First Quarter 2017

Non-GAAP Financial Measures

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http://www.xerox.com/investor

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our financial results using the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below as well as on our website at www.xerox.com/investor.

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.

Adjusted Earnings Measures

- Net income and Earnings per share (EPS)
- Effective tax rate
- Gross margin, RD&E and SAG (adjusted for non-service retirement-related costs only)

The above measures were adjusted for the following items:

- *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.

Non-GAAP Financial Measures

- *Restructuring and related costs:* Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our Strategic Transformation program beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes 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. Additional costs for our Strategic Transformation program are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.

- *Non-service retirement-related costs:* Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortized actuarial gains/losses and (iv) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. Adjusted earnings will continue to include the elements of our retirement costs related to current employee service (service cost and amortization of prior service cost) as well as the cost of our defined contribution plans.

- *Other discrete, unusual or infrequent items:* In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of the items and their impact on our results for the period: 1) loss on early extinguishment of debt; and 2) a benefit from the remeasurement of a tax matter related to a previously adjusted item. We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.

Non-GAAP Financial Measures

Adjusted Operating Income

We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts. In addition to the costs noted for our Adjusted Earnings measures, operating income and margin also exclude other expenses, net. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. 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. Operating income and margin also includes equity in net income of unconsolidated affiliates. Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net income. We include this amount in our measure of operating income and margin as Fuji Xerox is our primary intermediary to the Asia/Pacific market for distribution of Xerox branded products and services. First quarter Equity in net income of unconsolidated affiliates included a charge that represents our share of the current Fujifilm estimated adjustments associated with an accounting review at Fuji Xerox's New Zealand subsidiary related to lease receivables. We have excluded this impact for adjusted operating income and margin in order to provide a more normalized view of our operations for the quarter. See Equity in Net Income of Unconsolidated Affiliates for additional information regarding this charge.

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." 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 subtract amounts for capital expenditures (inclusive of internal use software) from cash flows from continuing operations. 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.

Non-GAAP Financial Measures

Summary:

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.

A reconciliation 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 tables:

Q1 GAAP EPS to Adjusted EPS

(in millions, except per share amounts)	Three Months Ended March 31, 2017 Net Income	Three Months Ended March 31, 2017 Diluted EPS	Three Months Ended March 31, 2016 Net Income	Three Months Ended March 31, 2016 Diluted EPS
As Reported [(1)]	$ 22	**$ 0.02**	$ 69	**$ 0.06**
Restructuring and related costs	120		100	
Amortization of intangible assets	14		14	
Non-service retirement related costs	62		46	
Loss on extinguishment of debt	13		-	
Income tax on adjustments [(2)]	(61)		(43)	
Remeasurement of unrecognized tax positions	(16)		-	
Adjusted	$ 154	**$ 0.15**	$ 186	**$ 0.18**
Weighted average shares for adjusted EPS [(3)]		1,052		1,021
Fully diluted shares at end of period [(4)]		1,052		

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

(2) Refer to the Effective Tax Rate reconciliation.

(3) Average shares for the 2017 calculation of adjusted EPS includes 27 million shares associated with our Series B convertible preferred stock and therefore the related quarterly dividend of $4 million was excluded. Average shares for the 2016 calculation of adjusted EPS excludes 27 million shares associated with our Series A convertible preferred stock and therefore the related quarterly dividend of $6 million was included.

(4) Represents common shares outstanding at March 31, 2017 as well as shares associated with our Series B convertible preferred stock plus dilutive potential common shares as used for the calculation of diluted earnings per share for the first quarter 2017.

FY EPS Guidance

	FY 2017
GAAP EPS from Continuing Operations	**\$0.44 - \$0.52**
Non-GAAP Adjustments	0.36
Adjusted EPS from Continuing Operations	**\$0.80 - \$0.88**

Note: Adjusted EPS guidance excludes non-service retirement related costs, restructuring and related costs, and amortization of intangibles.

Q1 Adjusted Effective Tax Rate

(in millions)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax Income	Income Tax (Benefit) Expense	Effective Tax Rate
Reported[1]	**$ (16)**	**$ (24)**	**150.0%**	**$ 32**	**$ (2)**	**(6.3)%**
Non-GAAP Adjustments[2]	209	61		160	43	
Remeasurement of unrecognized tax positions	-	16		-	-	
Adjusted - revised[3]	**$ 193**	**$ 53**	**27.5%**	**$ 192**	**$ 41**	**21.4%**

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

(2) Refer to Net Income and EPS reconciliations for details.

(3) The tax impact on the Adjusted Pre Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

Q1 Adjusted Operating Income/Margin

(in millions)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	(Loss) Profit	Revenue	Margin	Profit	Revenue	Margin
Reported Pre-tax (Loss) Income [(1)]	**$ (16)**	**$ 2,454**	**(0.7%)**	**$ 32**	**$ 2,615**	**1.2%**
Adjustments:						
Restructuring and related costs	120			100		
Amortization of intangible assets	14			14		
Non-service retirement-related costs	62			46		
Equity in net income of unconsolidated affiliates	16			37		
Receivables write-off - Fuji Xerox	30			-		
Other expenses, net	54			45		
Adjusted Operating Profit/Margin	**$ 280**	**$ 2,454**	**11.4%**	**$ 274**	**$ 2,615**	**10.5%**

(1) Profit and revenue from continuing operations.

Q1/FY Free Cash Flow

(in millions)	Q1 2017 Actual	Q1 2016 Actual	FY 2017 Estimated
Operating Cash Flow from Continuing Operations	**$ 190**	**$ 87**	**$ 700 - 900**
Less: CAPEX (inclusive of Internal Use Software)	(26)	(32)	(175)
Free Cash Flow from Continuing Operations	**$ 164**	**$ 55**	**$ 525 - 725**

Q1 Adjusted Key Financial Ratios

(in millions)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	As Reported[1]	Non-service retirement-related costs	Adjusted	As Reported[1]	Non-service retirement-related costs	Adjusted
Total Revenues	$ 2,454	$ -	$ 2,454	$ 2,615	$ -	$ 2,615
Total Gross Profit	954	23	977	1,018	17	1,035
Post Sale revenue	1,952	-	1,952	2,073	-	2,073
Post Sale Gross Profit	801	23	824	852	17	869
RD&E	118	(8)	110	126	(8)	118
SAG	664	(31)	633	701	(21)	680
Total Gross Margin	38.9 %		39.8 %	38.9 %		39.6 %
Post Sale Gross Margin	41.0 %		42.2 %	41.1 %		41.9 %
RD&E as a % of Revenue	4.8 %		4.5 %	4.8 %		4.5 %
SAG as a % of Revenue	27.1 %		25.8 %	26.8 %		26.0 %

(1) Revenue and costs from continuing operations.

Q1 Adjusted Other, Net

(in millions)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Other expenses, net - Reported	**$ 54**	**$ 45**
Adjustment:		
Loss on early extinguishment of debt	(13)	-
Other expenses, net - Adjusted	**$ 41**	**$ 45**

Q1 Adjusted Equity in Net Income of Unconsolidated Affiliates

	Three Months Ended	
(in millions)	March 31, 2017	March 31, 2016
Equity Income in unconsolidated affiliates - Reported	**$ 16**	**$ 37**
Adjustment:		
Receivables write-off - Fuji Xerox	30	-
Equity Income in unconsolidated affiliates - Adjusted	**$ 46**	**$ 37**