Third-Quarter 2015 Earnings Presentation
Non- GAAP Financial Measures

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Non-GAAP Financial Measures

“Adjusted Revenue, Costs and Expenses, and Margin”:
During third quarter 2015, we recorded a pre-tax charge (HE charge) of $389 million ($241 million after-tax or 23 cents per share), which included a $116 million reduction to revenues. As a result of the significant impact of the HE charge on our reported revenues, costs and expenses as well as key metrics for the period, we also discussed our results using non-GAAP measures which excluded the impact of the HE charge. In addition to the magnitude of the charge and its impact on our reported results, we excluded the HE charge due to the fact that it was primarily a unique charge associated with the conclusion, after a series of discussions, that fully completing our HE platform implementations in California and Montana was no longer considered probable.

“Adjusted Earnings Measures”: To better understand the trends in our business, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of certain items as well as their related income tax effects.

- Net income and Earnings per share (EPS)
- Effective tax rate

In addition to the HE charge, the above items were also adjusted for the amortization of intangible assets. The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

“Operating Income/Margin”: We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the HE charge and the amortization of intangible assets, operating income and margin also excludes Other expenses, net as well as Restructuring and asset impairment charges. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. Restructuring charges consist of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment charges include costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Such charges are expected to yield future benefits and savings with respect to our operational performance. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

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Non-GAAP Financial Measures

"Constant Currency": To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as "constant currency." Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

"Free Cash Flow": To better understand trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. It is also used to measure our yield on market capitalization. A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth in the slide entitled "2015 Guidance".

Management believes that all of these non-GAAP financial measures provide an additional means of analyzing the current period's results against the corresponding prior period's results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

Unless otherwise noted, reconciliations of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following slides.

Q3 GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Three Months Ended September 30, 2015				Three Months Ended September 30, 2014			
	Net (Loss) Income		EPS		Net Income		EPS	
Reported[1]	**$**	**(31)**	**$**	**(0.04)**	**$**	**258**	**$**	**0.21**
Adjustments:								
Amortization of Intangibles		48		0.05		48		0.05
HE Charge		241		0.23		-		-
Adjusted	**$**	**258**	**$**	**0.24**	**$**	**306**	**$**	**0.26**
Weighted average shares for adjusted EPS[2]				1,078				1,192
Fully diluted shares at end of period[3]				1,046				1,185

(1) Net (loss) income and EPS from continuing operations attributable to Xerox.

(2) Average shares for the calculation of adjusted EPS include 27 million of shares associated with the Series A convertible preferred stock and therefore the related quarterly dividend was excluded.

(3) Represents common shares outstanding at September 30, 2015 as well as shares associated with our Series A convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share in third quarter 2015.

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GAAP EPS to Adjusted EPS Guidance Track

	Earnings Per Share	
	Q4 2015	FY 2015
GAAP EPS from Continuing Operations	**$0.23 - $0.25**	**$0.46 - $0.52**
<u>Adjustments:</u>		
Amortization of intangible assets	0.05	0.18
Software impairment	-	0.08
HE Charge	-	0.23
Adjusted EPS	**$0.28 - $0.30**	**$0.95 - $1.01**

Note: GAAP and Adjusted EPS guidance includes anticipated restructuring

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Q3 Adjusted Operating Income/Margin

(in millions)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Profit (Loss)	Revenue	Margin	Profit	Revenue	Margin
Reported Pre-Tax (Loss) Income (1)	**$ (173)**	**$ 4,333**	**(4.0)%**	**$ 286**	**$ 4,795**	**6.0%**
Adjustments:						
Amortization of intangible assets	77			77		
Restructuring and asset impairment charges	20			27		
HE charge	389	116		-		
Other expenses, net	73			71		
Adjusted Operating	**$ 386**	**$ 4,449**	**8.7%**	**$ 461**	**$ 4,795**	**9.6%**

(1) Profit (Loss) and Revenue from continuing operations

Q3 Adjusted Other, Net

(in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Other Expenses, Net - Reported	**$ 73**	**$ 71**
<u>Adjustments:</u>		
Restructuring and asset impairment charges	20	27
Net income attributable to noncontrolling interests	3	6
Other Expenses, Net - Adjusted	**$ 96**	**$ 104**

Q3 Adjusted Effective Tax Rate

(in millions)	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Pre-Tax (Loss) Income	**Income Tax (Benefit) Expense**	**Effective Tax Rate**	**Pre-Tax Income**	**Income Tax Expense**	**Effective Tax Rate**
Reported[1]	**$ (173)**	**$ (105)**	**60.7%**	**$ 286**	**$ 66**	**23.1%**
Adjustments:						
Amortization of intangible assets	77	29		77	29	
HE charge	389	148		-	-	
Adjusted	**$ 293**	**$ 72**	**24.6%**	**$ 363**	**$ 95**	**26.2%**

(1) Pre-Tax (Loss) Income and Income Tax (Benefit) Expense from continuing operations

Q3 Services Revenue Breakdown

(in millions)	Three Months Ended September 30, 2015	2014	% Change	CC % Change
Business Processing Outsourcing	$ 1,616	$ 1,797	(10%)	(8%)
Document Outsourcing	800	826	(3%)	3%
Total Revenue - Services	**$ 2,416**	**$ 2,623**	(8%)	(4%)
As Adjusted:				
Business Processing Outsourcing	$ 1,732	$ 1,797	(4%)	(1%)
Total Revenue - Services	$ 2,532	$ 2,623	(3%)	- %

Note: The above table has been revised to reflect the reclassification of the ITO business to Discontinued Operations and excludes intercompany revenue.

Q3 Adjusted Total Revenue/Margin

(in millions)	Total Revenue	Annuity Revenue	Outsourcing, Maintenance and Rentals Revenue	Total Segment Profit (Loss)	Total Segment Margin
	Three Months Ended September 30, 2015				
Reported[1]	**$ 4,333**	**$ 3,665**	**$ 3,098**	**$ (33)**	**(0.8%)**
Adjustment:					
HE charge	116	116	116	389	
Adjusted	**$ 4,449**	**$ 3,781**	**$ 3,214**	**$ 356**	**8.0%**

(1) Revenue from continuing operations.

Q3 Adjusted Services Segment

(in millions)	Three Months Ended September 30, 2015 Annuity Revenue	BPO Revenue	Segment Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
Reported[1]	**$ 2,299**	**$ 1,616**	**$ 2,416**	**56%**	**$ (184)**	**(7.6)%**
Adjustment:						
HE charge	116	116	116		389	
Adjusted	**$ 2,415**	**$ 1,732**	**$ 2,532**	**57%**	**$ 205**	**8.1%**

(1) Revenue from continuing operations.

Q3 Adjusted Key Financial Ratios

(in millions)	Gross Margin	RD&E as % of Revenue	SAG as % of Revenue
	Three Months Ended September 30, 2015		
Reported[1]	**22.8%**	**3.1%**	**19.7%**
<u>Adjustment:</u>			
HE charge	8.1%	(0.1%)	(0.5%)
Adjusted	**30.9%**	**3.0%**	**19.2%**

(1) Revenue from continuing operations.

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