



Fourth Quarter 2018 Earnings

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<http://www.xerox.com/investor>



Forward-Looking Statements

This presentation, and other written or oral statements made from time to time by management contain “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “will”, “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management’s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include but are not limited to: our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; changes in economic and political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to manage changes in the printing environment and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; any potential termination or restructuring of our relationship with FUJIFILM Holdings Corporation (“Fujifilm”); and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of our 2017 Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the SEC. Xerox assumes no obligation to update any forward looking statements as a result of new information or future events or developments, except as required by law.

Financial Overview

FY Cash

FY OCF^{1,3}: \$1.14B, up \$168M YOY

FY FCF^{1,3}: \$1.05B, up \$183M YOY

Ending cash⁵: \$1.1B

Q4 Revenue

\$2.5B, down 7.8% or 6.1% CC¹

Equipment down 9.5% or 7.7% CC¹

Post Sale down 7.2% or 5.5% CC¹

Q4 Earnings

GAAP² EPS: \$0.56, up \$1.34 YOY

Adj¹ EPS: \$1.14, up \$0.11 YOY

FY Shareholder Returns

\$969M (92% of FCF¹) returned full year through share repurchase and dividends

Market Share

#1 Equipment Share and Managed Print Leader⁴

A3 share increase of 3 points YOY

Q4 Profitability

Gross margin: 40.0%, down 0.3 pts YOY

Adj¹ op margin: 16.1%, up 1.8 pts YOY

Focused on driving operational improvement to generate sustainable shareholder value

Note: all numerical comparisons shown above are on a year-over-year basis. ⁽¹⁾ Constant Currency (CC) and other adjusted measures: see Non-GAAP Financial Measures. ⁽²⁾ GAAP EPS from Continuing Operations. ⁽³⁾ OCF= Operating Cash Flow from Continuing Operations , FCF = Free Cash Flow from Continuing Operations. ⁽⁴⁾ Source equipment share leader: IDC and Internal Xerox estimates, Source leader in Managed Print: IDC. ⁽⁵⁾ Cash, Cash Equivalents and Restricted Cash.



Strategic Initiatives to Position Xerox for Success

1	Optimize operations for simplicity	<ul style="list-style-type: none">• Simplify operating model for greater accountability and efficiency• Optimize supply chain and heighten supplier competitiveness• Make it easier for customers and partners to do business with Xerox
2	Drive revenue	<ul style="list-style-type: none">• Service customers via channels that most effectively meet their needs• Enhance capabilities to sell higher-value services and integrated solutions• Expand software and services offerings
3	Re-energize innovation	<ul style="list-style-type: none">• Capitalize on growing industry trends in AI, Analytics and IoT• Leverage existing expertise to develop differentiated technology• Revamp innovation business model to focus on monetization
4	Focus on cash flow and increasing capital returns	<ul style="list-style-type: none">• Maximize cash flow generation• Return at least 50% of free cash flow to shareholders• Focus on ROI and IRR to make capital allocation decisions

Financial Performance

(in millions, except per share data)

P&L Measures	Q4 2018	B/(W) YOY
Revenue	\$ 2,533	\$ (214)
Operating Income – Adjusted ^{1,3}	409	17
Equity Income – Adjusted ¹	44	18
Other Expenses, net – Adjusted ¹	32	(3)
Net Income ²	137	333
Net Income – Adjusted ¹	280	8
GAAP EPS ²	0.56	1.34
EPS – Adjusted ¹	1.14	0.11

P&L Ratios	Q4 2018	B/(W) YOY
Gross Margin	40.0%	(0.3) pts
RD&E %	3.7%	0.2 pts
SAG %	21.9%	1.3 pts
Operating Margin – Adjusted ¹	16.1%	1.8 pts
Tax Rate – Adjusted ¹	27.9%	(1.8) pts

5 ⁽¹⁾ Adjusted Measures: see Non-GAAP Financial Measures. ⁽²⁾ Net Income and GAAP EPS from continuing operations.

⁽³⁾ Adjusted Operating Income includes adjusted Equity Income in the calculation.

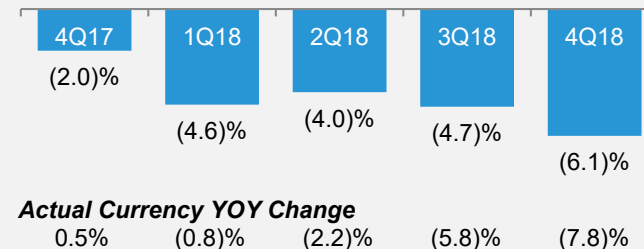


Revenue Performance

(in millions)

	Q4 2018	% Mix	YOY Change	
			AC	CC ³
Total Revenue	\$ 2,533	100%	(7.8)%	(6.1)%
North America	1,517	60%	(5.2)%	(4.9)%
International	929	37%	(7.2)%	(3.2)%
Other ¹	87	3%	(40.0)%	(40.0)%
Equipment Revenue	\$ 629	25%	(9.5)%	(7.7)%
Entry ²	66	11%	(2.9)%	0.2%
Mid-range	418	66%	(2.3)%	(1.2)%
High-end	138	22%	(16.9)%	(14.7)%
Other ²	7	1%	(78.8)%	(78.8)%
Post Sale	\$ 1,904	75%	(7.2)%	(5.5)%

Total Revenue Trend (CC³)



Installs⁴ (YOY Change)

	Q4 2018		FY 2018	
	Color	B&W	Color	B&W
Entry A4 MFPs	11%	9%	12%	17%
Mid-Range	3%	1%	10%	8%
High-End	(12)%	(34)%	(9)%	(18)%

Managed Document Services⁵

- 35% of total revenue
- 1.7% decline @ CC³

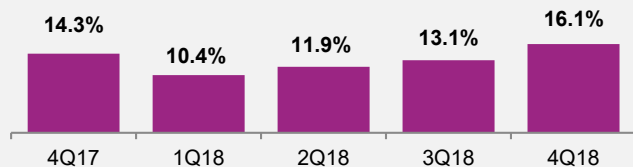
⁽¹⁾ Other total revenue includes OEM business, sales to Fuji Xerox and licensing. ⁽²⁾ Entry revenue excludes OEM business, which is included in Other equipment revenue. ⁽³⁾ Constant Currency (CC): see Non-GAAP Financial Measures. ⁽⁴⁾ Entry installations exclude OEM sales; Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales.

⁽⁵⁾ Managed Document Services (MDS) includes Managed Print Services (MPS) (including Xerox Business Solutions (MPS), Centralized Print Services (CPS) and Workflow Automation and excludes Communication and Marketing Solutions (CMS).



Profitability Performance

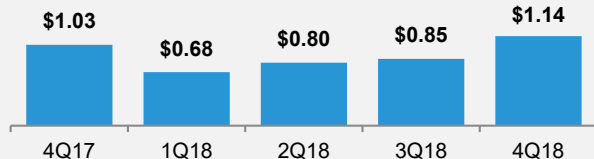
Adjusted¹ Operating Margin



Transaction Currency Impact

(0.3) pts 0.7 pts 0.6 pts 0.4 pts 0.1 pt

Adjusted¹ EPS



GAAP² \$(0.78)³ \$0.08 \$0.42 \$0.34 \$0.56

Profitability Walk YOY

	Adj ¹ OM	Adj ¹ EPS	
Q4 2017	14.3%	\$1.03	
Higher Xerox Operating Profit	~1.1%	~1 cent	Project Own It savings more than offset the impact of lower revenue as well as a 9 cent benefit in prior year from one-time items (licensing and consumables usage estimate change)
Higher Equity Income	~0.7%	~7 cents	
Higher Tax Rate and Other, net	N/A	~(4) cents	Higher tax rate and Other, net
Lower Shares	N/A	~7 cents	YOY impact of lower shares
Q4 2018	16.1%	\$1.14	

Cash Flow

(in millions)	Q4 2018	FY 2018
Pre-tax income from Continuing Ops	\$ 139	\$ 598
Non-cash add-backs ¹	246	701
Restructuring Payments	(40)	(170)
Pension Contributions	(33)	(144)
Working Capital, net ²	74	(65)
Change in Finance Assets ³	(20)	167
Other ⁴	49	53
Cash provided by Operations	\$ 415	\$ 1,140
Cash provide by (used in) Investing	\$ 11	\$ (29)
Cash used in Financing	\$ (486)	\$ (1,301)
Ending Cash, Cash Equivalents and Restricted Cash	\$ 1,148	\$ 1,148

Memo:

Free Cash Flow ⁵	\$ 398	\$ 1,050
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Operating cash flow (OCF)⁵:

- \$415M in Q4, up \$83M YOY
- \$1.14B FY, up \$168M YOY

Free cash flow (FCF)⁵:

- \$398M in Q4, up \$101M YOY
- \$1.05B FY, up \$183M YOY

Working Capital², net a source of \$74M in Q4, use of \$65M for full year driven by accrued compensation

CAPEX: \$17M in Q4, \$90M FY

Share Repurchase: \$416M in Q4, \$700M FY

⁽¹⁾ Non-cash add-backs include depreciation & amortization (excluding equipment on operating lease), provisions, stock-based compensation, defined benefit pension expense, restructuring charges and gain on sales of businesses and assets. ⁽²⁾ Working Capital, net includes accounts receivable, accounts payable, accrued compensation and inventory. ⁽³⁾ Includes equipment on operating leases (and its related depreciation) and finance receivables. ⁽⁴⁾ Includes other current and long-term assets and liabilities, derivative assets and liabilities, other operating, net, distributions from net income of unconsolidated affiliates and taxes. ⁽⁵⁾ Operating Cash Flow and Free Cash Flow: see Non-GAAP Financial Measures.



Capital Structure

Financing Debt \$3.4B

- Customer value proposition includes leasing of Xerox equipment
- Maintain 7:1 debt to equity leverage ratio on these finance assets

Core Debt \$1.8B

- Core debt level managed to be less than 2x free cash flow
- Net core debt of \$700M¹
- \$265M May 2018 Senior Notes repaid in Q2

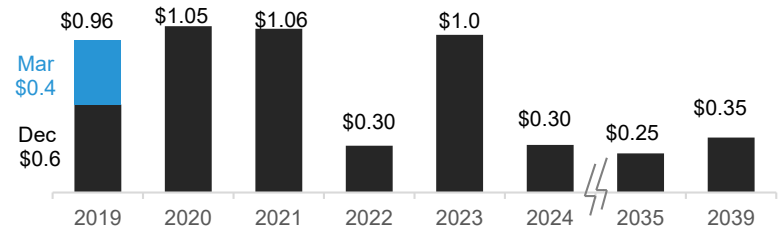
Pension \$1.2B (net unfunded status as of 12/31/18)

- ~\$775M of the \$1.2B net unfunded is attributable to certain plans that do not require funding
- Overall net global funded status of ~88%
- Funded status improved by \$200M from 12/31/17

As of Dec 31, 2018 (\$B)

	Finance Assets	Debt	Cash
Financing	\$ 3.9	\$ 3.4	
Core	-	1.8	
Total Xerox	\$ 3.9	\$ 5.2	\$ 1.1

Debt Maturity Ladder (\$B)



⁽¹⁾ Net core debt equals core debt net of cash

2019 Guidance

	2018 Actuals	2019 Guidance	Assumptions
Revenue (CC) ¹	(4.9)%	Down ~5%	
Adjusted ¹ Operating Margin ²	11.6%	12.6% - 13.1%	Driven by benefits from Project Own It
GAAP EPS	\$1.38	\$2.60 - \$2.70	Does not include the benefit of any 2019 share repurchases
Adjusted ¹ EPS	\$3.46	\$3.70 - \$3.80	
Operating Cash Flow	\$1.14B	\$1.15B - \$1.25B	
Free Cash Flow ¹	\$1.05B	\$1.0B - \$1.1B	Assumes CAPEX of ~\$150M; up \$60M YOY
<u>Capital Allocation</u>			
Dividends ³	\$269M	~\$250M	Committed to >50% of Annual Free Cash Flow returned through dividends and share repurchases
Share Repurchase	\$700M	At least \$300M	
Unallocated		\$450M to \$550M	

⁽¹⁾ Constant Currency (CC) and other adjusted measures: see Non-GAAP Financial Measures. ⁽²⁾ Adjusted Operating Margin defined as Gross Profit minus RD&E and SAG divided by Total Revenue (**Note:** no longer includes Equity Income) ⁽³⁾ Includes common and preferred dividends



Summary

- Q4 **adjusted¹ EPS grew over 10%** for strong close to 2018
- Q4 adjusted¹ Operating Margin expanded 180 basis points year over year driven by **progress on Project Own It**
- Delivered **\$1.05B of Free Cash Flow¹** for full year, above guidance
- **Committed to shareholder returns**, \$969M in 2018 (92% of FCF¹)
- **Investor day on February 5th** to provide more details on strategy and longer term financial expectations

Appendix

Revenue Trend

(in millions)	2016		2017					2018				
	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	
Total Revenue	\$10,771	\$2,454	\$2,567	\$2,497	\$2,747	\$10,265	\$2,435	\$2,510	\$2,352	\$2,533	\$9,830	
% Change	(6.1)%	(6.2)%	(8.1)%	(5.0)%	0.5%	(4.7)%	(0.8)%	(2.2)%	(5.8)%	(7.8)%	(4.2)%	
CC ¹ % Change	(4.3)%	(4.3)%	(6.4)%	(5.9)%	(2.0)%	(4.7)%	(4.6)%	(4.0)%	(4.7)%	(6.1)%	(4.9)%	
Post Sale²	\$8,300	\$1,941	\$2,011	\$1,966	\$2,052	\$7,970	\$1,936	\$1,949	\$1,841	\$1,904	\$7,630	
% Change	(4.8)%	(5.8)%	(5.6)%	(3.8)%	(0.7)%	(4.0)%	(0.3)%	(3.1)%	(6.4)%	(7.2)%	(4.3)%	
CC ¹ % Change	(2.9)%	(3.9)%	(3.7)%	(4.7)%	(3.2)%	(3.9)%	(4.1)%	(5.0)%	(5.2)%	(5.5)%	(5.0)%	
Post Sale % Revenue	77%	79%	78%	79%	75%	78%	80%	78%	78%	75%	78%	
Equipment²	\$2,471	\$513	\$556	\$531	\$695	\$2,295	\$499	\$561	\$511	\$629	\$2,200	
% Change	(10.0)%	(7.4)%	(16.1)%	(9.4)%	4.0%	(7.1)%	(2.7)%	0.9%	(3.8)%	(9.5)%	(4.1)%	
CC ¹ % Change	(8.7)%	(5.7)%	(14.8)%	(10.3)%	1.7%	(7.3)%	(6.4)%	(0.6)%	(2.7)%	(7.7)%	(4.5)%	
Memo:												
OEM & CMS impact on Total Revenue	(0.4) pts	(0.9) pts	(0.6) pts	(0.3) pts	(0.7) pts	(0.6) pts	(0.7) pts	(1.3) pts	(1.4) pts	(1.2) pts	(1.2) pts	

Non-GAAP Financial Measures

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

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.
- Restructuring and related costs: Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our transformation programs 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 transformation programs 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-GAAP Financial Measures (cont'd)

- 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) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) 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. This approach is consistent with the classification of these costs as non-operating in other expenses, net as a result of our adoption of ASU 2017-07 - Reporting of Retirement Related Benefit Costs in 2018. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.
- Transaction and related costs, net: Transaction and related costs, net are expenses incurred in connection with Xerox's planned combination transaction with Fuji Xerox, which was terminated in May 2018, as well as costs and expenses related to the previously disclosed settlement agreement reached with certain shareholders and litigation related to the terminated transaction and other shareholder actions. These costs are considered incremental to our normal operating charges and were incurred or are expected to be incurred solely as a result of the planned combination transaction and the related shareholder settlement agreement and litigation. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.
- Restructuring and other charges - Fuji Xerox: We adjust our 25% share of Fuji Xerox's net income for similar items noted above such as Restructuring and related costs and Transaction and related costs, net based on the same rationale discussed above.
- Other discrete, unusual or infrequent items: We excluded the following items given their discrete, unusual or infrequent nature and their impact on our results for the period.
Fourth Quarter and Full Year 2018 - Contract termination costs associated with a minimum purchase commitment for IT services.
Fourth Quarter and Full Year 2017 - Losses on early extinguishment of debt.
Fourth Quarter and Full Year 2017 and 2018 - impacts associated the Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017. See the "Income Taxes" section for further explanation.

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 (cont'd)

Adjusted Operating Income/Margin

We calculate and utilize adjusted operating income and margin measures by adjusting our reported pre-tax income and margin amounts. In addition to the costs and expenses noted as adjustments for our Adjusted Earnings measures, adjusted operating income and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and 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. Adjusted operating income and margin also include Equity in net income (loss) of unconsolidated affiliates. Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox's net income. In 2019 we plan on modifying the definition of Adjusted operating margin to exclude Equity in net income (loss) of unconsolidated affiliates - accordingly the full-year 2019 guidance for adjusted operating margin is compared to a revised full-year 2018 adjusted operating margin on the same basis.

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." This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. The constant currency impact for signings growth is calculated on the basis of plan currency rates. 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 operating cash flows from continuing operations by subtracting amounts related to capital expenditures. 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. In 2017, we also adjusted operating cash flows for the impacts associated with the incremental voluntary contributions to our U.S. defined benefit pension plans and the termination of our accounts receivable sales programs in the fourth quarter 2017. We adjusted for these impacts due to the one-time nature of the actions as well as to enable investors to better understand and analyze our operating cash flows as compared to prior periods and expected future trends.

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:



Net Income (Loss) and EPS reconciliation

(in millions, except per share amounts)	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017		Year Ended December 31, 2018		Year Ended December 31, 2017	
	Net	Diluted	Net	Diluted	Net	Diluted	Net	Diluted
	Income	EPS	Income	EPS	Income	EPS	Income	EPS
Reported ⁽¹⁾	\$ 137	\$ 0.56	\$ (196)	\$ (0.78)	\$ 361	\$ 1.38	\$ 192	\$ 0.70
Restructuring and related costs	67		24		158		216	
Amortization of intangible assets	12		12		48		53	
Transaction and related costs, net	5		9		68		9	
Non-service retirement-related costs	67		59		150		188	
Loss on early extinguishment of debt	-		7		-		20	
Contract termination costs - IT services	43		-		43		-	
Income tax on adjustments ⁽²⁾	(50)		(44)		(119)		(166)	
Restructuring and other charges - Fuji Xerox ⁽³⁾	5		1		95		10	
Tax Act	(6)		400		89		400	
Remeasurement of unrecognized tax positions	-		-		-		(16)	
Adjusted	\$ 280	\$ 1.14	\$ 272	\$ 1.03	\$ 893	\$ 3.46	\$ 906	\$ 3.45
Weighted average shares for adjusted EPS ⁽⁴⁾		246		264		258		263
Fully diluted shares at end of period ⁽⁵⁾		240						

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

⁽²⁾ Refer to Effective Tax Rate reconciliation.

⁽³⁾ Other charges in 2018 represent costs associated with the terminated combination transaction.

⁽⁴⁾ For those periods that exclude the preferred stock dividend the average shares for the calculations of diluted EPS include 7 million shares associated with our Series B convertible preferred stock, as applicable

⁽⁵⁾ Represents common shares outstanding at December 31, 2018 as well as shares associated with our Series B convertible preferred stock plus potential dilutive common shares as used for the calculation of diluted earnings per share for the fourth quarter 2018.



Effective Tax Rate reconciliation

(in millions)	Three Months Ended December 31, 2018			Three Months Ended December 31, 2017			Year Ended December 31, 2018			Year Ended December 31, 2017		
	Pre-Tax Income	Income		Pre-Tax Income	Income		Pre-Tax Income	Income		Pre-Tax Income	Income	
		Tax Expense	Effective Tax Rate		Tax Expense	Effective Tax Rate		Tax Expense	Effective Tax Rate		Tax Expense	Effective Tax Rate
Reported ⁽¹⁾	\$ 139	\$ 37	26.6%	\$ 226	\$ 444	196.5%	\$ 598	\$ 257	43.0%	\$ 570	\$ 481	84.4%
Non-GAAP Adjustments ⁽²⁾	194	50		111	44		467	119		486	166	
Tax ACT	-	6		-	(400)		-	(89)		-	(400)	
Remeasurement of unrecognized tax positions	-	-		-	-		-	-		-	16	
Adjusted ⁽³⁾	\$ 333	\$ 93	27.9%	\$ 337	\$ 88	26.1%	\$ 1,065	\$ 287	26.9%	\$ 1,056	\$ 263	24.9%

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

⁽²⁾ Refer to Net Income (Loss) 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 Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

Operating Income/Margin reconciliation

(in millions)	Three Months Ended December 31, 2018			Three Months Ended December 31, 2017			Year Ended December 31, 2018			Year Ended December 31, 2017		
	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported⁽¹⁾	\$139	\$2,533	5.5%	\$226	\$2,747	8.2%	\$598	\$9,830	6.1%	\$570	\$10,265	5.6%
Adjustments:												
Restructuring and related costs	67			24			158			216		
Amortization of intangible assets	12			12			48			53		
Transaction and related costs, net	5			9			68			9		
Equity in net income of unconsolidated affiliates	39			25			33			115		
Restructuring and other charges - Fuji Xerox ⁽²⁾	5			1			95			10		
Other expenses, net ^{(3) (4)}	142			95			268			329		
Adjusted	\$409	\$2,533	16.1%	\$392	\$2,747	14.3%	\$1,268	\$9,830	12.9%	\$1,302	\$10,265	12.7%
Equity in net income of unconsolidated affiliates	(39)			(25)			(33)			(115)		
Restructuring and other charges - Fuji Xerox ⁽²⁾	(5)			(1)			(95)			(10)		
Adjusted (Effective for 2019)	\$365	\$2,533	14.4%	\$366	\$2,747	13.3%	\$1,140	\$9,830	11.6%	\$1,177	\$10,265	11.5%

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

⁽²⁾ Other charges in 2018 represent costs associated with the terminated combination transaction.

⁽³⁾ Includes non-service retirement-related costs of \$67 million and \$59 million, and \$150 million and \$188 million for the three and twelve months ended December 31, 2018 and 2017, respectively.

⁽⁴⁾ Includes a \$43 million penalty associated with the termination of an IT services arrangement, for the three and twelve months ended December 31, 2018.

Other expenses, net

(in millions)	Three Months Ended December 31,	
	2018	2017
Reported	\$ 142	\$ 95
Non-service retirement-related costs	(67)	(59)
Contract termination costs - IT services	(43)	-
Loss on early extinguishment of debt	-	(7)
Adjusted	\$ 32	\$ 29

Equity in net income of unconsolidated affiliates

(in millions)	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
Reported	\$39	\$25	\$33	\$115
Restructuring and other charges - Fuji Xerox ⁽¹⁾	5	1	95	10
Adjusted	\$44	\$26	\$128	\$125

⁽¹⁾ Other charges in 2018 represent costs associated with the terminated combination transaction.

Free Cash Flow reconciliation

(in millions)	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2018	2017	Change
Reported⁽¹⁾	\$415	(\$149)	\$564	\$1,140	(\$179)	\$1,319
Incremental Voluntary contributions to U.S. defined benefit pension plans	—	—	—	—	500	(500)
Collections on beneficial interests received in sales of receivables	—	64	(64)	—	234	(234)
Elimination of certain accounts receivables sales programs	—	350	(350)	—	350	(350)
Restricted cash - classification change ⁽²⁾	—	57	(57)	—	67	(67)
Other	—	10	(10)	—	—	—
Operating Cash Flows from Continuing Operations - Adjusted	\$415	\$332	\$83	\$1,140	\$972	\$168
Capital expenditures	(17)	(35)	18	(90)	(105)	15
Free Cash Flow from Continuing Operations	\$398	\$297	\$101	\$1,050	\$867	\$183

⁽¹⁾Net cash provided by (used in) operating activities from continuing operations.

⁽²⁾Per ASU 2016-18, Statement of Cash Flows - Restricted Cash, restricted cash and restricted cash equivalents should be included with Cash and cash equivalents when reconciling beginning and end-of-period amounts per the Statement of Cash Flows.

Net Income and EPS FY 2019 Guidance reconciliation

(in millions, except per share amounts)	FY 2019	
	Net Income	EPS
Estimated ⁽¹⁾	\$ 635	~ \$2.60 - \$2.70
Adjustments:		
Restructuring and related costs ⁽²⁾	225	
Amortization of intangible assets	40	
Non-service retirement-related costs	90	
Income tax on adjustments	(90)	
Adjusted	<u>\$ 900</u>	~ \$3.70 - \$3.80
Weighted average shares for adjusted EPS ⁽³⁾		~ 240

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

⁽²⁾ Excludes any potential Fuji Xerox restructuring.

⁽³⁾ Fully diluted shares at the end of 2018.

Operating Income/Margin FY 2019 Guidance reconciliation

(in millions)	FY 2019		
	Profit	Revenue	Margin
Estimated ⁽¹⁾	\$ 705	\$ 9,340	~ 7.2% - 7.7%
Adjustments:			
Restructuring and related costs	225		
Amortization of intangible assets	40		
Non-service retirement-related costs	90		
Other Expenses, net	140		
Adjusted	<u>\$ 1,200</u>	<u>\$ 9,340</u>	~ 12.6% - 13.1%

⁽¹⁾ Pre-Tax Income and revenue from continuing operations

Note: The above reconciliation does not reflect any translation currency impact.

Free Cash Flow FY 2019 Guidance reconciliation

(in millions)	Free Cash Flow FY 2019
Operating Cash Flow ⁽¹⁾	\$1,150 - \$1,250
Less: capital expenditures	(150)
Free Cash Flow	\$1,000 - \$1,100

⁽¹⁾Net cash provided by operating activities from continuing operations.

