Second Quarter 2016

Non-GAAP Financial Measures

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Non-GAAP Financial Measures

NOTE: In 2016 we revised our calculation of Adjusted Earnings Measures to exclude the following items in addition to the amortization of intangibles:

- Restructuring and related costs including those related to Fuji Xerox
- The non-service related elements of our defined benefit pension and retiree health plan costs (retirement related)
- Separation costs

When these measures are presented in 2016, the prior year measures will be revised accordingly to conform to the changes.

"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
- 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.

Separation costs: Separation costs are expenses incurred in connection with Xerox's planned separation into two independent, publicly traded companies. Separation costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services related to the separation transaction as well as costs associated with the operational separation of the two companies, such as those related to human resources, brand management, real estate and information management to the extent not capitalized. Separation costs also include the costs associated with bonuses and restricted stock grants awarded to employees for retention through the separation as well as incremental income tax expense related to the reorganization of legal entities and operations in order to effect the legal separation of the Company. These costs are incremental to normal operating charges and are being incurred solely as a result of the separation transaction. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

Non-GAAP Financial Measures

"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 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.

"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." In 2016 we revised our calculation of the currency impact on revenue growth, or constant currency revenue growth, to include the currency impacts from the developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe), which had been previously excluded from the calculation. As a result of economic changes in these markets over the past few years, we currently manage our exchange risk in our developing market countries in a similar manner to the exchange risk in our developed market countries, and therefore, the exclusion of the developing market countries from the calculation of the currency effect is no longer warranted. 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.

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 slides.

Q2 GAAP EPS to Adjusted EPS Track

(in millions, except per share amounts)	Three Months Ended June 30, 2016 Net Income	Three Months Ended June 30, 2016 Diluted EPS	Three Months Ended June 30, 2015 Net Income	Three Months Ended June 30, 2015 Diluted EPS
As Reported [(1)]	$ 155	**$ 0.15**	$ 107	**$ 0.09**
Amortization of intangible assets	78		79	
Restructuring and related costs - Xerox	71		157	
Non-service retirement related costs	32		10	
Separation costs	28		-	
Income tax on adjustments [(2)]	(80)		(90)	
Tax related separation costs [(2)]	26		-	
Restructuring charges - Fuji Xerox	1		1	
Adjusted - revised	$ 311	**$ 0.30**	$ 264	**$ 0.23**
Weighted average shares - adjusted EPS [(3)]		1,049		1,132
Fully diluted shares at end of period [(4)]		1,049		

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

(2) Refer to Effective Tax Rate reconciliation.

(3) Average shares for the calculations of adjusted EPS include 27 million of shares associated with our Series A convertible preferred stock and therefore the related quarterly dividend of $6 million was excluded.

(4) Represents common shares outstanding at June 30, 2016 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 for the second quarter 2016.

GAAP EPS to Adjusted EPS Guidance Track

	Earnings Per Share	
	Q3 2016	FY 2016
GAAP EPS from Continuing Operations	$0.14 - $0.16	$0.45 - $0.55
Non-GAAP Adjustments	$0.12	$0.65
Adjusted EPS	$0.26 - $0.28	$1.10 - $1.20

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

Q2 Adjusted Operating Income/Margin

(in millions)	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported Pre-tax Income[1]	**$ 145**	**$ 4,385**	**3.3%**	**$ 74**	**$ 4,590**	**1.6%**
Adjustments:						
Amortization of intangible assets	78			79		
Restructuring and related costs - Xerox	71			157		
Non-service retirement-related costs	32			10		
Separation costs	28			-		
Other expenses, net	55			68		
Adjusted Operating Income/Margin	**$ 409**	**$ 4,385**	**9.3%**	**$ 388**	**$ 4,590**	**8.5%**

(1) Profit and revenue from continuing operations

Q2 Adjusted Other, Net

(in millions)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
Other expenses, net - Reported	**$ 55**	**$ 68**
Adjustments:		
Net income attributable to noncontrolling interests	3	5
Other expenses, net - Adjusted	**$ 58**	**$ 73**

Q2 Adjusted Effective Tax Rate

(in millions)	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax (Benefit) Expense	Effective Tax Rate
Reported[1]	**$ 145**	**$ 9**	**6.2%**	**$ 74**	**$ (9)**	**(12.2)%**
Non-GAAP Adjustments[2]	209	80		246	90	
Tax related separation costs	-	(26)		-	-	
Adjusted - revised [3]	**$ 354**	**$ 63**	**17.8%**	**$ 320**	**$ 81**	**25.3%**

(1) Pre-Tax Income and Income Tax (Benefit) Expense from continuing operations.
(2) Refer to Net Income/EPS reconciliation for details. Amounts exclude Fuji Xerox restructuring as these amounts are net of tax.
(3) The tax impact on 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.

Q2 Services Revenue Breakdown

(in millions)	Three Months Ended June 30, 2016	2015	% Change	CC % Change
Business Process Outsourcing	$ 1,630	$ 1,693	(4%)	(3%)
Document Outsourcing	840	833	1%	2%
Total Revenue - Services	**$ 2,470**	**$ 2,526**	(2%)	(1%)

Note: The above table excludes intercompany revenue.

Q2 Adjusted Key Financial Ratios

	Three Months Ended June 30,					
	Reported			Adjusted [1]		
	2016	2015	B/(W)	2016	2015	B/(W)
Total Gross Margin	31.2%	31.1%	0.1 pts.	31.4%	31.2%	0.2 pts.
RD&E as a % of Revenue	2.9%	3.1%	0.2 pts.	2.8%	3.1%	0.3 pts.
SAG as a % of Revenue	19.7%	19.7%	- pts.	19.3%	19.6%	0.3 pts.

(1) See “Non-GAAP Financial Measures” section for an explanation of the Non-GAAP financial measures.

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Q2 Gross Margin, RD&E and SAG Reconciliation

(in millions)	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	As Reported[(1)]	Non-service retirement-related costs	Adjusted	As Reported[(1)]	Non-service retirement-related costs	Adjusted
Gross Profit	$ 1,367	$ 12	$ 1,379	$ 1,426	$ 4	$ 1,430
RD&E	128	(6)	122	142	(1)	141
SAG	862	(14)	848	906	(5)	901
Gross Margin	31.2%		31.4%	31.1%		31.2%
RD&E as % of Revenue	2.9%		2.8%	3.1%		3.1%
SAG as % of Revenue	19.7%		19.3%	19.7%		19.6%

(1) Revenue and costs from continuing operations.