on December 10, 2012, October 14, 2013, May 5, 2014 and December 18, 2014. As of December 31, 2014, the Company had \$394 million of authorization remaining under the general share repurchase program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. Our share repurchase activity depends on factors such as our working capital needs, our cash requirements for capital investments, our stock price, and economic and market conditions, as well as merger and acquisition opportunities. Proceeds from the ESPP and the exercise of stock options were \$29 million in 2014, \$28 million in 2013 and \$55 million in 2012. These proceeds are included in other financing activities, net in the Consolidated Statements of Cash Flows.

Our total cash and cash equivalents held outside the United States in various foreign subsidiaries was \$785 million as of December 31, 2014 and \$615 million as of December 31, 2013. The remaining balance held in the United States was \$49 million as of December 31, 2014 and \$80 million as of December 31, 2013. Under current tax laws and regulations, if cash and cash equivalents held outside the United States are distributed to the United States in the form of dividends or otherwise, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and potential foreign withholding taxes. As of December 31, 2014, we have not provided for the U.S. federal tax liability on approximately \$1 billion of foreign earnings that are considered permanently reinvested outside of the United States.

In June 2012, Teradata entered into a five-year revolving credit agreement (the “Credit Facility”), under which the Company may borrow up to \$300 million. The Credit Facility expires on June 15, 2017, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. The interest rate charged on borrowings pursuant to the Credit Facility can vary depending on the interest rate option the Company chooses to utilize and the Company’s leverage ratio at the time of the borrowing. The revolving credit facility carries a floating interest rate based on the London Interbank Offered Rate (“LIBOR”). The blended rate at December 31, 2014 was 1.14%. The Credit Facility is unsecured and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of December 31, 2014, the Company borrowed \$220 million under the Credit Facility to repurchase shares of the Company’s common stock, leaving \$80 million in additional borrowing capacity available. The Company was in compliance with all covenants at December 31, 2014.

In April 2011, Teradata entered into a \$300 million five-year unsecured term loan. The outstanding principal amount of the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus in each case a margin based on the leverage ratio of the Company. As of December 31, 2014, the term loan principal outstanding was \$248 million, and carries an interest rate of 1.1875%. The Company anticipates refinancing and increasing its existing term loan in the first quarter of 2015, to fund share repurchases and to replenish its capacity under the Credit Facility.

Management believes current cash, cash flows from operations and its \$80 million available under the Credit Facility will be sufficient to satisfy future working capital, research and development activities, capital expenditures, pension contributions, and other financing requirements for at least the next twelve months. The Company principally holds its cash and cash equivalents in bank deposits and highly-rated money market funds.

The Company’s ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described elsewhere in this Annual Report. If the Company is unable to generate sufficient cash flows from operations, or otherwise to comply with the terms of the credit facility and term loan agreement, the Company may be required to seek additional financing alternatives.

Contractual and Other Commercial Commitments. In the normal course of business, we enter into various contractual obligations that impact, or could impact, our liquidity. The following table and discussion outlines our material obligations at December 31, 2014, with projected cash payments in the periods shown:

	Total Amounts	2015	2016-2017	2018-2019	2020 and Thereafter
<i>In millions</i>					
Principal payments on long-term debt	\$ 248	\$ 53	\$ 195	\$ –	\$ –
Interest payments on long-term debt	4	3	1	–	–
Principal payments on short-term debt	220	220	–	–	–
Lease obligations	79	23	33	16	7
Purchase obligations	9	6	3	–	–
Total debt, lease and purchase obligations	\$ 560	\$ 305	\$ 232	\$ 16	\$ 7

Our principal payments on long-term debt represent the expected cash payments on our \$300 million term loan and do not include any fair value adjustments or discounts and premiums. Our interest payments on long-term debt represent the estimated cash interest payments based on the prevailing interest rate on our \$300 million term loan as of December 31, 2014. Our principal payments on short-term debt represent the expected cash payment on our \$300 million Credit Facility, of which \$220 million is currently outstanding. Our lease obligations in the above table include Company facilities in various domestic and international locations. Purchase obligations are committed purchase orders and other contractual commitments for goods and services, and include non-cancelable contractual payments for fixed or minimum amounts to be purchased in relation to service agreements with various vendors for ongoing telecommunications, information technology, hosting and other services.

Additionally, the Company has \$18 million in total uncertain tax positions recorded as non-current liabilities on its balance sheet as of December 31, 2014. These items are not included in the table of obligations shown above. The settlement period for these income tax liabilities cannot be reasonably estimated as the timing and the amount of the payments, if any, will depend on possible future tax examinations with the various tax authorities; however, it is not expected that any payments will be due within the next 12 months.

We also have product warranties and guarantees to third parties, as well as postemployment and international pension obligations that may affect future cash flow. These items are not included in the table of obligations shown above. Product warranties and third-party guarantees are described in detail in “Note 8-Commitments and Contingencies” in the Notes to Consolidated Financial Statements. Postemployment and pension obligations are described in detail in “Note 6-Employee Benefit Plans” in the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements. We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition

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

The Company reviews the relative selling price on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company’s recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company’s management. For the year ended December 31, 2014 there was no material impact to revenue resulting from changes in the relative selling price, nor does the Company expect a material impact from such changes in the near term.

Capitalized Software

Costs incurred internally in researching and developing a computer software product is charged to expense until technological feasibility has been established. Technological feasibility is established when planning, designing and initial coding activities that are necessary to establish the product can be produced to meet its design specifications are complete. In the absence of a detailed program design, a working model is used to establish technological feasibility. Once technological feasibility is established, all development costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. The timing of when various research and development projects become technologically feasible or ready for release can cause fluctuation in the amount of research and development costs that are expensed or capitalized in any given period, thus impacting our reported profitability for that period.

Income Taxes

In accounting for income taxes, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized.

The Company's intention is to permanently reinvest its foreign earnings outside of the United States. As a result, the effective tax rates are largely based upon the pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business. These jurisdictions apply a broad range of statutory income tax rates; the U.S. statutory corporate income tax rate is currently 35% as compared to the overall statutory effective tax rate of our various foreign jurisdictions of approximately 12%. As of December 31, 2014, the Company has not provided for federal income taxes on earnings of approximately \$1 billion from its foreign subsidiaries.

We account for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We record any interest and/or penalties related to uncertain tax positions in the income tax expense line on our Consolidated Statements of Income. As of December 31, 2014, the Company has a total of \$36 million of unrecognized tax benefits, of which \$18 million is included in the other liabilities section of the Company's consolidated balance sheet and \$3 million is recorded in other current liabilities in income taxes payable as the Company expects to settle this uncertain tax position within the next twelve months. The remaining balance of \$15 million of unrecognized tax benefits relates to certain tax attribute carryforwards both generated by the Company and acquired in various acquisitions, which are netted against the underlying deferred tax assets recorded on the balance sheet.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. We had \$20 million and \$13 million recorded in valuation allowances as of December 31, 2014 and 2013, respectively. Due to a change in tax law enacted in the state of California in the fourth quarter of 2012, the Company established a valuation allowance to partially offset its California Research & Development tax credit carryforward deferred tax asset, as the Company expects to continue to generate excess California Research & Development tax credits into the foreseeable future. However, the discrete tax impact of establishing the valuation allowance was fully offset with a favorable discrete tax impact resulting from a decrease in the Company's effective state tax rate resulting from the California change in tax law, resulting in no material net impact to the Company's overall effective tax rate for the fourth quarter and full year ended December 31, 2012.

Stock-based Compensation

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

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

Goodwill and Other Intangible Assets

The company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The guidance on goodwill impairment requires the company to perform a two-step impairment test. In the first step, the company compares the fair value of each reporting unit to its carrying value. The company determines the fair value of its reporting units based on the income approach. Under the income approach, the company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the company records an impairment loss equal to the difference. Teradata reviewed four reporting units in its 2014 goodwill impairment assessment, as each geographic operating segment consisted of separate reporting units for data warehouse and application software activities.

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

Additionally, the acquisition method of accounting for business combinations requires the company to estimate the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree to properly allocate any excess purchase price consideration between net assets and goodwill. Impairment testing for assets, other than goodwill, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. The company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

The annual goodwill impairment analysis, which the company performed during the fourth quarter of 2014, did not result in an impairment charge. However, our applications business experienced lower than forecasted revenue and margins in 2014. As a result, the applications reporting units are at greater risk for impairment if actual results differ from projections. The fair value of the Americas applications reporting unit exceeded its carrying value by 68%. The amount of goodwill allocated to this reporting unit was \$396 million. The fair value of the other three reporting units substantially exceeded their carrying value.

There were also no impairment charges recognized in 2014 as a result of assessments of intangible assets acquired as a result of business combinations (or otherwise purchased from other companies). As of December 31, 2014, Teradata had \$948 million in goodwill and \$136 million in acquired intangible assets on its consolidated balance sheet.

Pension and Postemployment Benefits

We have pension and postemployment benefit costs and credits, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions we make about interest rates, expected investment return on plan assets, total and involuntary turnover rates, and rates of future compensation increases. In addition, our actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop our valuations. We review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that we use may differ materially

from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the measurement of our pension and postemployment benefit obligations, and to the amount of pension and postemployment benefits expense we have recorded or may record. For example, as of December 31, 2014, a one-half percent increase/decrease in the discount rate would change the projected benefit obligation of our pension plans by approximately \$6 million, and a one-half percent increase/decrease in our involuntary turnover assumption would change our postemployment benefit obligation by approximately \$16 million.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company employs a foreign currency hedging strategy to limit potential losses in earnings or cash flows from adverse foreign currency exchange rate movements. Foreign currency exposures arise from transactions denominated in a currency other than the Company’s functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary currencies to which the Company is exposed include the euro, the British pound, the Japanese yen, the Australian dollar, the Canadian dollar and other Asian and South American currencies. Exposures are hedged with foreign currency forward contracts with maturity dates of twelve months or less. The potential loss in fair value at December 31, 2014, for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately \$2 million. This loss would be mitigated by corresponding gains on the underlying exposures. For additional information regarding the Company’s foreign currency hedging strategy, see “Note 7-Derivative Instruments and Hedging Activities” in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

REPORTS OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of Teradata's internal control over financial reporting as of the end of the period covered by this report. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013). Based on our assessment and those criteria, management concluded that Teradata's internal control over financial reporting was effective as of December 31, 2014.

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



Michael F. Koehler
Chief Executive Officer



Stephen M. Scheppmann
Executive Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF TERADATA CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Teradata Corporation and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the accompanying financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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



Atlanta, GA

February 27, 2015

CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31	2014	2013	2012
<i>In millions, except per share amounts</i>			
Revenue			
Product revenue	\$1,227	\$1,230	\$1,297
Service revenue	1,505	1,462	1,368
Total revenue	2,732	2,692	2,665
Costs and operating expenses			
Cost of products	443	433	416
Cost of services	810	786	758
Selling, general and administrative expenses	770	757	728
Research and development expenses	206	184	183
Total costs and operating expenses	2,229	2,160	2,085
Income from operations	503	532	580
Other expense, net	(9)	(24)	(2)
Income before income taxes	494	508	578
Income tax expense	127	131	159
Net income	\$ 367	\$ 377	\$ 419
Net income per common share			
Basic	\$ 2.36	\$ 2.31	\$ 2.49
Diluted	\$ 2.33	\$ 2.27	\$ 2.44
Weighted average common shares outstanding			
Basic	155.3	163.4	168.2
Diluted	157.8	166.4	171.7

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended December 31	2014	2013	2012
<i>In millions</i>			
Net income	\$367	\$377	\$419
Other comprehensive income:			
Foreign currency translation adjustments	(47)	2	9
Securities:			
Unrealized gain on securities, before tax	50	–	–
Unrealized gain on securities, tax portion	(19)	–	–
Unrealized gain on securities, net of tax	31	–	–
Defined benefit plans:			
Defined benefit plan adjustment, before tax	(28)	2	7
Defined benefit plan adjustment, tax portion	7	–	(3)
Defined benefit plan adjustment, net of tax	(21)	2	4
Other comprehensive (loss) income	(37)	4	13
Comprehensive income	\$330	\$381	\$432

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

CONSOLIDATED BALANCE SHEETS

At December 31	2014	2013
<i>In millions, except per share amounts</i>		
Assets		
Current Assets		
Cash and cash equivalents	\$ 834	\$ 695
Accounts receivable, net	619	717
Inventories	38	56
Other current assets	81	95
Total current assets	1,572	1,563
Property and equipment, net	159	161
Capitalized software, net	199	195
Goodwill	948	946
Acquired intangible assets, net	136	149
Deferred income taxes	20	24
Other assets	98	58
Total assets	\$3,132	\$3,096
Liabilities and stockholders' equity		
Current liabilities		
Current portion of long-term debt	\$ 53	\$ 26
Short-term borrowings	220	—
Accounts payable	126	114
Payroll and benefits liabilities	125	136
Deferred revenue	370	390
Other current liabilities	101	110
Total current liabilities	995	776
Long-term debt	195	248
Pension and other postemployment plan liabilities	99	76
Long-term deferred revenue	18	25
Deferred tax liabilities	86	87
Other liabilities	32	27
Total liabilities	1,425	1,239
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at December 31, 2014 and 2013, respectively	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 147.9 and 190.9 shares issued at December 31, 2014 and 2013, respectively	1	2
Paid-in capital	1,054	973
Treasury stock: 0.0 and 31.6 shares at December 31, 2014 and 2013, respectively	—	(1,184)
Retained earnings	656	2,033
Accumulated other comprehensive (loss) income	(4)	33
Total stockholders' equity	1,707	1,857
Total liabilities and stockholders' equity	\$3,132	\$3,096

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31	2014	2013	2012
<i>In millions</i>			
Operating activities			
Net income	\$ 367	\$ 377	\$ 419
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	169	147	126
Stock-based compensation expense	50	49	43
Excess tax benefit from stock-based compensation	(2)	(7)	(37)
Deferred income taxes	(2)	18	77
Loss on investments	9	25	–
Changes in assets and liabilities:			
Receivables	101	(46)	(165)
Inventories	18	(9)	14
Current payables and accrued expenses	(23)	(63)	105
Deferred revenue	(28)	9	42
Other assets and liabilities	21	10	(49)
Net cash provided by operating activities	680	510	575
Investing activities			
Expenditures for property and equipment	(54)	(60)	(67)
Additions to capitalized software	(75)	(78)	(81)
Business acquisitions and other investing activities, net	(69)	(36)	(274)
Net cash used in investing activities	(198)	(174)	(422)
Financing activities			
Proceeds from short-term borrowings	220	–	–
Repayments of long-term borrowings	(26)	(15)	(11)
Repurchases of common stock	(551)	(382)	(277)
Excess tax benefit from stock-based compensation	2	7	37
Other financing activities, net	29	28	55
Net cash used in financing activities	(326)	(362)	(196)
Effect of exchange rate changes on cash and cash equivalents	(17)	(8)	–
Increase (decrease) in cash and cash equivalents	139	(34)	(43)
Cash and cash equivalents at beginning of year	695	729	772
Cash and cash equivalents at end of year	\$ 834	\$ 695	\$ 729
Supplemental data			
Cash paid during the year for:			
Income taxes	\$ 133	\$ 124	\$ 54
Interest	\$ 3	\$ 4	\$ 4

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Treasury Stock		Paid-in Capital	Retained Earnings	Accumulated Other	Total
	Shares	Amount	Shares	Amount			Comprehensive Income (Loss)	
<i>In millions</i>								
December 31, 2011	187	\$ 2	(19)	\$ (526)	\$ 765	\$ 1,237	\$ 16	\$ 1,494
Net income						419		419
Employee stock compensation, employee stock purchase programs and option exercises	3				95			95
Income tax benefit from stock compensation plans					38			38
Purchases of treasury stock, not retired			(5)	(280)				(280)
Pension and postemployment benefit plans, net of tax							4	4
Currency translation adjustment							9	9
December 31, 2012	190	\$ 2	(24)	\$ (806)	\$ 898	\$ 1,656	\$ 29	\$ 1,779
Net income						377		377
Employee stock compensation, employee stock purchase programs and option exercises	1				68			68
Income tax benefit from stock compensation plans					7			7
Purchases of treasury stock, not retired			(8)	(378)				(378)
Pension and postemployment benefit plans, net of tax							2	2
Currency translation adjustment							2	2
December 31, 2013	191	\$ 2	(32)	\$ (1,184)	\$ 973	\$ 2,033	\$ 33	\$ 1,857
Net income						367		367
Employee stock compensation, employee stock purchase programs and option exercises	2	(1)			78			77
Income tax benefit from stock compensation plans					3			3
Retirement of common stock previously held as treasury stock	(32)		32	1,184		(1,184)		–
Repurchases of Company common stock, retired	(13)					(560)		(560)
Pension and postemployment benefit plans, net of tax							(21)	(21)
Unrealized gain on securities							31	31
Currency translation adjustment							(47)	(47)
December 31, 2014	148	\$ 1	–	\$ –	\$ 1,054	\$ 656	\$ (4)	\$ 1,707

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of the Business. Teradata Corporation (“Teradata” or “the Company”) is a global leader in analytic data platforms, marketing and analytic applications, and related services. The Company’s analytic data platforms are comprised of software, hardware, and related business consulting and support services for data warehousing, and big data analytics.

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

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. On an ongoing basis, management evaluates these estimates and judgments, including those related to allowances for doubtful accounts, the valuation of inventory to net realizable value, impairments, stock-based compensation, pension and other postemployment benefits, and income taxes and any changes will be accounted for on a prospective basis. Actual results could differ from those estimates.

Revenue Recognition. Teradata’s solution offerings typically include software, software subscriptions (unspecified when-and-if-available upgrades), hardware, maintenance support services, and other consulting, implementation and installation-related (“consulting”) services. Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when:

- Persuasive evidence of an arrangement exists
- The products or services have been delivered to the customer
- The sales price is fixed or determinable and free of contingencies or significant uncertainties
- Collectibility is reasonably assured

Teradata reports revenue net of any taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The Company assesses whether fees are fixed or determinable at the time of sale. Standard payment terms may vary based on the country in which the agreement is executed, but are generally between 30 days and 90 days. Payments that are due within six months are generally deemed to be fixed or determinable based on a successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors and distributors, and value-added resellers (collectively referred to as “resellers”). In assessing whether the sales price to a reseller is fixed or determinable, the Company considers, among other things, past business practices with the reseller, the reseller’s operating history, payment terms, return rights and the financial wherewithal of the reseller. When Teradata determines that the contract fee to a reseller is not fixed or determinable, that transaction is deferred and recognized upon sell-through to the end customer.

The Company’s deliverables often involve delivery or performance at different periods of time. Revenue for software is generally recognized upon delivery with the hardware once title and risk of loss have been transferred. Revenue for software subscriptions, which provide for unspecified upgrades or enhancements on a when-and-if-available basis, is recognized straight-line over the term of the subscription arrangement. Revenue for maintenance support services is also recognized on a straight-line basis over the term of the contract. Revenue for other consulting, implementation and installation services is recognized as services are provided. In certain instances, acceptance of the product or service is specified by the customer. In such cases, revenue is deferred until the acceptance criteria have been met. Delivery and acceptance generally occur in the same reporting period. The Company’s arrangements generally do not include any customer negotiated provisions for cancellation, termination or refunds that would significantly impact recognized revenue.

The Company evaluates all deliverables in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the control of Teradata. Most of the Company’s products and services qualify as separate units of accounting and are recognized upon meeting the criteria as described above.

For multiple deliverable arrangements that contain non-software related deliverables, the Company allocates revenue to each deliverable based upon the relative selling price hierarchy and if software and software-related deliverables are also included in the arrangement, to those deliverables as a group based on the best estimate of selling price (“BESP”) for the group. The selling price for a deliverable is based on its vendor-specific objective evidence of selling price (“VSOE”) if available, third-party evidence of selling price (“TPE”) if VSOE is not available, or BESP if neither VSOE nor TPE is available. The Company then recognizes revenue when the remaining revenue recognition criteria are met for each deliverable. For the software group or arrangements that contain only software and software-related deliverables, the revenue is allocated utilizing the residual or fair value method. Under the residual method, the VSOE of the undelivered elements is deferred and accounted for under the applicable revenue recognition guidance, and the remaining portion of the software arrangement fee is allocated to the delivered elements and is recognized as revenue. The fair value method is similar to the relative selling price method used for non-software deliverables except that the allocation of each deliverable is based on VSOE. For software groups or arrangements that contain only software and software-related deliverables in which VSOE does not exist for each deliverable (fair value method) or does not exist for each undelivered element (residual method), revenue for the entire software arrangement or group is deferred and not recognized until delivery of all elements without VSOE has occurred, unless the only undelivered element is postcontract customer support (“PCS”) in which case the entire software arrangement or group is recognized ratably over the PCS period.

Teradata’s analytic database software and hardware products are sold and delivered together in the form of a “Node” of capacity as an integrated technology solution. Because both the analytic database software and hardware platform are necessary to deliver the analytic data platform’s essential functionality, the database software and hardware (Node) are excluded from the software rules and considered a non-software related deliverable. Teradata software applications and related support are considered software-related deliverables. Additionally, the amount of revenue allocated to the delivered items utilizing the relative selling price or fair value method is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).

VSOE is based upon the normal pricing and discounting practices for those products and services when sold separately. Teradata uses the stated renewal rate approach in establishing VSOE for maintenance and subscriptions (collectively referred to as PCS). Under this approach, the Company assesses whether the contractually stated renewal rates are substantive and consistent with the Company’s normal pricing practices. Renewal rates greater than the lower level of our targeted pricing ranges are considered to be substantive and, therefore, meet the requirements to support VSOE. In instances where there is not a substantive renewal rate in the arrangement, the Company allocates revenue based upon BESP, using the minimum established pricing targets as supported by the renewal rates for similar customers utilizing the bell-curve method. Teradata also offers consulting and installation-related services to its customers, which are considered non-software deliverables if they relate to the nodes. These services are rarely considered essential to the functionality of the data warehouse solution deliverable and there is never software customization of the proprietary database software. VSOE for consulting services is based on the hourly rates for standalone consulting services projects by geographic region and are indicative of the Company’s customary pricing practices. Pricing in each market is structured to obtain a reasonable margin based on input costs.

In nearly all multiple-deliverable arrangements, the Company is unable to establish VSOE for all deliverables in the arrangement. This is due to infrequently selling each deliverable separately (such is the case with our nodes), not pricing products or services within a narrow range, or only having a limited sales history. When VSOE cannot be established, attempts are made to establish TPE of the selling price for each deliverable. TPE is determined based on competitor prices for similar deliverables when sold separately. However, Teradata’s offerings contain significant differentiation such that the comparable pricing of products with similar functionality cannot typically be obtained. This is because Teradata’s products contain a significant amount of proprietary technology and its solutions offer substantially different features and functionality than other available products. As Teradata’s products are significantly different from those of its competitors, the Company is unable to establish TPE for the vast majority of its products.

When the Company is unable to establish selling prices using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service was sold on a standalone basis. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, product life cycles, competitive landscape, internal costs, gross margin objectives, purchase volumes and pricing practices.

The primary consideration in developing BESP for the Company’s nodes is the bell-curve method based on historical transactions. The BESP analysis is at the geography level in order to align it with the way in which the Company goes to market and establishes pricing for its products. The Company has established discount ranges off of published list prices for different

geographies based on strategy and maturity of Teradata's presence in the respective geography. There are distinctions in each geography and product group which support the use of geographies and markets for the determination of BESP. For example, the Company's U.S. market is relatively mature and most of the large transactions are captured in this market, whereas the International markets are less mature with generally smaller deal size. Additionally, the prices and margins for the Company's products vary by geography and by product class. BESP is analyzed on a quarterly basis using data from the 4 previous quarters, which the Company believes best reflects most recent pricing practices in a changing marketplace.

The Company reviews VSOE, TPE and its determination of BESP on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company's recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company's management. For the year ended December 31, 2014 there was no material impact to revenue resulting from changes in VSOE, TPE or BESP, nor does the Company expect a material impact from such changes in the near term.

Perpetual licenses, term licenses, hosting arrangements and software as a service. Teradata's application offerings include perpetual licenses, term licenses, hosting arrangements and software as a service. For software arrangements that include a perpetual license, the residual method is typically used because the Company does not have VSOE for its perpetual licenses. This is because the perpetual license is never sold standalone. If the license is of limited life and does not require the Company to host the software for the customer, the software is considered a term license. Teradata's term licenses are typically offered for application software and include a right-to-use license, PCS and consulting services. The revenue for these arrangements are typically recognized ratably over the contract term. The term of these arrangements varies between one and five years and may or may not include hosting services. In most arrangements the pricing is bundled to the customer. If the term license is hosted, the customer has the right to take possession of the software at any time during the hosting period. The customer's rights to the software in these circumstances are not dependent on additional software payments or significant penalties, and the customer can feasibly run the software on its own hardware or contract with another party to host the software. If these criteria are not met, the hosting arrangement is accounted for outside the software rules as a software as a service arrangement. Under a software as a service arrangement, the license, PCS and hosting fee are recognized ratably over the term of the contract.

Shipping and Handling. Product shipping and handling costs are included in cost of products in the Consolidated Statements of Income.

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

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

Inventories. Inventories are stated at the lower of cost or market. Cost of service parts is determined using the average cost method. Finished goods inventory is determined using actual cost.

Available-for-sale Securities. Available-for-sale securities are reported at fair value. Unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income. Realized gains and losses are included in other income and expense in the Consolidated Statements of Income. Teradata's available-for-sale securities are for affiliation and other continuing business advantage and therefore recorded under non-current other assets in the Consolidated Balance Sheets.

Long-Lived Assets

Property and Equipment. Property and equipment, leasehold improvements and rental equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the related assets primarily on a straight-line basis. Equipment is depreciated over 3 to 20 years and buildings over 25 to 45 years. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter. Total depreciation expense on the Company's property and equipment for December 31 was as follows:

	2014	2013	2012
<i>In millions</i>			
Depreciation expense	\$ 51	\$ 48	\$ 41

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

Costs incurred for the development of big data, marketing and analytic applications are expensed as incurred based on the frequency and agile nature of development. Costs incurred for the development of data warehousing software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. Technological feasibility is established when planning, designing and initial coding activities that are necessary to establish the product can be produced to meet its design specifications. In the absence of a program design, a working model is used to establish technological feasibility. These costs are included within capitalized software and are amortized over the estimated useful lives of four years using the greater of the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product beginning when the product is available for general release. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility and after general release are expensed as incurred. The following table identifies the activity relating to capitalized software:

	Internal-use Software			External-use Software		
	2014	2013	2012	2014	2013	2012
<i>In millions</i>						
Beginning balance at January 1	\$12	\$12	\$11	\$183	\$161	\$129
Capitalized	7	6	6	68	72	75
Amortization	(6)	(6)	(5)	(65)	(50)	(43)
Ending balance at December 31	\$13	\$12	\$12	\$186	\$183	\$161

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

	Actual	For the year ended (estimated)				
	2014	2015	2016	2017	2018	2019
<i>In millions</i>						
Internal-use software amortization expense	\$ 6	\$ 5	\$ 4	\$ 3	\$ 1	\$—
External-use software amortization expense	\$65	\$67	\$55	\$38	\$20	\$6

Estimated expense is based on capitalized software at December 31, 2014 and does not include any new capitalization for future periods.

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

Goodwill. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment annually or upon occurrence of an event or change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company performs its annual goodwill impairment testing in the fourth quarter, and did not recognize any goodwill impairment charges in 2014, 2013 or 2012.

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

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

Pension and Postemployment Benefits. The Company accounts for its pension and postemployment benefit obligations using actuarial models. The measurement of plan obligations was made as of December 31, 2014. Liabilities are computed using the projected unit credit method. The objective under this method is to expense each participant's benefits under the plan as they accrue, taking into consideration salary increases and the plan's benefit allocation formula. Thus, the total pension or postemployment benefit to which each participant is expected to become entitled is broken down into units, each associated with a year of past or future credited service.

The Company recognizes the funded status of its pension and postemployment plan obligations in its consolidated balance sheet and records in other comprehensive income certain gains and losses that arise during the period, but are deferred under pension accounting rules.

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

Income Taxes. Income tax expense is provided based on income before income taxes in the various jurisdictions in which the Company conducts its business. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are determined based on the enacted tax rates expected to apply in the periods in which the deferred assets or liabilities are expected to be settled or realized. Teradata recognizes tax benefits from uncertain tax positions only if it is more likely than not the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company records valuation allowances related to its deferred income tax assets when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Stock-based Compensation. Stock-based payments to employees, including grants of stock options, restricted stock and restricted stock units, are recognized in the financial statements based on their fair value. The fair value of each stock option award on the grant date is estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield, expected stock price volatility, weighted-average risk-free interest rate and weighted average expected term of the options. The Company's expected volatility assumption used in the Black-Scholes option-pricing model is based on Teradata's historical volatility. Prior to 2014, because the Company did not have a sufficient trading history as a stand-alone public company, the volatility was based on a blend of peer group volatility and Teradata volatility. The expected term assumption is based on the simplified method under GAAP, which is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate used in the Black-Scholes model is based on the implied yield curve available on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the Company's expected term assumption. The Company has never declared or paid a cash dividend.

Treasury Stock. Prior to the fourth quarter of 2014, when all treasury stock shares were retired, shares of the Company's common stock repurchased through the share repurchase programs were held as treasury stock. Treasury stock was accounted for using the cost method. Beginning in the fourth quarter of 2014, stock repurchased through the share repurchase programs will be retired upon repurchase. The excess repurchase price over the par value is charged to retained earnings.

Earnings Per Share. Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted-average number of shares outstanding includes the dilution from potential shares added from stock options, restricted stock awards and other stock awards. Refer to Note 5 for share information on the Company's stock compensation plans.

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

For the year ended December 31	2014	2013	2012
<i>In millions, except earnings per share</i>			
Net income available for common stockholders	\$ 367	\$ 377	\$ 419
Weighted average outstanding shares of common stock	155.3	163.4	168.2
Dilutive effect of employee stock options and restricted stock	2.5	3.0	3.5
Common stock and common stock equivalents	157.8	166.4	171.7
Earnings per share:			
Basic	\$ 2.36	\$ 2.31	\$ 2.49
Diluted	\$ 2.33	\$ 2.27	\$ 2.44

Options to purchase 2.4 million and 0.9 million shares of common stock for the years ended December 31, 2014 and 2013, respectively, were not included in the computation of diluted earnings per share because their exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive. No stock options were excluded from the computation of diluted earnings per share for the year ended December 31, 2012.

Recently Issued Accounting Pronouncements

Revenue Recognition. In May 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The new guidance will supersede the revenue recognition requirements in the current revenue recognition guidance, and most industry-specific guidance. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in this update. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the FASB defines a five step process which includes the following: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early application not permitted. The standard allows entities to apply the standard retrospectively for all periods presented or alternatively an entity is permitted to recognize the cumulative effect of initially applying the guidance as an opening balance sheet adjustment to retained earnings in the period of initial application. The Company is currently evaluating the impact on its consolidated financial position, results of operations and cash flows, as well as the method of transition that will be used in adopting the standard.

Accounting for Share-based Payments with Performance Targets. In June 2014, the FASB issued new guidance that requires that a performance target that affects vesting and that could be achieved after the requisite service period, be treated as a performance condition. A reporting entity should apply existing guidance as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The amendments in this update are effective for annual periods, and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company is currently evaluating the impact on its consolidated financial position, results of operations and cash flows.

Recently Adopted Guidance

Income Taxes. In July 2013, the FASB issued new guidance requiring the financial statement presentation of an unrecognized tax benefit in a particular jurisdiction, or a portion thereof, as a reduction to a deferred tax asset for a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward, unless the uncertain tax position is not available to reduce, or would not be used to reduce, the NOL or carryforward under the tax law in the same jurisdiction; otherwise, the unrecognized tax benefit

should be presented as a gross liability and should not be combined with a deferred tax asset. This new guidance is effective for interim and annual periods beginning after December 15, 2013. On January 1, 2014, the Company adopted the new guidance which did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Business Combinations. In November 2014, the FASB issued new guidance that will provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. The amendments in this update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The adoption of this new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2: Supplemental Financial Information

At December 31	2014	2013
<i>In millions</i>		
Accounts receivable		
Trade	\$ 635	\$ 731
Other	3	4
Accounts receivable, gross	638	735
Less: allowance for doubtful accounts	(19)	(18)
Total accounts receivable, net	\$ 619	\$ 717
Inventories		
Finished goods	\$ 21	\$ 39
Service parts	17	17
Total inventories	\$ 38	\$ 56
Other current assets		
Current deferred tax assets	\$ 28	\$ 34
Other	53	61
Total other current assets	\$ 81	\$ 95
Property and equipment		
Land	\$ 8	\$ 8
Buildings and improvements	77	74
Machinery and other equipment	341	309
Property and equipment, gross	426	391
Less: accumulated depreciation	(267)	(230)
Total property and equipment, net	\$ 159	\$ 161
Other assets		
Available-for-sale securities	\$ 78	\$ –
Other	20	58
Total other assets	\$ 98	\$ 58
Other current liabilities		
Sales and value-added taxes	\$ 40	\$ 34
Other	61	76
Total other current liabilities	\$ 101	\$ 110
Deferred revenue		
Deferred revenue, current	\$ 370	\$ 390
Long-term deferred revenue	18	25
Total deferred revenue	\$ 388	\$ 415

NOTE 3: Goodwill and Acquired Intangible Assets

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

	Balance December 31, 2013	Additions	Currency Translation Adjustments	Balance December 31, 2014
<i>In millions</i>				
Goodwill				
Americas	\$626	\$30	\$ (2)	\$654
International	320	–	(26)	294
Total goodwill	\$946	\$30	\$(28)	\$948

The change in goodwill for the year ended December 31, 2014 was primarily due to immaterial complementary acquisitions that were completed during the period, which was offset by the impact of currency translation adjustments. See Note 12 for additional information on the Company's business acquisitions. In the fourth quarter of 2014, the Company performed its annual impairment test of goodwill and determined that no impairment to the carrying value of goodwill was necessary, as the fair value of each reporting unit exceeded their respective carrying amounts, including goodwill. Teradata reviewed four reporting units in its 2014 goodwill impairment assessment, as both geographic operating segments consisted of separate reporting units for data warehouse and application software activities.

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

	Amortization Life (in Years)	December 31, 2014		December 31, 2013	
		Gross Carrying Amount	Accumulated Amortization and Currency Translation Adjustments	Gross Carrying Amount	Accumulated Amortization and Currency Translation Adjustments
<i>In millions</i>					
Acquired intangible assets					
Intellectual property/developed technology	1 to 7	\$186	\$ (95)	\$153	\$ (70)
Customer relationships	3 to 10	77	(35)	77	(23)
Trademarks/trade names	5	1	(1)	15	(7)
In-process research and development	5	5	(2)	5	(1)
Non-compete agreements	3	–	–	1	(1)
Total		\$269	\$(133)	\$251	\$(102)

The gross carrying amount of acquired intangible assets increased by \$39 million with the addition of newly acquired intangible assets associated with immaterial acquisitions. This was partially offset by \$21 million for certain intangible assets previously acquired that became fully amortized and were removed from the balance sheet.

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

	Actual			For the year ended (estimated)				
	2012	2013	2014	2015	2016	2017	2018	2019
<i>In millions</i>								
Amortization expense	\$37	\$44	\$47	\$43	\$34	\$25	\$14	\$11

NOTE 4: INCOME TAXES

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

	2014	2013	2012
<i>In millions</i>			
Income before income taxes			
United States	\$ 301	\$ 362	\$ 388
Foreign	193	146	190
Total income before income taxes	\$ 494	\$ 508	\$ 578

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

	2014	2013	2012
<i>In millions</i>			
Income tax expense			
Current			
Federal	\$ 94	\$ 78	\$ 50
State and local	8	10	9
Foreign	27	26	23
Deferred			
Federal	1	18	72
State and local	—	2	7
Foreign	(3)	(3)	(2)
Total income tax expense	\$ 127	\$ 131	\$ 159
Effective tax rate	25.7%	25.8%	27.5%

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:

	2014	2013	2012
Income tax expense at the U.S. federal tax rate	35.0%	35.0%	35.0%
Foreign income tax differential	(9.0%)	(7.3%)	(8.1%)
State and local income taxes	0.5%	0.4%	0.7%
U.S. permanent book/tax differences	(1.7%)	(1.6%)	(0.5%)
Other, net	0.9%	(0.7%)	0.4%
Effective tax rate	25.7%	25.8%	27.5%

There were no material discrete tax items impacting the effective tax rate for 2014; the 2013 effective tax rate included a \$4 million discrete tax rate benefit related to the 2012 U.S. Federal Research and Development (“R&D”) Tax Credit, which was retroactively reinstated in the first quarter of 2013. The rate differential resulting from the higher foreign earnings mix in 2014 versus 2013 effectively offset the one-time discrete benefit reflected in the 2013 effective tax rate, resulting in comparable effective tax rates over both periods.

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

	2014	2013
<i>In millions</i>		
Deferred income tax assets		
Employee pensions and other liabilities	\$ 61	\$ 57
Other balance sheet reserves and allowances	22	22
Tax loss and credit carryforwards	59	41
Deferred revenue	—	2
Capitalized research and development	—	5
Other	—	1
Total deferred income tax assets	142	128
Valuation allowance	(20)	(13)
Net deferred income tax assets	122	115
Deferred income tax liabilities		
Intangibles and capitalized software	102	117
Property and equipment	29	29
Deferred revenue	17	—
Other	12	—
Total deferred income tax liabilities	160	146
Total net deferred income tax liabilities	\$ (38)	\$ (31)

As of December 31, 2014, Teradata has NOL and tax credit carryforwards totaling \$70 million (tax effected and before any valuation allowance offset and application of recognition criteria for uncertain tax positions). Of the total tax carryforwards, \$18 million are NOLs in the U.S. and certain foreign jurisdictions, a small portion of which will begin to expire in 2015; \$10 million is a U.S. capital loss carryforward which expires in 2019; \$31 million are R&D tax credits, of which almost 90 percent are California R&D tax credits that have an indefinite carryforward period (which has a \$20 million valuation allowance offset recorded); and the remaining \$11 million are tax attributes that were acquired from various acquisitions and were not recorded for financial reporting purposes as they did not meet the recognition criteria for uncertain tax positions.

The Company's intention is to permanently reinvest its foreign earnings outside of the U.S. As a result, the effective tax rates in the periods presented are largely based upon the pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business; these jurisdictions apply a broad range of statutory income tax rates. At December 31, 2014, the Company had not provided for federal income taxes on earnings of approximately \$1 billion from its foreign subsidiaries. Should these earnings be distributed in the form of dividends or otherwise, the Company would be subject to U.S. income taxes and potential withholding taxes in various international jurisdictions. The U.S. taxes would be partially offset by U.S. foreign tax credits. Determination of the amount of unrecognized deferred U.S. tax liability is not practical because of the complexities associated with this hypothetical calculation.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company reflects any interest and penalties recorded in connection with its uncertain tax positions as a component of income tax expense.

As of December 31, 2014, the Company's uncertain tax positions totaled approximately \$36 million, of which \$18 million is reflected in the other liabilities section of the Company's balance sheet as a non-current liability, and \$3 million is recorded in current income taxes payable as the Company expects to settle this uncertain tax position within the next twelve months. The remaining balance of \$15 million of uncertain tax positions relates to certain tax attributes both generated by the Company and acquired in various acquisitions, which are netted against the underlying deferred tax assets recorded on the balance sheet. The entire balance of \$36 million in uncertain tax positions would cause a decrease in the effective income tax rate upon recognition. Teradata has recorded \$2 million of interest accruals related to its uncertain tax liabilities as of December 31, 2014.

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

	2014	2013
<i>In millions</i>		
Balance at January 1	\$34	\$ 31
Gross increases for prior period tax positions	4	1
Gross decreases for prior period tax positions	(3)	(3)
Gross increases for current period tax positions	4	5
Decreases due to the lapse of applicable statute of limitations	(3)	—
Balance at December 31	\$36	\$ 34

The Company and its subsidiaries file income tax returns in the U.S. federal and various state jurisdictions, as well as numerous foreign jurisdictions. As of December 31, 2014, the Company has ongoing tax audits in a limited number of state and foreign jurisdictions; however, no material adjustments have been proposed or made in any of these examinations to date which would result in any incremental income tax expense in future periods to the company. In addition, the Internal Revenue Service audit of the Company's United States Federal tax filing for tax year 2011 was finalized in July of 2014 and resulted in a no change audit.

NOTE 5: Employee Stock-Based Compensation Plans

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

	2014	2013	2012
<i>In millions</i>			
Stock options	\$ 13	\$ 14	\$ 15
Restricted stock	33	32	28
Employee share repurchase program (compensatory effective 1/1/13)	4	3	—
Total stock-based compensation before income taxes	50	49	43
Tax benefit	(16)	(16)	(14)
Total stock-based compensation, net of tax	\$ 34	\$ 33	\$ 29

The Teradata Corporation 2007 Stock Incentive Plan (the "2007 SIP"), as amended, and the Teradata 2012 Stock Incentive Plan (the "2012 SIP") provide for the grant of several different forms of stock-based compensation. The 2012 SIP was adopted and approved by stockholders in April 2012 and no further awards may be made under the 2007 SIP after that time. A total of approximately 16.4 million shares were authorized to be issued under the 2012 SIP. New shares of the Company's common stock are issued as a result of the vesting of restricted stock units and stock option exercises, and at the time of grant for restricted stock, for awards under both plans.

As of December 31, 2014, the Company's primary types of stock-based compensation were stock options, restricted stock, restricted stock units and the employee stock purchase program (the "ESPP").

Stock Options

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

For the years ended December 31, 2014, 2013 and 2012, the weighted-average fair value of options granted for Teradata equity awards was \$17.67, \$18.02 and \$22.31, respectively. The fair value of each option award on the grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2014	2013	2012
Dividend yield	—	—	—
Risk-free interest rate	1.73%	1.77%	0.87%
Expected volatility	37.8%	37.6%	35.7%
Expected term (years)	6.3	6.3	6.3

In 2014, the expected volatility was based on Teradata's historical volatility. Prior to 2014, the expected volatility assumption was based on a blend of peer group volatility and Teradata volatility. The expected term assumption is determined using the simplified method under GAAP, which is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate for periods within the contractual life of the option is based on an average of the five-year and seven-year U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes the Company's stock option activity for the year ended December 31, 2014:

	Shares Under Option	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
<i>Shares in thousands</i>				
Outstanding at January 1, 2014	7,012	\$33.27	6.3	\$100
Granted	921	\$44.43		
Exercised	(561)	\$19.02		
Canceled	(36)	\$41.83		
Forfeited	(99)	\$50.98		
Outstanding at December 31, 2014	7,237	\$35.50	6.1	\$78
Fully vested and expected to vest at December 31, 2014	7,194	\$35.44	6.0	\$78
Exercisable at December 31, 2014	5,190	\$30.63	4.9	\$78

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

	2014	2013	2012
<i>In millions</i>			
Intrinsic value of options exercised	\$14	\$19	\$113
Cash received from option exercises	\$11	\$9	\$43
Tax benefit realized from option exercises	\$5	\$6	\$38

As of December 31, 2014, there was \$37 million of total unrecognized compensation cost related to unvested stock option grants. That cost is expected to be recognized over a weighted-average period of 3.1 years.

Restricted Stock and Restricted Stock Units

The Teradata SIP provides for the issuance of restricted stock, as well as restricted stock units. These grants consist of both service-based and performance-based awards. Service-based awards typically vest over a three-to four-year period beginning on the effective date of grant. These grants are not subject to future performance measures. The cost of these awards, determined to be the fair market value at the date of grant, is expensed ratably over the vesting period. For substantially all restricted stock grants, at the date of grant, the recipient has all rights of a stockholder, subject to certain restrictions on transferability and a risk of forfeiture. A recipient of restricted stock units does not have the rights of a stockholder and is subject to restrictions on

transferability and risk of forfeiture. For both restricted stock grants and restricted stock units, any potential dividend rights would be subject to the same vesting requirements as the underlying equity award. As a result, such rights are considered a contingent transfer of value and consequently these equity awards are not considered participating securities. Performance-based grants are subject to future performance measurements over a one-to four-year period. All performance-based shares that are earned in respect of an award will become vested at the end of the performance and/or service period provided the employee is continuously employed by the Company and applicable performance measures are met. The fair value of each performance-based award is determined on the grant date, based on the Company's stock price, and assumes that performance targets will be achieved. Over the performance period, the number of shares of stock that will be issued is adjusted upward or downward based upon management's assessment of the probability of achievement of performance targets. The ultimate number of shares issued and the related compensation cost recognized as expense will be based on a comparison of the final achievement of performance metrics to the specified targets.

The following table reports restricted stock and restricted stock unit activity during the year ended December 31, 2014:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share
<i>Shares in thousands</i>		
Unvested shares at January 1, 2014	2,578	\$50.30
Granted	1,447	\$44.39
Vested	(537)	\$50.91
Forfeited/canceled	(236)	\$54.17
Unvested shares at December 31, 2014	3,252	\$ 47.18

The following table summarizes the weighted-average fair value of restricted stock units granted for Teradata equity awards and the total fair value of shares vested at December 31:

	2014	2013	2012
Weighted-average fair value of restricted stock units granted	\$44.39	\$ 48.24	\$ 60.71
Total fair value of shares vested (in millions)	\$ 27	\$ 30	\$ 15

As of December 31, 2014, there was \$87 million of unrecognized compensation cost related to unvested restricted stock grants. The unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.4 years.

The following table represents the composition of Teradata restricted stock unit grants in 2014:

	Number of Shares	Weighted- Average Grant Date Fair Value
<i>Shares in thousands</i>		
Service-based shares	1,361	\$44.28
Performance-based shares	86	\$46.26
Total stock grants	1,447	\$44.39

Approximately 0.3 million shares of the performance awards issued in December of 2012 also included a market-based component for certain key executives in connection with a restructuring of the Company's management team. On March 1, 2013, these awards were amended to create two separate awards: (i) 70% of the units were allocated to 2016 performance-based

restricted share units (“Special 2016 PBRsUs”); and (ii) 30% of the units were allocated to special long-term strategic performance-based restricted share units (“Long-Term Strategic PBRsUs”). This modification resulted in no incremental fair value on the date of modification. Consistent with a Type I modification, the original fair value was used to value the awards since the stock price and fair value was lower on the date of modification. Each recipient’s opportunity to earn the Special 2016 PBRsUs is based on the extent to which Teradata achieves certain challenging or “stretch” financial goals through 2016 based on a GAAP revenue and a non-GAAP earnings per share targets in 2016. Each recipient’s opportunity to earn the Long-Term Strategic PBRsUs generally is based on a subjective assessment of performance over a four-year period ending in 2016 relative to a mix of long-term strategic measures with respect to such matters as data warehousing technology and offerings and integrated marketing management solutions, among other things, provided that a stretch non-GAAP earnings per share threshold is achieved. There was no compensation expense related to the Special 2016 PBRsUs and Long-Term Strategic PBRsUs recorded in 2014 based on management’s determination that at December 31, 2014 it was not probable that performance targets for these awards would be achievable.

For the Special 2016 PBRsUs, payout in excess of target cannot occur unless the Company achieves certain non-GAAP earnings per share and stock price goals. In evaluating the fair value of the Special 2016 PBRsUs, the Company used a Monte Carlo simulation on the grant date and determined the fair value to be \$26.78 per unit for the market component of the award. Compensation expense related to the performance portion of the award is valued based on the grant date stock price and is only recorded in a period when it is probable that the performance metrics will be met. Compensation expense related to the market portion is only recorded when it is probable that the performance metrics will be above target, regardless of the stock price. There was no compensation expense related to the market portion of these awards in 2014. The primary assumptions used in the valuation of the market component of the awards were as follows:

	2012
Grant date fair value per share of Company common stock	\$58.63
Expected volatility	36.44%
Risk-free interest rate	0.47%
Dividend yield	—
Performance vesting hurdle - future fair value per share of Company common stock	\$85.00

Employee Stock Purchase Program

The Company’s ESPP, effective on October 1, 2007, and as amended effective as of January 1, 2013, provides eligible employees of Teradata and its designated subsidiaries an opportunity to purchase the Company’s common stock at a discount to the average of the highest and lowest sale prices on the last trading day of each month. As of January 1, 2013, the ESPP discount was 15% of the average market price and considered compensatory. Prior to 2013, the ESPP discount was 5% of the average market price and this plan was considered non-compensatory.

Employees may authorize payroll deductions of up to 10% of eligible compensation for common stock purchases. A total of 4 million shares were authorized to be issued under the ESPP, with approximately 1.9 million shares remaining under that authorization at December 31, 2014. The shares of Teradata common stock purchased by a participant on an exercise date (the last day of each month), for all purposes, are deemed to have been issued and sold at the close of business on such exercise date. Prior to that time, none of the rights or privileges of a stockholder exists with respect to such shares. Employee purchases and aggregate cost were as follows at December 31:

	2014	2013	2012
<i>In millions</i>			
Employee share purchases	0.4	0.4	0.2
Aggregate cost	\$ 18	\$ 20	\$ 12

NOTE 6: Employee Benefit Plans

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

Postemployment obligations relate to benefits provided to involuntarily terminated employees and certain inactive employees after employment but before retirement. These benefits are paid in accordance with various foreign statutory laws and regulations, and Teradata's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, continuation of health care benefits and life insurance coverage, and are funded on a pay-as-you-go basis.

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

	2014		2013		2012	
	Pension	Postemployment	Pension	Postemployment	Pension	Postemployment
<i>In millions</i>						
Service cost	\$ 9	\$ 4	\$ 8	\$ 3	\$ 8	\$ 4
Interest cost	4	1	4	1	4	1
Expected return on plan assets	(2)	—	(2)	—	(3)	—
Settlement charge	1	—	1	—	1	—
Amortization of actuarial loss (gain)	2	(1)	2	(1)	1	—
Amortization of prior service credit	(1)	—	—	—	—	—
Total costs	\$13	\$ 4	\$13	\$ 3	\$11	\$ 5

The underfunded amount of pension and postemployment obligations is recorded as a liability in the Company's consolidated balance sheet. The following tables present the changes in benefit obligations, plan assets, funded status and the reconciliation of the funded status to amounts recognized in the consolidated balance sheets and in accumulated other comprehensive income at December 31:

	Pension		Postemployment	
	2014	2013	2014	2013
<i>In millions</i>				
Change in benefit obligation				
Benefit obligation at January 1	\$129	\$122	\$ 27	\$ 25
Service cost	9	8	4	3
Interest cost	4	4	1	1
Plan participant contributions	1	1	—	—
Actuarial loss	18	6	19	3
Benefits paid	(19)	(6)	(11)	(4)
Currency translation adjustments	(15)	(6)	(1)	(1)
New plans	3	—	—	—
Benefit obligation at December 31	130	129	39	27
Change in plan assets				
Fair value of plan assets at January 1	76	69	—	—
Actual return on plan assets	7	9	—	—
Company contributions	8	10	—	—
Benefits paid	(19)	(6)	—	—
Currency translation adjustments	(7)	(7)	—	—
Plan participant contribution	1	1	—	—
New plans	1	—	—	—
Fair value of plan assets at December 31	67	76	—	—
Funded status (underfunded)	\$ (63)	\$ (53)	\$ (39)	\$ (27)
Amounts Recognized in the Balance Sheet				
Non-current assets	\$ 4	\$ 1	\$ —	\$ —
Current liabilities	(1)	(1)	(5)	(4)
Non-current liabilities	(66)	(53)	(34)	(23)
Net amounts recognized	\$ (63)	\$ (53)	\$ (39)	\$ (27)
Amounts Recognized in Accumulated Other Comprehensive Income				
Unrecognized Net actuarial loss (gain)	\$ 33	\$ 26	\$ 6	\$ (12)
Unrecognized Prior service (credit) cost	—	(2)	1	—
Total	\$ 33	\$ 24	\$ 7	\$ (12)

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

	2014	2013
<i>In millions</i>		
Accumulated pension benefit obligation	\$ 118	\$ 120

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

	2014	2013
<i>In millions</i>		
Projected benefit obligation	\$69	\$ 55
Accumulated benefit obligation	\$61	\$ 49
Fair value of plan assets	\$ 3	\$ 3

The following table presents the pre-tax net changes in projected benefit obligations recognized in other comprehensive income during 2014 and 2013:

	Pension		Postemployment	
	2014	2013	2014	2013
<i>In millions</i>				
Actuarial loss (gain) arising during the year	\$ 14	\$ (1)	\$ 18	\$ 2
Amortization of (gain) loss included in net periodic benefit cost	(2)	(2)	1	1
Prior service cost arising during the year	1	–	–	–
Recognition of loss due to settlement	(1)	(1)	–	–
Foreign currency exchange	(3)	(1)	–	–
Total recognized in other comprehensive income	\$ 9	\$ (5)	\$ 19	\$ 3

The following table presents the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during 2015:

	Pension	Postemployment
<i>In millions</i>		
Net loss to be recognized in other comprehensive income	\$ 3	\$ –

The weighted-average rates and assumptions used to determine benefit obligations at December 31, 2014 and 2013, and net periodic benefit cost for the years ended December 31, 2014, 2013, and 2012, were as follows:

	Pension Benefit Obligations		Pension Benefit Cost		
	2014	2013	2014	2013	2012
Discount rate	2.3%	3.0%	3.0%	3.0%	3.7%
Rate of compensation increase	3.3%	3.2%	3.2%	3.3%	3.3%
Expected return on plan assets	N/A	N/A	3.4%	3.4%	4.0%

	Postemployment Benefit Obligations		Postemployment Benefit Cost		
	2014	2013	2014	2013	2012
Discount rate	3.5%	3.8%	3.8%	3.4%	4.1%
Rate of compensation increase	3.0%	3.7%	3.7%	3.8%	3.7%
Involuntary turnover rate	1.3%	1.0%	1.0%	1.0%	1.5%

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

The discount rate used to determine year-end 2014 U.S. benefit obligations was derived by matching the plans' expected future cash flows to the corresponding yields from the Citigroup Pension Liability Index. This yield curve has been constructed to represent the available yields on high-quality fixed-income investments across a broad range of future maturities. International discount rates were determined by examining interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our future expected cash flows.

Gains and losses have resulted from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and differences between actual and assumed asset returns. These gains and losses (except those differences being amortized to the market-related value) are only amortized to the extent that they exceed 10% of the higher of the market-related value of plan assets or the projected benefit obligation of each respective plan.

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

	Actual Asset Allocation		Target Asset Allocation
	As of December 31		
	2014	2013	
Equity securities	32 %	34 %	31 %
Debt securities	41 %	37 %	44 %
Insurance (annuity) contracts	17 %	13 %	17 %
Real estate	5 %	6 %	3 %
Other	5 %	10 %	5 %
Total	100 %	100 %	100 %

Fair Value. Fair value measurements are established utilizing a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are more fully described in Note 9.

The following is a description of the valuation methodologies used for pension assets as of December 31, 2014.

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

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

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2014:

	December 31, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>In millions</i>				
Money market funds	\$ 2	\$ –	\$ 2	\$ –
Equity funds	21	–	21	–
Bond/fixed-income funds	28	–	28	–
Real-estate indirect investment	4	–	4	–
Commodities/Other	1	–	1	–
Insurance contracts	11	–	–	11
Total Assets at fair value	\$67	\$ –	\$56	\$11

The table below sets forth a summary of changes in the fair value of the pension plan level 3 assets for the year ended December 31, 2014:

	Insurance Contracts
<i>In millions</i>	
Balance as of January 1, 2014	\$10
Purchases, sales and settlements, net	1
Balance as of December 31, 2014	\$11

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2013:

	December 31, 2013	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>In millions</i>				
Money market funds	\$ 3	\$ –	\$ 3	\$ –
Equity funds	26	–	26	–
Bond/fixed-income funds	28	–	28	–
Real-estate indirect investment	5	–	5	–
Commodities/Other	4	–	4	–
Insurance contracts	10	–	–	10
Total Assets at fair value	\$76	\$ –	\$66	\$10

The table below sets forth a summary of changes in the fair value of the pension plan level 3 assets for the year ended December 31, 2013:

	Insurance Contracts
<i>In millions</i>	
Balance as of January 1, 2013	\$ 8
Purchases, sales and settlements, net	2
Balance as of December 31, 2013	\$10

Investment Strategy. Teradata employs a number of investment strategies across its various international pension plans. In some countries, particularly where Teradata does not have a large employee base, the Company may use insurance (annuity) contracts to satisfy its future pension payment obligations, whereby the Company makes pension plan contributions to an insurance company in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. In other countries, the Company may employ local asset managers to manage investment portfolios according to the investment policies and guidelines established by the Company, and with consideration to individual plan liability structure and local market environment and risk tolerances. The Company's investment policies and guidelines primarily emphasize diversification across and within asset classes to maximize long-term returns subject to prudent levels of risk, with the overall objective of enabling the plans to meet their future obligations. The investment portfolios contain a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across domestic and international stocks, small and large capitalization stocks, and growth and value stocks. Fixed-income assets are diversified across government and corporate bonds. Where applicable, real estate investments are made through real estate securities, partnership interests or direct investment, and are diversified by property type and location.

Cash Flows Related to Employee Benefit Plans

Cash Contributions. The Company expects to contribute approximately \$8 million to the international pension plans and \$5 million for postemployment benefit obligations in 2015.

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

	Pension Benefits	Postemployment Benefits
<i>In millions</i>		
Year		
2015	\$ 3	\$ 5
2016	\$ 5	\$ 5
2017	\$ 6	\$ 5
2018	\$ 6	\$ 5
2019	\$ 5	\$ 5
2020-2024	\$32	\$23

Savings Plans. U.S. employees and many international employees participate in defined contribution savings plans. These plans generally provide either a specified percent of pay or a matching contribution on participating employees' voluntary elections. The Company's matching contributions typically are subject to a maximum percentage or level of compensation. Employee contributions can be made pre-tax, after-tax or a combination thereof. The following table identifies the expense for the U.S and International subsidiary savings plans for the years ended December 31:

	2014	2013	2012
<i>In millions</i>			
U.S. savings plan	\$23	\$23	\$21
International subsidiary savings plans	\$18	\$17	\$18

NOTE 7: Derivative Instruments and Hedging Activities

As a portion of the Company's operations and revenue occur outside the United States and in currencies other than the U.S. dollar, the Company is exposed to potential gains and losses from changes in foreign currency exchange rates. In an attempt to mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting predominantly from foreign currency denominated inter-company receivables and payables. The forward contracts are designated as fair value hedges of specified foreign currency denominated inter-company receivables and payables and generally mature in three months or less. The Company does not hold or issue derivative financial instruments

for trading purposes, nor does it hold or issue leveraged derivative instruments. By using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to credit risk. The Company manages exposure to counterparty credit risk by entering into derivative financial instruments with highly rated institutions that can be expected to fully perform under the terms of the applicable contracts.

All derivatives are recognized in the Consolidated Balance Sheets at their fair value. The fair values of foreign exchange contracts are based on market spot and forward exchange rates and represent estimates of possible value that may not be realized in the future. Changes in the fair value of derivative financial instruments, along with the loss or gain on the hedged asset or liability, are recorded in current period earnings. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based, and are an indication of the extent of Teradata's involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments. Across its portfolio of contracts, Teradata has both long and short positions relative to the U.S. dollar. As a result, Teradata's net involvement is less than the total contract notional amount of the Company's foreign exchange forward contracts.

The following table identifies the contract notional amount of the Company's foreign exchange forward contracts at December 31:

	2014	2013
<i>In millions</i>		
Contract notional amount of foreign exchange forward contracts	\$ 116	\$ 152
Net contract notional amount of foreign exchange forward contracts	\$ 17	\$ 24

The fair value derivative assets and liabilities recorded in other current assets and accrued liabilities at December 31, 2014 and 2013, were not material.

Gains and losses from the Company's fair value hedges (foreign currency forward contracts and related hedged items) were immaterial for the years ended December 31, 2014, 2013 and 2012. Gains and losses from foreign exchange forward contracts are fully recognized each period and reported along with the offsetting gain or loss of the related hedged item, either in cost of products or in other income, depending on the nature of the related hedged item.

NOTE 8: Commitments and Contingencies

In the normal course of business, the Company is subject to proceedings, lawsuits, governmental investigations, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property, tax matters, and other regulatory compliance and general matters.

Guarantees and Product Warranties.

Guarantees associated with the Company's business activities are reviewed for appropriateness and impact to the Company's financial statements. Periodically, the Company's customers enter into various leasing arrangements coordinated with a leasing company. In some instances, the Company guarantees the leasing company a minimum value at the end of the lease term on the leased equipment. As of December 31, 2014, the maximum future payment obligation of this guaranteed value and the associated liability balance was \$4 million.

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

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

	2014	2013	2012
<i>In millions</i>			
Beginning balance at January 1	\$ 8	\$ 8	\$ 6
Accruals for warranties issued	16	15	17
Settlements (in cash or kind)	(17)	(15)	(15)
Balance at end of period	\$ 7	\$ 8	\$ 8

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

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

Leases. Teradata conducts certain of its sales and administrative operations using leased facilities, the initial lease terms of which vary in length. Many of the leases contain renewal options and escalation clauses that are not material to the overall lease portfolio. Future minimum operating lease payments and committed subleases under non-cancelable leases as of December 31, 2014, for the following fiscal years were:

	Total Amounts	2015	2016	2017	2018	2019
<i>In millions</i>						
Operating lease obligations	\$ 72	\$23	\$18	\$15	\$12	\$ 4
Sublease rentals	(8)	(3)	(3)	(2)	—	—
Total committed operating leases less sublease rentals	\$ 64	\$20	\$15	\$13	\$12	\$ 4

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

	2014	2013	2012
<i>In millions</i>			
Rental expense	\$ 26	\$ 26	\$ 25
Sublease rental income	\$ 3	\$ 3	\$ 3

The Company had no contingent rentals for these periods.

Concentrations of Risk. The Company is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Teradata's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses were adequate at December 31, 2014 and 2013.

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

NOTE 9: Fair Value Measurements

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

The Company’s assets and liabilities measured at fair value on a recurring basis include money market funds, available-for-sale securities and foreign currency exchange contracts. A portion of the Company’s excess cash reserves are held in money market funds which generate interest income based on the prevailing market rates. Money market funds are included in cash and cash equivalents in the Company’s balance sheet. Money market fund holdings are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. Available-for-sale securities include equity securities that are traded in active markets, such as the National Association of Securities Dealers Automated Quotations Systems (“NASDAQ”), and are therefore included in Level 1 of the valuation hierarchy. Available-for-sale securities are included in other assets in the Company’s balance sheet. Unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income until realized.

When deemed appropriate, the Company minimizes its exposure to changes in foreign currency exchange rates through the use of derivative financial instruments, specifically, forward foreign exchange contracts. The fair value of these contracts are measured at the end of each interim reporting period using observable inputs other than quoted prices, specifically market spot and forward exchange rates. As such, these derivative instruments are classified within Level 2 of the valuation hierarchy. Fair value gains for open contracts are recognized as assets and fair value losses are recognized as liabilities. The fair value derivative assets and liabilities recorded in other current assets and accrued liabilities at December 31, 2014 and 2013, were not material. Any realized gains or losses would be mitigated by corresponding gains or losses on the underlying exposures. Further information on the Company’s use of forward foreign exchange contracts is included in Note 7.

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

	December 31, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>In millions</i>				
Assets				
Money market funds	\$393	\$393	\$ –	\$ –
Available-for-sale securities	78	78	–	–
Total assets at fair value	\$471	\$471	\$ –	\$ –

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013			
<i>In millions</i>			
Assets			
Money market funds	\$318	\$318	\$ –

NOTE 10: Debt

In June 2012, Teradata entered into a five-year revolving credit agreement (the “Credit Facility”), under which the Company may borrow up to \$300 million. The Credit Facility expires June 15, 2017, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. The interest rate charged on borrowings pursuant to the Credit Facility can vary depending on the interest rate option the Company chooses to utilize and the Company’s leverage ratio at the time of the borrowing. The revolving credit facility carried a floating interest rate based on the London Interbank Offered Rate (“LIBOR”). The blended rate at December 31, 2014 was 1.14%. The Credit Facility is unsecured and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of December 31, 2014, the Company had \$220 million outstanding under the Credit Facility, leaving \$80 million in additional borrowing capacity available. The Company was in compliance with all covenants at December 31, 2014.

In April 2011, Teradata obtained a senior unsecured \$300 million five-year term loan. The term loan is payable in quarterly installments, commencing in June 2012, with all remaining principal due on April 5, 2016. The outstanding principal amount of the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus in each case a margin based on the leverage ratio of the Company. As of December 31, 2014, the term loan principal outstanding was \$248 million, carried an interest rate of 1.1875%, and the Company was in compliance with all covenants. Teradata’s term loan is recognized on the Company’s balance sheet at its unpaid principal balance, and is not subject to fair value measurement. However, given that the loan carries a variable rate, the Company estimates that the unpaid principal balance of the term loan would approximate its fair value.

Annual contractual maturities of principal on term loan outstanding at December 31, 2014, are as follows:

<i>In millions</i>	
2015	\$ 53
2016	195
Total	\$248

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

	2014	2013	2012
<i>In millions</i>			
Interest expense	\$ 3	\$ 4	\$ 4

NOTE 11: Segment, Other Supplemental Information and Concentrations

Teradata has historically managed its business in two geographic regions, which are also the Company’s operating segments: (1) the Americas region (North America and Latin America); and (2) the International region (Europe, Middle East, Africa, Asia Pacific and Japan). Management evaluates the performance of its segments based on revenue and segment margin. Corporate-related costs are fully-allocated to the segments, but for management reporting purposes assets are not allocated to the segments.

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

	2014	2013	2012
<i>In millions</i>			
Segment revenue			
Americas ⁽¹⁾	\$ 1,619	\$ 1,633	\$ 1,619
International	1,113	1,059	1,046
Total revenue	2,732	2,692	2,665
Segment gross margin			
Americas	943	947	967
International	536	526	524
Total gross margin	1,479	1,473	1,491
Selling, general and administrative expenses	770	757	728
Research and development expenses	206	184	183
Total income from operations	503	532	580
Other expense, net	(9)	(24)	(2)
Income before income taxes	\$ 494	\$ 508	\$ 578

⁽¹⁾ The Americas region includes revenue generated in the United States of \$1,458 million in 2014, \$1,511 million in 2013 and \$1,478 million in 2012.

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

	2014	2013	2012
<i>In millions</i>			
Products (software and hardware) ⁽¹⁾	\$ 1,227	\$ 1,230	\$ 1,297
Consulting services	817	818	776
Maintenance services	688	644	592
Total services	1,505	1,462	1,368
Total revenue	\$ 2,732	\$ 2,692	\$ 2,665

⁽¹⁾ Our analytic database software and hardware products are often sold and delivered together in the form of a “node” of capacity as an integrated technology solution. Accordingly, it is impracticable to provide the breakdown of revenue from various types of software and hardware products.

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

	2014	2013
<i>In millions</i>		
United States	\$ 130	\$ 131
Americas (excluding United States)	4	3
International	25	27
Property and equipment, net	\$ 159	\$ 161

Concentrations. No single customer accounts for more than 10% of the Company’s revenue. As of December 31, 2014, the Company is not aware of any significant concentration of business transacted with a particular customer that could, if suddenly eliminated, have a material adverse effect on the Company’s operations. The Company also has no concentration of available sources of labor, services, licenses or other rights that could, if suddenly eliminated, have a material adverse effect on its operations.

Changes in segment reporting. Beginning January 2015, the Company will change its operating segments and report future results as two new separate segments: (a) data and analytics and (b) marketing applications.

NOTE 12: Business Combinations and Other Investment Activities

During 2014, the Company completed six immaterial business acquisitions and other equity investments for \$69 million. These acquisitions complement and strengthen the Company's global portfolio. In addition, the Company recognized a loss of \$9 million in an equity investment arising from an impairment of carrying value.

During 2013, the Company completed two immaterial business acquisitions and two other equity investments for \$36 million. In addition, the Company recognized a loss of \$25 million on an equity investments arising from an impairment of carrying value, partially offset by a \$3 million gain on sale. The gains and losses for these transactions were recorded in other income (expense) in the Consolidated Statements of Income.

During 2012, the Company completed the acquisition of eCircle, a leading full service digital marketing provider in Europe, and other equity investments for \$274 million.

NOTE 13: Accumulated Other Comprehensive Income

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

	Available- for-sale securities	Defined benefit plans	Foreign currency translation adjustments	Total AOCI
<i>In millions</i>				
Balance as of December 31, 2011	\$ –	\$ (9)	\$ 25	\$ 16
Other comprehensive income before reclassifications	–	2	9	11
Amounts reclassified from AOCI	–	2	–	2
Net other comprehensive income	–	4	9	13
Balance as of December 31, 2012	\$ –	\$ (5)	\$ 34	\$ 29
Other comprehensive income before reclassifications	–	–	2	2
Amounts reclassified from AOCI	–	2	–	2
Net other comprehensive income	–	2	2	4
Balance as of December 31, 2013	\$ –	\$ (3)	\$ 36	\$ 33
Other comprehensive income (loss) before reclassifications	31	(22)	(47)	(38)
Amounts reclassified from AOCI	–	1	–	1
Net other comprehensive income (loss)	31	(21)	(47)	(37)
Balance as of December 31, 2014	\$ 31	\$ (24)	\$ (11)	\$ (4)

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

AOCI Component	Location	2014	2013	2012
<i>In millions</i>				
Defined benefit plans	Cost of services	\$ 1	\$ 2	\$ 1
Defined benefit plans	Selling, general and administrative expenses	–	1	–
Defined benefit plans	Research and development expenses	–	(1)	1
Defined benefit plans	Net income	\$ 1	\$ 2	\$ 2

Further information on the Company's defined benefit plans is included in Note 6.

NOTE 14: Quarterly Information (Unaudited)

	First	Second	Third	Fourth
<i>In millions, except per share amounts</i>				
2014				
Total revenues	\$ 628	\$ 676	\$ 667	\$ 761
Gross margin	\$ 333	\$ 371	\$ 350	\$ 425
Operating income	\$ 89	\$ 133	\$ 123	\$ 158
Net income	\$ 59	\$ 96	\$ 94	\$ 118
Net income per share:				
Basic	\$0.37	\$0.61	\$0.61	\$0.78
Diluted	\$0.37	\$0.60	\$0.60	\$0.77
2013				
Total revenues	\$ 587	\$ 670	\$ 666	\$ 769
Gross margin	\$ 305	\$ 379	\$ 358	\$ 431
Operating income	\$ 76	\$ 147	\$ 132	\$ 177
Net income	\$ 59	\$ 108	\$ 98	\$ 112
Net income per share:				
Basic	\$0.36	\$0.66	\$0.60	\$0.69
Diluted	\$0.35	\$0.65	\$0.59	\$0.68

NOTE 15: Subsequent Events

From January 1, 2015 through February 25, 2015, the Company purchased approximately 2.9 million shares for approximately \$127 million. As of February 25, 2015 the Company had approximately \$272 million of share repurchase authorization remaining.

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions Charged to Costs & Expenses	Charged to Other Accounts*	Deductions	Balance at End of Period
<i>In millions</i>					
Allowance for doubtful accounts					
Year ended December 31, 2014	\$ 18	\$ 3	\$ –	\$ 2	\$ 19
Year ended December 31, 2013	\$ 18	\$ 1	\$ –	\$ 1	\$ 18
Year ended December 31, 2012	\$ 13	\$ 2	\$ 3	\$ –	\$ 18
Deferred tax valuation allowance					
Year ended December 31, 2014	\$ 13	\$ 7	\$ –	\$ –	\$ 20
Year ended December 31, 2013	\$ 9	\$ 4	\$ –	\$ –	\$ 13
Year ended December 31, 2012	\$ —	\$ 9	\$ –	\$ –	\$ 9

*The allowance for doubtful accounts increased by \$3 million for the year ended December 31, 2012 due to reserves from acquired entities

COMMON STOCK INFORMATION

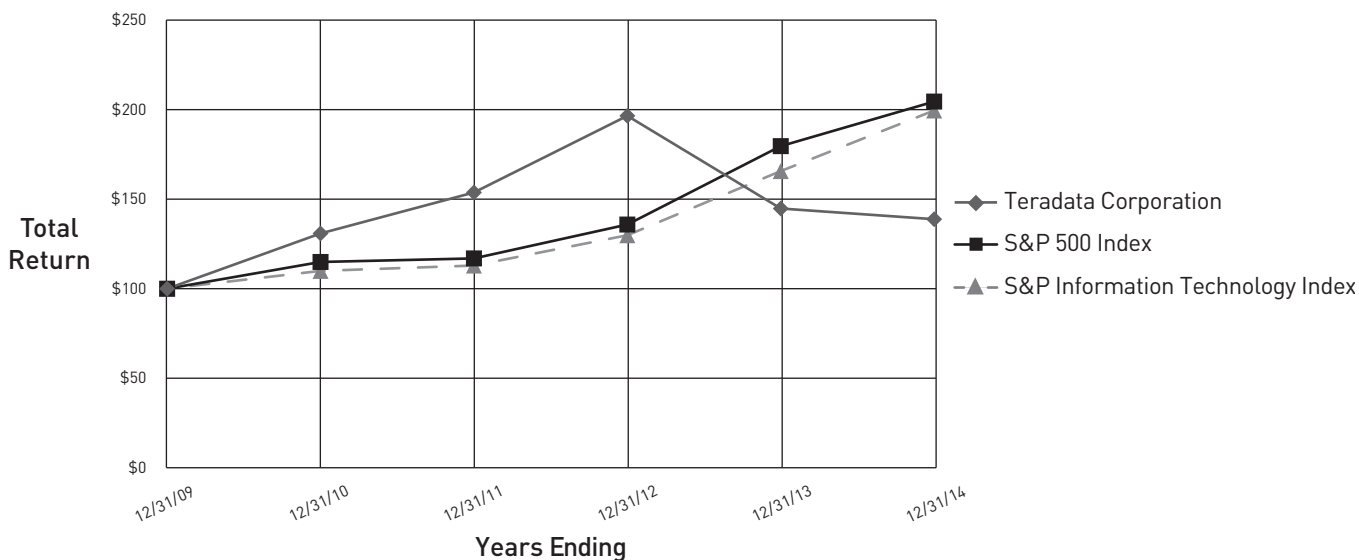
Teradata common stock trades on the New York Stock Exchange under the symbol “TDC.” There were approximately 68,500 registered holders of Teradata common stock as of February 5, 2015. The following table presents the high and low closing per share prices of Teradata common stock traded on the New York Stock Exchange during the calendar quarter indicated.

Common Stock Closing Market Price	High	Low
2014		
Fourth quarter	\$45.22	\$39.87
Third quarter	\$45.84	\$39.99
Second quarter	\$49.18	\$39.54
First quarter	\$49.19	\$40.00
2013		
Fourth quarter	\$55.37	\$39.52
Third quarter	\$64.77	\$50.02
Second quarter	\$58.24	\$48.34
First quarter	\$69.34	\$56.28

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

TOTAL RETURN TO SHAREHOLDERS

The following graph compares the relative performance of Teradata stock, the Standard & Poor's ("S&P") 500 Stock Index and the S&P Information Technology Index. This graph depicts the five-year performance from December 31, 2009 to December 31, 2014, assuming an initial investment of \$100 and the reinvestment of dividends, if any.



Company/Index	As of December 31,					
	2009	2010	2011	2012	2013	2014
Teradata Corporation	\$100	\$131	\$154	\$197	\$145	\$139
S&P 500 Index	\$100	\$115	\$117	\$136	\$180	\$205
S&P Information Technology Index	\$100	\$110	\$113	\$130	\$166	\$200

SELECTED FINANCIAL DATA

For the Year Ended December 31

In millions, except per share and employee amounts

	2014 ⁽¹⁾	2013 ⁽²⁾	2012 ⁽³⁾	2011 ⁽⁴⁾	2010
Revenue	\$ 2,732	\$ 2,692	\$ 2,665	\$ 2,362	\$ 1,936
Income from operations	\$ 503	\$ 532	\$ 580	\$ 456	\$ 415
Other (expense) income, net	\$ (9)	\$ (24)	\$ (2)	\$ 25	\$ (1)
Income tax expense	\$ 127	\$ 131	\$ 159	\$ 128	\$ 113
Net income	\$ 367	\$ 377	\$ 419	\$ 353	\$ 301
Net income per common share					
Basic	\$ 2.36	\$ 2.31	\$ 2.49	\$ 2.10	\$ 1.80
Diluted	\$ 2.33	\$ 2.27	\$ 2.44	\$ 2.05	\$ 1.77

At December 31	2014	2013	2012	2011	2010
Total assets	\$ 3,132	\$ 3,096	\$ 3,066	\$ 2,616	\$ 1,883
Debt, including current portion	\$ 468	\$ 274	\$ 289	\$ 300	\$ —
Total stockholders' equity	\$ 1,707	\$ 1,857	\$ 1,779	\$ 1,494	\$ 1,189
Number of employees	11,500	10,800	10,200	8,600	7,400

⁽¹⁾ Includes \$22 million for acquisition-related transaction, integration and reorganization costs and expenses, and \$47 million for amortization of acquired intangible assets, \$9 million for expenses related to a net loss on equity investments, with a cumulative offsetting tax impact of \$26 million.

⁽²⁾ Includes \$17 million for acquisition-related transaction, integration and reorganization costs and expenses, and \$43 million for amortization of acquired intangible assets, \$22 million for expenses related to a net loss on equity investments, with a cumulative offsetting tax impact of \$33 million.

⁽³⁾ Includes \$17 million for acquisition-related transaction, integration and reorganization costs and expenses, and \$36 million for amortization of acquired intangible assets, with a cumulative offsetting tax impact of \$17 million.

⁽⁴⁾ Includes \$25 million for acquisition-related transaction, integration and reorganization costs and expenses, and \$24 million for amortization of acquired intangible assets, offset by a \$28 million gain on equity investments due to purchase and sale transactions, with a cumulative offsetting tax impact of \$8 million.

CORPORATE INFORMATION

Annual Meeting of Stockholders

Stockholders are invited to attend Teradata's Annual Meeting of Stockholders at 8 a.m. on Tuesday, April 28, 2015, to be held at:

The Westin Buckhead Atlanta
Arden Boardroom, 4th Floor
3391 Peachtree Road NE
Atlanta, GA 30326

Stockholder Account Inquiries

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

Teradata Corporation
c/o Computershare Shareholder Services
P.O. Box 30170
College Station, TX 77842-3176

E-mail: web.queries@computershare.com

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

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

Company Information

Information regarding Teradata's filings with the U.S. Securities and Exchange Commission ("SEC"), annual report on Form 10-K, quarterly reports, and other financial information can be accessed at www.teradata.com/investor, or obtained without charge by contacting:

Teradata Investor Relations
10000 Innovation Drive
Dayton, OH 45342
Phone: 937-242-4878
E-mail: investor.relations@teradata.com

CEO and CFO Certifications

In 2014, the company's CEO provided the New York Stock Exchange ("NYSE") with the annual CEO certification regarding Teradata's compliance with the NYSE's corporate governance listing standards. In addition, the company's CEO and CFO filed with the SEC all required certifications regarding the quality of Teradata's public disclosures in its fiscal 2014 periodic reports.

Leadership

Michael F. Koehler
Chief Executive Officer

Rocky J. Blanton
Executive Vice President, Americas

Stephen A. Brobst
Chief Technology Officer

Sandra D. Davis
Chief Human Resource Officer

Robert E. Fair, Jr.
Co-President

Scott E. Gnau
Executive Vice President,
Teradata Labs

Daniel L. Harrington
Executive Vice President,
Global Consulting and Support Services

Bruce A. Langos
Chief Operations Officer

Darryl D. McDonald
Executive Vice President, Applications

Laura K. Nyquist
General Counsel and Secretary

Stephen M. Scheppmann
Executive Vice President and
Chief Financial Officer

Hermann Wimmer
Co-President

Board of Directors

James M. Ringle
Chairman of the Board
Teradata Corporation

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

Edward P. Boykin
Retired President and
Chief Operating Officer
Computer Sciences Corporation

Nancy E. Cooper
Retired Executive Vice President and
Chief Financial Officer
CA Technologies

Cary T. Fu
Co-Founder
Benchmark Electronics, Inc.

Michael P. Gianoni
President and Chief Executive Officer
Blackbaud, Inc.

David E. Kepler
Retired Executive Vice President,
Chief Sustainability Officer, and
Chief Information Officer
The Dow Chemical Company

Michael F. Koehler
Chief Executive Officer
Teradata Corporation

Victor L. Lund
Former Non-Executive Chairman
of the Board
DemandTec, Inc.

John G. Schwarz
Founder and Chief Executive Officer
Visier Inc.

William S. Stavropoulos
Chairman Emeritus
The Dow Chemical Company

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