



Second Quarter 2017 Earnings

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August 1, 2017
<http://www.xerox.com/investor>



Forward Looking Statements

This presentation contains “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 conditions, 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 markets 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; the risk that we do not realize all of the expected strategic and financial benefits from the separation and spin-off of our Business Process Outsourcing business; 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 2016 Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission (“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.

Forward Looking Statements

Fuji Xerox Co., Ltd. (“Fuji Xerox”) is a joint venture between Xerox Corporation and Fujifilm Holdings Corporation (“Fujifilm”) in which Xerox holds a noncontrolling 25% equity interest and Fujifilm holds the remaining equity interest. Given our status as a minority investor, we have limited contractual and other rights to information with respect to Fuji Xerox matters. On April 20, 2017, Fujifilm publicly announced it had formed an independent investigation committee (IIC) to conduct a review of the appropriateness of the accounting practices at Fuji Xerox’s New Zealand subsidiary. Fujifilm publicly announced that the IIC completed its review during the second quarter 2017 and identified additional adjustments from the amount initially disclosed by Fujifilm bringing the total aggregate adjustments to approximately JPY 40 billion (approximately \$360 million based on the Yen/U.S. Dollar spot exchange rate at March 31, 2017 of 111.89). The increase in adjustments related to subsequent findings by the IIC in their investigation primarily related to misstatements at Fuji Xerox’s Australian subsidiary, as well as certain other adjustments. We determined that our cumulative share of the revised amount of total adjustments identified as part of the investigation was approximately \$90 million and impacted our fiscal years 2009 through 2017. Based on our procedures, as well as those performed by Fuji Xerox and Fujifilm, we concluded that the cumulative correction of the misstatements in our historical financial statements would have had a material effect on our current year consolidated financial statements. Accordingly, we concluded that we should revise our previously issued annual and interim consolidated financial statements for 2014, 2015 and 2016 and the first quarter of 2017 the next time they are filed. The Fujifilm audited financial statements were issued in Japan on July 31, 2017, and our review of this matter is substantially completed. Although we are not aware of any issues that will cause further adjustments to our financial statements, Xerox continues to finalize its review of this matter and additional issues may be identified that may require adjustments to the amount and timing of charges that we have already recognized as part of our revision. In addition, we can provide no assurances relative to the outcome of any potential governmental investigations or any consequences thereof.

For other related information, please visit the Company’s investor relations website at <https://www.xerox.com/investor>.

Second-Quarter Overview

Cost productivity and lower interest expense offset revenue declines

- EPS consistent with expectations; higher tax rate drives year-over-year decline
- Equipment & MDS revenue impacted by new product transition; post sale revenue stable
- Operating margin year-over-year expansion continues
- Solid operating cash flow

Revenue

\$2.57B, down 8.1% or 6.4% CC¹

Equipment down 16.0% or 14.6% CC¹

Post Sale down 5.7% or 3.9% CC¹

Profitability

Adj¹ operating margin: 13.3%, up 40 bps YOY

GAAP EPS^{2,3}: 63 cents, down 12 cents YOY

Adj¹ EPS³: 87 cents, down 11 cents YOY

Cash

Operating cash flow from continuing operations: \$343M, up \$84M YOY

Free Cash Flow¹: \$322M

Ending Cash: \$1.25B

¹ Constant Currency (CC), Adjusted Operating Margin, Adjusted EPS and Free Cash Flow: see Non-GAAP Financial Measures.

² GAAP EPS from Continuing Operations.

³ EPS measure reflects one-for-four reverse stock split.



Second-Quarter Highlights

Global Launch Events

16 events in 14 cities

100+ prospective channel partners

1500+ customers and prospects

~7000 sales people (indirect and direct)

Customer Reaction

- Customer and partner feedback overwhelmingly positive
- Initial wins across the globe
- Significant growth in apps

Channel Expansion

- GIS acquisition and 30+ new multi-brand dealers
- New marketing kits
- New productivity packs
- MPS accreditation program

Industry Recognition

- Numerous positive product reviews, including PC Magazine, ChannelProNetwork, Small Business Edge and Better Buys
- Keypoint Intelligence - Buyers Lab “Pacesetter” and “Summer Pick” awards
- Quocirca positioned Xerox as leader in worldwide managed print services for the eighth year

Financial Performance

(in millions, except per share data)

P&L Measures	Q2 2017	B/(W) YOY
Revenue	\$ 2,567	\$ (226)
Operating Income – Adjusted ¹	342	(19)
Equity Income	20	(6)
Other Expenses, net	34	14
Net Income ²	166	(30)
Net Income – Adjusted ¹	227	(30)
GAAP EPS ^{2,3}	0.63	(0.12)
EPS – Adjusted ^{1,3}	0.87	(0.11)

P&L Ratios (Adjusted¹)	Q2 2017	B/(W) YOY
Gross Margin	40.7%	0.5 pts
RD&E %	4.0%	- pts
SAG %	24.3%	(0.1) pts
Operating Income Margin	13.3%	0.4 pts
Tax Rate	27.0%	(8.5) pts

¹ Adjusted Measures: see Non-GAAP Financial Measures.

² Net Income and EPS from Continuing Operations attributable to Xerox.

³ EPS measure reflects one-for-four reverse stock split.

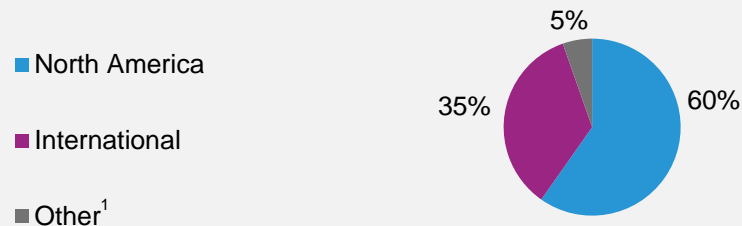


Revenue Performance

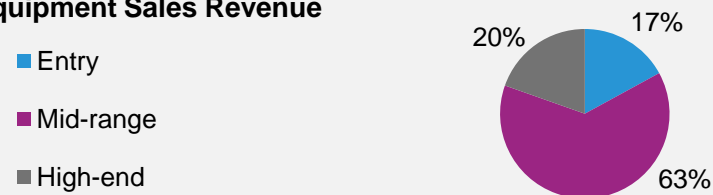
(in millions)

	Q2 2017	YOY Change	
		AC	CC ³
Total Revenue	\$ 2,567	(8.1)%	(6.4)%
North America	1,534	(7.3)%	(6.9)%
International	895	(8.9)%	(4.6)%
Other ¹	138	(12.1)%	(12.1)%
Equipment Revenue	\$ 546	(16.0)%	(14.6)%
Entry	92	(9.8)%	(8.6)%
Mid-range	342	(17.6)%	(16.3)%
High-end	106	(15.9)%	(13.9)%
Other	6	N/M	N/M
Managed Document Services²	\$ 834	(6.0)%	(3.9)%

Total Revenue by Geographic Sales Channel



Equipment Sales Revenue



Managed Document Services²: 32% of Total Revenue

¹ Other total revenue includes OEM business, sales to Fuji Xerox and licensing.

² Managed Document Services (MDS) includes Managed Print Services (MPS) (including Global Imaging Systems MPS), Centralized Print Services (CPS) and Workflow Automation and excludes Communication and Marketing Solutions (CMS).

³ Constant Currency (CC): see Non-GAAP Financial Measures.



Key Performance Metrics

Strategic Growth Areas

Offering Focus Areas



MPS & Workflow Automation



A4 MFPs



Production Color

Jun YTD 2017 Results

↓ 1%

YOY revenue growth at CC¹

39%

% of Revenue in Strategic Growth Areas

↑ 2 pts

Mix shift YOY

Installs

Second Quarter 2017

(% change YOY)	Color	B&W
Entry A4 MFPs ²	24%	10%
Mid-Range ²	(15)%	(14)%
High-End ²	(9)%	(34)%

Signings

% Growth CC¹

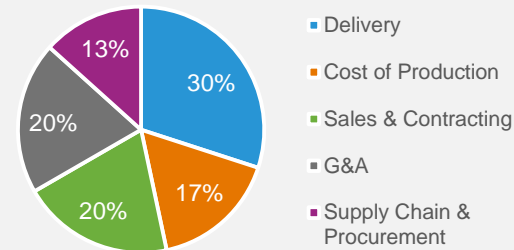
	Q2	YOY	TTM
Enterprise MDS	\$0.6B	(6.5)%	(5.3)%

Note: signings do not include GIS or Xerox Partner Print Services results

Strategic Transformation

2016 FY Gross Savings ³	\$550M
2017 Target	\$600M
Cumulative thru 2018 Target	\$1.5B+
YTD Restructuring	\$160M
FY Restructuring Target	\$225M

Sources of Productivity



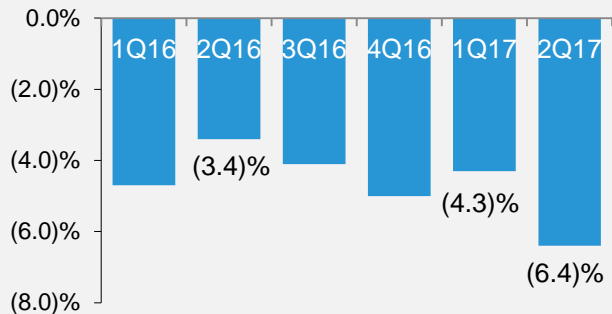
¹ Constant Currency (CC): see Non-GAAP Financial Measures.

² Entry installations exclude OEM sales; Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales.

³ Gross savings are the year over year savings, assuming similar operating levels.

Performance Trends

Revenue (CC¹)



- Equipment revenue, impacted by product launch timing, drove QOQ higher revenue decline

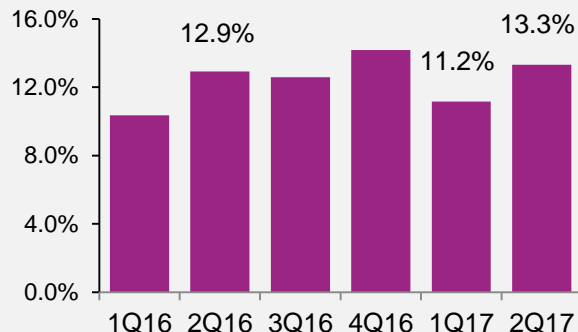
YOY change at CC¹

(4.7%) (3.4%) (4.1%) (5.0%) (4.3%) (6.4)%

Translation Currency

(2.1) pts (1.2) pts (1.5) pts (2.2) pts (1.9) pts (1.7) pts

Adjusted¹ Operating Margin



- Q2'17 margin within FY range of 12.5% to 13.5%

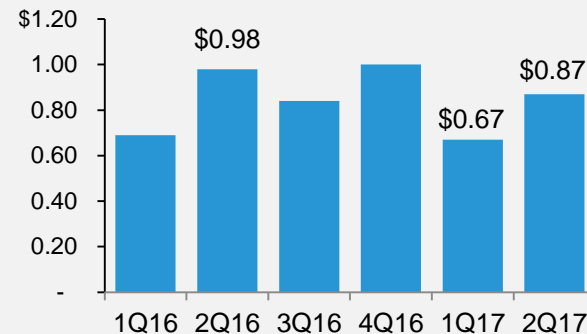
Adjusted¹ Operating Margin

10.4% 12.9% 12.6% 14.2% 11.2% 13.3%

Transaction Currency

(0.9) pts (0.3) pts (0.2) pts (0.7) pts (1.1) pts (1.0) pts

Adjusted¹ EPS³



- Higher YOY tax rate a negative 9 cent impact in Q2'17

Adj^{1,3} \$0.69 \$0.98 \$0.84 \$1.00 \$0.67 \$0.87

GAAP^{2,3} \$0.23 \$0.75 \$0.66 \$0.70 \$0.16 \$0.63

Total Currency

\$(0.08) \$(0.02) \$0.02 \$(0.06) \$(0.08) \$(0.09)

⁹ ¹ Constant Currency (CC), Adjusted Operating Margin and Adjusted EPS: see Non-GAAP Financial Measures.

² GAAP EPS from Continuing Operations.

³ EPS measure reflects one-for-four reverse stock split.



Cash Flow

Operating cash flow from continuing operations of \$343M Q2, \$533M H1

Continue to expect operating cash flow from continuing operations between \$700 and \$900 million FY

- Restructuring: \$127M in H1, expect \$250M FY
- Pension contributions: \$46M in H1, expect \$350M FY

Working Capital¹ drives YOY increase

Capex² of \$21M in Q2, \$47M H1

Cash used in Financing reflects dividend payments of \$68 million

(in millions)	Q2 2017	Q2 2016
Pre-tax Income from Continuing Ops	\$ 193	\$ 191
Non-cash add-backs ³	165	177
Restructuring payments	(67)	(24)
Pension Contributions	(23)	(34)
Working Capital, net ¹	(63)	(120)
Change in Finance Assets ⁴	92	30
Other ⁵	46	39
Cash from Operations - Continuing Ops	\$ 343	\$ 259
Cash used in Investing - Continuing Ops	\$ (77)	\$ (34)
Cash used in Financing	\$ (80)	\$ (87)
Memo: Free Cash Flow⁶	\$ 322	\$ 221

¹ Working Capital, net includes accounts receivable, collections of deferred proceeds from sales of receivables, accounts payable and accrued compensation and inventory.

² CAPEX including Internal Use Software.

³ 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.

⁴ Includes equipment on operating leases and its related depreciation, finance receivables and collections on beneficial interest from sales of finance receivables.

⁵ 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.

⁶ Free Cash Flow: see Non-GAAP Financial Measures.



Capital Structure

Good progress optimizing capital structure post separation

Core debt level managed to maintain investment grade financial profile

>70% of Xerox debt supports finance assets

Customer Financing and Debt

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

Quarter-End June 30, 2017

(in billions)	Fin. Assets	Debt	Cash
Financing	\$ 4.2	\$ 3.6	
Core	—	1.4	
Total Xerox	\$ 4.2	\$ 5.0	\$ 1.2

Summary

**Focused on delivering
2017 commitments**

**Positioned in second half for improving
revenue with continued strong margins and
cash flow**

- Driving profitability and supporting investments through Strategic Transformation program
- Enabling progress on strategic growth initiatives; achieved important milestone with product introduction

Appendix

2017 Full-Year Guidance

P&L	Current	Prior*
Revenue	Down mid-single digits CC ¹	Down mid-single digits CC ¹
Operating Margin ¹	12.5% – 13.5%	12.5% – 13.5%
GAAP EPS ²	\$1.84 - \$2.08	\$1.76 - \$2.08
Adjusted EPS ^{1,3}	\$3.20 - \$3.44	\$3.20 - \$3.52

Cash Flow from Continuing Ops

Operating Cash Flow	\$700M - \$900M	\$700M - \$900M
Free Cash Flow ¹	\$525M - \$725M	\$525M - \$725M

¹ Constant Currency (CC), Operating Margin, Adjusted EPS and Free Cash Flow: see Non-GAAP Financial Measures.

² EPS from Continuing Operations. Current GAAP range reflects an expected lower level of non-service retirement costs than originally anticipated at the beginning of the year.

³ Adjusted EPS to GAAP EPS differences include non-service retirement related costs, restructuring and related costs, amortization of intangibles, as well as other discretely identified adjustments.

*Prior EPS guidance adjusted proportionally for the one-for-four reverse stock split.

Revenue Trend

	2016					2017		
(in millions)	Q1	Q2	Q3	Q4	FY	Q1	Q2	YTD
Total Revenue	\$2,615	\$2,793	\$2,629	\$2,734	\$10,771	\$2,454	\$2,567	\$5,021
<i>% Change</i>	(6.8)%	(4.6)%	(5.6)%	(7.2)%	(6.1)%	(6.2)%	(8.1)%	(7.2)%
<i>CC¹ % Change</i>	(4.7)%	(3.4)%	(4.1)%	(5.0)%	(4.3)%	(4.3)%	(6.4)%	(5.4)%
Post Sale²	\$2,073	\$2,143	\$2,056	\$2,080	\$8,352	\$1,952	\$2,021	\$3,973
<i>% Change</i>	(5.7)%	(4.2)%	(3.9)%	(5.5)%	(4.8)%	(5.8)%	(5.7)%	(5.8)%
<i>CC¹ % Change</i>	(3.3)%	(2.9)%	(2.2)%	(3.2)%	(2.9)%	(3.9)%	(3.9)%	(3.9)%
Post Sale % Revenue	79%	77%	78%	76%	78%	80%	79%	79%
Equipment²	\$542	\$650	\$573	\$654	\$2,419	\$502	\$546	\$1,048
<i>% Change</i>	(11.0)%	(5.7)%	(11.4)%	(12.1)%	(10.0)%	(7.4)%	(16.0)%	(12.1)%
<i>CC¹ % Change</i>	(9.7)%	(4.9)%	(10.4)%	(10.1)%	(8.7)%	(5.7)%	(14.6)%	(10.6)%
Memo:								
OEM and CMS impact on Total Revenue	(0.3) pts	(0.2) pts	(0.6) pts	(0.7) pts	(0.4) pts	(0.9) pts	(0.6) pts	(0.8) pts

¹ Constant currency: see Non-GAAP Financial Measures.

² Equipment sales revenue in 2016 has been revised to reclassify certain GIS equipment sales to Other sales, which are included in Post Sale revenue.

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
- 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, during the first quarter of 2017 we 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) a 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/Margin

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.

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:

Net Income and EPS reconciliation

(in millions, except per share amounts)	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS
As Reported ⁽¹⁾	\$ 166	\$ 0.63	\$ 196	\$ 0.75
Restructuring and related costs	40		47	
Amortization of intangible assets	15		16	
Non-service retirement-related costs	37		32	
Income tax on adjustments ⁽²⁾	(34)		(35)	
Restructuring charges - Fuji Xerox	3		1	
Adjusted	\$ 227	\$ 0.87	\$ 257	\$ 0.98
Dividends on preferred stock used in adjusted EPS calculation ⁽³⁾	\$ -		\$ -	
Weighted average shares for adjusted EPS ⁽³⁾		263		262
Fully diluted shares at end of period ⁽⁴⁾		263		

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

(2) Refer to Effective Tax Rate reconciliation.

(3) 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 A or Series B convertible preferred stock, as applicable.

(4) Represents common shares outstanding at June 30, 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 second quarter 2017.

EPS Guidance

	<u>FY 2017</u>
GAAP EPS from Continuing Operations	\$1.84 - \$2.08
Non-GAAP Adjustments	<u>1.36</u>
Adjusted EPS from Continuing Operations	<u><u>\$3.20 - \$3.44</u></u>

Note: Adjusted EPS guidance excludes non-service retirement related costs, restructuring and related costs, amortization of intangibles, as well as other discretely identified adjustments.

Effective Tax Rate reconciliation

(in millions)	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported ⁽¹⁾	\$ 193	\$ 43	22.3%	\$ 191	\$ 18	9.4%
Non-GAAP Adjustments ⁽²⁾	92	34		95	35	
Adjusted ⁽³⁾	\$ 285	\$ 77	27.0%	\$ 286	\$ 53	18.5%

(1) Pre-Tax Income and Income Tax Expense 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.

Operating Income/Margin reconciliation

(in millions)	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported ⁽¹⁾	\$ 193	\$ 2,567	7.5%	\$ 191	\$ 2,793	6.8%
Adjustments:						
Restructuring and related costs	40			47		
Amortization of intangible assets	15			16		
Non-service retirement-related costs	37			32		
Equity in net income of unconsolidated affiliates	20			26		
Restructuring Charges - Fuji Xerox	3			1		
Other expenses, net	34			48		
Adjusted	\$ 342	\$ 2,567	13.3%	\$ 361	\$ 2,793	12.9%

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

Free Cash Flow

(in millions)

	<u>Q2 2017 Actual</u>	<u>Q2 2016 Actual</u>	<u>FY 2017 Estimated</u>
Operating Cash Flow from Continuing Operations	\$ 343	\$ 259	\$ 700 - 900
Less: CAPEX (inclusive of Internal Use Software)	(21)	(38)	(175)
Free Cash Flow from Continuing Operations	<u>\$ 322</u>	<u>\$ 221</u>	<u>\$ 525 - 725</u>

Key Financial Ratios

<u>(in millions)</u>	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	As Reported ⁽¹⁾	Non-service retirement- related costs	Adjusted	As Reported ⁽¹⁾	Non-service retirement- related costs	Adjusted
Total Revenues	\$ 2,567	\$ -	\$ 2,567	\$ 2,793	\$ -	\$ 2,793
Total Gross Profit	1,031	14	1,045	1,112	12	1,124
Post Sale Revenue	2,021	-	2,021	2,143	-	2,143
Post Sale Gross Profit	875	14	889	919	12	931
RD&E	106	(4)	102	119	(6)	113
SAG	643	(19)	624	691	(14)	677
Total Gross Margin	40.2 %		40.7 %	39.8 %		40.2 %
Post Sale Gross Margin	43.3 %		44.0 %	42.9 %		43.4 %
RD&E as a % of Revenue	4.1 %		4.0 %	4.3 %		4.0 %
SAG as a % of Revenue	25.0 %		24.3 %	24.7 %		24.2 %

(1) Revenue and costs from continuing operations.

