



2016 Annual Report

2	Letter to Shareholders
6	Financial Measures
7	Non-GAAP Measures
8	Set the Page Free
10	Board of Directors
11	Officers
12	FYI
	2016 Form 10-K Insert

Financial Highlights

(in millions, except EPS)	2016	2015
Total revenue	\$10,771	\$11,465
Equipment sales	2,525	2,781
Post-sale/annuity revenue	8,246	8,684
Net income from continuing operations – Xerox	616	848
Adjusted net income ⁽¹⁾ – Xerox	921	978
Diluted earnings per share from continuing operations	0.58	0.77
Adjusted earnings per share ⁽¹⁾	0.88	0.89
Net cash provided by operating activities		
of continuing operations	1,018	1,078
Adjusted operating margin ⁽¹⁾	12.5%	12.7%

⁽¹⁾ See Non-GAAP Measures on page 7 for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.

Xerox Today

Xerox is innovating the way the world communicates, connects and works. We've been delivering technologies and solutions to transform how people work since our founding – and it is at the core of what we do today.

Highest rankings

from industry analysts for managed print and workflow automation services worldwide

Gold standard

recognition with listing on Dow Jones Sustainability World Index

≈\$11 billion

global business with the most comprehensive portfolio in the industry

35,000+ employees

and 5,000 partners serving customers in 160 countries

1.5+ million

devices managed by Xerox

\$1 billion

invested annually in R&D and engineering with our partner Fuji Xerox

11 years

on *Ethisphere* magazine's list of the world's most ethical companies

11,500

active patents



Fellow Shareholders:



Jeffrey Jacobson, Chief Executive Officer

“Xerox has world-renowned capabilities, industry-leading technology and know-how, and a talented, high-performing team dedicated to delivering exceptional service to our customers and partners.”



“As the new Xerox, we are refocused on leading the industry with market-making and disruptive solutions that redefine ‘print’ and change the way information is used and shared.”

Fellow Shareholders:

As I write my first shareholder letter as the CEO of Xerox, I am humbled by the opportunity of leading this storied company, aware of both the promising prospects and the challenges ahead, but, most of all, I am excited about what the future has in store for us.

Last year was an extraordinary and pivotal year for our company. On December 31, 2016, we completed the separation of Xerox and Conduent. We are now a new Xerox with a clearly defined mission: to innovate the way the world communicates, connects and works. It’s a mission, which, at its core, is about helping businesses and governments alike improve productivity, maximize profitability and increase customer satisfaction. From the introduction of the first automatic copier in 1959, to the advances we’re making today in printed electronics, personalization and workflow automation, we embody collaboration and communication. As the new Xerox, we are refocused on leading the industry with market-making and disruptive solutions that redefine “print” and change the way information is used and shared.

Our Results

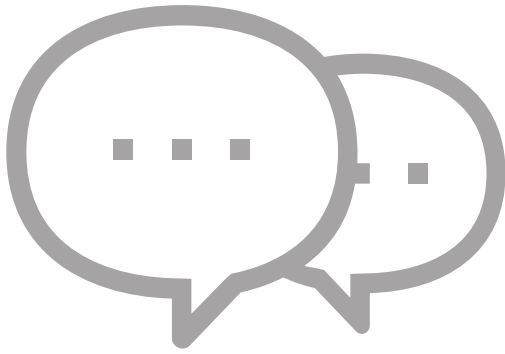
We remain committed to delivering attractive shareholder returns. You should expect nothing less. In this report, we share 2016 financial results that represent Xerox – without Conduent – to establish a baseline you can measure us against moving forward. Here is a summary of how we performed:

- Adjusted earnings per share⁽¹⁾ of \$0.88; GAAP earnings per share from continuing operations of \$0.58.
- Revenue of \$10.8 billion, down 6 percent or 4 percent on a constant currency basis⁽¹⁾ from 2015.

- Adjusted operating margin⁽¹⁾ of 12.5 percent, at the top of the range we expected.
- Operating cash flow from continuing operations of \$1,018 million.
- Year-end cash balance of \$2.2 billion, which includes \$1.0 billion of cash used for debt repayment in first quarter 2017.
- Announced plans to pay an annual dividend of 25 cents per share.

In 2016, we delivered strong margins and a healthy cash flow in the midst of preparing for and completing the separation. We also launched a three-year Strategic Transformation program with a goal of delivering at least \$1.5 billion of cost and productivity savings from 2016 to 2018. In the first year, we delivered \$550 million in gross savings – exceeding our goal – and we are on pace to meet our target for 2017 of \$600 million. But it is not just about the numbers. This program is improving our operational excellence and competitiveness, allowing us to both reinvest in the business and deliver attractive returns to shareholders. It is also helping us mitigate the impact of declining revenue, which we are aggressively addressing through our strategy.

As part of the program, we made numerous operational changes. We delayered the organization to streamline decision making and create an environment that enables a quicker go-to-market path. We advanced the use of automation in service delivery by leveraging automated supplies replenishment and remote solve to resolve break/fix issues on our products without dispatching technicians. Within our supply chain, we removed regional and functional barriers to move toward a truly global organization and made progress consolidating our total warehousing footprint.



Delivering More Value for Our Customers

I am always encouraged and re-energized by conversations I have with our customers. Serving our customers well – and helping them solve the challenges they face in their businesses – is at the heart of everything we do.

Our customers turn to our products and solutions to work more efficiently and bridge the gap between analog and digital processes. Here are a few examples of our efforts in 2016:

- We brought 35 workflow automation solutions to market as part of our managed document solutions. These new offerings address specific customer needs, acting as a bridge between our products and the important business and process workflows of our customers.
- We launched the ConnectKey®-enabled i-Series multifunction printers for the office. This line of multifunction printers promotes work collaboration by coming equipped with ready-to-use apps to speed up paper-dependent business processes. We also unveiled the Xerox App Gallery, an online portal where our customers can select and download multifunction printer-resident apps to add functionality and make our products work better for them.
- We continued to build out our high-end inkjet printing portfolio, adding two new inkjet presses – the cut-sheet Xerox Brenva® HD Production Inkjet Press and the continuous feed Xerox Trivor® 2400 Inkjet Press. Both will allow us to better meet our customers' needs in the growing inkjet market.

Pursuing Growth Opportunities

We're a \$10.8 billion company in an \$85 billion market, and, as I tell my team, that gives us ample opportunity to grow and expand. We hold leadership positions in key segments and serve a range of customers from small and medium-sized businesses (SMBs) to large enterprises, governments and graphic communications providers. It's a market we helped create and continue to lead.

Part of the work we did in 2016 was re-examining the market to evaluate how we compare with our competitors and better understand the changing needs of our customers and partners. While the overall market is declining, we identified components that are expanding at rates ranging from low single digit to double digits. Of our revenue in 2016, 38 percent came from these growing areas, and we are now implementing a plan to expand that proportion through a focus on the following strategic growth areas:

- Managed document services, especially managed print services in the SMB. We plan to extend our leadership in the vital services segment.
- Entry products, where pages are moving from single-function A4 sized printers to higher value A4 multifunction printers, where we are better positioned.
- The production cut-sheet color and emerging production inkjet markets, an area where we are historically strong and are making investments in newer technologies.

To pursue these opportunities, we have realigned our go-to-market model and we are expanding our channels to increase our reach and strengthen our relationships with our customers. Additionally, as the new Xerox, all of our investments will once again support our print technology and document services business. Our research, development and engineering efforts continue to be well-funded at

“We have a solid business model supported by an iconic brand, a market-leading portfolio, a strong reputation for putting our customers first and the best talent in the industry.”

approximately \$1 billion, including Fuji Xerox, and drive innovation in automation, workflow and content management, graphic communications, analytics and printing.

We're also poised to extend our overall market leadership with the largest product launch in Xerox history in 2017. Our fleet of new multifunction devices, which serve as a workplace assistant, will help our customers transform how they work with leading security, high-performance apps, on-the-go print capabilities and cloud connectivity. They will support growth areas across all of our channels in the A4 space and strengthen our mid-range A3 multifunction printer product portfolio. These product launches, combined with our leadership and expertise in managed print services, will strengthen our value proposition for distributors and resellers, helping drive growth in SMBs.


A New Xerox

We began 2017 as a new Xerox. We laid the foundation for the future in 2016, and this year is all about execution. Our Strategic Transformation program will continue to support strong cash generation and margin expansion, as well as our ability to reinvest in the business. We're building a strong balance sheet and we're focused on deploying our cash flow to drive attractive shareholder returns with a commitment to return over 50 percent of our free cash flow⁽¹⁾ to shareholders over time. Our strategy to capture opportunities in our strategic growth areas will help us change the trajectory of our top line and, over time, outperform the market.

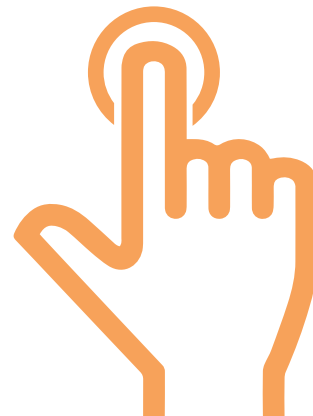
⁽¹⁾ We have discussed our results using non-GAAP measures. Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, these non-GAAP financial measures should be viewed in 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 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. 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 on page 7.

We have a solid business model supported by an iconic brand, a market-leading portfolio, a strong reputation for putting our customers first and the best talent in the industry. I continue to be impressed by the power of Xerox people, innovation and technology. It's an enviable combination of strengths that makes us unique, keeps us in an industry-leading position and gets me excited about coming to work each day.

Thank you for continuing on the journey with us. I look forward to the letter I'll write for our 2017 report, sharing our progress along with continued excitement for the future of Xerox.

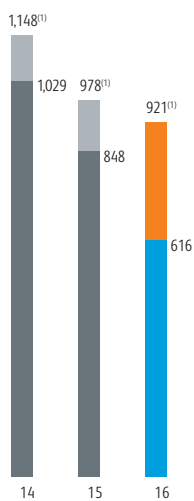


Jeffrey Jacobson
Chief Executive Officer



Financial Measures

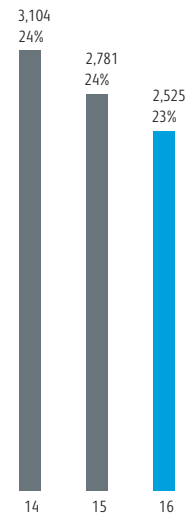
Net Income from Continuing Operations – Xerox
(in millions)



Total Revenue
(in millions)



Equipment Revenue
(in millions – percent of total revenue)



Post-Sale/Annuity Revenue
(in millions – percent of total revenue)



Net Cash from Operating Activities – Continuing Operations
(in millions)



Adjusted Operating Margin⁽¹⁾



⁽¹⁾ See Non-GAAP Measures on page 7 for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.

Non-GAAP Measures

Adjusted Earnings Per Share (EPS)

Year Ended December 31,

(in millions, except per share amounts)	2016		2015		2014	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
As Reported⁽¹⁾	\$ 616	\$ 0.58	\$ 848	\$ 0.77	\$ 1,029	\$ 0.86
Adjustments:						
Amortization of intangible assets	58		60		65	
Restructuring and related costs – Xerox	264		27		106	
Non-service retirement-related costs	131		116		79	
Income tax adjustments	(151)		(77)		(90)	
Restructuring charges – Fuji Xerox	3		4		3	
Deferred tax liability adjustment	—		—		(44)	
Adjusted EPS	\$ 921	\$ 0.88	\$ 978	\$ 0.89	\$ 1,148	\$ 0.96
Weighted average shares for adjusted EPS ⁽²⁾	1,024		1,076		1,199	

⁽¹⁾ Net income and EPS from continuing operations.

⁽²⁾ Average shares for the 2016 and 2015 calculation of adjusted EPS exclude 27 million shares associated with our Series A convertible preferred stock, and, therefore, the related annual dividend of \$24 million was included. Average shares for the 2014 calculation of adjusted EPS include 27 million shares associated with our Series A convertible preferred stock, and, therefore, the related annual dividend of \$24 million was excluded.

Operating Margin (in millions)

Year Ended December 31,

	2016			2015			2014		
	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported Pre-tax Income⁽¹⁾	\$ 568	\$ 10,771	5.3%	\$ 924	\$ 11,465	8.1%	\$ 1,090	\$ 12,679	8.6%
Adjustments:									
Amortization of intangible assets	58			60			65		
Restructuring and related costs – Xerox	264			27			106		
Non-service retirement-related costs	131			116			79		
Other expenses, net	200			195			185		
Equity in net income of unconsolidated affiliates	121			135			160		
Adjusted Operating Margin	\$ 1,342	\$ 10,771	12.5%	\$ 1,457	\$ 11,465	12.7%	\$ 1,685	\$ 12,679	13.3%

⁽¹⁾ Profit and revenue from continuing operations.

Set the Page Free

The evolution, some may say revolution, in technology is creating the expectation of breakthrough user experiences. As a result, we're witnessing a massive transformation in the workplace ... everything is connected, automation is necessary, personalization is expected.

Intelligent Automation

The combination of artificial intelligence and automation helps companies improve performance.

Personalization and Customization


Customer and user experiences are expected to be individualized.

Internet of Things

Pervasive intelligence and digital capabilities provide access to information anywhere, anytime.

Organizations often are faced with tradeoffs or compromises on their transformation journey. We don't believe there needs to be.

Additionally, every organization is at a different point on this journey, which has no end.



Xerox is in a unique position to help customers improve their business because we understand the power of “AND.” We offer solutions that are both:

**Productive AND
Personalized**

**Cost-Effective
AND Customized**

**Bridge the
Gap between the
Physical AND
Digital**

We bring breakthrough experiences to life in all the places where people communicate, collaborate and work, whether on a piece of paper or a digital page. **With Xerox, you can Set the Page Free, whatever that page may be.**

Board of Directors



Ursula M. Burns (8)
Chairman of the Board,
Xerox Corporation

Gregory Q. Brown (5)
Chairman and Chief
Executive Officer, Motorola
Solutions, Inc.

Jonathan Christodoro^{C, D}
(not pictured)
Former Managing Director,
Icahn Capital LP, a subsidiary
of Icahn Enterprises L.P.

Joseph J. Echevarria (1)
Former Chief Executive
Officer, Deloitte LLP

Richard J. Harrington^A (9)
Chairman and General
Partner, The Cue Ball
Group; retired President
and CEO, The Thomson
Corporation

William Curt Hunter^{A, D} (10)
Dean Emeritus, Tippie
College of Business,
University of Iowa

Jeffrey Jacobson (6)
Chief Executive Officer,
Xerox Corporation

Robert J. Keegan^{A, B} (3)
Retired Chairman,
CEO and President, The
Goodyear Tire & Rubber
Company; Loparex International,
Director and Chairman of the
Supervisory Board

Cheryl Gordon Krongard (12)
Private investor and former
Chief Executive Officer,
Rothschild Asset Management

Charles Prince^{B, C} (7)
Retired Chairman and
Chief Executive Officer,
Citigroup Inc.

Ann N. Reese^{C, D, E} (2)
Executive Director, Center for
Adoption Policy

Stephen H. Rusckowski^B (4)
Chairman, President and
Chief Executive Officer,
Quest Diagnostics

Sara Martinez Tucker^{C, D} (11)
Retired Chief Executive
Officer, National Math and
Science Initiative; former
Under Secretary of Education
in the U.S. Department of
Education

A: Member of the Audit
Committee
B: Member of the Compensa-
tion Committee
C: Member of the Corporate
Governance Committee
D: Member of the Finance
Committee
E: Lead Independent Director

Officers

Jeffrey Jacobson
Chief Executive Officer

Robert Birkenholz
Vice President
Treasurer

Kathleen S. Fanning
Vice President
Vice President, Worldwide Taxes

Michael D. Feldman
Executive Vice President
President, North America Operations

Darrell L. Ford
Executive Vice President
Chief Human Resources Officer

Xavier Heiss
Vice President
Controller

Stephen P. Hoover
Senior Vice President
Chief Technology Officer

Yehia A. Maaty
Senior Vice President
Chief Delivery Officer

Joseph H. Mancini, Jr.
Vice President
Chief Accounting Officer

Sarah Hlavinka McConnell
Executive Vice President
General Counsel and
Corporate Secretary

Ivy Thomas McKinney
Vice President
Deputy General Counsel and
Chief Ethics Officer

Farooq A. Muzaffar
Senior Vice President
Chief Strategy and
Marketing Officer

William F. Osbourn, Jr.
Executive Vice President
Chief Financial Officer

Hervé N. Tessler
Executive Vice President
President, International Operations

Kevin M. Warren
Executive Vice President
Chief Commercial Officer

Douglas H. Marshall
Assistant Secretary

Carol A. McFate
Assistant Treasurer
Chief Investment Officer

Shareholder Information

For investor information, including comprehensive earnings releases: www.xerox.com/investor or call 888.979.8378.

For shareholder services, call 800.828.6396 (TDD: 800.368.0328) or 781.575.3222; or write to Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170; or use email available at www.computershare.com.

Annual Meeting

Tuesday, May 23, 2017, 9 a.m. EDT
301 Merritt 7
Norwalk, CT 06851-1056

Proxy material mailed on April 10, 2017 to shareholders of record March 24, 2017.

Investor Contacts

Jennifer Horsley
jennifer.horsley@xerox.com

Maria Fernanda Cala
maria.cala@xerox.com

This annual report also is available online at www.xerox.com/investor.

Electronic Delivery Enrollment

Xerox offers shareholders the convenience of electronic delivery, including:

- Immediate receipt of the Proxy Statement and Annual Report
- Online proxy voting

Registered Shareholders, visit:

www.computershare.com/investor
You are a registered shareholder if you have your stock certificate in your possession or if the shares are being held by our transfer agent, Computershare.

Beneficial Shareholders, visit:

<http://enroll.icsdelivery.com/xrx>
You are a beneficial shareholder if you maintain your position in Xerox within a brokerage account.

How to Reach Us

Xerox Corporation

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United States
203.968.3000

Xerox International Operations

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+44.1895.251133

Fuji Xerox Co., Ltd.

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Tokyo, Japan 107-0052
+81.3.6271.5111

Products and Services

www.xerox.com or by phone:
800.ASK.XEROX (800.275.9376)

Additional Information

The Xerox Foundation

www.xerox.com/foundation
Michele Cahn, President
202.414.1288
michele.cahn@xerox.com

Global Diversity and Inclusion Programs and EEO-1 Reports

www.xerox.com/diversity
Beverly Stallings-Johnson
Global Diversity and Inclusion Leader
614.861.1974
beverly.stallings-johnson@xerox.com

Minority and Women-Owned Business Suppliers

www.xerox.com/supplierdiversity

Ethics Helpline

North America: 866.XRX.0001
International numbers and online submission tool:
www.xerox.com/ethics

Environment, Health, Safety and Sustainability

www.xerox.com/environment

Global Citizenship

www.xerox.com/citizenship

Governance

www.xerox.com/governance

Students and Educators

View openings/internships and apply:
www.xerox.com/careers

Request classroom donations:
www.xerox.com/foundation

All other questions:
StudentTeacherRequests@xerox.com

Xerox Innovation

www.xerox.com/innovation

Independent Auditors

PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford, CT 06901
203.539.3000

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **December 31, 2016**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to: _____

Commission File Number **001-04471**



XEROX CORPORATION

(Exact Name of Registrant as specified in its charter)

New York

(State of incorporation)

**P.O. Box 4505, 45 Glover Avenue,
Norwalk, Connecticut 06856-4505**

(Address of principal executive offices)

16-0468020

(IRS Employer Identification No.)

(203) 968-3000

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$1 par value

Name of each exchange on which registered
**New York Stock Exchange
Chicago Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock of the registrant held by non-affiliates as of June 30, 2016 was \$9,616,251,249.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Outstanding at January 31, 2017</u>
Common Stock, \$1 par value	1,016,583,502

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated herein by reference:

<u>Document</u>	<u>Part of Form 10-K in which Incorporated</u>
Xerox Corporation Notice of 2017 Annual Meeting of Shareholders and Proxy Statement (to be filed no later than 120 days after the close of the fiscal year covered by this report on Form 10-K)	III

FORWARD-LOOKING STATEMENTS

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K, which are deemed to be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. 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 (BPO) 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 this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

TABLE OF CONTENTS

	Page
Part I	
Item 1. Business	1
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	14
Item 2. Properties	14
Item 3. Legal Proceedings	14
Item 4. Mine Safety Disclosures	15
Part II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6. Selected Financial Data	18
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	49
Item 8. Financial Statements and Supplementary Data	50
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	115
Item 9A. Controls and Procedures	115
Item 9B. Other Information	115
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	116
Item 11. Executive Compensation	117
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	117
Item 13. Certain Relationships, Related Transactions and Director Independence	117
Item 14. Principal Auditor Fees and Services	117
Part IV	
Item 15. Exhibits and Financial Statement Schedules	118
Item 16. Form 10-K Summary	118
Signatures	119
Schedule II Valuation and Qualifying Accounts	120
Index of Exhibits	121

PART I

ITEM 1. BUSINESS

Company Separation

On December 31, 2016, Xerox Corporation completed the separation of its Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing (DT/DO) business (the “Separation”). The Separation was accomplished by moving the BPO business into a new legal entity, Conduent Incorporated (“Conduent”), and then distributing one hundred percent (100%) of the outstanding common stock of Conduent to Xerox Corporation stockholders (the “Distribution”). Conduent is now an independent public company listed and traded on the New York Stock Exchange (“NYSE”) under the symbol “CNDT”.

As a result of the Separation and Distribution, the BPO business is presented as a discontinued operation and, as such, has been excluded from continuing operations and segment results for all periods presented.

In connection with the Separation, Xerox entered into several agreements with Conduent to (1) effect the legal and structural separation of Xerox and Conduent, (2) govern the relationship between Xerox and Conduent up to and after the completion of the Separation and (3) allocate between Xerox and Conduent various assets, liabilities and obligations, including, among other things, employee benefits and tax-related assets and liabilities. The agreements included a separation and distribution agreement, a transition service agreement, a tax matters agreement, an employee matters agreement, an intellectual property agreement and a trademark license agreement. The transition services primarily involve Xerox providing services to Conduent related to information technology and human resource infrastructure and are all expected to be for terms of no more than one year post-separation.

Our Business

Xerox is innovating the way the world communicates, connects and works. We apply our expertise in imaging and printing, data analytics, and the development of secure and automated solutions to help our customers improve productivity, maximize profitability and increase client satisfaction.

We are a leading global provider of digital print technology and related solutions; we operate in a market estimated at approximately \$85 billion⁽¹⁾. Our primary offerings span three main areas: Managed Document Services (which largely represents the Document Outsourcing business that was reported in our Services segment before the separation), Workplace Solutions and Graphic Communications. Our Managed Document Services offerings help customers, ranging from small businesses to global enterprises, optimize their printing and related document workflow and business processes. Xerox led the establishment of this expanding market and continues as the industry leader. Our Workplace Solutions and Graphic Communications products and solutions support the work processes of our customers by providing them with an efficient, cost effective printing and communications infrastructure.

(1) Market estimates are derived from third-party forecasts produced by firms such as International Data Corporation (IDC).

Our Strategy and Business Model

Our strategy is to apply innovation in digital print technology and services in order to increase our participation in the growth areas of our market while maintaining leadership in the more mature areas. Our Strategic Transformation program (see: *Accelerate Productivity and Cost Initiatives through Strategic Transformation* section below) is intended to provide the required investments to improve our revenue trajectory while expanding our margins. Our profitable annuity-based business model enables us to deliver strong, sustainable cash flows. We believe the combination of an improving revenue trajectory along with expanding operating margins and strong cash flow will enable us to deliver strong shareholder returns over time. To accomplish this, we focus on the following areas:

Maintain Market Leadership and Focus on Strategic Growth Areas

We are a leader in our industry and have a strong and valuable brand that continues to be ranked in the top percentile of the most valuable global brands. We systematically evaluate the markets, competition, and the needs of our customers and partners; we are focused on maintaining our position in areas where we are the leader, and making the portfolio and distribution investments to further penetrate growth areas of the market.

We will make investments and execute our strategies using the following approach:

- Expand leadership in Managed Document Services by leveraging and extending our strength in large enterprises and broadening our SMB (small to mid-sized business) offerings.
- Increase SMB coverage through resellers and partners (including multi-brand dealers) and continued distribution acquisitions.
- Gain share in the A4 product segment of the market, where historically we have been under-represented, by strengthening our product portfolio and increasing distribution capacity.
- Extend leadership in digital color production through continued innovation and growth in new markets.

Geographically, our footprint spans more than 160 countries and allows us to deliver superior technology and solutions to customers of all sizes, regardless of complexity or number of customer locations.

Innovate to Differentiate Our Offerings

Differentiating our offerings is key to our strategy. A critical role of our research is to envision the future and identify new competency areas for that future. We direct our research and development (R&D) investments to areas such as workflow automation, color printing and customized communication, as well as improving the quality and reducing the environmental impact of digital printing. We are investing in new and novel applications of printing technology that could offer attractive opportunities in adjacent markets. We expect this will deliver incremental value for our customers and drive profitable revenue growth for our business.

Accelerate Productivity and Cost Initiatives through Strategic Transformation

We have a track record of operational excellence and maintaining strong margins through ongoing cost and productivity initiatives. As markets shift, we undertake restructuring to optimize our workforce and facilities to best align our resources with the growth areas of our business, and to maximize profitability and cash flow in businesses that are declining. In 2016, we initiated a three-year Strategic Transformation program to simplify and create a significantly more effective structure that delivers productivity and cost reduction beyond our historical range of \$300 to \$350 million of annual savings. The program is expected to deliver gross productivity gains and cost savings of at least \$1.5 billion over the three-year period. It targets to gain efficiencies in areas such as delivery, remote connectivity, sales productivity, pricing, design efficiency and supply chain optimization. It will improve our competitiveness and enable us to deliver margin expansion while reinvesting in the business to improve the revenue trajectory.

Engage, Develop and Support Our People

Our offerings are supported by a talented global workforce focused on delivering value to our customers. We continue to develop our employees by investing in processes and systems, equipping them with modern tools that enable them to perform their jobs more effectively and providing opportunities for career growth.

Annuity-Based Business Model and Shareholder-Centered Capital Allocation

Our business is based on an annuity model that provides significant recurring revenue and cash generation. In 2016, approximately 75 percent of our total revenue was annuity-based; this includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. The remaining 25 percent of our revenue comes from equipment sales, either from lease agreements that qualify as sales for accounting purposes or outright cash sales.

We remain committed to maintaining an investment grade credit rating profile while also using our strong cash flow to deliver shareholder returns through a balanced capital allocation strategy. We selectively pursue acquisitions in targeted growth areas to improve portfolio mix and drive profit expansion. Our objective is to deliver over 50% of free cash flow back to shareholders through dividends and share repurchases over time.

Acquisitions and Divestitures

In 2016, as we prepared to spin-off Conduent, we allocated only a modest portion of free cash flow to acquisitions. Consistent with our strategy to expand distribution in under-penetrated markets, we added two equipment dealers to our Global Imaging Systems network. We did not have any divestitures during the year.

Additional details can be found in Note 3 - Acquisitions and Note 4 - Divestitures, in the Consolidated Financial Statements.

Innovation and Research

Xerox has a rich heritage of innovation, and innovation continues to be a core strength of the company as well as a competitive differentiator. Our aim is to create value for our customers, our shareholders and our people by driving innovation in key areas. Our investments in innovation align with our growth opportunities in areas like workflow automation, color printing, customized communication and new and novel applications of printing technology.

Our research efforts can be categorized under four themes:

1. **Digital Printing - Improve the cost and capability of digital printing for documents and beyond**

Advances in digital printing are enabling mass customization at a run cost approaching the cost of analog printing. We are continuously investing in research to reduce the cost of digital printing consumables while maintaining the high print quality that our customers expect. Our research is also focused on developing new printing technologies that enable us to print digitally on a broader range of media and substrates such as foils, cartons, and directly on end-use products, which will open up new growth markets such as digital packaging. Printing with functional inks will also allow us to add intelligence to packaging, such as sensors, memory, and interactive features, which will enable new analytic-based services, higher security and new consumer experiences. As a responsible corporate citizen, we are also investing in research to lower the environmental impact of our products and consumables.

2. **Personalization at Scale - Enhance value by providing secure, real-time, context-aware personalized products, solutions and services**

Whether business correspondence, personal communication, manufactured items or an information service, personalization increases the value of communication. Our research leads to technologies that improve the efficiency, economics, relevance and security of our customers' products and services. We help customers improve the impact of their communications by leveraging vast information resources available from private databases or public sources including social media and delivering personalized messages, products and services. Examples of innovation focus areas include creating new capabilities in imaging, multi-media marketing campaign management, workflow automation and augmented reality to deliver personalization at scale.

3. **Agile Enterprise - Create simple, automated and touch-less business workflows resulting in lower cost, higher quality and increased agility**

Enterprises of all sizes require agility in order to quickly respond to market changes and new requirements. To enable greater business process agility, our research goals are to simplify, automate and enable business processes on the cloud via flexible platforms that run on robust and scalable infrastructures. We continue to invest in new capabilities to help people better leverage and integrate paper and digital workflows. And we go beyond that to develop innovations for the automation of business workflows. These leverage our research in image, video and natural language processing, as well as machine learning. Application of these methods to business workflows enables technology to perform tasks that today are performed manually, thus allowing workers to focus on higher value tasks.

4. **Usable Analytics - Transform big data into useful information resulting in better business decisions**

Competitive advantage can be achieved by better utilizing available and real-time information. Today, information resides in an ever-increasing universe of servers, repositories and formats. The vast majority of information is unstructured, including text, images, voice and videos. One key research area is making sense of unstructured information using natural language processing and semantic analysis. A second major research area focuses on developing proprietary methods for prescriptive analytics applied to business processes. Here, we seek to better manage very large data systems in order to extract business insights and use those insights to provide our clients with actionable recommendations. Tailoring these methods to various vertical applications leads to new customer value propositions.

Our innovation goals are supported by cross disciplinary research programs in our different research centers. PARC, the most prominent of these centers, is a wholly-owned subsidiary of Xerox located in Silicon Valley. It provides Xerox commercial and government clients with R&D and open innovation services. PARC scientists have deep technological expertise in areas that we consider fundamental to bring high-impact innovations to our customers and the world; such areas include big data analytics, intelligent sensing, computer vision, networking, printed electronics, energy, and digital design and manufacturing.

Investment in R&D is critical for competitiveness in our fast-paced markets. One of the ways that we maintain our market leadership is through strategic coordination of our R&D with Fuji Xerox (an equity investment in which we maintain a 25 percent ownership interest).

Our total research, development and engineering expenses (RD&E), which includes sustaining engineering expenses for hardware engineering and software development after we launch a product, totaled \$476 million in 2016, \$511 million in 2015 and \$531 million in 2014. Fuji Xerox R&D expenses were \$628 million in 2016, \$569 million in 2015 and \$654 million in 2014.

Segment Information

During 2016 our primary reportable segments were Services and Document Technology. The segment financial information for 2016 is provided in Note 2 - Segment Reporting in the Consolidated Financial Statements, which we incorporate by reference here. The Business Process Outsourcing (BPO) business is not reported in our segment financial information as it is now classified as a discontinued operation. Accordingly, the Services reportable segment reflects only the financial information for our legacy Document Outsourcing services business and certain other services businesses that were transferred from the BPO business to Xerox prior to the separation.

Following the separation of the BPO business, we are realigning our business to better manage and serve our customers and the markets in which we operate. As a result, in 2017, we expect to shift to a geographic structure and be primarily organized on the basis of two main business units: North America Operations (U.S. and Canada) and International Operations (Europe, Eurasia, Latin America, Middle East, Africa and India). Although we are still evaluating our segment reporting for 2017, our current expectation is that we will report as one reportable segment. We operate in more than 160 countries worldwide through these two primary business units.

Accordingly, the section below primarily discusses the business based on the offerings (Managed Document Services, Workplace Solutions and Graphic Communications) that are brought to market through these two primary geographic business units.

Revenues

We have a broad and diverse base of customers by both geography and industry, ranging from SMBs to graphic communications companies, governmental entities, educational institutions and Fortune 1000 corporations. Our business does not depend upon a single customer, or a few customers, the loss of which would have a material adverse effect on our business. Our business spans three main offering areas: Managed Document Services, Workplace Solutions and Graphic Communications. In addition, a smaller portion of our revenues comes from non-core streams including paper sales in our developing market countries, wide-format systems, licensing revenue and Global Imaging Systems network integration solutions.

Our Managed Document Services includes a continuum of solutions and services spanning from managing print to automating processes to managing content. This area includes the Document Outsourcing business, as well as a set of communication and marketing solutions offers that were previously part of BPO, both of which were reported in our Services segment before the separation. Our primary offerings within Managed Document Services are Managed Print Services (MPS), including Workflow Automation Services, and Communication and Marketing Solutions (CMS).

- In our MPS business, we help companies assess and optimize their print infrastructure, secure and integrate their environment and automate and simplify their business processes. We provide the most comprehensive portfolio of MPS services in the industry and are recognized as an industry leader by major analyst firms including Gartner, IDC, Quocirca, InfoTrends and Forrester. As the market leader in MPS, we help clients reduce costs, increase productivity and meet their environmental sustainability goals while supporting their mobile and security needs.
 - Our MPS offering targets clients ranging from large, global enterprises, to governmental entities and to small and medium-sized businesses, including those served via our channel partners.
 - Our Next Generation Xerox Partner Print Services is a comprehensive suite of services that allows channel partners to support their SMB customers with some of the same best-in-class tools, processes, and workflow solutions developed by Xerox for large enterprises.

- Our Xerox Workflow Automation Services help our customers assess, optimize and automate their workflow in a secure and integrated IT environment. By eliminating ineffective processes, we bring our clients operational excellence in routine workflows as well as industry-specific processes.
- In our CMS business, we help large enterprise and global clients drive effective multi-channel customer communications across different digital and physical touch points. CMS offers a full range of managed services that deliver relevant and timely communications focused on customer acquisition, onboarding or retention. Our portfolio includes Document Publishing Services and Transactional Print Services, which continue to serve our existing and well established print and publishing clients. It also includes an expanded suite of service offerings focused on our new on-line digital services including Collateral Management Services, Demand Generation Services, Inbound and Outbound Digital Services, Product Information Management Services and multi-channel Communication Services.

Our Workplace Solutions area is made up of two strategic product groups, Entry and Mid-Range, which share common technology, manufacturing and product platforms. Workplace Solutions revenues include the sale of products and supplies, as well as the associated technical service and financing of those products.

- Entry comprises desktop monochrome and color printers and multifunction printers (MFPs) ranging from small personal devices to workgroup printers and multifunction printers that serve the needs of office workgroups. Entry products are sold to customers in all segments from SMB to enterprise, principally through a global network of reseller partners and service providers, as well as through our direct sales force.
- Mid-Range comprises products for enterprises of all sizes. These products are sold through dedicated partners, our direct sales force, multi-branded channel partners and resellers worldwide. We are a leader in this area of the market and offer a wide range of multifunction printers, copiers, digital printing presses and light production devices, and solutions that deliver flexibility and advanced features.

Our Graphic Communications Solutions are designed for customers in the graphic communications, in-plant and production print environments with high-volume printing requirements. These solutions enable full-color, on-demand printing of a wide range of applications, including variable data for personalized content and one-to-one marketing. Graphic Communications Solutions revenues includes the sale of products, software and supplies, as well as the associated technical service and financing of those products.

- Our cut-sheet presses provide graphic communications and commercial printers with high speed, high-volume printing. They are ideal for publishing, transaction printing, print on demand and one-to-one marketing, offering the best in high speed, productivity and resolution and color. We are the worldwide leader in the cut-sheet color and monochrome production industry.
- Our inkjet presses offer a broad range of roll fed, continuous feed printing technologies, including waterless inkjet and aqueous inkjet for vivid color, and toner-based flash fusing for black and white. Our portfolio spans a variety of print speeds, image quality, feeding, finishing and media options. We continue to develop and integrate our production inkjet business to bring the high-end capabilities of toner-based presses such as speed and inline color correction to the more price sensitive market of inkjet.
- Our FreeFlow portfolio of software offerings brings intelligent automation and integration to the processing of print jobs, from file preparation to final production, for a touchless workflow. It helps customers of all sizes address a wide range of business opportunities including automation, personalization and even electronic publishing.

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 40 percent of our revenue is generated by customers outside the U.S.

In 2016, our revenues by geography were as follows: U.S. - \$6,403 million (59 percent of total revenue), Europe - \$2,861 million (27 percent of total revenue), and Other areas - \$1,507million (14 percent of total revenue). Revenues by geography are based on the location of the unit reporting the revenue and include export sales.

Patents, Trademarks and Licenses

Prior to the separation, Xerox and its subsidiaries were awarded 766 U.S. utility patents in 2016. Including our research partner Fuji Xerox, we were awarded 1,352 U.S. utility patents in 2016. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2016, we held about 12,235 U.S. design and utility patents. These patents expire at various dates up to 20 years or more from their original filing dates. While we believe that our portfolio of patents and applications has value, in general no single patent is essential to our business or any individual segment. In addition, any of our proprietary rights could be challenged, invalidated or circumvented, or may not provide significant competitive advantages.

Upon separation, 296 U.S. patents were transferred to the patent portfolio of Conduent and its subsidiaries. Of those patents, 82 were utility patents issued in 2016. Xerox retains approximately 11,940 utility and design patents in its portfolio, including 684 utility patents issued in 2016.

In the U.S., we are party to numerous patent-licensing agreements and, in a majority of them, we license or assign our patents to others in return for revenue and/or access to their patents. Most patent licenses expire concurrently with the expiration of the last patent identified in the license. We are also a party to a number of cross-licensing agreements with companies that hold substantial patent portfolios, including Conduent. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., prior to the separation, we owned more than 396 U.S. trademarks, either registered or applied for. These trademarks have a perpetual life, subject to renewal every 10 years. We vigorously enforce and protect our trademarks. Upon separation, 165 trademarks were transferred to Conduent, while Xerox retains 231 trademarks.

Marketing and Distribution

We go to market with a services-led approach and sell our products and services directly to customers through our world-wide sales force and through a network of independent agents, dealers, value-added resellers, systems integrators and the Web. In addition, our wholly-owned subsidiary, Global Imaging Systems (GIS), an office technology dealer comprised of regional core companies in the U.S., sells document management and network integration systems and services. We continued to expand our distribution to small and medium-size businesses in 2016 through GIS's acquisition of two equipment and document services dealer companies.

In Europe, Africa, the Middle East and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, as well as through related non-U.S. companies. Xerox Limited enters into distribution agreements with unaffiliated third parties to distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties who distribute our products in Sudan. Sudan, among others, has been designated as a state sponsor of terrorism by the U.S. Department of State and is subject to U.S. economic sanctions. We maintain an export and sanctions compliance program, and believe that we have been, and are in compliance with, U.S. laws and government regulations for Sudan. We have no assets, liabilities or operations in Sudan other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan in August 2006. Now, Xerox has only legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2016, total Xerox revenues of \$10.8 billion included less than \$14 thousand attributable to Sudan.

Competition

Although we encounter competition in all areas of our business, we are the leader - or among the leaders - in each of our main offering areas. We compete on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support.

Our larger competitors include Canon, Hewlett-Packard Inc., Konica Minolta and Ricoh. Our brand recognition, reputation for document management expertise, innovative technology and service delivery excellence are our competitive advantages. These advantages, combined with our breadth of product offerings, global distribution channels and customer relationships, position us as a strong competitor going forward.

Global Employment

We had approximately 37,600 employees worldwide as of December 31, 2016.

Customer Financing

We finance a large portion of our direct channel customer purchases of Xerox equipment through bundled lease agreements. Financing facilitates customer acquisition of Xerox technology and enhances our value proposition, while providing Xerox an attractive gross margin and a reasonable return on our investment in this business. Additionally, because we primarily finance our own products and have a long history of providing financing to our customers, we are able to minimize much of the risk normally associated with a finance business.

Because our lease contracts permit customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these lease contracts. We fund our customer financing activity through a combination of cash generated from operations, cash on hand and proceeds from capital market offerings. At December 31, 2016, we had \$3.7 billion of finance receivables and \$0.5 billion of equipment on operating leases, or Total Finance assets of \$4.2 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, which results in the majority of our \$6.3 billion of debt being allocated to our financing business.

Refer to "Debt and Customer Financing Activities" in the Capital Resources and Liquidity section of Management's Discussion and Analysis included in Item 7 of this 2016 Form 10-K, which is incorporated here by reference, for additional information.

Manufacturing and Supply

Our manufacturing and distribution facilities are located around the world. Our largest manufacturing site is in Webster, N.Y., where we produce the Xerox iGen, Nuvera, Brenva and Direct to Object Inkjet Printer systems, components, EA Toner, consumables, fusers and other products. Our other primary manufacturing operations are located in Dundalk, Ireland, for our High-End production products and consumables; Wilsonville, OR, for solid ink consumable supplies and components; and Aubagne, France, for Impika aqueous-ink production ink-jet systems. We also have a facility in Venray, Netherlands, that manufactures certain supplies and provides supply chain management for our international operations.

We have arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development agreements. Refer to Note 9 - Investments in Affiliates, at Equity in the Consolidated Financial Statements, which is incorporated here by reference, for additional information regarding our relationship with Fuji Xerox.

We maintain a long-standing relationship of over 15 years with Flextronics, a global electronics manufacturing services company, for our mid-range and entry businesses. Our master supply agreement with Flextronics continues through December 2017 (exclusive of extension rights). We also acquire products from various third parties in order to increase the breadth of our product portfolio and meet channel requirements.

Fuji Xerox

Fuji Xerox is an unconsolidated entity in which we own a 25 percent interest and FUJIFILM Holdings Corporation (FujiFilm) owns a 75 percent interest. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong, other areas of the Pacific Rim, Australia and New Zealand. We retain significant rights as a minority shareholder. Our technology licensing agreements with Fuji Xerox ensure that the two companies retain uninterrupted access to each other's portfolio of patents, technology and products. Refer to Note 9 - Investment in Affiliates, at Equity in the Consolidated Financial Statements, which is incorporated by reference here, for additional information regarding our investment in Fuji Xerox.

International Operations

The financial measures by geographical area for 2016, 2015 and 2014 that are included in Note 2 - Segment Reporting in the Consolidated Financial Statements, are incorporated here by reference. See also the risk factor entitled "Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes" in Part I, Item 1A included herein.

Backlog

Backlog, or the value of unfilled orders, is not a meaningful indicator of future business prospects because of the significant proportion of our revenue that follows contract signing and/or equipment installation, the large volume of products we deliver from shelf inventories and the shortening of product life cycles.

Seasonality

Our revenues are affected by such factors as the introduction of new products, the length of sales cycles and the seasonality of technology purchases and printing volumes. These factors have historically resulted in lower revenues, operating profits and operating cash flows in the first quarter and the third quarter.

Other Information

Xerox is a New York corporation, organized in 1906, and our principal executive offices are located at 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856-4505. Our telephone number is (203) 968-3000. As of March 27, 2017, our principal executive offices will be located at 201 Merritt 7, P.O. Box 4505, Norwalk, Connecticut 06856-4505.

In the Investor Information section of our Internet website, you will find our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. We make these documents available as soon as we can after we have filed them with, or furnished them to, the U.S. Securities and Exchange Commission.

Our Internet address is www.xerox.com.

ITEM 1A. RISK FACTORS

If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

We are in the process of addressing many challenges facing our business. One set of challenges relates to dynamic and accelerating market trends, such as the declines in installations and printed pages, fewer devices per location and an increase in electronic documentation. A second set of challenges relates to changes in the competitive landscape. Our primary competitors are exerting increased competitive pressure in targeted areas and are entering new markets; our emerging competitors are introducing new technologies and business models. These market and competitive trends make it difficult to reverse the current declines in revenue over the past several years. A third set of challenges relates to our continued efforts to reduce costs and increase productivity in light of declining revenues. In addition, we are vulnerable to increased risks associated with our efforts to address these challenges given the markets in which we compete, as well as, the broad range of geographic regions in which we and our customers and partners operate. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes.

A significant portion of our revenue is generated from operations outside the United States. In addition, we maintain significant operations and acquire or manufacture many of our products and/or their components outside the United States. Our future revenues, costs and results of operations could be significantly affected by changes in foreign currency exchange rates - particularly the Japanese Yen to the U.S. Dollar and Euro and the Pound Sterling and Euro to the U.S. Dollar - as well as by a number of other factors, including changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements, local tax issues, capitalization and other related legal matters. We generally hedge foreign currency denominated assets, liabilities and anticipated transactions primarily through the use of currency derivative contracts. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. We do not hedge the translation effect of international revenues and expenses, which are denominated in currencies other than our U.S. parent functional currency, within our consolidated financial statements. If our future revenues, costs and results of operations are significantly affected by economic conditions abroad and we are unable to effectively hedge these risks, they could materially adversely affect our results of operations and financial condition.

We operate globally and changes in tax laws could adversely affect our results.

We operate globally and changes in tax laws could adversely affect our results. We operate in over 160 countries and generate substantial revenues and profits in foreign jurisdictions. The international tax environment continues to change as a result of both coordinated actions by governments and unilateral measures designed by individual countries, both intended to tackle concerns over base erosion and profit shifting and perceived international tax avoidance techniques. The recommendations of the BEPS Project led by the Organization for Economic Cooperation and Development (OECD) are involved in much of the coordinated activity, although the timing and methods of implementation vary. Additionally, comprehensive US tax reform has been stated to be a priority for the US Congress and new Administration. Such changes in tax laws or their interpretation, if adopted, could adversely affect our effective tax rates and our results.

If we fail to successfully develop new products, technologies and service offerings and protect our intellectual property rights, we may be unable to retain current customers and gain new customers and our revenues would decline.

The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must work with our supply partners and make certain investments and commit resources before knowing whether these initiatives will eventually result in products that achieve customer acceptance and generate the revenues required to provide desired returns. In developing these new technologies and products, we rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain our intellectual property rights in technology and products used in our operations. However, the laws of certain countries may not protect our proprietary rights to the same extent as the laws of the United States and we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect our competitive position. In addition, some of our products rely on technologies developed by third parties. We may not be able to obtain or to continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. It is also possible that our intellectual property rights could be challenged, invalidated or circumvented, allowing others to use our intellectual property to our competitive detriment. We also must ensure that all of our products comply with existing and newly enacted regulatory requirements in the countries in which they are sold, particularly European Union environmental directives. If we fail to accurately anticipate and meet our customers' needs through the development of new products, technologies and service offerings or if we fail to adequately protect our intellectual property rights or if our new products are not widely accepted or if our current or future products fail to meet applicable worldwide regulatory requirements, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our government contracts are subject to termination rights, audits and investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts.

A significant portion of our revenues is derived from contracts with U.S. federal, state and local governments and their agencies, as well as international governments and their agencies. Government entities typically finance projects through appropriated funds. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., Congressional sequestration of funds under the Budget Control Act of 2011) or other debt or funding constraints could result in lower governmental sales and in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination. Additionally, government contracts are generally subject to audits and investigations by government agencies. If the government finds that we inappropriately charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. If the government discovers improper or illegal activities or contractual non-compliance in the course of audits or investigations, we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, the negative publicity that arises from findings in such audits, investigations or the penalties or sanctions therefore could have an adverse effect on our reputation in the industry and reduce our ability to compete

for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flow.

We face significant competition and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in an environment of significant competition, driven by rapid technological developments, changes in industry standards, and demands of customers to become more efficient. Our competitors include large international companies some of which have significant financial resources and compete with us globally to provide document processing products and services in each of the markets we serve. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully in the markets we currently serve, to promptly and effectively react to changing technologies and customer expectations and to expand into additional market segments. To remain competitive, we must develop services, applications and new products; periodically enhance our existing offerings; remain cost efficient; and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our profitability is dependent upon our ability to obtain adequate pricing for our products and services and to improve our cost structure.

Our success depends on our ability to obtain adequate pricing for our products and services that will provide a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our products and services may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our products and services, it could materially adversely affect our results of operations and financial condition.

We continually review our operations with a view towards reducing our cost structure, including reducing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We from time to time engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions, it could materially adversely affect our results of operations and financial condition.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as Strategic Transformation program, the level of pricing pressures on our products and services, the proportion of high-end as opposed to low-end equipment sales (product mix), the trend in our post-sale revenue growth and our ability to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve and maintain productivity improvements through design efficiency, supplier and manufacturing cost improvements and information technology initiatives, our ability to offset labor cost inflation, potential materials cost increases and competitive price pressures would be impaired, all of which could materially adversely affect our results of operations and financial condition.

We are subject to laws of the United States and foreign jurisdictions relating to individually identifiable information, and failure to comply with those laws, whether or not inadvertent, could subject us to legal actions and negatively impact our operations.

We receive, process, transmit and store information relating to identifiable individuals, both in our role as a technology provider and as an employer. As a result, we are subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations designed to protect individually identifiable information. These laws have been subject to frequent changes, and new legislation in this area may be enacted at any time. Changes to existing laws, introduction of new laws in this area, or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process information and allegations by our customers and clients that we have not performed our contractual obligations, any of which may have a material adverse effect on our profitability and cash flow.

We are subject to breaches of our security systems, cyber attacks and service interruptions which could expose us to liability, litigation, and regulatory action and impair our reputation.

We have implemented security systems with the intent of maintaining and protecting our own, and our customers', clients' and suppliers' confidential information, including information related to identifiable individuals, against unauthorized access or disclosure. Despite such efforts, we may be subject to breaches of our security systems resulting in unauthorized access to our facilities or information systems and the information we are trying to protect. The techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. Therefore, we may be unable to anticipate these techniques or implement sufficient preventative measures. Unauthorized access to our facilities or electronic information systems, or those of our suppliers, or accidental loss or disclosure of proprietary or confidential information about us, our clients or our customers could result in, among other things, a total shutdown of our systems that would disrupt our ability to conduct business or pay vendors and employees, unfavorable publicity, governmental inquiry and oversight, difficulty in performing or marketing our services, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our profitability and cash flow. We may also find it necessary to make significant further investments to protect this information and our infrastructure.

We have outsourced a significant portion of our overall worldwide manufacturing operations and increasingly are relying on third-party manufacturers, subcontractors and external suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing operations to third parties and various service providers. To the extent that we rely on third-party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming similar third-party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage our relationships with our customers and reduce our market share, all of which could materially adversely affect our results of operations and financial condition.

In addition, in our services business we may partner with other parties, including software and hardware vendors, to provide the complex solutions required by our customers. Therefore, our ability to deliver the solutions and provide the services required by our customers is dependent on our and our partners' ability to meet our customers' requirements and schedules. If we or our partners fail to deliver services or products as required and on time, our ability to complete the contract may be adversely affected, which may have an adverse impact on our revenue and profits.

We need to successfully manage changes in the printing environment and market because our operating results may be negatively impacted by lower equipment placements and usage trends.

The printing market and environment is changing as a result of new technologies, shifts in customer preferences in office printing and the expansion of new printing markets. Examples include mobile printing, color printing, packaging, print on objects, continuous feed inkjet printing and the expansion of the market for entry products (A4 printers) and high-end products. A significant part of our strategy and ultimate success in this changing market is our ability to develop and market technology that produces products and services that meet these changes. Our future success in executing on this strategy depends on our ability to make the investments and commit the necessary resources in this highly competitive market. If we are unable to develop and market advanced and competitive technologies, it may negatively impact expansion of our worldwide equipment placements, as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of digital printing, color and multifunction systems. We expect that revenue growth can be improved through our document management and consulting services in the areas of personalized and product life cycle communications, enterprise managed print services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improve direct and indirect sales efficiency and expand and successfully manage our indirect distribution channels in the face of global competition and pricing pressures. Our ability to preserve our post sale revenue streams is largely dependent on our ability to increase the volume of pages printed, the mix and price of color pages, equipment utilization and color adoption, as well as our ability to retain a high level of supplies sales in unbundled contracts. There will be a lag

between the increase in equipment placements and an increase in post-sale revenues. In addition, with respect to our indirect distribution channels, many of our partners may sell competing products, further increasing the need to successfully manage our relationships with our partners to ensure they meet our specific sale and distribution requirements for equipment placements and post sale revenues. If we are unable to maintain a consistent level of revenue, it could materially adversely affect our results of operations and financial condition.

Our ability to fund our customer financing activities at economically competitive levels depends on our ability to borrow and the cost of borrowing in the credit markets.

The long-term viability and profitability of our customer financing activities is dependent, in part, on our ability to borrow and the cost of borrowing in the credit markets. This ability and cost, in turn, is dependent on our credit ratings, which is currently investment grade, and is subject to credit market volatility. We primarily fund our customer financing activity through a combination of cash generated from operations, cash on hand, capital market offerings, sales and securitizations of finance receivables and commercial paper borrowings. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent on our ability to obtain funding at a reasonable cost. If we are unable to continue to offer customer financing, it could materially adversely affect our results of operations and financial condition.

Our significant debt could adversely affect our financial health and pose challenges for conducting our business.

Our ability to provide customer financing is a significant competitive advantage. We have and will continue to have a significant amount of debt and other obligations, the majority of which support our customer financing activities. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels, these related risks could increase.

Our financial condition and results of operations could be adversely affected by employee benefit-related funding requirements.

We sponsor several defined benefit pension and retiree-health benefit plans throughout the world. We are required to make contributions to these plans to comply with minimum funding requirements imposed by laws governing these employee benefit plans. Although most of our major defined benefit plans have been amended to freeze current benefits and eliminate benefit accruals for future service, the projected benefit obligations under these benefit plans is measured annually and at December 31, 2016 exceeded the value of the assets of those plans by approximately \$2.2 billion. The current underfunded status of these plans is a significant factor in determining the ongoing future contributions we will be required to make to these plans. Accordingly, we expect to have additional funding requirements in future years and we may make additional, voluntary contributions to the plans. Depending on our cash position at the time, any such funding or contributions to our defined benefit plans could impact our operating flexibility and financial position, including adversely affecting our cash flow for the quarter in which such funding or contributions are made. Weak economic conditions and related under-performance of asset markets could also lead to increases in our funding requirements.

We need to maintain adequate liquidity in order to meet our operating cash flow requirements, repay maturing debt and meet other financial obligations, such as payment of dividends to the extent declared by our Board of Directors. If we fail to comply with the covenants contained in our various borrowing agreements, it may adversely affect our liquidity, results of operations and financial condition.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and continuing operating improvements, access to capital markets and funding from third parties. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets and funding from third parties, all of which are subject to the general liquidity of and on-going changes in the credit markets as well as general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). At December 31, 2016, we were in full compliance with the covenants and other provisions of the Credit Facility. Failure to comply with material provisions or covenants in the Credit Facility could have a material adverse effect on our liquidity, results of operations and financial condition.

Our business, results of operations and financial condition may be negatively impacted by legal and regulatory matters.

We have various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement laws; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations, as discussed in the "Contingencies" note in the Consolidated Financial Statements. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual or materially increase an existing accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts above any existing accruals, it could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Due to the international scope of our operations, we are subject to a complex system of commercial and trade regulations around the world. Recent years have seen an increase in the development and enforcement of laws regarding trade compliance and anti-corruption, such as the U.S. Foreign Corrupt Practices Act and similar laws from other countries. Our numerous foreign subsidiaries, affiliates and joint venture partners are governed by laws, rules and business practices that differ from those of the U.S. The activities of these entities may not comply with U.S. laws or business practices or our Code of Business Conduct. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our reputation, business and results of operations or financial condition. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

Our operations and our products are subject to environmental regulations in each of the jurisdictions in which we conduct our business and sell our products. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. For example, various countries and jurisdictions have adopted, or are expected to adopt, restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items that we use or sell. Recently, a number of studies have been published by third parties regarding chemicals utilized in our industry, as well as potential health/safety impacts of machine emissions. Additional studies are planned, and depending on the results of such studies, regulatory initiatives could follow. Xerox is monitoring these developments. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prohibited from selling our products in their existing forms, which could have a material adverse effect on our results of operations and financial condition. Further, various countries and jurisdictions have adopted or are expected to adopt, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition.

Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements and/or possible bans on the use of certain chemicals, various efforts to limit energy use in products and other environmentally related programs impacting products and operations, such as those associated with climate change accords, agreements and regulations. For example, the European Union's Energy-Related Products Directive (ERP) has led to the adoption of "implementing measures" or "voluntary agreements" that require certain classes of products to achieve certain design and/or performance standards, in connection with energy use and potentially other environmental parameters and impacts. A number of our products are already required to comply with ERP requirements and further regulations are being developed by the EU authorities. Another example is the European Union "REACH" Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that requires parties throughout the supply chain to register, assess and disclose information regarding many chemicals in their products. Depending on the types, applications, forms and uses of chemical substances in various products, REACH and similar regulatory programs in other jurisdictions could lead to restrictions and/or bans on certain chemical usage. In the United States, the Toxics Substances Control Act

("TSCA") is undergoing a major overhaul with similar potential for regulatory challenges. Xerox continues its efforts toward monitoring and evaluating the applicability of these and numerous other regulatory initiatives in an effort to develop compliance strategies. As these and similar initiatives and programs become regulatory requirements throughout the world and/or are adopted as public or private procurement requirements, we must comply or potentially face market access limitations that could have a material adverse effect on our operations and financial condition. Similarly, environmentally driven procurement requirements voluntarily adopted by customers in the marketplace (e.g., U.S. EPA EnergyStar, EPEAT) are constantly evolving and becoming more stringent, presenting further market access challenges if our products fail to comply. Concern over climate change, including global warming, has led to legislative and regulatory initiatives directed at limiting greenhouse gas emissions. For example, proposals that would impose mandatory requirements on greenhouse gas emissions continue to be considered by policy makers in the countries, states and territories in which we operate. Enacted laws and/or regulatory actions to address concerns about climate change and greenhouse gas emissions could negatively impact our business, including the availability of our products or the cost to obtain or sell those products.

The separation of our Business Process Outsourcing ("BPO") business from our Document Technology and Document Outsourcing business into two independent, publicly-traded companies may not yield the expected benefits.

The separation of our BPO business from our Document Technology and Document Outsourcing business into two independent, publicly-traded companies was completed on December 31, 2016. The Company may not be able to achieve the full strategic and financial benefits expected to result from the separation, or such benefits may be delayed or not occur at all. The expected increased focus of management exclusively on the Company's own business and its distinct needs, may not yield expected long-term growth and profitability. In addition, the separation has resulted in the Company becoming a smaller, less diversified enterprise with a narrower market focus, which could make it more vulnerable to changing market conditions and other adverse events. Further, although we have received an opinion from outside counsel as to the tax-free nature of the Separation, there can be no assurance that the United States Internal Revenue Service will not challenge this position or that a court would not sustain such a challenge. The potential negative impact of these events could have a material adverse impact on our business, financial condition, results of operations and prospects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We own several manufacturing, engineering and research facilities and lease other facilities. Our principal manufacturing and engineering facilities are located in New York, California, Oklahoma, Oregon, Canada, U.K., Ireland and the Netherlands. Our principal research facilities are located in California, New York, Canada and France. The research activities in our principal research centers benefit all of our technology lines of business. Our Corporate Headquarters is a leased facility located in Norwalk, Connecticut.

As a result of implementing our restructuring programs (refer to Note 11 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements, which is incorporated here by reference) as well as various productivity initiatives, several leased and owned properties became surplus. We are obligated to maintain our leased surplus properties through required contractual periods. We have disposed or subleased certain of these properties and are actively pursuing the successful disposition of remaining surplus properties.

In 2016 we owned or leased numerous facilities globally, which house general offices, sales offices, service locations, data centers, call centers and distribution centers. The size of our property portfolio at December 31, 2016 was approximately 16 million square feet and was comprised of 879 leased properties and 109 owned properties (of which 74 are located on our Webster, New York campus). It is our opinion that our properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform their functions. We believe that our current facilities are suitable and adequate for our current businesses.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under Note 18 "Contingencies and Litigation" in the Consolidated Financial Statements is incorporated here by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Exchange Information

Xerox common stock (XRX) is listed on the New York Stock Exchange and the Chicago Stock Exchange.

Xerox Common Stock Prices and Dividends

New York Stock Exchange composite prices *	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016				
High	\$ 11.16	\$ 11.25	\$ 10.30	\$ 10.12
Low	8.69	8.96	9.24	8.72
Dividends declared per share	0.0775	0.0775	0.0775	0.0775
2015				
High	\$ 14.00	\$ 13.26	\$ 11.37	\$ 10.88
Low	12.59	10.64	9.49	9.29
Dividends declared per share	0.07	0.07	0.07	0.07

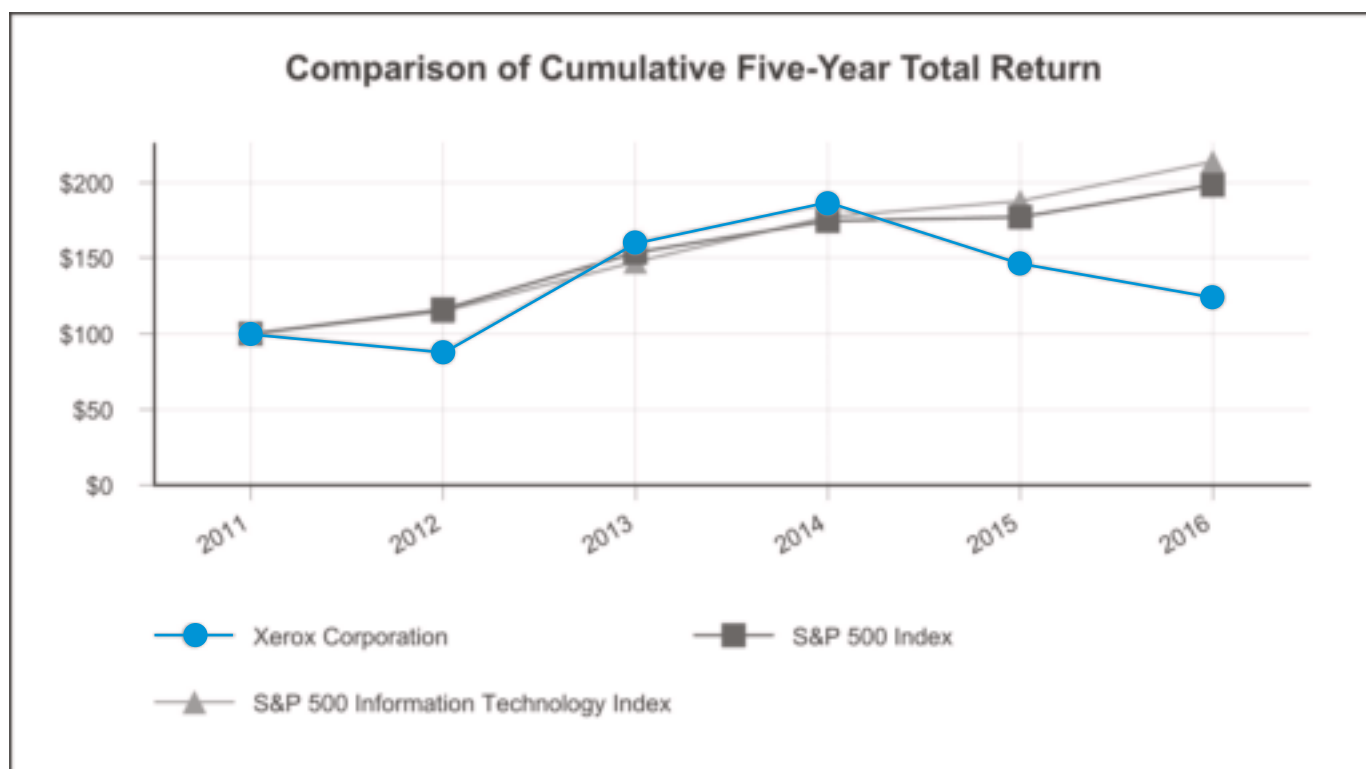
* Price as of close of business.

In February 2017, the Board of Directors approved a post-split dividend of 6.25 cents per share (\$0.25 annualized) for the Company's quarterly cash dividend, beginning with the dividend payable on April 28, 2017.

Common Shareholders of Record

See Item 6 - Selected Financial Data, Five Years in Review, Common Shareholders of Record at Year-End, which is incorporated here by reference.

PERFORMANCE GRAPH



Total Return To Shareholders

(Includes reinvestment of dividends)	Year Ended December 31,					
	2011	2012	2013	2014	2015	2016
Xerox Corporation	\$ 100.00	\$ 87.64	\$ 160.07	\$ 185.93	\$ 146.32	\$ 124.01
S&P 500 Index	100.00	116.00	153.57	174.60	177.01	198.18
S&P 500 Information Technology Index	100.00	114.82	147.47	177.13	187.63	213.61

Source: Standard & Poor's Investment Services

Notes: Graph assumes \$100 invested on December 31, 2011 in Xerox, the S&P 500 Index and the S&P 500 Information Technology Index, respectively, and assumes dividends are reinvested.

SALES OF UNREGISTERED SECURITIES DURING THE QUARTER ENDED DECEMBER 31, 2016

During the quarter ended December 31, 2016, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the "Act").

Dividend Equivalent

- Securities issued on October 31, 2016: Registrant issued 6,789 deferred stock units (DSUs), representing the right to receive shares of Common stock, par value \$1 per share, at a future date.
- No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Jonathan Christodoro, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Sara Martinez Tucker and Mary Agnes Wilderotter.
- The DSUs were issued at a deemed purchase price of \$10.11 per DSU (aggregate price \$68,637), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.
- Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2016

Board Authorized Share Repurchase Program

Repurchases of Xerox Common Stock, par value \$1 per share include the following:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1 through 31	—	\$ —	—	\$ 244,710,381
November 1 through 30	—	—	—	244,710,381
December 1 through 31	—	—	—	244,710,381
Total	—	—	—	—

(1) Exclusive of fees and costs.

(2) Of the cumulative \$8.0 billion of share repurchase authority granted by our Board of Directors, exclusive of fees and expenses, approximately \$7.8 billion has been used through December 31, 2016. Repurchases may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs⁽¹⁾:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
October 1 through 31	25,046	\$ 10.13	n/a	n/a
November 1 through 30	408	9.92	n/a	n/a
December 1 through 31	—	—	n/a	n/a
Total	25,454	—	—	—

(1) These repurchases are made under a provision in our stock-based compensation programs and represent the indirect repurchase of shares through a net-settlement feature upon the vesting of shares in order to satisfy minimum statutory tax-withholding requirements.

(2) Exclusive of fees and costs.

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEARS IN REVIEW

(in millions, except per-share data)

	2016	2015 ⁽¹⁾	2014 ⁽¹⁾	2013 ⁽¹⁾	2012 ⁽¹⁾
Per-Share Data					
Income from continuing operations					
Basic	\$ 0.58	\$ 0.77	\$ 0.87	\$ 0.77	\$ 0.67
Diluted	0.58	0.77	0.86	0.75	0.66
Net (Loss) Income Attributable to Xerox					
Basic	(0.49)	0.42	0.86	0.93	0.90
Diluted	(0.49)	0.42	0.84	0.91	0.88
Common stock dividends declared	0.31	0.28	0.25	0.23	0.17
Operations					
Revenues	\$ 10,771	\$ 11,465	\$ 12,679	\$ 13,194	\$ 13,722
Sales	4,319	4,674	5,214	5,496	5,757
Outsourcing, maintenance and rentals	6,127	6,445	7,078	7,215	7,368
Financing	325	346	387	483	597
Income from continuing operations	627	866	1,052	983	929
Income from continuing operations - Xerox	616	848	1,029	963	901
Net (loss) income	(466)	492	1,036	1,179	1,223
Net (loss) income - Xerox	(477)	474	1,013	1,159	1,195
Financial Position ⁽²⁾⁽³⁾					
Working capital	\$ 2,338	\$ 1,431	\$ 2,798	\$ 2,825	\$ 2,363
Total Assets	18,145	25,541	27,658	29,036	30,015
Consolidated Capitalization ⁽²⁾⁽³⁾					
Short-term debt and current portion of long-term debt	\$ 1,011	\$ 985	\$ 1,427	\$ 1,117	\$ 1,042
Long-term debt	5,305	6,382	6,314	6,904	7,447
Total Debt ⁽⁴⁾	6,316	7,367	7,741	8,021	8,489
Convertible preferred stock	214	349	349	349	349
Xerox shareholders' equity	4,803	9,074	10,678	12,300	11,521
Noncontrolling interests	38	43	75	119	143
Total Consolidated Capitalization	\$ 11,371	\$ 16,833	\$ 18,843	\$ 20,789	\$ 20,502
Selected Data and Ratios					
Common shareholders of record at year-end	31,803	33,843	35,307	37,552	39,397
Book value per common share	\$ 4.73	\$ 8.96	\$ 9.56	\$ 10.35	\$ 9.41
Year-end common stock market price	\$ 8.73	\$ 10.63	\$ 13.86	\$ 12.17	\$ 6.82

(1) Income Statement items have been revised for all periods to reflect our discontinued operations. Refer to Note 4 - Divestitures in our Consolidated Financial Statements, which is incorporated here by reference, for additional information.

(2) Balance sheet amounts at December 31, 2016 exclude Conduent Incorporated (Conduent) balances as a result of the Separation and Distribution. Refer to Note 4 - Divestitures in our Consolidated Financial statements.

(3) Balance sheet amounts prior to 2016 include amounts for Conduent. Refer to Note 4 - Divestitures in our Consolidated Financial Statements, which is incorporated here by reference, for additional information.

(4) Includes capital lease obligations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes. Throughout the MD&A, we refer to various notes to our Consolidated Financial Statements which appear in Item 8 of this 2016 Form 10-K, and the information contained in such notes is incorporated by reference into the MD&A in the places where such references are made.

Throughout this document, references to "we," "our," the "Company," and "Xerox" refer to Xerox Corporation and its subsidiaries. References to "Xerox Corporation" refer to the stand-alone parent company and do not include its subsidiaries.

Executive Overview

With annual revenues of \$10.8 billion we are a leading global provider of digital print technology and related solutions; we operate in a market estimated at approximately \$85 billion. Our primary offerings span three main areas: Managed Document Services (which largely represents the Document Outsourcing business that is currently reported in our Services segment), Workplace Solutions and Graphic Communications. Our Managed Document Services offerings help customers, ranging from small businesses to global enterprises, optimize their printing and related document workflow and business processes. Our Workplace Solutions and Graphic Communications products and solutions support the work processes of our customers by providing them with an efficient, cost effective printing and communications infrastructure.

Headquartered in Norwalk, Connecticut, the 37,600 people of Xerox serve customers in more than 160 countries providing extensive leading-edge document technology, services, software and genuine Xerox supplies for a range of customers including small and mid-size businesses, large enterprises, governments, graphic communications providers, and for our partners who serve them. In 2016, approximately 40% of our revenue was generated outside the U.S.

Separation Update

On December 31, 2016, Xerox Corporation completed the separation of its Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing (DT/DO) business (the "Separation"). The Separation was accomplished by moving the BPO business into a new legal entity, Conduent Incorporated ("Conduent"), and then distributing one hundred percent (100%) of the outstanding common stock of Conduent to Xerox Corporation stockholders (the "Distribution"). Conduent is now an independent public company trading on the New York Stock Exchange ("NYSE") under the symbol "CNDT".

As a result of the Separation and Distribution, the BPO business is presented as a discontinued operation and, as such, has been excluded from continuing operations and segment results for all periods presented.

Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information regarding the Separation.

Market Strategy

Although the overall market in which we operate is in decline, there are components of the market that are growing at rates from low single digits to double digits. Our strategy is to increase our participation in those areas, which include the following:

- Document Outsourcing, especially managed print services in the small and medium business - or SMB - market.
- Entry products, where pages are moving from single-function A4 sized printers to higher value A4 multi-function printers where we are better positioned.

- Production cut-sheet color and emerging production inkjet markets. Production printing is an area where we are historically strong and we expect to make investments in the newer technologies.

To pursue these opportunities, we have realigned our go-to-market model and are expanding our channels to increase our reach and strengthen our relationships with our customers. In addition, we expect to follow-up on our product launches in 2016 with an expanded launch of new products in 2017.

Post-sale based Business Model

In 2016, approximately 75% of our total revenue was post-sale based, which includes document services, equipment maintenance services, consumable supplies and financing, among other elements. These revenue streams generally follow equipment placements and provide some stability to our revenue. Some of the key indicators of future post-sale revenue include:

- Installations of printers and multifunction devices as well as the number of machines in the field (MIF) and the page volume and mix of pages printed on color devices, where available.
- Managed Document Services signings, which reflects the estimated future revenues from contracts signed during the period, i.e., Total Contract Value (TCV).
- Managed Document Services renewal rate, which is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period, calculated as a percentage of ARR on all contracts where a renewal decision was made during the period.

Strategic Transformation Program

Despite the recent decline in revenues, we have maintained our strong margins primarily through ongoing cost and productivity initiatives. As markets shift, we undertake restructuring to optimize our workforce and facilities to best align our resources with the growth areas of our business, and to maximize profitability and cash flow in market segments that are declining. In 2016, we initiated a three-year Strategic Transformation program to accelerate cost productivity beyond our historical range of \$300 to \$350 million of annual savings. The program is expected to deliver gross productivity gains and cost savings of at least \$1.5 billion over the three-year period. It targets to gain efficiencies in areas such as delivery, remote connectivity, sales productivity, pricing, design efficiency and supply chain optimization. It will improve our competitiveness, enable us to deliver margin expansion and mitigate the impact of revenue declines until we change our revenue trajectory.

Financial Overview

Total revenue of \$10.8 billion in 2016 declined 6% from the prior year, with a 2-percentage point negative impact from currency. The revenue decline reflects a 9% decline in equipment sales, with a 1-percentage point negative impact from currency and a 5% decline in annuity/post-sale revenue with a 2-percentage point negative impact from currency. The decline in equipment revenue was driven primarily by lower entry and mid-range sales, which partially reflects the timing of product launches, as well as lower OEM sales. The decline is also partially driven by lower sales in the developing markets, along with lower revenue from our high-end products (reflecting an unfavorable mix) and lower sales to Fuji Xerox. Revenue was also impacted by price declines of approximately 5%, in-line with our historic impact, as well as the modest declines in the overall markets in which we operate. The decline in annuity/post-sale revenue is largely due to lower maintenance service revenues, supply sales and financing revenues, all reflecting lower equipment sales in prior periods, partially offset by growth in Document Outsourcing.

2016 Net income from continuing operations attributable to Xerox was \$616 million and included \$305 million of after-tax amortization of intangible assets, restructuring and related costs and non-service retirement-related costs, resulting in adjusted net income from continuing operations of \$921 million. Net income from continuing operations attributable to Xerox for 2015 was \$848 million and included \$130 million of after-tax amortization of intangible assets, restructuring and related costs and non-service retirement-related costs, resulting in adjusted net income of \$978 million. The increase in adjustments is largely due to an increase in 2016 pre-tax restructuring and related costs of \$237 million (\$165 million after-tax). The decline in adjusted net income is largely due to lower revenues being only partially offset by cost savings and productivity improvements.

Operating cash flow from continuing operations was \$1,018 million in 2016 as compared to \$1,078 million in 2015. The decrease in continuing operating cash flow was primarily due to lower earnings partially offset by lower pension contributions and an increased run-off from finance receivables. Cash used in continuing operations investing activities of \$146 million primarily reflects capital expenditures of \$138 million and acquisitions of \$30 million, partially offset by \$25 million of proceeds from the sale of surplus technology assets.

2017 Outlook

We expect total revenues to continue to decline in 2017 in the mid-single digit range, excluding the impact of currency. However, we do expect revenue trends to improve during the second half of the year as we start to see the benefit from the new product launches and other growth initiatives. At January 2017 exchange rates, we expect currency to have about a 2-percentage point negative impact on total revenues in 2017, reflecting the continued weakening of our major foreign currencies against the U.S. dollar as compared to prior year. GAAP earnings are expected to be lower in 2017 as higher non-service retirement costs from increased settlement losses are expected to be only partially offset by lower restructuring expense. Adjusted earnings in 2017 are expected to be lower as the decline in revenues, unfavorable currency and higher taxes are only partially offset by cost savings and productivity improvements from Strategic Transformation, along with lower interest expense from anticipated debt repayment.

We expect 2017 cash flows from continuing operations to be between \$700 million and \$900 million and capital expenditures to be approximately \$175 million. The decrease from 2016 is largely due to higher restructuring payments and pension contributions.

Our capital allocation plan for 2017 includes the following:

- Debt – committed to maintaining our investment grade rating and we expect to repay an additional \$300 million in debt above the \$1 billion for Senior Notes coming due in the first quarter of 2017.
- Dividends - expect dividend payments to be approximately \$280 million, which reflects an initial annualized dividend of \$0.25 per share.
- Acquisitions – we expect to invest about \$100 million, focusing on acquiring companies that will expand our portfolio mix.
- Share repurchase - none currently planned for 2017.

Currency Impact

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as "constant currency", "currency impact" or "the impact from 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. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional 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.

Approximately 40% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is normally not the functional currency. As a result, the foreign currency translation had a 2-percentage point negative impact on revenue in 2016 and 5-percentage point negative impact on revenue in 2015.

Application of Critical Accounting Policies

In preparing our Consolidated Financial Statements and accounting for the underlying transactions and balances, we apply various accounting policies. Senior management has discussed the development and selection of the critical accounting policies, estimates and related disclosures included herein with the Audit Committee of the Board of Directors. We consider the policies discussed below as critical to understanding our Consolidated Financial Statements, as their application places the most significant demands on management's judgment, since financial reporting results rely on estimates of the effects of matters that are inherently uncertain. In instances where different estimates could have reasonably been used, we disclosed the impact of these different estimates on our operations. In certain instances, like revenue recognition for leases, the accounting rules are prescriptive; therefore, it would not have been possible to reasonably use different estimates. Changes in assumptions and estimates are reflected in the period in which they occur. The impact of such changes could be material to our results of operations and financial condition in any quarterly or annual period.

Specific risks associated with these critical accounting policies are discussed throughout the MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to Note 1 - Basis of Presentation and Summary of Significant Accounting Policies in the Consolidated Financial Statements.

Revenue Recognition

Application of the various accounting principles in GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting Policies - Revenue Recognition, in the Consolidated Financial Statements for additional information regarding our revenue recognition policies. Specifically, the revenue related to the following areas involves significant judgments and estimates:

- Bundled Lease Arrangements
- Sales to Distributors and Resellers

Bundled Lease Arrangements: We sell our equipment under bundled lease arrangements, which typically include the equipment, service, supplies and a financing component for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Sales made under bundled lease arrangements comprise approximately 40% of our equipment sales revenue. Recognizing revenues under these arrangements requires us to allocate the total consideration received to the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element.

Sales to Distributors and Resellers: We utilize distributors and resellers to sell many of our technology products, supplies and services to end-user customers. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we record provisions and allowances for these programs as a reduction to revenue when the sales occur. Similarly, we also record estimates for sales returns and other discounts and allowances when the sales occur. We consider various factors, including a review of specific transactions and programs, historical experience and market and economic conditions when calculating these provisions and allowances. Approximately 15% of our total revenues are sales of equipment and supplies to distributors and resellers, and provisions and allowances recorded on these sales are approximately 20% of the associated gross revenues.

Allowance for Doubtful Accounts and Credit Losses

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience adjusted for current conditions. We recorded bad debt provisions of \$37 million, \$49 million and \$49 million in Selling, Administrative and General Expenses (SAG) expenses in our Consolidated Statements of (Loss) Income for the years ended December 31, 2016, 2015 and 2014, respectively.

Bad debt provisions declined in 2016 primarily as a result of lower receivable balances, reflecting, in part, lower revenues as well as continued strong credit policies. Reserves, as a percentage of trade and finance receivables, were 3.6% at December 31, 2016, as compared to 3.7% at December 31, 2015 and 2014. We continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts.

As discussed above, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology was consistently applied for all periods presented. During the three year period ended December 31, 2016, our reserve for doubtful accounts ranged from 3.6% to 3.7% of gross receivables. Holding all assumptions constant, a 0.5-percentage point increase or decrease in the reserve from the December 31, 2016 rate of 3.6% would change the 2016 provision by approximately \$24 million.

Refer to Note 5 - Accounts Receivables, Net and Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering employees who meet eligibility requirements. Over the past several years, where legally possible, we have amended our major defined benefit pension plans to freeze current benefits and eliminate benefits accruals for future service, including our primary U.S. defined benefit plan for salaried employees, the Canadian Salary Pension Plan and the U.K. Final Salary Pension Plan. The freeze of current benefits is the primary driver of the reduction in pension service costs since 2012. In certain Non-U.S. plans we are required to continue to consider salary increases and inflation in determining the benefit obligation related to prior service. The Netherlands defined benefit pension plan has also been amended to reflect the Company's ability to reduce the indexation of future pension benefits within the plan in scenarios when the returns on plan assets are insufficient to cover that indexation.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our defined benefit pension plans. These factors include assumptions we make about the expected return on plan assets, discount rate, lump-sum settlement rates, the rate of future compensation increases and mortality. Differences between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic benefit cost over future periods.

Cumulative net actuarial losses for our defined benefit pension plans of \$2.8 billion as of December 31, 2016 decreased by \$232 million from December 31, 2015, primarily due to currency and actual plan asset returns being more than expected returns in 2016 as well as the recognition of actuarial losses through amortization and U.S. settlement losses. These impacts were partially offset by lower discount rates in 2016 as compared to 2015. The total actuarial loss at December 31, 2016 is subject to offsetting gains or losses in the future due to changes in actuarial assumptions and will be recognized in future periods through amortization or settlement losses.

We used a consolidated weighted average expected rate of return on plan assets of 5.8% for 2016, 6.0% for 2015 and 6.6% for 2014, on a worldwide basis. During 2016, the actual return on plan assets was \$1,024 million as compared to an expected return of \$439 million, with the difference largely due to positive returns in the equity markets in 2016. When estimating the 2017 expected rate of return, in addition to assessing recent performance, we considered the historical returns earned on plan assets, the rates of return expected in the future, particularly in light of current economic conditions, and our investment strategy and asset mix with respect to the plans' funds. The weighted average expected rate of return on plan assets we will use in 2017 is 5.1%. The decline in the 2017 rate primarily reflects the increased investment in fixed income securities as we reposition our investment portfolios in light of the freeze of plan benefits and lower expectations with respect to equities.

Another significant assumption affecting our defined benefit pension obligations and the net periodic benefit cost is the rate that we use to discount our future anticipated benefit obligations. In the U.S. and the U.K., which comprise approximately 75% of our projected benefit obligation, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. The consolidated weighted average discount rate we used to measure our pension obligations as of December 31, 2016 and to calculate our 2017 expense was 3.1%; the rate used to calculate our obligations as of December 31, 2015 and our 2016 expense was 3.7%. The weighted average discount rate we used to measure our retiree health obligation as of December 31, 2016 and to calculate our 2017 expense was 3.9%; the rate used to calculate our obligation at December 31, 2015 and our 2016 expense was 4.1%.

Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would change the 2017 projected net periodic pension cost by approximately \$35 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2017 projected net periodic pension cost by \$18 million.

One of the most significant and volatile elements of our net periodic defined benefit pension plan expense is settlement losses. Our primary domestic plans allow participants the option of settling their vested benefits through

the receipt of a lump-sum payment. We recognize the losses associated with these settlements immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. As noted above, cumulative unamortized net actuarial losses were \$2.8 billion at December 31, 2016, of which the U.S. primary domestic plans, with a lump-sum feature, represented approximately \$970 million. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of a participant's vested benefit. Settlement accounting is only applied when the event of settlement occurs - i.e. the lump-sum payment is made. Since settlement is dependent on an employee's decision and election, the level of settlements and the associated losses can fluctuate significantly from period to period. During the three years ended December 31, 2016, U.S. plan settlements were \$229 million, \$340 million and \$250 million, respectively, and the associated settlement losses on those plan settlements were \$65 million, \$88 million and \$51 million, respectively. In 2017, on average, approximately \$100 million of plan settlements will result in settlement losses of approximately \$30 million.

The following is a summary of our benefit plan costs for the three years ended December 31, 2016 as well as estimated amounts for 2017:

(in millions)	Estimated	Actual		
	2017	2016	2015	2014
Defined benefit pension plans ⁽¹⁾	\$ 74	\$ 62	\$ 53	\$ 23
U.S. settlement losses	201	65	88	51
Defined contribution plans	59	61	66	71
Retiree health benefit plans ⁽²⁾	30	35	24	3
U.S. Retiree health curtailment gain	—	—	(22)	—
Total Benefit Plan Expense	\$ 364	\$ 223	\$ 209	\$ 148

(1) Excludes U.S. settlement losses.

(2) Excludes U.S. retiree health curtailment gain in 2015.

Our estimated 2017 defined benefit pension plan cost is expected to be approximately \$150 million higher than 2016, primarily driven by higher projected U.S. settlement losses. The increase in projected settlement losses is largely due to lower lump-sum discount rates in effect for 2017.

The following is a summary of our expected benefit plan funding for the three years ended December 31, 2016 as well as estimated amounts for 2017:

(in millions)	Estimated	Actual		
	2017	2016	2015	2014
Defined benefit pension plans:	\$ 350	\$ 178	\$ 301	\$ 269
Defined contribution plans	59	61	66	71
Retiree health benefit plans	63	61	63	70
Total Benefit Plan Funding	\$ 472	\$ 300	\$ 430	\$ 410

The expected increase in contributions to our worldwide defined benefit plans in 2017 is largely due to a \$145 million increase in planned contributions for our domestic tax-qualified defined benefit plans, comprised of \$15 million required to meet minimum funding requirements and \$130 million of additional voluntary contributions.

Refer to Note 16 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding defined benefit pension plan assumptions, expense and funding.

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the consolidated provision for income taxes. Our provision is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our provision will change based on discrete or other nonrecurring events such as audit settlements, tax law changes, changes in valuation allowances, etc., that may not be predictable.

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Adjustments to our valuation allowance, through (credits)/charges to income tax expense, were \$(8) million, \$(15) million and \$(15) million for the years ended December 31, 2016, 2015 and 2014, respectively. There were other (increases) decreases to our valuation allowance, including the effects of currency, of \$(41) million, \$110 million and \$60 million for the years ended December 31, 2016, 2015 and 2014, respectively. These did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of \$2.7 billion and \$2.7 billion had valuation allowances of \$416 million and \$383 million at December 31, 2016 and 2015, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more-likely-than-not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate, as well as impact our operating results. Unrecognized tax benefits were \$165 million, \$222 million and \$207 million at December 31, 2016, 2015 and 2014, respectively.

Refer to Note 17 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding deferred income taxes and unrecognized tax benefits.

Business Combinations and Goodwill

The accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable, and when appropriate, include assistance from independent third-party valuation firms. Refer to Note 3 - Acquisitions in the Consolidated Financial Statements for additional information regarding the allocation of the purchase price consideration for our acquisitions.

Our goodwill balance was \$3.8 billion at December 31, 2016. This balance excludes goodwill associated with the reporting units that were part of the BPO business that was included in the Separation and Distribution of all of the issued and outstanding stock of Conduent to Xerox Corporation stockholders effective December 31, 2016. Prior to the Separation and Distribution, in connection with the annual goodwill impairment test, a pre-tax goodwill impairment charge of \$935 million was recorded in the fourth quarter 2016 associated with the Commercial Services reporting unit of the BPO business. The impairment charge is reported in discontinued operations for the year ended December 31, 2016. Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information regarding the Separation. The following discussion focuses on the accounting associated with our retained balance of goodwill at December 31, 2016.

Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors, supply costs, unanticipated competitive activities and acts by governments and courts.

Application of the annual goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and the assessment qualitatively or quantitatively - of the fair value of each reporting unit against its carrying value. At December 31, 2016, we had two reporting units with goodwill balances - Document Technology with \$2.3 billion of goodwill and Document Outsourcing with \$1.5 billion of goodwill. Consistent with prior years, our annual impairment test of goodwill was performed in the fourth quarter of 2016 and we elected to utilize a quantitative assessment of the recoverability of our goodwill balances for our reporting units.

In our quantitative test, we estimate the fair value of each reporting unit by weighting the results from the income approach (discounted cash flow methodology) and market approach. These valuation approaches require significant judgment and consider a number of factors that include, but are not limited to, expected future cash

flows, growth rates and discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding the current economic environment, industry factors and the future profitability of our businesses. When performing our discounted cash flow analysis for each reporting unit, we incorporate the use of projected financial information and discount rates that are developed using market participant-based assumptions. The cash flow projections are based on three-year financial forecasts developed by management that include revenue and expense projections, capital spending trends and investment in working capital to support anticipated revenue growth or other changes in the business and which are consistent with expected guidance for the Company as a whole. The selected discount rates consider the risk and nature of the respective reporting units' cash flows and an appropriate capital structure and rates of return that market participants would require to invest their capital in our reporting units.

We believe these assumptions are appropriate and reflect our current expectations as well as our forecasted long-term business model, giving appropriate consideration to our historical results as well as the current economic environment and markets that we serve. The average discount rate applied to our projected cash flows was approximately 8.5%, which we considered reasonable based on the estimated capital costs of applicable market participants and an appropriate company-specific risk premium. Although the sum of the fair values of our reporting units was in excess of our market capitalization on a post-separation basis, we believe the difference is reasonable when market-based control premiums and other factors are taken into consideration.

Our impairment assessment methodology includes the use of outside valuation experts and the inclusion of factors and assumptions related to third-party market participants. When performing our market approach for each reporting unit, we rely specifically on the guideline public company method. Our guideline public company method incorporates revenues and earnings multiples from publicly traded companies with operations and other characteristics similar to each reporting unit. The selected multiples consider each reporting unit's relative growth, profitability, size and risk relative to the selected publicly traded companies.

After completing our annual impairment reviews for our remaining reporting units in the fourth quarter of 2016, we concluded that goodwill was not impaired and both reporting units had an excess of fair value over carrying value of significantly more than 20%. Subsequent to our fourth quarter impairment test, we did not identify any indicators of potential impairment that required an update to the annual impairment test.

Refer to Note 10 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding goodwill by reportable segment.

BPO Business

As previously noted, the goodwill associated with the three reporting units comprising the BPO business was tested prior to the separation of the BPO business as part of the annual impairment test in the fourth quarter 2016 based on projections and information provided by Conduent management. Upon completion of that review, it was determined that the fair value of the Commercial Services reporting unit of the BPO business was below its carrying value. Goodwill was determined not to be impaired for the two other BPO business reporting units with goodwill balances.

The decline in the estimated fair value of the Commercial Services reporting unit resulted from Conduent management's expectations for lower projected revenue growth and profitability levels for this reporting unit following lower-than-expected results in the fourth quarter 2016 and the resultant increase in the company-specific risk premium that is included in the discount rate used to calculate the discounted cash flows. The increase in the company-specific risk premium reflects the challenges this reporting unit is expected to have in achieving its projected cash flows as well as market indicators, such as the market capitalization of Conduent, post Separation.

Based on the completion of step two of the goodwill impairment analysis a pre-tax goodwill impairment charge of \$935 million was recorded in discontinued operations for the year ended December 31, 2016. Prior to completing the goodwill impairment test, the recoverability of the Commercial Services long-lived assets, including purchased intangible assets, was tested and determined not to be impaired.

Revenue Results Summary

Total Revenue

Revenue for the three years ended December 31, 2016 was as follows:

(in millions)	Revenues			% Change		CC % Change		Percent of Total Revenue		
	2016	2015	2014	2016	2015	2016	2015	2016	2015	2014
Equipment sales	\$ 2,525	\$ 2,781	\$ 3,104	(9)%	(10)%	(8)%	(6)%	23%	24%	24%
Annuity/Post-Sale revenue	8,246	8,684	9,575	(5)%	(9)%	(3)%	(4)%	77%	76%	76%
Total Revenue	\$10,771	\$11,465	\$12,679	(6)%	(10)%	(4)%	(5)%	100%	100%	100%

Reconciliation to Consolidated Statements of (Loss) Income:

Sales	\$ 4,319	\$ 4,674	\$ 5,214							
Less: Supplies, paper and other sales	(1,794)	(1,893)	(2,110)							
Equipment Sales	\$ 2,525	\$ 2,781	\$ 3,104	(9)%	(10)%	(8)%	(6)%			
Outsourcing, maintenance and rentals	\$ 6,127	\$ 6,445	\$ 7,078	(5)%	(9)%	(3)%	(3)%			
Add: Supplies, paper and other sales	1,794	1,893	2,110	(5)%	(10)%	(3)%	(6)%			
Add: Financing	325	346	387	(6)%	(11)%	(5)%	(4)%			
Annuity/Post-Sale Revenue	\$ 8,246	\$ 8,684	\$ 9,575	(5)%	(9)%	(3)%	(4)%			

CC - See "Non-GAAP Financial Measures" section for description of Constant Currency.

Revenue 2016

Total revenues decreased 6% compared to the prior year with a 2-percentage point negative impact from currency. On a revenue-weighted basis, our major European currencies and the Canadian Dollar were approximately 3% weaker against the U.S. dollar as compared to prior year. Revenues from these major foreign currencies comprise approximately 30% of our total consolidated revenues (revenues from the Pound Sterling represent approximately 7% of the total), and overall non-U.S. revenues represent approximately 40% of the total. Total revenues included the following:

- Annuity/Post-Sale revenue** decreased 5% compared to the prior year with a 2-percentage point negative impact from currency. Annuity revenue is comprised of the following:
 - Outsourcing, maintenance and rentals revenue** includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of \$6,127 million decreased 5%, including a 2-percentage point negative impact from currency. The decline at constant currency¹ was driven by our Document Technology segment, while modest growth at constant currency¹ in Document Outsourcing provided a partial offset.
 - Supplies, paper and other sales** includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of \$1,794 million decreased 5% from the prior year, including a 2-percentage point negative impact from currency. The decline in constant currency¹ was largely driven by lower supplies sales, as we experienced lower demand consistent with lower equipment sales in prior periods, and OEM supplies below prior year levels.
 - Financing revenue** is generated from financed equipment sale transactions primarily within our Document Technology segment. Financing revenues decreased 6% from the prior year reflecting a declining finance receivables balance due to lower equipment sales in prior periods, as well as a 1-percentage point negative impact from currency. Refer to the discussion on *Sales of Finance Receivable* in the *Capital Resources and Liquidity* section as well as Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.
- Equipment sales revenue** is reported primarily within our Document Technology segment and the Document Outsourcing business within our Services segment. Equipment sales revenue decreased 9% from the prior year, including a 1-percentage point negative impact from currency. The decline in equipment revenue was driven primarily by lower entry and mid-range sales, which partially reflects the timing of product launches, as well as lower OEM sales; the decline is also partially driven by lower sales in the developing markets, along with lower revenue from our high-end products (reflecting an unfavorable mix) and lower sales to Fuji Xerox. Revenue was also impacted by price declines of approximately 5%, in-line with our historic impact, as well as the modest decline in the overall market in which we operate.

Revenue 2015

Total revenues decreased 10% compared to the prior year with a 5-percentage point negative impact from currency. Total revenues included the following:

- **Annuity/Post-Sale revenue** decreased 9% compared to the prior year with a 5-percentage point negative impact from currency. Annuity revenue is comprised of the following:
 - **Outsourcing, maintenance and rentals revenue** includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of \$6,445 million decreased 9%, including a 6-percentage point negative impact from currency and was primarily due to a decline in the Document Technology segment. The decline at constant currency¹ was also driven by our Document Technology segment.
 - **Supplies, paper and other sales** includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of \$1,893 million decreased 10% from the prior year including a 4-percentage point negative impact from currency. The decline in constant currency¹ was largely driven by lower supplies sales, as we experienced lower demand consistent with lower equipment sales in prior periods, OEM supplies below prior year levels and continued weakness in developing markets. Modest growth at constant currency¹ in Document Outsourcing provided a partial offset.
 - **Financing revenue** is generated from financed equipment sale transactions primarily within our Document Technology segment. Financing revenues decreased 11% from the prior year including a 7-percentage point negative impact from currency and a declining finance receivables balance due to lower prior period equipment sales. Refer to the discussion on *Sales of Finance Receivable* in the *Capital Resources and Liquidity* section as well as Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.
- **Equipment sales revenue** is reported primarily within our Document Technology segment and the Document Outsourcing business within our Services segment. Equipment sales revenue decreased 10% from the prior year, including a 4-percentage point negative impact from currency. The constant currency¹ decline was driven by developing markets with the remainder reflecting lower high-end and OEM sales. Revenue was also impacted by price declines of approximately 5%, in-line with our historic impact. These areas of decline were partially offset by DO equipment sales growth.

An analysis of the change in revenue for each business segment is included in the "Operations Review of Segment Revenue and Profit" section.

⁽¹⁾ See "Non-GAAP Financial Measures" section for description of Constant Currency.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

	Year Ended December 31,									
	Reported					Adjusted ⁽¹⁾				
	2016	2015	2014	2016 B/(W)	2015 B/(W)	2016	2015	2014	2016 B/(W)	2015 B/(W)
Total Gross Margin	39.6%	40.0%	40.3%	(0.4)pts	(0.3)pts	40.0%	40.3 %	40.5 %	(0.3)pts	(0.2)pts
RD&E as a % of Revenue	4.4%	4.5%	4.2%	0.1pts	(0.3)pts	4.2%	4.3 %	4.1 %	0.1pts	(0.2)pts
SAG as a % of Revenue	25.0%	25.0%	24.7%	—pts	(0.3)pts	24.5%	24.5 %	24.4 %	—pts	(0.1)pts
Pre-tax Income Margin	5.3%	8.1%	8.6%	(2.8)pts	(0.5)pts	N/A	N/A	N/A	N/A	N/A
Operating Margin⁽¹⁾	N/A	N/A	N/A	N/A	N/A	12.5%	12.7 %	13.3 %	(0.2)pts	(0.6)pts

⁽¹⁾ Refer to Key Financial Ratios reconciliation table in the "Non-GAAP Financial Measures" section. In 2016, we began to include equity income in the calculation of adjusted operating income and margin. Prior periods have been restated accordingly to conform to current year presentation.

Pre-tax Income Margin

Pre-tax income margin for the year ended December 31, 2016 of 5.3% decreased 2.8-percentage points compared to 2015. This decrease was primarily driven by higher restructuring and related costs and non-service retirement-related costs due to a \$22 million curtailment gain recorded in 2015 as well as overall lower revenue. In addition, the decrease is also explained by adverse currency as well as higher compensation expense resulting from a favorable prior-year compensation benefit adjustments, lower Equity in net income of unconsolidated affiliates associated with our share of Fuji Xerox net income and overall decline in total company revenue which more than offset benefits from Strategic Transformation cost saving and productivity initiatives.

Pre-tax income margin for the year ended December 31, 2015 of 8.1% decreased 0.5-percentage points compared to 2014. This decrease was primarily driven by the decline in revenues and unfavorable currency only being partially matched by cost savings and productivity improvements. Pre-tax margin was also negatively impacted by an increase in non-service retirement costs as a result of higher settlement losses. These negative impacts were partially offset by lower restructuring and related costs.

Pre-tax income margin includes the Amortization of intangible assets, Restructuring and related costs and Other expenses, net, all of which are separately discussed in subsequent sections. Pre-tax income margin also includes non-service retirement-related costs. Adjusted Operating margin, discussed below, excludes all of these items and includes Equity in net income of unconsolidated affiliates.

Adjusted Operating Margin¹

Adjusted Operating margin¹ for the year ended December 31, 2016 of 12.5% decreased 0.2-percentage points compared to 2015. Adverse currency as well as higher compensation expense resulting from a favorable prior-year compensation benefit adjustment, lower Equity in net income of unconsolidated affiliates associated with our share of Fuji Xerox net income, and an overall decline in total company revenue more than offset benefits from Strategic Transformation cost saving and productivity initiatives.

Adjusted Operating margin¹ for the year ended December 31, 2015 of 12.7% decreased 0.6-percentage points compared to 2014. The operating margin decline primarily reflects the decline in revenues and unfavorable currency partially offset by cost savings and productivity improvements.

Gross Margin

Total gross margin for the year ended December 31, 2016 of 39.6% decreased 0.4-percentage points compared to 2015. On an adjusted¹ basis, gross margin of 40.0% decreased by 0.3-percentage points compared to 2015 as price declines and unfavorable currency were only partially offset by the benefits from cost savings and productivity improvements from Strategic Transformation that increased during the second half of the year. The 0.1-percentage point differential in the decrease from adjusted¹ to reported gross margin is due to higher non-service retirement related costs primarily due to a \$22 million curtailment gain recorded in 2015.

Total gross margin for year ended December 31, 2015 of 40.0% decreased 0.3-percentage points compared to 2014. On an adjusted¹ basis, gross margin of 40.3% decreased 0.2-percentage points compared to 2014 as price declines and unfavorable product mix were only partially offset by the benefits from cost savings and productivity improvements. The 0.1-percentage point differential in the decrease from adjusted¹ to reported gross margin is due to higher non-service retirement related costs due primarily to higher settlement costs in 2015 compared to 2014.

(1) Refer to Operating Income/Margin reconciliation table and the Key Financial Ratios reconciliation table in the "Non-GAAP Financial Measures" section.

Research, Development and Engineering Expenses (RD&E)

(in millions)	Year Ended December 31,			Change	
	2016	2015	2014	2016	2015
R&D	\$ 381	\$ 385	\$ 399	\$ (4)	\$ (14)
Sustaining engineering	95	126	132	(31)	(6)
Total RD&E Expenses	\$ 476	\$ 511	\$ 531	\$ (35)	\$ (20)
R&D Investment by Fuji Xerox⁽¹⁾	\$ 628	\$ 569	\$ 654	\$ 59	\$ (85)

(1) Fluctuation in Fuji Xerox R&D was primarily due to changes in foreign exchange rates.

RD&E as a percent of revenue for the year ended December 31, 2016 of 4.4% decreased 0.1-percentage points. On an adjusted¹ basis, RD&E was 4.2% of revenue and decreased 0.1-percentage points due to cost productivity and restructuring savings.

RD&E of \$476 million for the year ended December 31, 2016, decreased \$35 million from 2015. On an adjusted¹ basis, RD&E of \$451 decreased by \$41 million. We strategically coordinate our R&D investments with Fuji Xerox.

RD&E as a percent of revenue for the year ended December 31, 2015 of 4.5% increased 0.3-percentage points. On an adjusted¹ basis, RD&E was 4.3% of revenue and increased 0.2-percentage points due to overall total company revenue decline.

RD&E of \$511 million for the year ended December 31, 2015, was \$20 million lower than 2014 reflecting the impact of restructuring and productivity improvements.

Selling, Administrative and General Expenses (SAG)

SAG as a percent of revenue of 25.0% was flat as compared to the prior year ended December 31, 2015. On an adjusted¹ basis, SAG as a percentage of revenue of 24.5% was also flat as compared to 2015. Higher compensation expense as well as the decline in total company revenue were offset by benefits from Strategic Transformation cost saving and productivity initiatives, which include restructuring savings.

SAG expenses of \$2,695 million for the year ended December 31, 2016 were \$170 million lower than the prior year period. On an adjusted basis¹, SAG of 2,638 million decreased \$173 million, including an approximate \$58 million favorable impact from currency and reflected the following:

- \$113 million decrease in selling expenses primarily driven by productivity savings.
- \$48 million decrease in general and administrative expenses primarily driven by productivity savings that offset higher compensation expense.
- \$12 million decrease in bad debt expense primarily due to lower revenues. Bad debt expense remained at less than one percent of receivables for the year ended December 31, 2016.

SAG as a percent of revenue of 25.0% increased 0.3-percentage points compared to the prior year ended December 31, 2014. On an adjusted¹ basis, SAG as a percentage of revenue of 24.5% increased 0.1-percentage points. The increase was driven by total company revenue decline only partially offset by restructuring and productivity improvements and lower compensation expense.

SAG expenses of \$2,865 million for the year ended December 31, 2015 were \$268 million lower than the prior year period. On an adjusted basis¹, SAG of 2,811 million decreased \$285 million and reflected the following:

- \$127 million decrease in selling expenses.
- \$158 million decrease in general and administrative expenses.
- Bad debt expense of \$49 million was flat as compared to the prior year and less than one percent of receivables for the year ended December 31, 2015.

Restructuring and Asset Impairment Charges

Restructuring and related costs of \$264 million include restructuring and asset impairment charges of \$230 million and \$34 million of additional costs, primarily related to professional support services associated with the implementation of the Strategic Transformation program.

During the year ended December 31, 2016, we recorded net restructuring and asset impairment charges of \$230 million. These charges included the following:

- \$224 million of severance costs related to headcount reductions of approximately 3,250 employees globally. The actions impacted multiple functional areas, with approximately 30% of the costs focused on gross margin improvements, 60% on SAG and 10% on the optimization of RD&E investments.
- \$28 million for lease termination costs primarily related to the early termination of the lease for our corporate airplane in connection with the elimination of our corporate aviation department.

The above charges were partially offset by \$22 million of net reversals for changes in estimated reserves from prior period initiatives, as well as a gain of \$5 million from the sale of real estate impaired in prior periods.

We expect 2017 pre-tax savings of approximately \$140 million from our 2016 restructuring actions.

During the year ended December 31, 2015, we recorded net restructuring and asset impairment charges of \$27 million, which included the following:

- \$35 million of severance costs related to headcount reductions of approximately 700 employees globally. The actions impacted several functional areas, with approximately 40% of the costs focused on gross margin improvements, 55% on SAG and 5% on the optimization of RD&E investments.
- \$2 million for lease termination costs primarily reflecting continued optimization of our worldwide operating locations.
- \$7 million of asset impairment losses.

The above charges were partially offset by \$17 million of net reversals for changes in estimated reserves from prior period initiatives.

Restructuring Summary

The restructuring reserve balance as of December 31, 2016 for all programs was \$127 million, of which approximately \$121 million is expected to be spent over the next twelve months. During 2017, we expect to incur additional restructuring charges of approximately \$225 million for actions and initiatives that have not yet been finalized. Approximately \$125 million of the full year charges are expected to be recognized in the first quarter of the year.

Refer to Note 11 - Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for additional information regarding our restructuring programs.

Amortization of Intangible Assets

During the year ended December 31, 2016, we recorded \$58 million of expense related to the amortization of intangible assets, which is \$2 million lower than the prior year.

During the year ended December 31, 2015, we recorded \$60 million of expense related to the amortization of intangible assets, which is \$5 million lower than 2014 reflecting fewer acquisitions.

Refer to Note 10 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for additional information regarding our intangible assets.

Worldwide Employment

Worldwide employment, which represents Xerox post-separation, was approximately 37,600 as of December 31, 2016 and decreased by 2,400 from December 31, 2015; the reduction is due to the net impact of restructuring and productivity-related initiatives. Approximately 96,000 employees transferred to Conduent upon the completion of the Separation.

Other Expenses, Net

(in millions)	Year Ended December 31,		
	2016	2015	2014
Non-financing interest expense	\$ 181	\$ 216	\$ 226
Interest income	(5)	(6)	(9)
Gains on sales of businesses and assets	(22)	(44)	(51)
Currency losses, net	13	2	6
Litigation matters	1	(2)	(27)
Loss on sales of accounts receivables	16	13	15
All other expenses, net	16	16	25
Total Other Expenses, Net	\$ 200	\$ 195	\$ 185

Non-Financing Interest Expense: Non-financing interest expense for the year ended December 31, 2016 of \$181 million was \$35 million lower than prior year. When non-financing interest expense is combined with financing interest expense (cost of financing), total interest expense declined by \$37 million from the prior year. The decline is primarily due to a lower average cost of debt as well as the reclassification of \$18 million of interest expense to discontinued operations associated with the \$1.0 billion Term Loan Facility that was required to be repaid upon completion of the Separation. Proceeds from the Term Loan Facility had been used to pay off maturing debt in 2016. Refer to Note 4 - Divestitures for additional information on separation-related debt.

Non-financing interest expense for the year ended December 31, 2015 of \$216 million was \$10 million lower than prior year primarily due to the benefit of lower borrowing costs achieved as a result of refinancing existing debt. When non-financing interest expense is combined with financing interest expense (cost of financing), total company interest expense declined by \$20 million from the prior year, primarily driven by a lower total average debt balance and lower average cost of debt.

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding our allocation of interest expense.

Gains on Sales of Businesses and Assets: The 2016 net gain on sales of businesses and assets of \$22 million includes gains on the sale of surplus technology assets of \$17 million.

The 2015 net gain on sales of businesses and assets of \$44 million reflected a gain of approximately \$25 million on the sale of surplus real estate in Latin America and gains of approximately \$20 million for surplus technology assets.

The 2014 net gain on sales of businesses and assets was primarily related to the sales of surplus properties with \$39 million related to sales in Latin America and \$8 million related to a sale in the U.S.

Currency Losses (Gains), Net: Currency losses (gains) primarily result from the re-measurement of foreign currency-denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities and the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities. The increase in 2016 is largely due to the significant movement in exchange rates during 2016.

Litigation Matters: Litigation matters in 2016 and 2015 reflect probable losses and reserves for various legal matters.

Litigation matters in 2014 reflect probable losses and reserves for various legal matters partially offset by the favorable resolution of a securities litigation matter dating from 1999.

Refer to Note 18 - Contingencies and Litigation, in the Consolidated Financial Statements for additional information regarding litigation against the Company.

Loss on Sales of Accounts Receivables: Represents the loss incurred on our sales of accounts receivables. Refer to *Sales of Accounts Receivables* section below and Note 5 - Accounts Receivables, Net in the Consolidated Financial Statements for additional information regarding our sales of receivables.

Income Taxes

The 2016 effective tax rate was 10.9%. On an adjusted¹ basis, the 2016 effective tax rate was 20.9%. Both rates were lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the redetermination of certain unrecognized tax positions upon conclusion of several audits and the geographical mix of profits. The effective tax rate of 10.9% also included tax benefits associated with the following charges: restructuring and related costs, amortization of intangible assets and non-service retirement related costs. Excluding these benefits increases the effective tax rate on an adjusted¹ basis. The increase was much higher in 2016 as compared to 2015 due to a higher level of charges.

The 2015 effective tax rate was 20.9%. On an adjusted¹ basis, the 2015 effective tax rate was 24.0%. Both rates were lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the retroactive impact of the Protecting Americans from Tax Hikes Act as well as the geographical mix of profits.

The 2014 effective tax rate was 18.2%. On an adjusted¹ basis, the 2014 effective tax rate was 24.8%. Both rates were lower than the U.S. statutory tax rate primarily due to benefits from the redetermination of certain unrecognized tax positions upon conclusion of several audits, foreign tax credits and the retroactive impact from the U.S. Tax Increase Prevention Act of 2014 as well as the geographical mix of profits. The effective tax rate of 18.2% also included tax benefits associated with the following charges: restructuring and related costs, amortization of intangible assets and non-service retirement related costs as well as a \$44 million benefit for a deferred tax liability adjustment associated with a tax law change⁽²⁾.

Xerox operations are widely dispersed. The statutory tax rate in most non-U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor in determining our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our full year effective tax rate for 2016 includes a benefit of 22.6-percentage points from these non-U.S. operations. The increase in the percentage point benefit, as compared to the prior period benefit of approximately 15.3%, is primarily due to the increase in foreign tax credit benefits. Refer to Note 17 - Income and Other Taxes, in the Consolidated Financial Statements for additional information regarding the geographic mix of income before taxes and the related impacts on our effective tax rate.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events (e.g. audit settlements, tax law changes, changes in valuation allowances, etc.) that may not be predictable. Excluding the effects of restructuring and related costs, amortization of intangible assets and non-service retirement-related costs, and other discrete items, we anticipate that our adjusted effective tax rate will be approximately 25% to 28% for the first quarter and full year 2017.

- (1) See the "Non-GAAP Financial Measures" section for an explanation of the adjusted effective tax rate non-GAAP financial measure.
- (2) In December 2014 a change in the U.K. - Japan Tax Treaty resulted in dividends from FX no longer being subject to a withholding tax. Accordingly, in 2014, we recorded a \$44 million reversal of the deferred tax liability associated with the undistributed earnings of FX through December 2014, as it was no longer required as a result of the change in the Tax Treaty.

Equity in Net Income of Unconsolidated Affiliates

(in millions)	Year Ended December 31,		
	2016	2015	2014
Total equity in net income of unconsolidated affiliates	\$ 121	\$ 135	\$ 160
Fuji Xerox after-tax restructuring costs	3	4	3

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net income. The decrease in equity income of \$14 million in 2016 primarily reflects lower Fuji Xerox net income. The decrease in equity income of \$25 million in 2015 primarily reflects the weaker Yen as compared to the U.S. dollar in 2015 as well as lower Fuji Xerox net income.

Refer to Note 9 - Investment in Affiliates, at Equity, in the Consolidated Financial Statements for additional information regarding our investment in Fuji Xerox.

Net Income From Continuing Operations

Net income from continuing operations attributable to Xerox for the year ended December 31, 2016 was \$616 million, or \$0.58 per diluted share. On an adjusted¹ basis, net income attributable to Xerox was \$921 million, or \$0.88 per diluted share, and reflects adjustments for the amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs.

Net income from continuing operations attributable to Xerox for the year ended December 31, 2015 was \$848 million, or \$0.77 per diluted share. On an adjusted¹ basis, net income attributable to Xerox was \$978 million, or \$0.89 per diluted share, and reflects adjustments for the amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs. The increase in earnings per diluted share reflects a lower average share count as a result of share repurchases over the prior three years.

Net income from continuing operations attributable to Xerox for the year ended December 31, 2014 was \$1,029 million, or \$0.86 per diluted share. On an adjusted¹ basis, net income attributable to Xerox was \$1,148 million, or \$0.96 per diluted share, and reflects adjustments for the amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs.

- (1) See the "Non-GAAP Financial Measures" section for a reconciliation of reported net income from continuing operations to adjusted net income.

Discontinued Operations

Discontinued operations primarily relate to our Business Process Outsourcing (BPO) business, which was separated effective December 31, 2016, and the Information Technology Outsourcing (ITO) business, which was sold on June 30, 2015.

Refer to Note 4 - Divestitures in the Consolidated Financial Statements for additional information regarding Discontinued Operations.

Other Comprehensive Loss

The historical Consolidated Statements of Comprehensive (Loss) Income have not been revised to reflect the Separation. Accordingly, all reported amounts reflect movements in Accumulated Other Comprehensive Loss for both Continuing Operations and Discontinued Operations. Refer to Note 4 - Divestitures for additional information regarding the Separation.

Other comprehensive loss attributable to Xerox was \$232 million in 2016 as compared to a loss of \$483 million in 2015. The reduction of \$251 million was primarily due to the \$314 million reduction in losses from the translation of our foreign currency denominated net assets. Both 2016 and 2015 translation losses reflect the weakening of the Euro and Pound Sterling as compared to the U.S. Dollar, however the losses in 2016 were partially offset by the strengthening of the Canadian Dollar, Japanese Yen and Brazilian Real. Partially offsetting the reduction in translation losses were unrealized losses of \$15 million in 2016 compared to gains of \$23 million in 2015 reflecting activity associated with our foreign currency derivatives and a reduction in defined benefit plan gains of \$27 million in 2016 as compared to 2015.

Other comprehensive loss attributable to Xerox was \$483 million in 2015 as compared to a loss of \$1,380 million in 2014. The reduction of \$897 million was primarily due to net gains from changes in defined benefit plans of \$153 million in 2015 as compared to losses of \$662 million in 2014. The gains in 2015 are largely the result of the reclassification of actuarial losses to net income and the currency impacts on deferred actuarial losses. The remainder of the reduction in other comprehensive loss is related to the \$74 million decrease in losses from the translation of our foreign currency denominated net assets. Both 2015 and 2014 reflect translation losses as a result of the significant weakening of our major foreign currencies as compared to the U.S. Dollar in both years.

Refer to Note 14 - Financial Instruments for additional information regarding our foreign currency derivatives and our discussion of Pension Plan Assumptions in the "*Application of Critical Accounting Policies*" section of the MD&A as well as Note 16 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding our defined benefit plans.

Recent Accounting Pronouncements

Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting Policies in the Consolidated Financial Statements for a description of recent accounting pronouncements including the respective dates of adoption and the effects on results of operations and financial conditions.

Operations Review of Segment Revenue and Profit

The Business Process Outsourcing (BPO) business is not reported in our segment financial information as it is now classified as a discontinued operation. Accordingly, the Services reportable segment reflects only the financial information for our legacy Document Outsourcing (DO) services business and certain other services businesses that were transferred from the BPO business to Xerox prior to the Separation.

In addition, in the first quarter of 2016, we revised our segment reporting to exclude the non-service elements of our defined-benefit pension and retiree-health plan costs from Segment profit. Segment profit was also revised to reflect the transfer of corporate functions to Conduent, which resulted in a full year benefit of approximately \$80 million from additional corporate costs, above those historically allocated to the BPO business, being transferred to Conduent upon the Separation.

Current and prior year amounts were revised accordingly to reflect all of the above noted changes.

Revenues by segment for the three years ended December 31, 2016 were as follows:

(in millions)	Equipment Sales Revenue	Annuity Revenue	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2016						
Document Technology	\$ 1,904	\$ 4,805	\$ 6,709	62%	\$ 901	13.4 %
Services	499	3,006	3,505	33%	469	13.4 %
Other	122	435	557	5%	(223)	(40.0)%
Total	\$ 2,525	\$ 8,246	\$ 10,771	100%	\$ 1,147	10.6 %
2015						
Document Technology	\$ 2,179	\$ 5,186	\$ 7,365	64%	\$ 1,041	14.1 %
Services	493	3,064	3,557	31%	458	12.9 %
Other	109	434	543	5%	(225)	(41.4)%
Total	\$ 2,781	\$ 8,684	\$ 11,465	100%	\$ 1,274	11.1 %
2014						
Document Technology	\$ 2,482	\$ 5,876	\$ 8,358	66%	\$ 1,285	15.4 %
Services	499	3,224	3,723	29%	443	11.9 %
Other	123	475	598	5%	(218)	(36.5)%
Total	\$ 3,104	\$ 9,575	\$ 12,679	100%	\$ 1,510	11.9 %

Document Technology Segment

Our Document Technology segment includes the sale of products and supplies, as well as the associated maintenance and financing of those products.

Document Technology segment revenues for the three years ended December 31, 2016 were as follows:

(in millions)	Revenue			% Change		CC % Change	
	2016	2015	2014	2016	2015	2016	2015
Equipment sales	\$ 1,904	\$ 2,179	\$ 2,482	(13)%	(12)%	(12)%	(8)%
Annuity revenue	4,805	5,186	5,876	(7)%	(12)%	(6)%	(7)%
Total Revenue	\$ 6,709	\$ 7,365	\$ 8,358	(9)%	(12)%	(8)%	(7)%

Revenue 2016

Document Technology revenue of \$6,709 million decreased 9%, with a 1-percentage point negative impact from currency. Total revenues include the following:

- Equipment sales revenue decreased 13% with a 1-percentage point negative impact from currency. The decline was driven primarily by lower entry and mid-range sales, which partially reflects the timing of product launches, as well as lower OEM sales; the decline is also partially driven by lower sales in the developing markets, along with lower revenues from our high-end products (reflecting an unfavorable mix) and lower sales to Fuji Xerox. Equipment sales revenue in this segment was also impacted by the continued migration of customers to our partner print services offering (included in the Services segment). Revenue was also impacted by overall price declines that continue to be in-line with our historic impact of approximately 5%.
- Annuity revenue declined 7%, with a 1-percentage point negative impact from currency. The annuity revenue reduction is largely consistent with recent trends and reflects lower equipment sales in prior periods, ongoing page declines and lower supplies demand, as well as the continued migration of customers to our partner print services offering (included in the Services segment).

Document Technology revenue mix was 18% entry, 57% mid-range and 25% high-end.

Segment Margin 2016

Document Technology segment margin of 13.4% declined 0.7-percentage points from prior year, including a 0.2-percentage point improvement in gross margin. The gross margin increase reflects restructuring and productivity

improvements partially offset by price declines and adverse transaction currency. SAG as a percentage of revenue increased 0.9-percentage points, primarily as a result of higher compensation expense and lower segment revenues, which offset restructuring and productivity improvements in this area. Segment margin was also adversely impacted by lower Equity in net income of unconsolidated affiliates associated with our share of Fuji Xerox net income.

Total Installs 2016 (Document Technology and Document Outsourcing¹)

Entry⁽²⁾

- 1% decrease in color multifunction due to weakness in Europe that was only partly mitigated by higher installs in the other territories.
- 12% decrease in black-and-white multifunction devices reflecting overall market declines as well as a lower level of large deals in the developing markets.

Mid-Range⁽³⁾

- 3% increase in mid-range color installs, reflecting growth in US and developing markets, partly offset by weakness in Europe.
- 16% decrease in mid-range black-and-white consistent with market declines, reflecting a transition to color devices and fewer large account sales.

High-End⁽³⁾

- 16% increase in high-end color systems due to favorable impact from the drupa printing trade show and significant growth in Versant 80 and 180 color presses.
- 13% decrease in high-end black-and-white systems, consistent with overall market declines.

Note: Descriptions of “Entry”, “Mid-Range” and “High-End” are defined in Note 2 - Segment Reporting, in the Consolidated Financial Statements

(1) Revenue from Document Outsourcing installations is reported in the Services segment.

(2) Entry installations exclude OEM sales; including OEM sales, Entry color multifunction devices increased 34%, while Entry black-and-white multifunction devices increased 6%.

(3) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales; including Fuji Xerox digital front-end sales, Mid-range color devices increased 3% and High-end color systems declined 4%.

Revenue 2015

Document Technology revenue of \$7,365 million decreased 12%, with a 5-percentage point negative impact from currency. Total revenues include the following:

- Equipment sales revenue decreased 12% with a 4-percentage point negative impact from currency. The decline was across all product groups and was driven by weakness in developing markets, lower OEM sales, lower sales of production products due to product launch timing and continued migration of customers to our partner print services offering (included in our Services segment). Revenue was also impacted by overall price declines that continue to be in-line with our historic impact of approximately 5%.
- Annuity revenue decreased by 12%, with a 5-percentage point negative impact from currency. The annuity revenue decrease reflects lower equipment sales in prior periods, resulting in ongoing page declines and lower supplies demand, as well as supplies channel inventory dynamics and reduced financing revenue. Annuity revenue in Document Technology also reflects continued migration of customers to our partner print services offering (included in our Services segment).

Document Technology revenue mix was 19% entry, 57% mid-range and 24% high-end.

Segment Margin 2015

Document Technology segment margin of 14.1% decreased 1.3-percentage points from prior year, including a 0.7-percentage point decrease in gross margin as well as higher RD&E and SAG as a percent of revenue. The gross margin decrease reflects unfavorable revenue-stream mix, price declines and an increase in pension expense, partially offset by lower compensation and benefit expenses and benefits from restructuring and productivity improvements. SAG increased as a percent of revenue due to the impact of overall lower revenues and higher pension expense that more than offset benefits from restructuring and productivity improvements, lower compensation and benefit expenses and the curtailment gain.

Installs 2015 (Document Technology and Document Outsourcing¹)

Entry⁽²⁾

Install activity includes Document Outsourcing and the Xerox-branded products shipped to Global Imaging Systems. Details by product group is shown below.

- 11% decrease in color multifunction devices driven by declines in developing markets.
- 19% decrease in black-and-white multifunction devices reflecting continued declines in developing markets including Eurasia.

Mid-Range⁽³⁾

- 1% increase in mid-range color including demand for new products.
- 7% decrease in mid-range black-and-white reflecting higher declines in developing markets including Eurasia.

High-End⁽³⁾

- 4% decrease in high-end color systems driven primarily by declines in other production color products partially reflecting product launch timing.
- 10% decrease in high-end black-and-white systems.

Note: Descriptions of “Entry”, “Mid-Range” and “High-End” are defined in Note 2 - Segment Reporting, in the Consolidated Financial Statements

(1) Revenue from Document Outsourcing installations is reported in the Services segment.

(2) Entry installations exclude OEM sales; including OEM sales, Entry color multifunction devices increased 28%, while Entry black-and-white multifunction devices decreased 11%.

(3) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales; including Fuji Xerox digital front-end sales, Mid-range color devices increased 1%, and High-end color systems increased 2%.

Services Segment

Our Services segment is comprised of our legacy Document Outsourcing (DO) business, as well as a set of communications and marketing solutions offerings that were a part of the Business Process Outsourcing (BPO) business before the Separation.

Services revenue breakdown for the three years ended December 31, 2016 were as follows:

(in millions)	Revenue			% Change		CC % Change	
	2016	2015	2014	2016	2015	2016	2015
Equipment sales	\$ 499	\$ 493	\$ 499	1 %	(1)%	4%	7%
Annuity revenue	3,006	3,064	3,224	(2)%	(5)%	1%	1%
Total Revenue	\$ 3,505	\$ 3,557	\$ 3,723	(1)%	(4)%	1%	2%

CC - See "Non-GAAP Financial Measures" section for description of Constant Currency

Revenue 2016

Services revenue of \$3,505 million was 33% of total revenue and decreased 1% with a 2-percentage point negative impact from currency. Our legacy DO revenue was relatively flat from prior year but included a 2-percentage point negative impact from currency. Growth at constant currency¹ was primarily driven by our partner print services offerings, which more than offset the impact of lower new business signings and price declines on renewals.

Segment Margin 2016

Services segment margin of 13.4% increased 0.5-percentage points from prior year, including a 0.8 and a 0.3-percentage point improvement in SAG and RD&E as a percent of revenue, respectively, and partly offset by a 0.5-percentage point decrease in gross margin. The overall improvement reflected restructuring and productivity savings, along with a positive business mix, which more than offset price declines.

Metrics

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Our DO signings were approximately \$2.7 billion in Total Contract Value (TCV). Signings decreased 11% from prior year, with a 6% point negative impact from currency, reflecting lower contribution from new business. New business TCV at constant currency¹ decreased 18% from prior year. These declines reflect, in part, our decision to not pursue opportunities with lower margin and return profiles as well as higher competitive pressure related to timing of product launches. DO signings do not include signings from our growing partner print services offerings.

Note: TCV is the estimated total contractual revenue related to signed contracts.

Renewal Rate

Renewal rate is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period as a percentage of ARR on all contracts for which a renewal decision was made during the period. Our 2016 Document Outsourcing contract renewal rate was 82%, an increase of 4-percentage points as compared to 2015.

Revenue 2015

Services revenue of \$3,557 million was 31% of total revenue and decreased 4% with a 6-percentage point negative impact from currency. Our legacy DO revenue decreased 3% and included a 7-percentage point negative impact from currency. Growth at constant currency¹ was primarily driven by growth in our partner print services offerings offset by declines in Europe and other markets due to contract run-off and new contract ramp timing.

Segment Margin 2015

Services segment margin of 12.9% increased 1.0-percentage points from the prior year primarily due to productivity improvements and an improvement in SAG reflecting restructuring benefits partially offset by a decrease in gross margin as well as expenses associated with higher compensation expenses and price declines consistent with prior years.

Other

Our Other segment primarily includes paper sales in developing market countries, network integration solutions and non-allocated corporate items including non-financing interest and other items included in other expenses, net.

Revenue 2016

Other segment revenue of \$557 million increased 3%, with a 2-percentage point negative impact from currency. The improvement is driven by higher network integration-related solution sales, and paper sales within our developing markets, which more than offset lower wide format sales.

Other Loss 2016

Other loss of \$223 million decreased \$2 million from prior year period. Other expenses, net are reported within Other and was \$200 million as compared to \$195 million in the prior period. In addition to Other expenses, Net, our Other segment included profit increase of \$7 million primarily related to higher revenues.

Revenue 2015

Other segment revenue of \$543 million decreased 9% due to lower wide format revenues, paper sales as well as networking hardware and integration services.

Other Loss 2015

Other loss of \$225 million increased \$7 million from prior year period. Other expenses, net are reported within Other and was \$195 million as compared to \$185 million in the prior period. In addition to Other expenses, Net, our Other segment included a profit increase of \$3 million primarily related to higher licensing revenues and network integration sales.

Segment Changes

Following the separation of the BPO business, we are realigning our business to better manage and serve our customers and the markets in which we operate. As a result, in 2017 we expect to shift to a geographic structure

and be primarily organized on the basis of two main business units: North America Operations (U.S. and Canada) and International Operations (Europe, Eurasia, Latin America, Middle East, Africa and India). Although we are still evaluating our segment reporting for 2017, our current expectation is that we will report as one reportable segment.

Capital Resources and Liquidity

Our liquidity is primarily dependent on our ability to continue to generate strong cash flows from operations. Additional liquidity is also provided through access to the financial capital markets, including the Commercial Paper market, as well as a committed global credit facility. The following is a summary of our liquidity position:

- As of December 31, 2016 and 2015, total cash and cash equivalents were \$2,223 million and \$1,228 million, respectively. There were no borrowings under our Commercial Paper Program at December 31, 2016 or 2015 versus \$150 million of borrowings at December 31, 2014. There were no borrowings or letters of credit under our \$2 billion Credit Facility at either year end. The total cash and cash equivalent balance at December 31, 2016 includes \$1.0 billion of cash expected to be used for the repayment of maturing Senior Notes in the first quarter 2017.
- Over the past three years, we have consistently delivered strong cash flows from operations driven by the strength of our annuity/post-sale based revenue model and cost productivity initiatives. Operating cash flows from continuing operations was \$1,018 million, \$1,078 million and \$1,333 million for the three years ended December 31, 2016, respectively. The decrease in 2016 and 2015 operating cash flow from continuing operations was primarily due to lower earnings.
- We expect cash flows from continuing operations to be between \$700 million and \$900 million in 2017, reflecting an increase in restructuring payments and pension contributions partially offset by improvements in working capital.

Cash Flow Analysis

The following summarizes our cash flows for the three years ended December 31, 2016, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	Year Ended December 31,			Change	
	2016	2015	2014	2016	2015
Net cash provided by operating activities of continuing operations	\$ 1,018	\$ 1,078	\$ 1,333	\$ (60)	\$ (255)
Net cash provided by operating activities of discontinued operations	77	533	730	(456)	(197)
Net cash provided by operating activities	1,095	1,611	2,063	(516)	(452)
Net cash used in investing activities of continuing operations	(146)	(43)	(134)	(103)	91
Net cash (used in) provided by investing activities of discontinued operations	(251)	551	(569)	(802)	1,120
Net cash (used in) provided by investing activities	(397)	508	(703)	(905)	1,211
Net cash provided by (used in) financing activities	584	(2,074)	(1,624)	2,658	(450)
Effect of exchange rate changes on cash and cash equivalents	(30)	(77)	(81)	47	4
(Increase) decrease in cash of discontinued operations	(257)	8	(28)	(265)	36
Increase (decrease) in cash and cash equivalents	995	(24)	(373)	1,019	349
Cash and cash equivalents at beginning of year	1,228	1,252	1,625	(24)	(373)
Cash and Cash Equivalents at End of Year	\$ 2,223	\$ 1,228	\$ 1,252	\$ 995	\$ (24)

Cash Flows from Operating Activities

Net cash provided by operating activities of continuing operations was \$1,018 million for the year ended December 31, 2016. The \$60 million decrease in operating cash from 2015 was primarily due to the following:

- \$115 million decrease in pre-tax income before depreciation and amortization, gain on sales of businesses and assets, stock-based compensation, restructuring and related costs and defined benefit pension cost.
- \$331 million decrease from higher tax payments resulting from tax sharing with Conduent.

- \$119 million decrease in accounts payable and accrued compensation primarily related to the timing of payments partially offset by higher compensation accruals.
- \$66 million decrease from higher restructuring and related payments.
- \$36 million decrease from accounts receivable primarily due to the timing of collections and a lower impact from the sales of receivables.
- \$225 million increase from the settlements of foreign currency derivative contracts. This increase primarily offsets the negative currency impacts on our Yen-denominated inventory purchases as well as other foreign currency denominated payments recorded in inventory and accounts payable.
- \$123 million increase from lower pension contributions.
- \$112 million increase from finance receivables primarily related to a higher level of run-off due to lower originations and to a reduced impact from 2012 and 2013 finance receivables sales.
- \$108 million increase from inventory primarily due to lower volume of equipment and supplies sales.

Net cash provided by operating activities of continuing operations was \$1,078 million for the year ended December 31, 2015. The \$255 million decrease in operating cash from 2014 was primarily due to the following:

- \$256 million decrease in pre-tax income before depreciation and amortization, gain on sales of businesses and assets, stock-based compensation, restructuring and defined benefit pension cost.
- \$179 million decrease in accounts payable and accrued compensation primarily related to the timing of payments and lower compensation accruals.
- \$79 million decrease primarily due to higher levels of inventory following lower equipment and supplies demand.
- \$32 million decrease primarily due to higher discretionary pension contributions in the U.S. offset by lower contributions in the international plans.
- \$31 million decrease from finance receivables primarily related to a lower net run-off as a result of an increase in originations. This was partially offset by a lower impact from the prior year sales of receivables.
- \$93 million increase from lower tax payments.
- \$89 million increase from accounts receivable primarily due to a higher impact from the sales of accounts receivable under existing programs.
- \$31 million increase from lower restructuring payments due to lower activity.

Cash Flows from Investing Activities

Net cash used in investing activities of continuing operations was \$146 million for the year ended December 31, 2016 as compared to a \$43 million use of cash in the prior year. The change was primarily due to the following:

- \$67 million decrease primarily due to lower proceeds from the sale of surplus assets.
- \$17 million change from acquisitions.
- \$10 million due to lower capital expenditures (including internal use software).

Net cash used in investing activities of continuing operations was \$43 million for the year ended December 31, 2015 as compared to a \$134 million use of cash in the prior year. The change was primarily due to the following:

- \$39 million of higher proceeds primarily from the sale of surplus property and assets in the U.S. and Latin America.
- \$28 million due to lower capital expenditures (including internal use software).
- \$21 million change from acquisitions.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$584 million for the year ended December 31, 2016. The \$2,658 million increase in cash from 2015 was primarily due to the following:

- \$1,302 million increase, due to the absence of share repurchases in 2016.
- \$1,295 million increase from net debt activity. 2016 reflects net proceeds of \$1.9 billion from debt incurred by Conduent in connection with the Separation partially offset by payments of \$700 million on Senior Notes and \$250 million on Notes. 2015 reflects payment of \$1,250 million on Senior Notes and a decrease of \$150 million in Commercial Paper offset by net proceeds of \$1,045 million from the issuance of Senior Notes.
- \$31 million increase due to the absence of a stock-based award vesting in 2016 and the related tax impacts.
- \$45 million increase due to lower distributions to noncontrolling interests.
- \$10 million decrease due to lower proceeds from the issuance of common stock under our incentive stock plans.

Net cash used in financing activities was \$2,074 million for the year ended December 31, 2015. The \$450 million increase in the use of cash from 2014 was primarily due to the following:

- \$231 million increase in share repurchases.
- \$195 million increase from net debt activity. 2015 reflects the payment of \$1,250 million on Senior Notes and a decrease of \$150 million in Commercial Paper offset by net proceeds of \$1,045 million from the issuance of Senior Notes. 2014 reflects the payments of \$1,050 million on Senior Notes offset by net proceeds of \$700 million from the issuance of Senior Notes and an increase of \$150 million in Commercial Paper.
- \$36 million increase due to lower proceeds from the issuance of common stock under our incentive stock plans.
- \$10 million increase due to higher share repurchases related to employee withholding taxes on stock-based compensation vesting.
- \$25 million decrease due to lower distributions to noncontrolling interests.

Debt and Customer Financing Activities

We provide lease equipment financing to our customers, primarily in our Document Technology segment. Our lease contracts permit customers to pay for equipment over time rather than at the date of installation. Our investment in these contracts is reflected in Total finance assets, net. We primarily fund our customer financing activity through cash generated from operations, cash on hand, commercial paper borrowings, sales and securitizations of finance receivables and proceeds from capital markets offerings.

We have arrangements in certain international countries and domestically with our small and mid-sized customers, where third-party financial institutions independently provide lease financing directly to our customers, on a non-recourse basis to Xerox. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale; therefore, the unrelated third-party finance receivable and debt are not included in our Consolidated Financial Statements.

The following represents our Total finance assets, net associated with our lease and finance operations:

(in millions)	December 31,	
	2016	2015
Total Finance receivables, net ⁽¹⁾	\$ 3,744	\$ 3,988
Equipment on operating leases, net	475	495
Total Finance Assets, Net ⁽²⁾	\$ 4,219	\$ 4,483

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in our Consolidated Balance Sheets.

(2) The change from December 31, 2015 includes a decrease of \$90 million due to currency across all Finance Assets.

We maintain a certain level of debt, referred to as financing debt, to support our investment in these lease contracts or Total finance assets, net. We maintain this financing debt at an assumed 7:1 leverage ratio of debt to equity as compared to our Total finance assets, net for this financing aspect of our business. Based on this leverage, the following represents the allocation of our total debt at December 31, 2016 and 2015 between financing debt and core debt:

(in millions)	December 31,	
	2016	2015
Financing debt ⁽¹⁾	\$ 3,692	\$ 3,923
Core debt	2,624	3,356
Total Debt	\$ 6,316	\$ 7,279

(1) Financing debt includes \$3,276 million and \$3,490 million as of December 31, 2016 and December 31, 2015, respectively, of debt associated with Total finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with Equipment on operating leases.

In 2017, we expect to continue the leveraging of our finance assets at an assumed 7:1 ratio of debt to equity. The following summarizes our total debt at December 31, 2016 and 2015:

(in millions)	December 31,	
	2016	2015
Principal debt balance ⁽¹⁾	\$ 6,349	\$ 7,306
Net unamortized discount	(43)	(52)
Debt issuance costs ⁽²⁾	(21)	(29)
Fair value adjustments ⁽³⁾		
- terminated swaps	27	47
- current swaps	4	7
Total Debt	\$ 6,316	\$ 7,279

(1) Includes Notes Payable of \$4 million and \$3 million as of December 31, 2016 and December 31, 2015, respectively.

(2) Reflects the adoption of ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs effective January 1, 2016, which requires debt issuance costs to be presented as a direct deduction from the carrying amount of the corresponding debt liability. Prior year amounts were revised to reflect the new presentation.

(3) Fair value adjustments include the following: (i) fair value adjustments to debt associated with terminated interest rate swaps, which are being amortized to interest expense over the remaining term of the related notes; and (ii) changes in fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported inclusive of any fair value adjustment.

Capital Market Activity

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information.

Refer to Note 4 - Divestitures and Note 19 - Preferred Stock for additional information regarding capital activity associated with the Separation and Distribution of Conduent.

Financial Instruments

Refer to Note 14 - Financial Instruments in the Consolidated Financial Statements for additional information.

Sales of Accounts Receivable

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have financial facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivables, without recourse, to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.

Refer to Note 5 - Accounts Receivable, Net in the Consolidated Financial Statements for additional information.

Sales of Finance Receivables

In 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities. The transfers were accounted for as sales and resulted in the de-recognition of lease receivables with a net carrying value of \$676 million in 2013 and \$682 million in 2012, and associated pre-tax gains of \$40 million and \$44 million, respectively. There have been no sales since 2013. We continue to service the sold receivables and record servicing fee income over the expected life of the associated receivables.

Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

Share Repurchase Programs - Treasury Stock

No shares were repurchased during 2016. During 2015, we repurchased 115.2 million shares of our common stock for an aggregate cost of \$1.3 billion, including fees.

Refer to Note 20 - Shareholders' Equity – Treasury Stock in the Consolidated Financial Statements for additional information regarding our share repurchase programs.

Dividends

The Board of Directors declared aggregate dividends of \$317 million, \$299 million and \$293 million on common stock in 2016, 2015 and 2014, respectively. The increase in 2016 as compared to prior years is primarily due to the increase in 2015 of the quarterly dividend to 7.75 cents per share from 7.00 cents per share partially offset by a lower level of outstanding shares as a result of the repurchase of shares in 2015 under our share repurchase programs.

The Board of Directors declared aggregate dividends of \$24 million on the Series A Convertible Preferred Stock in each year of the three years ended December 31, 2016. The preferred shares were issued in 2010 in connection with the acquisition of ACS. Refer to Note 19 - Preferred Stock for additional information regarding the exchange of the Series A Convertible Preferred Stock as part of the Separation.

In February 2017, the Board of Directors approved the Company's post-separation quarterly cash dividend of 6.25 cents per share, beginning with the dividend payable on April 28, 2017.

Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our principal debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows (in millions):

Year	Amount
2017 - Q1 ⁽¹⁾⁽²⁾	\$ 1,005
2017 - Q2	2
2017 - Q3	2
2017 - Q4	2
2018	1,008
2019	1,156
2020	1,207
2021	1,067
2022	—
2023	—
2024	300
2025 and thereafter	600
Total	\$ 6,349

(1) The total cash and cash equivalent balance at December 31, 2016 includes \$1.0 billion of cash expected to be used for the repayment of \$1.0 billion maturing Senior Notes in the first quarter 2017.

(2) Includes \$4 million of Notes Payable.

Foreign Cash

At December 31, 2016, we had \$2.2 billion of cash and cash equivalents on a consolidated basis. Of that amount, approximately \$500 million was held outside the U.S. by our foreign subsidiaries to fund future working capital, investment and financing needs of our foreign subsidiaries. Accordingly, we have asserted that such funds are indefinitely reinvested outside the U.S.

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries was needed to fund our U.S. requirements, there would not be a significant tax liability associated with repatriation of the cash, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings. However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 17- Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount

of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Loan Covenants and Compliance

At December 31, 2016, we were in full compliance with the covenants and other provisions of our Credit Facility and Senior Notes. We have the right to terminate the Credit Facility without penalty. Failure to comply with material provisions or covenants of the Credit Facility and Senior Notes could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding debt arrangements.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2016, we had the following contractual cash obligations and other commercial commitments and contingencies:

(in millions)	2017	2018	2019	2020	2021	Thereafter
Total debt, including capital lease obligations ⁽¹⁾	\$ 1,011	\$ 1,008	\$ 1,156	\$ 1,207	\$ 1,067	\$ 900
Interest on debt ⁽¹⁾	251	205	169	116	65	613
Minimum operating lease commitments ⁽²⁾	124	94	72	53	40	71
Defined benefit pension plans	350	—	—	—	—	—
Retiree health payments	63	64	62	61	59	261
Estimated Purchase Commitments:						
Fuji Xerox ⁽³⁾	1,641	—	—	—	—	—
Flextronics ⁽⁴⁾	375	—	—	—	—	—
Other ⁽⁵⁾	179	98	33	23	8	201
Total	\$ 3,994	\$ 1,469	\$ 1,492	\$ 1,460	\$ 1,239	\$ 2,046

- (1) Total debt for 2017 includes \$4 million of Notes Payable. Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding debt and interest on debt.
- (2) Refer to Note 8 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.
- (3) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. Refer to Note 9 - Investments in Affiliates, at Equity in the Consolidated Financial Statements for additional information related to transactions with Fuji Xerox.
- (4) Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. In the past two years, actual purchases from Flextronics averaged approximately \$409 million per year.
- (5) Other purchase commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We currently do not have, nor do we anticipate, material loss contracts.

Pension and Other Post-retirement Benefit Plans

We sponsor defined benefit pension plans and retiree health plans that require periodic cash contributions. Our 2016 cash contributions for these plans were \$178 million for our defined benefit pension plans and \$61 million for our retiree health plans. In 2017, based on current actuarial calculations, we expect to make contributions of approximately \$350 million to our worldwide defined benefit pension plans and \$63 million to our retiree health benefit plans. The \$350 million of pension contributions include \$130 million of additional voluntary contributions in the U.S.

Contributions to our defined benefit pension plans in subsequent years will depend on a number of factors, including the investment performance of plan assets and discount rates as well as potential legislative and plan changes. At December 31, 2016, the net underfunded balances of our U.S. and Non-U.S. defined benefit pension plans were \$1,387 million and \$776 million, respectively, or \$2,163 million in the aggregate.

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. The unfunded balance of our retiree health plans is \$761 million at December 31, 2016. Cash contributions are made each year to

cover medical claims costs incurred during the year. The amounts reported in the above table as retiree health payments represent our estimate of future benefit payments.

Refer to Note 16 - Employee Benefit Plans in the Consolidated Financial Statements for additional information regarding contributions to our defined benefit pension and post-retirement plans.

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling \$1.6 billion, \$1.7 billion and \$1.8 billion in 2016, 2015 and 2014, respectively. Our purchase commitments with Fuji Xerox are entered into in the normal course of business and typically have a lead time of three months. Related party transactions with Fuji Xerox are discussed in Note 9 - Investments in Affiliates, at Equity in the Consolidated Financial Statements.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows.

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2016, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$750 million with the increase from the December 31, 2015 balance of \$577 million, primarily related to currency and interest partially offset by closed cases. With respect to the unreserved balance of \$750 million, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2016 we had \$85 million of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$4 million and additional letters of credit and surety bonds of \$142 million and \$91 million, respectively, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 18 - Contingencies and Litigation in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement law; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and non-consolidated affiliates. Nonperformance under a contract including a guarantee, indemnification or claim could trigger an obligation of the Company.

We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. Should developments in any of these areas cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Unrecognized Tax Benefits

As of December 31, 2016, we had \$165 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and foreign tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and, therefore, we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In

addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Refer to Note 17 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding unrecognized tax benefits.

Off-Balance Sheet Arrangements

We may occasionally utilize off-balance sheet arrangements in our operations (as defined by the SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations"). We enter into the following arrangements that have off-balance sheet elements:

- Operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 8 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.
- We have facilities, primarily in the U.S., Canada and several countries in Europe that enable us to sell to third-parties certain accounts receivable without recourse. In most instances, a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related sold receivables. Refer to Note 5 - Accounts Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.
- During 2013 and 2012, we entered into arrangements to transfer and sell our entire interest in certain groups of finance receivables where we received cash and beneficial interests from the third-party purchaser. Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales. There were no sales of Finance Receivables since the year ended December 31, 2013.

As of December 31, 2016, we do not believe we have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

In addition, see the preceding table for the Company's contractual cash obligations and other commercial commitments and Note 18 - Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, guarantees, indemnifications and warranty liabilities.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our results using non-GAAP measures.

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' 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.

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.

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.

Deferred tax liability adjustment (2014 Only): In December 2014 a change in the U.K. - Japan Tax Treaty resulted in dividends from FX no longer being subject to an additional withholding tax. Accordingly, in 2014, we recorded a \$44 million reversal of the deferred tax liability associated with the undistributed earnings of FX through December 2014, as it was no longer required as a result of the change in the Tax Treaty. The deferred tax liability adjustment was excluded due to its non-cash impact and the unusual nature of the item both in terms of amount and the fact that it was the result of an infrequent change in a tax treaty impacting future distributions from Fuji Xerox.

Operating Income and 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 excludes 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 includes Equity in net income of unconsolidated affiliates. Equity in net income of 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.

Net Income and EPS reconciliation:

(in millions; except per share amounts)	Year Ended December 31,					
	2016		2015		2014	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
Reported⁽¹⁾	\$ 616	\$ 0.58	\$ 848	\$ 0.77	\$ 1,029	\$ 0.86
Adjustments:						
Amortization of intangible assets	58		60		65	
Restructuring and related costs - Xerox	264		27		106	
Non-service retirement-related costs	131		116		79	
Income tax adjustments ⁽²⁾	(151)		(77)		(90)	
Restructuring charges - Fuji Xerox	3		4		3	
Deferred tax liability adjustment	—		—		(44)	
Adjusted	\$ 921	\$ 0.88	\$ 978	\$ 0.89	\$ 1,148	\$ 0.96
Weighted average shares for adjusted EPS ⁽³⁾		1,024		1,076		1,199
Fully diluted shares at December 31, 2016 ⁽⁴⁾		1,052				

(1) Net income and EPS from continuing operations.

(2) Refer to Effective Tax reconciliation

(3) Average shares for the 2016 and 2015 calculations of adjusted EPS exclude 27 million shares associated with our Series A convertible preferred stock and therefore the related annual dividend of \$24 million was included. Average shares for the 2014 calculation of adjusted EPS includes 27 million shares associated with our Series A convertible preferred stock and therefore the related annual dividend of \$24 million was excluded.

(4) Represents common shares outstanding at December 31, 2016 as well as shares associated with our Series B convertible preferred stock plus potential dilutive common shares used for the calculation of diluted earnings per share for the year ended December 31, 2016.

Effective Tax reconciliation:

(in millions)	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported⁽¹⁾	\$ 568	\$ 62	10.9%	\$ 924	\$ 193	20.9%	\$ 1,090	\$ 198	18.2%
Non-GAAP Adjustments ⁽²⁾	453	151		203	77		250	90	
Deferred tax liability adjustment	—	—		—	—		—	44	
Adjusted revised⁽³⁾	\$ 1,021	\$ 213	20.9%	\$ 1,127	\$ 270	24.0%	\$ 1,340	\$ 332	24.8%

(1) Pre-tax income and income tax expense from continuing operations.

(2) Refer to Net Income and 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.

Operating Income / Margin reconciliation:

(in millions)	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported Pre-tax Income⁽¹⁾	\$ 568	\$ 10,771	5.3%	\$ 924	\$ 11,465	8.1%	\$ 1,090	\$ 12,679	8.6%
Adjustments:									
Amortization of intangible assets	58			60			65		
Restructuring and related costs - Xerox	264			27			106		
Non-service retirement-related costs	131			116			79		
Other expenses, net	200			195			185		
Equity in net income of unconsolidated affiliates	121			135			160		
Adjusted Operating	\$ 1,342	\$ 10,771	12.5%	\$ 1,457	\$ 11,465	12.7%	\$ 1,685	\$ 12,679	13.3%

(1) Profit and revenue from continuing operations.

Key Financial Ratios reconciliation:

(in millions)	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
	As Reported ⁽¹⁾	Non- service retirement- related costs	Adjusted	As Reported ⁽¹⁾	Non- service retirement- related costs	Adjusted	As Reported ⁽¹⁾	Non- service retirement- related costs	Adjusted
Revenues	\$ 10,771	\$ —	\$ 10,771	\$ 11,465	\$ —	\$ 11,465	\$ 12,679	\$ —	\$ 12,679
Gross Profit	4,261	49	4,310	4,582	43	4,625	5,110	29	5,139
RD&E	476	(25)	451	511	(19)	492	531	(13)	518
SAG	2,695	(57)	2,638	2,865	(54)	2,811	3,133	(37)	3,096
Gross Margin	39.6%		40.0%	40.0%		40.3%	40.3%		40.5%
RD&E as a % of Revenue	4.4%		4.2%	4.5%		4.3%	4.2%		4.1%
SAG as a % of Revenue	25.0%		24.5%	25.0%		24.5%	24.7%		24.4%

(1) Revenue and costs from continuing operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We utilized derivative financial instruments to hedge economic exposures, as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

Recent market events have not caused us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 14 - Financial Instruments in the Consolidated Financial Statements for additional discussion on our financial risk management.

Foreign Exchange Risk Management

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2016, it would not significantly change the fair value of foreign currency-denominated assets and liabilities as all material currency asset and liability exposures were economically hedged as of December 31, 2016. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2016 would have an impact on our cumulative translation adjustment portion of equity of approximately \$484 million. The net amount invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox and Xerox Canada Inc. and translated into U.S. Dollars using the year-end exchange rates, was approximately \$4.8 billion at December 31, 2016.

Interest Rate Risk Management

The consolidated average interest rate associated with our total debt for 2016, 2015 and 2014 approximated 4.7%, 4.8%, and 4.9%, respectively. Interest expense includes the impact of our interest rate derivatives. The average interest rate for 2016 excludes interest associated with the \$1.0 billion Term Loan Facility that was required to be repaid upon completion of the Separation and therefore was reported in discontinued operations in 2016.

Virtually all customer-financing assets earn fixed rates of interest. The interest rates on a significant portion of the Company's term debt are fixed.

As of December 31, 2016, \$332 million of our total debt of \$6.3 billion carried variable interest rates, including the effect of pay variable interest rate swaps, if any, we may use to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2016, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$89 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of (loss) income, comprehensive (loss) income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in Item 15(a)(1) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 27, 2017

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have free access to the Audit Committee.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *"Internal Control - Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

/s/ JEFFREY JACOBSON

Chief Executive Officer

/s/ WILLIAM F. OSBOURN JR.

Chief Financial Officer

/s/ JOSEPH H. MANCINI, JR.

Chief Accounting Officer

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF (LOSS) INCOME

	Year Ended December 31,		
	2016	2015	2014
<i>(in millions, except per-share data)</i>			
Revenues			
Sales	\$ 4,319	\$ 4,674	\$ 5,214
Outsourcing, maintenance and rentals	6,127	6,445	7,078
Financing	325	346	387
Total Revenues	10,771	11,465	12,679
Costs and Expenses			
Cost of sales	2,657	2,922	3,227
Cost of outsourcing, maintenance and rentals	3,725	3,831	4,202
Cost of financing	128	130	140
Research, development and engineering expenses	476	511	531
Selling, administrative and general expenses	2,695	2,865	3,133
Restructuring and related costs	264	27	106
Amortization of intangible assets	58	60	65
Other expenses, net	200	195	185
Total Costs and Expenses	10,203	10,541	11,589
Income Before Income Taxes and Equity Income	568	924	1,090
Income tax expense	62	193	198
Equity in net income of unconsolidated affiliates	121	135	160
Income from Continuing Operations	627	866	1,052
Loss from discontinued operations, net of tax	(1,093)	(374)	(16)
Net (Loss) Income	(466)	492	1,036
Less: Net income attributable to noncontrolling interests	11	18	23
Net (Loss) Income Attributable to Xerox	\$ (477)	\$ 474	\$ 1,013
Amounts attributable to Xerox:			
Net income from continuing operations	\$ 616	\$ 848	\$ 1,029
Net loss from discontinued operations	(1,093)	(374)	(16)
Net (Loss) Income Attributable to Xerox	\$ (477)	\$ 474	\$ 1,013
Basic Earnings (Loss) per Share:			
Continuing operations	\$ 0.58	\$ 0.77	\$ 0.87
Discontinued operations	(1.07)	(0.35)	(0.01)
Total Basic (Loss) Earnings per Share	\$ (0.49)	\$ 0.42	\$ 0.86
Diluted Earnings (Loss) per Share:			
Continuing operations	\$ 0.58	\$ 0.77	\$ 0.86
Discontinued operations	(1.07)	(0.35)	(0.02)
Total Diluted (Loss) Earnings per Share	\$ (0.49)	\$ 0.42	\$ 0.84

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in millions)	Year Ended December 31,		
	2016	2015	2014
Net (Loss) Income	\$ (466)	\$ 492	\$ 1,036
Less: Net income attributable to noncontrolling interests	11	18	23
Net (Loss) Income Attributable to Xerox	\$ (477)	\$ 474	\$ 1,013
Other Comprehensive (Loss) Income, Net⁽¹⁾:			
Translation adjustments, net	\$ (346)	\$ (660)	\$ (734)
Unrealized (losses) gains, net	(15)	23	15
Changes in defined benefit plans, net	126	153	(662)
Other Comprehensive Loss, Net	(235)	(484)	(1,381)
Less: Other comprehensive loss, net attributable to noncontrolling interests	(3)	(1)	(1)
Other Comprehensive Loss, Net Attributable to Xerox	\$ (232)	\$ (483)	\$ (1,380)
Comprehensive (Loss) Income, Net	\$ (701)	\$ 8	\$ (345)
Less: Comprehensive income, net attributable to noncontrolling interests	8	17	22
Comprehensive Loss, Net Attributable to Xerox	\$ (709)	\$ (9)	\$ (367)

- (1) Refer to Note 21 - Other Comprehensive Loss for gross components of Other Comprehensive (Loss) Income, reclassification adjustments out of Accumulated Other Comprehensive Loss and related tax effects.

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
<i>(in millions, except share data in thousands)</i>		
Assets		
Cash and cash equivalents	\$ 2,223	\$ 1,228
Accounts receivable, net	961	1,068
Billed portion of finance receivables, net	90	97
Finance receivables, net	1,256	1,315
Inventories	841	901
Assets of discontinued operations	1,002	1,618
Other current assets	619	458
Total current assets	6,992	6,685
Finance receivables due after one year, net	2,398	2,576
Equipment on operating leases, net	475	495
Land, buildings and equipment, net	660	717
Investments in affiliates, at equity	1,388	1,382
Intangible assets, net	290	340
Goodwill	3,787	3,951
Assets of discontinued operations	—	7,185
Other long-term assets	2,155	2,210
Total Assets	\$ 18,145	\$ 25,541
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 1,011	\$ 962
Accounts payable	1,126	1,342
Accrued compensation and benefits costs	420	406
Unearned income	187	202
Liabilities of discontinued operations	1,002	1,627
Other current liabilities	908	715
Total current liabilities	4,654	5,254
Long-term debt	5,305	6,317
Pension and other benefit liabilities	2,240	2,360
Post-retirement medical benefits	698	784
Liabilities of discontinued operations	—	1,122
Other long-term liabilities	193	238
Total Liabilities	13,090	16,075
Commitments and Contingencies (See Note 18)		
Convertible Preferred Stock	214	349
Common stock	1,014	1,013
Additional paid-in capital	3,098	3,017
Retained earnings	5,039	9,686
Accumulated other comprehensive loss	(4,348)	(4,642)
Xerox shareholders' equity	4,803	9,074
Noncontrolling interests	38	43
Total Equity	4,841	9,117
Total Liabilities and Equity	\$ 18,145	\$ 25,541
Shares of common stock issued and outstanding	1,014,375	1,012,836

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31,		
	2016	2015	2014
Cash Flows from Operating Activities:			
Net (loss) income	\$ (466)	\$ 492	\$ 1,036
Loss from discontinued operations	1,093	374	16
Income from continuing operations	627	866	1,052
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	563	590	639
Provision for receivables	43	54	50
Provision for inventory	28	30	26
Deferred tax (benefit) expense	(9)	383	152
Net gain on sales of businesses and assets	(22)	(44)	(51)
Undistributed equity in net income of unconsolidated affiliates	(69)	(79)	(91)
Stock-based compensation	50	27	63
Restructuring and asset impairment charges	230	27	106
Payments for restructurings	(118)	(79)	(110)
Defined benefit pension cost	127	141	74
Contributions to defined benefit pension plans	(178)	(301)	(269)
Increase in accounts receivable and billed portion of finance receivables	(151)	(128)	(392)
Collections of deferred proceeds from sales of receivables	246	259	434
Decrease (increase) in inventories	7	(101)	(22)
Increase in equipment on operating leases	(268)	(291)	(283)
Decrease (increase) in finance receivables	126	(8)	(10)
Collections on beneficial interest from sales of finance receivables	24	46	79
Decrease in other current and long-term assets	82	15	9
(Decrease) increase in accounts payable and accrued compensation	(244)	(125)	54
Decrease in other current and long-term liabilities	(51)	(45)	(121)
Net change in income tax assets and liabilities	(182)	(112)	31
Net change in derivative assets and liabilities	(30)	(37)	(14)
Other operating, net	187	(10)	(73)
Net cash provided by operating activities of continuing operations	1,018	1,078	1,333
Net cash provided by operating activities of discontinued operations	77	533	730
Net cash provided by operating activities	1,095	1,611	2,063
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(93)	(84)	(119)
Proceeds from sales of land, buildings and equipment	25	92	53
Cost of additions to internal use software	(45)	(64)	(57)
Proceeds from sale of businesses	—	—	10
Acquisitions, net of cash acquired	(30)	(13)	(34)
Other investing, net	(3)	26	13
Net cash used in investing activities of continuing operations	(146)	(43)	(134)
Net cash (used in) provided by investing activities of discontinued operations	(251)	551	(569)
Net cash (used in) provided by investing activities	(397)	508	(703)
Cash Flows from Financing Activities:			
Net proceeds (payments) on short-term debt	1,888	(147)	145
Proceeds from issuance of long-term debt	25	1,079	808
Payments on long-term debt	(988)	(1,302)	(1,128)
Common stock dividends	(307)	(302)	(289)
Preferred stock dividends	(24)	(24)	(24)
Proceeds from issuances of common stock	9	19	55
Excess tax benefits from stock-based compensation	—	19	18
Payments to acquire treasury stock, including fees	—	(1,302)	(1,071)
Repurchases related to stock-based compensation	(1)	(51)	(41)
Distributions to noncontrolling interests	(17)	(62)	(87)
Other financing	(1)	(1)	(10)
Net cash provided by (used in) financing activities	584	(2,074)	(1,624)
Effect of exchange rate changes on cash and cash equivalents	(30)	(77)	(81)
(Increase) decrease in cash of discontinued operations	(257)	8	(28)
Increase (decrease) in cash and cash equivalents	995	254	(373)
Cash and cash equivalents at beginning of year	1,228	1,252	1,625
Cash and Cash Equivalents at End of Year	\$ 2,223	\$ 1,228	\$ 1,252

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽³⁾	Xerox Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2013	\$ 1,210	\$ 5,282	\$ (252)	\$ 8,839	\$ (2,779)	\$ 12,300	\$ 119	\$ 12,419
Comprehensive income (loss), net	—	—	—	1,013	(1,380)	(367)	22	(345)
Cash dividends declared-common ⁽¹⁾	—	—	—	(293)	—	(293)	—	(293)
Cash dividends declared-preferred ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Conversion of notes to common stock	1	8	—	—	—	9	—	9
Stock option and incentive plans, net	14	110	—	—	—	124	—	124
Payments to acquire treasury stock, including fees	—	—	(1,071)	—	—	(1,071)	—	(1,071)
Cancellation of treasury stock	(101)	(1,117)	1,218	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(66)	(66)
Balance at December 31, 2014	\$ 1,124	\$ 4,283	\$ (105)	\$ 9,535	\$ (4,159)	\$ 10,678	\$ 75	\$ 10,753
Comprehensive income (loss), net	—	—	—	474	(483)	(9)	17	8
Cash dividends declared-common ⁽¹⁾	—	—	—	(299)	—	(299)	—	(299)
Cash dividends declared-preferred ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Stock option and incentive plans, net	11	19	—	—	—	30	—	30
Payments to acquire treasury stock, including fees	—	—	(1,302)	—	—	(1,302)	—	(1,302)
Cancellation of treasury stock	(122)	(1,285)	1,407	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(49)	(49)
Balance at December 31, 2015	\$ 1,013	\$ 3,017	\$ —	\$ 9,686	\$ (4,642)	\$ 9,074	\$ 43	\$ 9,117
Comprehensive (loss) income, net	—	—	—	(477)	(232)	(709)	8	(701)
Cash dividends declared-common ⁽¹⁾	—	—	—	(317)	—	(317)	—	(317)
Cash dividends declared-preferred ⁽²⁾	—	—	—	(24)	—	(24)	—	(24)
Stock option and incentive plans, net	1	81	—	—	—	82	—	82
Distributions to noncontrolling interests	—	—	—	—	—	—	(13)	(13)
Separation of Conduent	—	—	—	(3,829)	526	(3,303)	—	(3,303)
Balance at December 31, 2016	\$ 1,014	\$ 3,098	\$ —	\$ 5,039	\$ (4,348)	\$ 4,803	\$ 38	\$ 4,841

(1) Cash dividends declared on common stock of \$0.0775 in each quarter of 2016, \$0.0700 in each quarter of 2015 and \$0.0625 in each quarter of 2014.

(2) Cash dividends declared on preferred stock of \$20 per share in each quarter of 2016, 2015 and 2014.

(3) AOCL - Accumulated other comprehensive loss.

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

References herein to “we,” “us,” “our,” the “Company” and “Xerox” refer to Xerox Corporation and its consolidated subsidiaries unless the context suggests otherwise.

Overview

On December 31, 2016, Xerox Corporation completed the Separation of its Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing (DT/DO) business (the “Separation”). The Separation was accomplished through the transfer of the BPO business into a new legal entity, Conduent Incorporated (Conduent), and then distributing one hundred percent (100%) of the outstanding common stock of Conduent to Xerox Corporation stockholders (the “Distribution”). Xerox Corporation stockholders received one share of Conduent’s common stock for every five shares of Xerox Corporation’s common stock held as of the close of business on the record date. The Separation and Distribution was structured to be tax-free for Xerox Corporation stockholders for federal income tax purposes. Conduent is now an independent public company trading on the New York Stock Exchange (“NYSE”) under the symbol “CNDT”. After the Separation, Xerox retained the DT/DO businesses and Xerox does not beneficially own any shares of Conduent common stock.

In connection with the Separation, Xerox entered into several agreements with Conduent to (1) effect the legal and structural separation of Xerox and Conduent, (2) govern the relationship between Xerox and Conduent up to and after the completion of the Separation and (3) allocate between Xerox and Conduent various assets, liabilities and obligations, including, among other things, employee benefits and tax-related assets and liabilities. The agreements entered into included a separation and distribution agreement, a transition service agreement, a tax matters agreement, an employee matters agreement, an intellectual property agreement and a trademark license agreement. See Note 4, Divestitures, for more information regarding these agreements.

Description of Business

Xerox is a \$10.8 billion global enterprise for document management solutions. We provide extensive leading-edge document technology, services, software and genuine Xerox supplies for a range of customers including small and mid-size businesses, large enterprises, governments, graphic communications providers, and for our partners who serve them. We operate in more than 160 countries worldwide.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Operating results of acquired businesses are included in the Consolidated Statements of (Loss) Income from the date of acquisition.

We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of (Loss) Income from the date such determination is made.

For convenience and ease of reference, we refer to the financial statement caption “Income before Income Taxes and Equity Income” as “pre-tax income” throughout the Notes to the Consolidated Financial Statements.

Discontinued Operations

As previously disclosed, on December 31, 2016 Xerox completed the separation of its BPO business through the Distribution of all of the issued and outstanding stock of Conduent to Xerox Corporation stockholders. As a result of the Separation and Distribution, the financial position and results of operations of the BPO Business are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented. The accompanying Notes to the Consolidated Financial Statements have all been revised to reflect the effect of the Separation and Distribution and all prior year balances have been revised accordingly to reflect continuing operations only. The historical statements of Comprehensive Income (Loss) and Shareholders'

Equity have not been revised to reflect the Separation and instead reflect the Separation as a final adjustment to the balances at December 31, 2016.

In 2014, we announced an agreement to sell the Information Technology Outsourcing (ITO) business to Atos SE (Atos). As a result of this agreement, we reported the ITO business as held for sale and a discontinued operation up through its date of sale, which was completed on June 30, 2015. In 2014, we also completed the disposal of Xerox Audio Visual Solutions, Inc. (XAV), which was also reported as discontinued operation. Results from these businesses are reported as Discontinued Operations and all prior period results have been reclassified to conform to this presentation.

Refer to Note 4 - Divestitures for additional information regarding discontinued operations.

Prior Period Adjustments

In 2015, we recorded a \$16 out-of-period adjustment associated with the over-accrual of an employee benefit liability account. The impact of this adjustment was not material to any individual prior quarter or year and was not material to our 2015 results.

Use of Estimates

The preparation of our Consolidated Financial Statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Our estimates are based on management's best knowledge of current events, historical experience, actions that the company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. As a result, actual results may be different from these estimates.

The following table summarizes certain recurring-type costs and expenses that require management estimates for the three years ended December 31, 2016:

Expense/(Income)	Year Ended December 31,		
	2016	2015	2014
Provisions for restructuring and related costs	\$ 264	\$ 27	\$ 106
Provision for receivables	43	54	50
Provisions for obsolete and excess inventory	28	30	26
Provision for product warranty liability	15	22	25
Depreciation and obsolescence of equipment on operating leases	276	286	297
Depreciation of buildings and equipment	148	151	179
Amortization of internal use software	73	83	88
Amortization of product software	4	4	4
Amortization of acquired intangible assets	58	60	65
Amortization of customer contract costs	4	6	6
Defined pension benefits - net periodic benefit cost	127	141	74
Retiree health benefits - net periodic benefit cost	35	2	3
Income tax expense	62	193	198

Changes in Estimates

In the ordinary course of accounting for the items discussed above, we make changes in estimates as appropriate and as we become aware of new or revised circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations.

New Accounting Standards and Accounting Changes

Except for the Accounting Standard Updates (ASU's) discussed below, the new ASU's issued by the FASB during the last two years did not have any significant impact on the Company.

Revenue Recognition

In May 2014, the FASB issued **ASU 2014-09**, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for our fiscal year beginning January 1, 2018. Subsequent to the issuance of ASU 2014-09, the FASB issued the following ASU's which amend or provide additional guidance on topics addressed in ASU 2014-09. In March 2016, the FASB issued ASU 2016-08, Revenue Recognition - Principal versus Agent (reporting revenue gross versus net). In April 2016, the FASB issued ASU 2016-10, Revenue Recognition - Identifying Performance Obligations and Licenses. In May 2016, the FASB issued ASU 2016-12, Revenue Recognition - Narrow Scope Improvements and Practical Expedients. We will adopt this standard beginning January 1, 2018 and expect to use the permitted modified retrospective method. Under current revenue recognition guidance, a significant majority of our revenue is recorded when we invoice customers, as that is normally the point at which all the revenue recognition criteria are met. Under ASU 2014-09, we expect the unit of accounting, that is, the identification performance obligations, will be consistent with current revenue guidance. Additionally, based on the nature of our contracts we expect to continue to recognize revenue upon invoicing the customer for the large majority of our revenue when we adopt ASU 2014-09. Accordingly, the adoption of this standard is not expected to have a material impact for the large majority of our revenues. Additionally, a significant portion of our equipment sales are either recorded as sales-type leases or through direct sales to distributors and resellers and these sales are not expected to be impacted by the adoption of ASU 2014-09. We are continuing to evaluate certain contracts, which are more complex or where revenue recognition criteria are not currently met when invoicing occurs, to determine their treatment under ASU 2014-09. Additionally, we are also assessing the impacts of the cost deferral guidance required by ASU 2014-09 to determine if there will be any significant change from our current practice. Although at this time we don't expect a material change in our revenue recognition, in 2017 we expect to continue to evaluate the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

Leases

In February 2016, the FASB issued **ASU 2016-02**, *Leases*. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. This update is effective for our fiscal year beginning January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements. The aggregate undiscounted value of our operating lease commitments at December 31, 2016 was approximately \$450.

Cash Flows

In August 2016, the FASB issued **ASU 2016-15**, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*. This update provides specific guidance on eight cash flow classification issues where current GAAP is either unclear or does not include specific guidance. This update is effective for our fiscal year beginning January 1, 2018. This update includes specific guidance which requires cash collected on beneficial interests received in a sale of receivables be classified as inflows from investing activities. Currently, those collections are reported in operating cash flows. We reported \$270 and \$305 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the years ended December 31, 2016 and 2015, respectively. The other issues noted in this update are not expected to have a material impact on our financial condition, results of operations or cash flows.

Additionally, in November 2016 the FASB issued **ASU 2016-18**, *Statement of Cash Flows - Restricted Cash*. The update requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts

shown on the statement of cash flows. We held \$179 and \$156 of restricted cash, currently reported in other current or long-term assets at December 31, 2016 and 2015, respectively. This update is effective for our fiscal year beginning January 1, 2018. We are currently evaluating the impact, if any, that the adoption of ASU 2016-18 may have on our statements of cash flows in future reporting periods.

Stock Compensation

In March 2016, the FASB issued **ASU 2016-09**, *Compensation - Stock Compensation, Improvements to Employee Share-Based Payment Accounting (Topic 718)*. This update includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. The update also requires that excess tax benefits and deficiencies be recorded in the income statement when the awards vest or are settled as compared to equity as allowed under certain conditions by current US GAAP. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are required to be applied retrospectively to all periods presented. ASU 2016-09 is effective for our fiscal year beginning January 1, 2017. The adoption of ASU 2016-09 for the most part is not expected to have a material impact on our financial condition, results of operations or cash flows. However, the update may add volatility to our income tax expense in future periods depending upon, among other things, the level of tax expense and the price of the Company's common stock at the date of vesting for share-based awards.

Income Taxes

In October 2016, the FASB issued **ASU 2016-16**, *Income Taxes - Intra-Entity Transfers of Assets Other than Inventory*. This update requires recognition of the income-tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs. Under current GAAP, recognition of the income tax consequences for asset transfers other than inventory could not be recognized until the asset is sold to a third party. This update is effective for our fiscal year beginning January 1, 2018 and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the adoption of ASU 2016-16 on our consolidated financial statements.

Financial Instruments - Credit Losses

In June 2016, the FASB issued **ASU 2016-13**, *Financial Instruments Credit Losses - Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets. The update impacts financial assets and net investment in leases that are not accounted for at fair value through net income. This update is effective for our fiscal year beginning January 1, 2020, with early adoption permitted as of January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

Business Combinations

In January 2017, the FASB issued **ASU 2017-01**, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This update is effective for our fiscal year beginning January 1, 2020, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2017-01 on our consolidated financial statements.

Intangibles - Goodwill and Other

In January 2017 the FASB issued **ASU 2017-04**, *Intangibles - Goodwill and Other - Simplifying the Goodwill Impairment Test*, which eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This update is effective for our fiscal year beginning January 1, 2020, with early adoption permitted for goodwill impairment tests performed after January 1, 2017. The adoption of this standard is not expected to have any effect on our financial condition, results of operations or cash flows.

Equity Method Accounting

In March 2016, the FASB issued **ASU 2016-07**, *Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*. This update eliminates the requirement that when an existing cost method investment qualifies for use of the equity method, an investor must restate its historical financial statements, as if the equity method had been used during all previous periods. Under the new guidance, at the point an investment qualifies for the equity method, any unrealized gain or loss in accumulated other comprehensive income/(loss) ("AOCI") will be recognized through earnings. This update is effective for our fiscal year beginning

January 1, 2017, with early adoption permitted. The adoption of this update is not expected to have a material impact on our financial condition, results of operations or cash flows.

Interest

In April 2015, the FASB issued **ASU 2015-03**, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued **ASU 2015-15**, which indicated that the SEC staff would not object to an entity deferring and presenting debt issuance costs associated with a line-of-credit arrangement as an asset and subsequently amortizing those costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings. Upon adoption of this update effective January 1, 2016, we reclassified \$29 of debt issuance costs to long-term debt from Other long-term assets. Prior periods were retroactively revised. The costs associated with our credit agreement of \$4 at January 1, 2016 remained reported as a deferred charge in Other long-term assets.

Other Updates

In 2016 and 2015, the FASB also issued the following Accounting Standards Updates which have not had, and are not expected to have, a material impact on our financial condition, results of operations or cash flows upon adoption. Those updates are as follows:

- **Accounting Changes and Error Corrections (Topic 250): ASU 2017-03**, *Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)*. Transition guidance included in certain issued but not yet adopted ASUs was updated to reflect this amendment.
- **Financial Instruments - Classification and Measurement: ASU 2016-01**, *Financial Instruments - Recognition and Measurement of Financial Instruments and Financial Liabilities*. This update is effective for our fiscal year beginning January 1, 2018.
- **Derivatives and Hedging: ASU 2016-06**, *Contingent Put and Call Options in Debt Instruments*, which is effective for our fiscal year beginning January 1, 2017 with early adoption permitted.
- **Derivatives and Hedging: ASU 2016-05**, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*, which is effective for our fiscal year beginning January 1, 2017 with early adoption permitted.
- **Fair Value Measurements: ASU 2015-07**, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which was effective for our fiscal year January 1, 2016. This update impacted our Plan Asset disclosures included in Note 16 - Employee Benefit Plans.
- **Inventory: ASU 2015-11**, *Simplifying the Subsequent Measurement of Inventory*, which is effective for our fiscal year beginning January 1, 2017.
- **Disclosures of Going Concern Uncertainties: ASU 2014-15**, *Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which was effective for our fiscal year ended December 31, 2016.
- **Stock Compensation: ASU 2014-12**, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period*, which was effective for our fiscal year beginning January 1, 2016.

Summary of Accounting Policies

Revenue Recognition

We generate revenue through services, the sale and rental of equipment, supplies and income associated with the financing of our equipment sales. Revenue is recognized when it is realized or realizable and earned. We consider revenue realized or realizable and earned when we have persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Delivery does not occur until equipment has been shipped or services have been provided to the customer, risk of loss has transferred to the customer, and either customer acceptance has been obtained, customer acceptance provisions have lapsed, or the

company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment: Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Maintenance Services: Maintenance service revenues are derived primarily from maintenance contracts on the equipment sold to our customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Bundled Lease Arrangements: We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. These arrangements also typically include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price-per-page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make (fixed payments) over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded (contingent payments). In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract.

Revenues under bundled arrangements are allocated considering the relative selling prices of the lease and non-lease deliverables included in the bundled arrangement. Lease deliverables include the equipment, financing, maintenance and other executory costs, while non-lease deliverables generally consist of the supplies and non-maintenance services. The allocation for the lease deliverables begins by allocating revenues to the maintenance and other executory costs plus a profit thereon. These elements are generally recognized over the term of the lease as service revenue. The remaining amounts are allocated to the equipment and financing elements which are subjected to the accounting estimates noted below under "Leases."

Our pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have generally been adjusted if the rates vary by 25 basis points or more, cumulatively, from the rate last in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Sales to distributors and resellers: We utilize distributors and resellers to sell many of our technology products, supplies and services to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. However, revenue is only recognized when the distributor or reseller has economic substance apart from the company, the sales price is not contingent upon resale or payment by the end user customer and we have no further obligations related to bringing about the resale, delivery or installation of the product.

Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

In certain instances, we may provide lease financing to end-user customers who purchased equipment we sold to distributors or resellers. We compete with other third-party leasing companies with respect to the lease financing provided to these end-user customers.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales contract terms.

Software: Most of our equipment has both software and non-software components that function together to deliver the equipment's essential functionality and therefore they are accounted for together as part of equipment sales revenues. Software accessories sold in connection with our equipment sales, as well as free-standing software sales are accounted for as separate deliverables or elements. In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service, as well as unspecified upgrades or enhancements on a when-and-if-available basis. In those software accessory and free-standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor-specific objective evidence (VSOE) of fair value. Revenue allocated to software is normally recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

Leases: As noted above, equipment may be placed with customers under bundled lease arrangements. The two primary accounting provisions which we use to classify transactions as sales-type or operating leases are: (1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease.

We consider the economic life of most of our products to be five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended. Residual values are not significant.

With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.

Financing: Finance income attributable to sales-type leases, direct financing leases and installment loans is recognized on the accrual basis using the effective interest method.

Services: Revenues associated with our document management services are generally recognized as services are rendered, which is generally on the basis of the number of transactions processed. In service arrangements where final acceptance of a printing solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenues on unit-price contracts are recognized at the contractual selling prices as work is completed and accepted by the customer.

In connection with our services arrangements, we may incur and capitalize costs to originate these long-term contracts and to perform the migration, transition and setup activities necessary to enable us to perform under the terms of the arrangement. These capitalized costs are amortized over the contractual service period of the arrangement to cost of services. From time to time, we also provide inducements to customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract.

Long-lived assets used in the fulfillment of service arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract if an asset is contract specific.

Our services contracts may also include the sale of equipment and software. In these instances we follow the policies noted above under Equipment-Related Revenues.

Other Revenue Recognition Policies

Multiple Element Arrangements: As described above, we enter into the following revenue arrangements that may consist of multiple deliverables:

- Bundled lease arrangements, which typically include both lease deliverables and non-lease deliverables as described above.
- Contracts for multiple types of document related services including professional and value-added services. For instance, we may contract for an implementation of a printing solution and also provide services to operate the solution over a period of time; or we may contract to scan, manage and store customer documents.

In substantially all of our multiple element arrangements, we are able to separate the deliverables since we normally will meet both of the following criteria:

- The delivered item(s) has value to the customer on a stand-alone basis; and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is primarily determined based on VSOE or third-party evidence (TPE) of the selling price. The above noted revenue policies are then applied to each separated deliverable, as applicable.

Revenue-based Taxes: We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The primary revenue-based taxes are sales tax and value-added tax (VAT).

Other Significant Accounting Policies

Shipping and Handling

Costs related to shipping and handling are recognized as incurred and included in Cost of sales in the Consolidated Statements of (Loss) Income.

Research, Development and Engineering (RD&E)

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Sustaining engineering costs were \$95, \$126 and \$132 in 2016, 2015 and 2014, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, including money market funds, and investments with original maturities of three months or less.

Receivable Sales

We regularly transfer certain portions of our receivable portfolios and normally account for those transfers as sales based on meeting the criteria for derecognition in accordance with ASC Topic 860 "Transfer and Servicing" of Financial Assets. Gains or losses on the sale of receivables depend, in part, on both (a) the cash proceeds and (b) the net non-cash proceeds received or paid. When we sell receivables, we normally receive beneficial interests in the transferred receivables from the purchasers as part of the proceeds. We may refer to these beneficial interests as a deferred purchase price. The beneficial interests obtained are initially measured at their fair value. We generally estimate fair value based on the present value of expected future cash flows, which are calculated using management's best estimates of the key assumptions including credit losses, prepayment rate and discount rates commensurate with the risks involved. Refer to Note 5 - Accounts Receivable, Net and Note 6 - Finance Receivables, Net for more details on our receivable sales.

Inventories

Inventories are carried at the lower of average cost or market. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value, which is normally not significant. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions, as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations.

Land, Buildings and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 7 - Inventories and Equipment on Operating Leases, Net and Note 8 - Land, Buildings, Equipment and Software, Net for further discussion.

Software - Internal Use and Product

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented (Internal Use Software). Costs incurred for upgrades and enhancements that will not result in additional functionality are expensed as incurred. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility (Product Software). These costs are amortized on a straight-line basis over the estimated economic life of the software. Amounts expended for Product Software are included in Cash Flows from Operations. We perform periodic reviews to ensure that unamortized Product Software costs remain recoverable from estimated future operating profits (net realizable value or NRV). Costs to support or service licensed software are charged to Costs of services as incurred.

Refer to Note 8 - Land, Buildings, Equipment and Software, Net for further information.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of acquired net assets in a business combination, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the company and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component.

When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and perform a detailed quantitative test of impairment (Step 1). If we perform the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, we would perform an analysis (Step 2) to measure such impairment. In 2016, we elected to proceed to the quantitative assessment of the recoverability of our goodwill balances for each of our reporting units in performing our annual impairment test.

Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, patents on existing technology and trademarks. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company.

Refer to Note 10 - Goodwill and Intangible Assets, Net for further information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Pension and Post-Retirement Benefit Obligations

We sponsor various forms of defined benefit pension plans in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retiree medical costs. We employ a delayed recognition feature in measuring the costs of pension and post-retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost, are recognized in Accumulated Other Comprehensive Loss, net of tax.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Actual returns on plan assets are not immediately recognized in our income statement due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long-term rate of return on the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a market-related value approach in determining the value of the pension plan assets, rather than a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the market-related asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The market-related value approach reduces the volatility in net periodic pension cost that would result from using the fair market value approach.

The discount rate is used to present value our future anticipated benefit obligations. The discount rate reflects the current rate at which benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating our discount rate, we consider rates of return on high-quality fixed-income investments adjusted to eliminate the effects of call provisions, as well as the expected timing of pension and other benefit payments.

Each year, the difference between the actual return on plan assets and the expected return on plan assets, as well as increases or decreases in the benefit obligation as a result of changes in the discount rate and other actuarial assumptions, are added to or subtracted from any cumulative actuarial gain or loss from prior years. This amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss. We amortize net actuarial gains and losses as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss (excluding asset gains or losses that have not been recognized in market-related value) exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets (the "corridor" method). This determination is made on a plan-by-plan basis. If amortization is required for a particular plan, we amortize the applicable net gain or loss in excess of the 10% threshold on a straight-line basis in net periodic pension cost over the remaining service period of the employees participating in that pension plan. In plans where substantially all participants are inactive, the amortization period for the excess is the average remaining life expectancy of the plan participants.

Our primary domestic plans allow participants the option of settling their vested benefits through the receipt of a lump-sum payment. The participant's vested benefit is considered fully settled upon payment of the lump-sum. We have elected to apply settlement accounting and therefore we recognize the losses associated with settlements in this plan immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. The pro rata factor is computed

as the percentage reduction in the projected benefit obligation due to the settlement of the participant's vested benefit.

Refer to Note 16 - Employee Benefit Plans for further information regarding our Pension and Post-Retirement Benefit Obligations.

Foreign Currency Translation and Re-measurement

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss.

The U.S. Dollar is used as the functional currency for certain foreign subsidiaries that conduct their business in U.S. Dollars. A combination of current and historical exchange rates is used in re-measuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are recorded in Currency (gains) and losses within Other expenses, net together with other foreign currency remeasurments.

Note 2 – Segment Reporting

During 2016 our primary reportable segments were **Document Technology** and **Services**. As a result of the Separation discussed in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies, our BPO business was not reported in our 2016 segment financial information since this business was reported as a discontinued operation in 2016. Accordingly, the Services reportable segment reflects only the financial information for our Document Outsourcing services business and certain other service offerings that were transferred from the BPO business to Document Outsourcing prior to the Separation, and therefore not included in the Conduent Separation and Distribution.

In addition, in the first quarter of 2016, we revised our segment reporting to exclude the non-service elements of our defined-benefit pension and retiree-health plan costs from Segment profit. Segment profit was also revised to reflect the transfer of corporate functions to Conduent, which resulted in a full year benefit of approximately \$80 from additional corporate costs, above those historically allocated to the BPO business, transferred to Conduent upon the Separation.

Current and prior year amounts were revised accordingly to reflect all of the above noted changes.

The **Document Technology** segment is centered around strategic product groups, which share common technology, manufacturing and product platforms. Segment revenues include the sale of document systems and supplies, provision of technical service and financing of products. Our products range from:

- **“Entry,”** which includes A4 devices and desktop printers; to
- **“Mid-range,”** which includes A3 devices that generally serve workgroup environments in mid to large enterprises and includes products that fall into the following market categories: Color 41+ ppm priced at less than \$100K and Light Production 91+ ppm priced at less than \$100K; to
- **“High-end,”** which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

Customers range from small and mid-sized businesses to large enterprises. Customers also include graphic communication enterprises as well as channel partners including distributors and resellers.

The **Services** segment includes our legacy Document Outsourcing business as well as a set of communications and marketing solutions offerings that were previously part of the BPO business and were transferred to Xerox upon Separation. This segment comprises solutions and services including Managed Print Services (MPS), Workflow Automation Services, Communication and Marketing Solutions and revenues from our Partner Print Services offerings.

Other includes several units, none of which meet the thresholds for separate segment reporting. This group includes paper sales in our developing market countries, Wide Format Systems, licensing revenues, GIS network integration solutions and electronic presentation systems and non-allocated corporate items including non-financing interest, as well as other items included in Other expenses, net.

Selected financial information for our reportable segments was as follows:

	Document Technology	Services	Other	Total
2016 ⁽¹⁾				
Revenue	\$ 6,458	\$ 3,438	\$ 550	\$ 10,446
Finance income	251	67	7	325
Total Segment Revenue	\$ 6,709	\$ 3,505	\$ 557	\$ 10,771
Depreciation and amortization ⁽²⁾	\$ 274	\$ 218	\$ 13	\$ 505
Interest expense	108	19	182	309
Segment profit (loss)	901	469	(223)	1,147
Equity in net income of unconsolidated affiliates	97	24	—	121
2015 ⁽¹⁾				
Revenue	\$ 7,098	\$ 3,485	\$ 536	\$ 11,119
Finance income	267	72	7	346
Total Segment Revenue	\$ 7,365	\$ 3,557	\$ 543	\$ 11,465
Depreciation and amortization ⁽²⁾	\$ 297	\$ 222	\$ 11	\$ 530
Interest expense	109	20	217	346
Segment profit (loss)	1,041	458	(225)	1,274
Equity in net income of unconsolidated affiliates	108	27	—	135
2014 ⁽¹⁾				
Revenue	\$ 8,044	\$ 3,658	\$ 590	\$ 12,292
Finance income	314	65	8	387
Total Segment Revenue	\$ 8,358	\$ 3,723	\$ 598	\$ 12,679
Depreciation and amortization ⁽²⁾	\$ 334	\$ 225	\$ 15	\$ 574
Interest expense	121	18	227	366
Segment profit (loss)	1,285	443	(218)	1,510
Equity in net income of unconsolidated affiliates	128	32	—	160

(1) Asset information on a segment basis is not disclosed as this information is not separately identified and internally reported to our Chief Operating Decision Maker (CODM).

(2) Depreciation and amortization excludes amortization of intangible assets - see reconciliation below.

The following is a reconciliation of segment profit to pre-tax income:

	Year Ended December 31,		
	2016	2015	2014
Total Segment Profit	\$ 1,147	\$ 1,274	\$ 1,510
Reconciling items:			
Amortization of intangible assets	(58)	(60)	(65)
Equity in net income of unconsolidated affiliates	(121)	(135)	(160)
Restructuring and related costs	(264)	(27)	(106)
Restructuring charges of Fuji Xerox	(3)	(4)	(3)
Business transformation costs ⁽¹⁾	(2)	(8)	(7)
Non-service retirement-related costs ⁽²⁾	(131)	(116)	(79)
Pre-tax Income	\$ 568	\$ 924	\$ 1,090

(1) Business transformation costs represent incremental costs incurred directly in support of our business transformation and restructuring initiatives such as compensation costs for overlapping staff, consulting costs and training costs.

(2) Represents the non-service elements of our defined-benefit pension and retiree-health plan costs. Refer to Note 16 - Employee Benefit Plans for details regarding these elements.

Geographic area data is based upon the location of the subsidiary reporting the revenue or long-lived assets and is as follows for the three years ended December 31:

	Revenues			Long-Lived Assets ⁽¹⁾	
	2016	2015	2014	2016	2015
United States	\$ 6,403	\$ 6,734	\$ 7,184	\$ 824	\$ 886
Europe	2,861	3,155	3,649	359	435
Other areas	1,507	1,576	1,846	178	163
Total Revenues and Long-Lived Assets	\$ 10,771	\$ 11,465	\$ 12,679	\$ 1,361	\$ 1,484

(1) Long-lived assets are comprised of (i) Land, buildings and equipment, net, (ii) Equipment on operating leases, net, (iii) Internal use software, net and (iv) Product software, net.

Note 3 – Acquisitions

2016 Acquisitions

In 2016 we added two equipment dealers to our Global Imaging Systems network for approximately \$30 in cash. The acquisitions were in our Document Technology segment and are consistent with our strategy to expand distribution in under-penetrated markets.

2016 Summary

Our 2016 acquisitions resulted in 100% ownership of the acquired companies. The operating results of the acquisitions described above are not material to our financial statements and are included within our results from the respective acquisition dates. Our 2016 acquisitions contributed aggregate revenues of approximately \$14 to our 2016 total revenues from their respective acquisition dates. The purchase prices for all acquisitions were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. The primary elements that generated the goodwill are the value of synergies and the acquired assembled workforce. Of the goodwill recorded in 2016, 100% is expected to be deductible for tax purposes. Refer to Note 10 - Goodwill and Intangible Assets, Net for additional information.

The following table summarizes the purchase price allocations for our 2016 acquisitions as of the acquisition dates:

	Weighted-Average Life (Years)	Total 2016 Acquisitions
Accounts/finance receivables		\$ 2
Intangible assets:		
Customer relationships	10	7
Trademarks	20	2
Non-compete agreements	4	1
Goodwill		19
Other assets		3
Total Assets Acquired		34
Liabilities assumed		(4)
Total Purchase Price		\$ 30

2015 and 2014 Acquisitions

In December 2014 we acquired a large document equipment dealer in the southern U.S. for approximately \$22 in cash. This acquisition complements our existing footprint in the southern U.S. by offering Xerox's managed services along with office and printing technology.

Our Document Technology segment acquired two businesses in 2015 and one additional business in 2014 for approximately \$13 and \$12 in cash, respectively, which expanded our distribution capability of products and services in North America.

2015 and 2014 Summary

All of our 2015 and 2014 acquisitions resulted in 100% ownership of the acquired companies. The operating results of the 2015 and 2014 acquisitions described above are not material to our financial statements and were included within our results from the respective acquisition dates. The purchase prices for all acquisitions were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. Refer to Note 10 - Goodwill and Intangible Assets, Net for additional information. Our 2015 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$10 and \$3 to our 2016 and 2015 total revenues, respectively. Our 2014 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately \$32, \$30 and \$2 to our 2016, 2015 and 2014 total revenues, respectively.

Note 4 – Divestitures

Business Process Outsourcing (BPO)

As previously disclosed, on December 31, 2016, Xerox completed the Separation of its BPO business through the Distribution of all of the issued and outstanding stock of Conduent to Xerox Corporation stockholders. As a result of the Separation and Distribution, the financial position and results of operations of the BPO Business are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented. Prior to the Separation and Distribution of Conduent, in connection with the annual goodwill impairment test, a pre-tax goodwill impairment charge of \$935 was recorded in the fourth quarter 2016 associated with the Commercial Services reporting unit of the BPO business. This charge is reported in the Loss from discontinued operations, net of tax, for the year ended December 31, 2016.

Total separation costs of \$159, which were incurred during 2016, are included in Loss from discontinued operations, net of tax, in the accompanying Consolidated Statements of (Loss) Income. 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.

In connection with the Separation, Xerox and Conduent entered into various agreements to effect the Separation and provide a framework for their relationship after the Separation, including a separation and distribution agreement, a transition service agreement, a tax matters agreement, an employee matters agreement, an intellectual property agreement and a trademark license agreement. The transition services primarily involve Xerox providing services to Conduent related to information technology and human resource infrastructure and are all expected to be for terms of no more than one year post-separation. In addition, Xerox is also party to various commercial agreements with Conduent entities. The amount billed for transition services provided under the above agreements as well as sales and purchases to and from Conduent are not expected to be material in future periods.

In preparation for the Separation, in the fourth quarter 2016, Conduent incurred approximately \$2.0 billion in new borrowings. The net proceeds from these borrowings of \$1.9 billion, after debt issuance costs, were used to fund the approximately \$1.8 billion of net cash distributions Conduent made to Xerox prior to the Distribution Date. Xerox used a portion of the cash distribution proceeds to repay the \$1.0 billion Senior Unsecured Term Facility in January 2017, which was required to be repaid upon completion of the Separation. This \$1.0 billion of cash and debt is excluded from the Cash and cash equivalents and Total Debt at December 31, 2016, respectively, and is reported in Current Assets and Current Liabilities of discontinued operations at December 31, 2016, respectively. Interest expense associated with this borrowing incurred during 2016 is included in Loss from discontinued operations, net of tax. Xerox intends to use the balance of the proceeds received to redeem Senior Notes that are coming due in the first quarter 2017. Refer to Note 13 - Debt for additional information.

Information Technology Outsourcing (ITO)

In 2014, we entered into an agreement for the sale of our ITO business to Atos and began reporting it as a Discontinued Operation. All prior periods were accordingly revised to conform to this presentation. The sale was completed on June 30, 2015. The final sale price was approximately \$940 (\$930 net of cash sold) and Atos also assumed approximately \$85 of capital lease obligations and pension liabilities. The ITO business included approximately 9,600 employees in 42 countries, who were transferred to Atos upon closing.

We recorded a net pre-tax loss of \$181 (\$160 after-tax) in 2014 related to the agreement to sell, reflecting the write-down of the carrying value of the ITO disposal group, inclusive of goodwill, to its estimated fair value less costs to sell. We recorded an additional net pre-tax loss of \$101 in 2015, primarily at closing, related to an adjustment of the sales price and related expenses associated with the disposal, as well as reserves for certain obligations and indemnifications we retained as part of the final closing negotiations. In addition, we recorded additional tax expense of \$44 in 2015 primarily related to the difference between the book basis and tax basis of allocated goodwill, which could only be recorded upon final disposal of the business.

We made an additional payment in 2016 to Atos of approximately \$52, representing a \$28 adjustment to the final sales price and a payment of \$24 due from closing. The payment was reflected in investing cash flows of discontinued operations as an adjustment of the sales proceeds.

Other Discontinued Operations

In 2014, we completed the closure of Xerox Audio Visual Solutions, Inc. (XAV), a small audio visual business within our Global Imaging Systems subsidiary, and recorded a net pre-tax loss on disposal of \$1. XAV provided audio visual equipment and services to enterprise and government customers.

In 2014, we sold the Truckload Management Services, Inc. (TMS) business for \$15 and recorded a net pre-tax loss on disposal of \$1. TMS provided document capture and submission solutions as well as campaign management, media buying and digital marketing services to the long haul trucking and transportation industry.

Summarized financial information for our Discontinued Operations is as follows:

	Year Ended December 31, 2016		
	Conduent	ITO	Total
Revenue	<u>\$ 6,355</u>	<u>\$ —</u>	<u>\$ 6,355</u>
Loss from operations	\$ (1,343)	\$ —	\$ (1,343)
Loss on disposal	—	—	—
Net loss before income taxes	<u>(1,343)</u>	<u>—</u>	<u>(1,343)</u>
Income tax benefit	250	—	250
Loss from discontinued operations, net of tax	<u>\$ (1,093)</u>	<u>\$ —</u>	<u>\$ (1,093)</u>

	Year Ended December 31, 2015		
	Conduent	ITO	Total
Revenue	<u>\$ 6,604</u>	<u>\$ 619</u>	<u>\$ 7,223</u>
(Loss) income from operations	\$ (511)	\$ 104	\$ (407)
Loss on disposal	—	(101)	(101)
Net (loss) income before income taxes	<u>(511)</u>	<u>3</u>	<u>(508)</u>
Income tax benefit (expense)	215	(81)	134
Loss from discontinued operations, net of tax	<u>\$ (296)</u>	<u>\$ (78)</u>	<u>\$ (374)</u>

	Year Ended December 31, 2014			
	Conduent	ITO	Other	Total
Revenue	\$ 6,885	\$ 1,320	\$ 45	\$ 8,250
Income (loss) from operations	\$ 116	\$ 74	\$ (1)	\$ 189
Loss on disposal	—	(181)	(1)	(182)
Net income (loss) before income taxes	116	(107)	(2)	7
Income tax expense	(17)	(5)	(1)	(23)
Income (loss) from discontinued operations, net of tax	\$ 99	\$ (112)	\$ (3)	\$ (16)

The following is a summary of selected financial information of Conduent for the three years ended December 31, 2016:

	Year Ended December 31,		
	2016	2015	2014
<u>Cost and Expenses:</u>			
Cost of services	\$ 5,456	\$ 5,923	\$ 5,749
Other Expenses ⁽¹⁾	2,065	1,192	1,020
Total Costs and Expenses	\$ 7,521	\$ 7,115	\$ 6,769
<u>Selected amounts included in Costs and Expenses:</u>			
Depreciation of buildings and equipment	\$ 130	\$ 126	\$ 145
Amortization of internal use software	49	51	52
Amortization of product software	61	65	58
Amortization of acquired intangible assets	280	250	250
Amortization of customer contract costs	93	108	122
Operating lease rent expense	378	389	385
Defined contribution plans	35	34	31
Interest expense ⁽²⁾	13	8	11
Goodwill impairment charge ⁽³⁾	935	—	—
<u>Expenditures:</u>			
Cost of additions to land, buildings and equipment	\$ 150	\$ 126	\$ 144
Cost of additions to internal use software	39	26	26
Customer-related deferred set-up/transition and inducement costs	62	55	55

(1) 2016 amount excludes \$159 of Separation related costs and \$18 of interest on the \$1.0 billion Senior Unsecured Term Facility, which was required to be repaid upon completion of the Separation, and therefore was also reported in the loss from discontinued operations.

(2) Represents interest on Conduent third-party borrowings only that were transferred to Conduent as part of the Distribution. 2016 amount excludes \$18 of interest associated with the \$1.0 billion Senior Unsecured Term Facility noted above. No additional interest expense was allocated to discontinued operations for the three years ended December 31, 2016.

(3) Prior to the Separation and Distribution of Conduent, in connection with the annual goodwill impairment test, a pre-tax goodwill impairment charge was recorded in the fourth quarter 2016 associated with the Commercial Services reporting unit of the BPO business.

The following is a summary of the major categories of assets and liabilities that were transferred to Conduent as of December 31, 2016. The balances as of December 31, 2015 are presented for comparative purposes and are included in Assets and Liabilities of discontinued operations in the Consolidated Balance Sheet at December 31, 2015:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 390	\$ 140
Accounts receivable, net	1,287	1,251
Other current assets	239	227
Total current assets of discontinued operations	1,916	1,618
Land, buildings and equipment, net	283	279
Intangible assets, net	1,144	1,425
Goodwill	3,889	4,872
Other long-term assets	477	609
Total long-term assets of discontinued operations	5,793	7,185
Total Assets of Discontinued Operations	\$ 7,709	\$ 8,803
Current portion of long-term debt	\$ 28	\$ 23
Accounts payable	159	272
Accrued pension and benefit costs	284	245
Unearned income	208	226
Other current liabilities	742	861
Total current liabilities of discontinued operations	1,421	1,627
Long-term debt	1,913	37
Pension and other benefit liabilities	173	153
Other long-term liabilities	757	932
Total long-term liabilities of discontinued operations	2,843	1,122
Total Liabilities of Discontinued Operations	\$ 4,264	\$ 2,749

As a result of the Separation, the Company distributed \$3,445 in net assets of Conduent, which has been reflected as a reduction to Preferred Stock for \$142, Retained Earnings for \$3,829 and Accumulated other comprehensive loss for \$526 in the accompanying Consolidated Balance Sheet and Consolidated Statements of Shareholders' Equity as of December 31, 2016.

The following is a summary of disclosed acquisitions over the past three years that were part of the Distribution of Conduent at December 31, 2016.

Acquisition	Date of Acquisition	Acquisition Price
RSA Medical LLC (RSA Medical)	September 2015	\$ 141
Intellinex LLC	January 2015	28
Consilience Software, Inc. (Consilience)	September 2014	25
ISG Holdings, Inc. (ISG)	May 2014	225
Invoco Holding GmbH (Invoco)	January 2014	54

Note 5 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	December 31,	
	2016	2015
Invoiced	\$ 651	\$ 741
Accrued	374	401
Allowance for doubtful accounts	(64)	(74)
Accounts Receivable, Net	\$ 961	\$ 1,068

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. The allowance for uncollectible accounts receivables is determined principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivable, without recourse, to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Consolidated Statements of Cash Flows because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to their short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in Other current assets in the accompanying Consolidated Balance Sheets and were \$48 and \$61 at December 31, 2016 and 2015, respectively.

Under most of the agreements, we continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material.

Of the accounts receivables sold and derecognized from our balance sheet, \$531 and \$524 remained uncollected as of December 31, 2016 and 2015, respectively. Accounts receivable sales were as follows:

	Year Ended December 31,		
	2016	2015	2014
Accounts receivable sales	\$ 2,267	\$ 2,142	\$ 2,563
Deferred proceeds	233	247	387
Loss on sale of accounts receivable	16	13	15
Estimated increase (decrease) to operating cash flows ⁽¹⁾	30	62	(64)

(1) Represents the difference between current and prior year fourth quarter receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the year and (iii) currency.

Note 6 – Finance Receivables, Net

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net were as follows:

	December 31,	
	2016	2015
Gross receivables	\$ 4,380	\$ 4,683
Unearned income	(526)	(577)
Subtotal	3,854	4,106
Residual values	—	—
Allowance for doubtful accounts	(110)	(118)
Finance Receivables, Net	3,744	3,988
Less: Billed portion of finance receivables, net	90	97
Less: Current portion of finance receivables not billed, net	1,256	1,315
Finance Receivables Due After One Year, Net	\$ 2,398	\$ 2,576

Contractual maturities of our gross finance receivables as of December 31, 2016 were as follows (including those already billed of \$90):

2017	2018	2019	2020	2021	Thereafter	Total
\$ 1,628	\$ 1,225	\$ 855	\$ 485	\$ 175	\$ 12	\$ 4,380

Sale of Finance Receivables

In 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities for cash proceeds and beneficial interests. The transfers were accounted for as sales with derecognition of the associated lease receivables. There have been no transfers or sales of finance receivables since 2013. We continue to service the sold receivables and record servicing fee income over the expected life of the associated receivables. The following is a summary of our prior sales activity:

	Year Ended December 31,	
	2013	2012
Net carrying value (NCV) sold	\$ 676	\$ 682
Allowance included in NCV	17	18
Cash proceeds received	635	630
Beneficial interests received	86	101

The principal value of the finance receivables derecognized from our balance sheet was \$76 and \$238 at December 31, 2016 and 2015, respectively (sales value of approximately \$81 and \$256, respectively).

Summary Finance Receivable Sales

The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests which were \$24 and \$38 at December 31, 2016 and 2015, respectively, and are included in Other current assets and Other long-term assets in the accompanying Consolidated Balance Sheets. Beneficial interests of \$13 and \$30 at December 31, 2016 and 2015, respectively, are held by the bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We report collections on the beneficial interests as operating cash flows in the Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity and the associated interest rate risk is de minimis considering their weighted average lives of less than two years.

The net impact from the sales of finance receivables on operating cash flows is summarized below:

	2016	2015	2014	2013/2012
Net cash received for sales of finance receivables ⁽¹⁾	\$ —	\$ —	\$ —	\$ 1,256
Impact from prior sales of finance receivables ⁽²⁾	(186)	(342)	(527)	(437)
Collections on beneficial interests	30	56	94	58
Estimated (Decrease) Increase to Operating Cash Flows	\$ (156)	\$ (286)	\$ (433)	\$ 877

(1) Net of beneficial interest, fees and expenses.

(2) Represents cash that would have been collected if we had not sold finance receivables.

Finance Receivables - Allowance for Credit Losses and Credit Quality

Our finance receivable portfolios are primarily in the U.S., Canada and Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. Customer credit limits are based upon an initial evaluation of the customer's credit quality and we adjust that limit accordingly based upon ongoing credit assessments of the customer, including payment history and changes in credit quality.

The allowance for doubtful accounts and provision for credit losses represents an estimate of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine the allowance for credit losses. This loss rate is primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups. The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. The identification of account-specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

Since our allowance for doubtful finance receivables is determined by country, the risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of those countries/regions. Loss rates in the U.S. remained steady and did not change significantly during 2016 and 2015. Since Europe is comprised of various countries and regional economies, the risk profile within our European portfolio segment is somewhat more diversified due to the varying economic conditions among and within the countries. Charge-offs in Europe were \$15 in 2016 as compared to \$17 in 2015, reflecting continued stabilization of Europe from the credit issues that began back in 2011.

The following table is a rollforward of the allowance for doubtful finance receivables as well as the related investment in finance receivables:

Allowance for Credit Losses:	United States	Canada	Europe	Other ⁽²⁾	Total
Balance at December 31, 2014⁽¹⁾	\$ 51	\$ 20	\$ 58	\$ 2	\$ 131
Provision	11	6	10	1	28
Charge-offs	(8)	(10)	(17)	(1)	(36)
Recoveries and other ⁽³⁾	—	1	(6)	—	(5)
Balance at December 31, 2015	\$ 54	\$ 17	\$ 45	\$ 2	\$ 118
Provision	10	3	11	—	24
Charge-offs	(12)	(8)	(15)	—	(35)
Recoveries and other ⁽³⁾	3	4	(4)	—	3
Balance at December 31, 2016	\$ 55	\$ 16	\$ 37	\$ 2	\$ 110
Finance Receivables Collectively Evaluated for Impairment:					
December 31, 2015 ⁽⁴⁾	\$ 2,174	\$ 365	\$ 1,509	\$ 58	\$ 4,106
December 31, 2016 ⁽⁴⁾	\$ 2,138	\$ 378	\$ 1,286	\$ 52	\$ 3,854

(1) In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified as Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.

(2) Includes developing market countries and smaller units.

(3) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(4) Total Finance receivables exclude the allowance for credit losses of \$110 and \$118 at December 31, 2016 and 2015, respectively.

In the U.S. and Canada, customers are further evaluated or segregated by class based on industry sector. The primary customer classes are Finance & Other Services, Government & Education; Graphic Arts; Industrial; Healthcare and Other. In Europe, customers are further grouped by class based on the country or region of the customer. The primary customer classes include the U.K./Ireland, France and the following European regions - Central, Nordic and Southern. These groupings or classes are used to understand the nature and extent of our exposure to credit risk arising from finance receivables.

We evaluate our customers based on the following credit quality indicators:

- **Investment grade:** This rating includes accounts with excellent to good business credit, asset quality and capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally less than 1%.
- **Non-investment grade:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.
- **Substandard:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade evaluation when the lease was originated. Accordingly there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are around 10%.

Credit quality indicators are updated at least annually, and the credit quality of any given customer can change during the life of the portfolio. Details about our finance receivables portfolio based on industry and credit quality indicators are as follows:

	December 31, 2016				December 31, 2015 ⁽⁴⁾			
	Investment Grade	Non-investment Grade	Sub-standard	Total Finance Receivables	Investment Grade	Non-investment Grade	Sub-standard	Total Finance Receivables
Finance and other services	\$ 181	\$ 342	\$ 95	\$ 618	\$ 195	\$ 285	\$ 91	\$ 571
Government and education	543	57	8	608	575	48	7	630
Graphic arts	138	102	107	347	145	92	127	364
Industrial	82	78	24	184	89	62	22	173
Healthcare	79	47	17	143	90	46	19	155
Other	82	103	53	238	121	107	53	281
Total United States	1,105	729	304	2,138	1,215	640	319	2,174
Finance and other services	54	43	15	112	55	35	9	99
Government and education	52	6	2	60	59	7	2	68
Graphic arts	39	37	24	100	45	35	21	101
Industrial	21	13	6	40	23	12	3	38
Other	33	25	8	66	33	23	3	59
Total Canada	199	124	55	378	215	112	38	365
France	181	222	51	454	203	207	101	511
U.K./Ireland	189	63	1	253	235	91	3	329
Central ⁽¹⁾	182	148	19	349	206	186	25	417
Southern ⁽²⁾	36	131	14	181	36	138	17	191
Nordic ⁽³⁾	26	22	1	49	24	35	2	61
Total Europe	614	586	86	1,286	704	657	148	1,509
Other	35	15	2	52	41	16	1	58
Total	\$ 1,953	\$ 1,454	\$ 447	\$ 3,854	\$ 2,175	\$ 1,425	\$ 506	\$ 4,106

(1) Switzerland, Germany, Austria, Belgium and Holland.

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

(4) In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified as Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that are more than 90 days past due are considered delinquent. Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed and is generally based on individual credit evaluations, results of collection efforts and specific circumstances of the customer. Subsequent recoveries, if any, are credited to the allowance.

We generally continue to maintain equipment on lease and provide services to customers that have invoices for finance receivables that are 90 days or more past due and, as a result of the bundled nature of billings, we also continue to accrue interest on those receivables. However, interest revenue for such billings is only recognized if collectability is deemed reasonably assured. The aging of our billed finance receivables is as follows:

December 31, 2016							
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	\$ 13	\$ 3	\$ 1	\$ 17	\$ 601	\$ 618	\$ 11
Government and education	10	4	3	17	591	608	25
Graphic arts	13	1	—	14	333	347	5
Industrial	4	1	1	6	178	184	5
Healthcare	3	1	1	5	138	143	5
Other	9	2	1	12	226	238	5
Total United States	52	12	7	71	2,067	2,138	56
Canada	3	—	—	3	375	378	8
France	3	—	—	3	451	454	20
U.K./Ireland	2	1	—	3	250	253	1
Central ⁽¹⁾	2	1	—	3	346	349	5
Southern ⁽²⁾	5	1	1	7	174	181	6
Nordic ⁽³⁾	1	—	—	1	48	49	1
Total Europe	13	3	1	17	1,269	1,286	33
Other	3	—	—	3	49	52	—
Total	\$ 71	\$ 15	\$ 8	\$ 94	\$ 3,760	\$ 3,854	\$ 97

December 31, 2015 ⁽⁴⁾							
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	\$ 10	\$ 2	\$ 2	\$ 14	\$ 557	\$ 571	\$ 14
Government and education	12	1	4	17	613	630	37
Graphic arts	12	2	1	15	349	364	8
Industrial	5	1	1	7	166	173	7
Healthcare	4	1	1	6	149	155	9
Other	14	2	2	18	263	281	7
Total United States	57	9	11	77	2,097	2,174	82
Canada	3	—	—	3	362	365	9
France	—	—	—	—	511	511	25
U.K./Ireland	1	—	—	1	328	329	1
Central ⁽¹⁾	3	1	1	5	412	417	7
Southern ⁽²⁾	8	2	3	13	178	191	10
Nordic ⁽³⁾	1	—	—	1	60	61	4
Total Europe	13	3	4	20	1,489	1,509	47
Other	1	1	—	2	56	58	—
Total	\$ 74	\$ 13	\$ 15	\$ 102	\$ 4,004	\$ 4,106	\$ 138

(1) Switzerland, Germany, Austria, Belgium and Holland.

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

(4) In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified as Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.

Note 7 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	December 31,	
	2016	2015
Finished goods	\$ 713	\$ 751
Work-in-process	47	51
Raw materials	81	99
Total Inventories	\$ 841	\$ 901

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term.

Equipment on operating leases and the related accumulated depreciation were as follows:

	December 31,	
	2016	2015
Equipment on operating leases	\$ 1,468	\$ 1,478
Accumulated depreciation	(993)	(983)
Equipment on Operating Leases, Net	\$ 475	\$ 495

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Our equipment operating lease terms vary, generally from one to three years. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2017	2018	2019	2020	2021	Thereafter
\$ 319	\$ 221	\$ 142	\$ 76	\$ 26	\$ 3

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2016, 2015 and 2014 amounted to \$132, \$139 and \$149, respectively.

Note 8 - Land, Buildings, Equipment and Software, Net

Land, buildings and equipment, net were as follows:

	Estimated Useful Lives (Years)	December 31,	
		2016	2015
Land		\$ 20	\$ 21
Building and building equipment	25 to 50	911	919
Leasehold improvements	Varies	219	244
Plant machinery	5 to 12	1,225	1,274
Office furniture and equipment	3 to 15	657	700
Other	4 to 20	70	63
Construction in progress		33	28
Subtotal		3,135	3,249
Accumulated depreciation		(2,475)	(2,532)
Land, Buildings and Equipment, Net		\$ 660	\$ 717

Depreciation expense and operating lease rent expense were as follows:

	Year Ended December 31,		
	2016	2015	2014
Depreciation expense	\$ 148	\$ 151	\$ 179
Operating lease expense	157	164	175

We lease buildings and equipment, substantially all of which are accounted for as operating leases. Capital leased assets were \$31 and \$39 at December 31, 2016 and 2015, respectively.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2016 were as follows:

	2017	2018	2019	2020	2021	Thereafter
\$	124	\$ 94	\$ 72	\$ 53	\$ 40	\$ 71

Internal Use Software

Additions to:	Year Ended December 31,		
	2016	2015	2014
Internal use software	\$ 45	\$ 64	\$ 57

Capitalized costs, net:	December 31,	
	2016	2015
Internal use software	\$ 218	\$ 264

Useful lives of our internal use software generally vary from three to seven years.

Note 9 – Investment in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest were as follows:

	December 31,	
	2016	2015
Fuji Xerox	\$ 1,313	\$ 1,315
Other	75	67
Investments in Affiliates, at Equity	\$ 1,388	\$ 1,382

Our equity in net income of our unconsolidated affiliates was as follows:

	Year Ended December 31,		
	2016	2015	2014
Fuji Xerox	\$ 108	\$ 117	\$ 147
Other	13	18	13
Total Equity in Net Income of Unconsolidated Affiliates	\$ 121	\$ 135	\$ 160

Fuji Xerox

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand, Vietnam and other areas of the Pacific Rim. Our investment in Fuji Xerox of \$1,313 at December 31, 2016, differs from our implied 25% interest in the underlying net assets, or \$1,406, due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox.

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest.

Summarized financial information for Fuji Xerox is as follows:

	Year Ended December 31,		
	2016	2015	2014
Summary of Operations			
Revenues	\$ 10,161	\$ 9,925	\$ 11,112
Costs and expenses	9,486	9,198	10,242
Income before income taxes	675	727	870
Income tax expense	217	233	262
Net Income	458	494	608
Less: Net income - noncontrolling interests	7	7	4
Net Income - Fuji Xerox	\$ 451	\$ 487	\$ 604
Balance Sheet			
Assets:			
Current assets	\$ 4,464	\$ 4,585	\$ 4,801
Long-term assets	4,734	4,946	4,742
Total Assets	\$ 9,198	\$ 9,531	\$ 9,543
Liabilities and Equity:			
Current liabilities	\$ 2,679	\$ 2,808	\$ 2,982
Long-term debt	283	584	580
Other long-term liabilities	583	511	482
Noncontrolling interests	31	31	30
Fuji Xerox shareholders' equity	5,622	5,597	5,469
Total Liabilities and Equity	\$ 9,198	\$ 9,531	\$ 9,543

Yen/U.S. Dollar exchange rates used to translate are as follows:

Financial Statement	Exchange Basis	2016	2015	2014
Summary of Operations	Weighted average rate	108.68	121.01	105.58
Balance Sheet	Year-end rate	116.53	120.49	119.46

Transactions with Fuji Xerox

We receive dividends from Fuji Xerox, which are reflected as a reduction in our investment. Additionally, we have a Technology Agreement with Fuji Xerox whereby we receive royalty payments for their use of our Xerox brand trademark, as well as rights to access our patent portfolio in exchange for access to their patent portfolio. These payments are included in Outsourcing, maintenance and rental revenues in the Consolidated Statements of (Loss) Income. We also have arrangements with Fuji Xerox whereby we purchase inventory from and sell inventory to Fuji Xerox. Pricing of the transactions under these arrangements is based upon terms the Company believes to be negotiated at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. In addition, we pay Fuji Xerox and they pay us for unique research and development costs.

Transactions with Fuji Xerox were as follows:

	Year Ended December 31,		
	2016	2015	2014
Dividends received from Fuji Xerox	\$ 47	\$ 51	\$ 58
Royalty revenue earned	107	102	115
Inventory purchases from Fuji Xerox	1,641	1,728	1,831
Inventory sales to Fuji Xerox	80	108	120
R&D payments received from Fuji Xerox	1	1	1
R&D payments paid to Fuji Xerox	13	7	17

As of December 31, 2016 and 2015, net amounts due to Fuji Xerox were \$273 and \$307, respectively.

Note 10 - Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment:

	Document Technology	Services	Total
Balance at December 31, 2014	\$ 2,353	\$ 1,668	\$ 4,021
Foreign currency translation	(38)	(38)	(76)
Acquisitions:			
Other	6	—	6
Balance at December 31, 2015	\$ 2,321	\$ 1,630	\$ 3,951
Foreign currency translation	(93)	(90)	(183)
Acquisitions:			
Imagetek	10	—	10
Other	9	—	9
Balance at December 31, 2016	\$ 2,247	\$ 1,540	\$ 3,787

Intangible Assets, Net

Net intangible assets were \$290 at December 31, 2016 of which \$247 relate to our Document Technology segment and \$43 relate to our Services segment. Intangible assets were comprised of the following:

	Weighted Average Amortization	December 31, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer relationships	13 years	\$ 508	\$ 410	\$ 98	\$ 509	\$ 378	\$ 131
Distribution network	25 years	123	84	39	123	79	44
Trademarks	20 years	250	107	143	248	95	153
Technology, patents and non-compete	13 years	15	5	10	19	7	12
Total Intangible Assets		\$ 896	\$ 606	\$ 290	\$ 899	\$ 559	\$ 340

Amortization expense related to intangible assets was \$58, \$60, and \$65 for the years ended December 31, 2016, 2015 and 2014, respectively. Excluding the impact of additional acquisitions, amortization expense is expected to approximate \$58 in 2017, \$57 in 2018, \$39 in 2019 and \$18 in each of the years 2020 and 2021.

Note 11 – Restructuring and Asset Impairment Charges

In 2016, in conjunction with our announcement of the planned Separation of the Company, we initiated a three-year Strategic Transformation program to accelerate our cost productivity initiatives. The program is expected to deliver productivity gains and cost savings in areas such as delivery, remote connectivity, sales productivity, pricing, design efficiency and supply chain optimization.

The program is expected to include restructuring charges related to downsizing our employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce our cost structure and improve productivity. In addition, we expect to incur asset impairment charges in connection with these restructuring actions for those assets that are sold, abandoned or made obsolete as a result of initiatives under the program. Beginning in 2016, all restructuring costs incurred were the result of actions and initiatives associated with the Strategic Transformation program.

Costs associated with restructuring, including employee severance and lease termination costs, are generally recognized when it has been determined that a liability has been incurred, which is generally upon communication to the affected employees or exit from the leased facility, respectively. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize employee severance costs when they are both probable and reasonably estimable.

A summary of our restructuring program activity during the three years ended December 31, 2016 is as follows:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽²⁾	Total
Balance at December 31, 2013	\$ 96	\$ 3	\$ —	\$ 99
Restructuring provision	115	3	5	123
Reversals of prior accruals	(16)	—	(1)	(17)
Net Current Period Charges⁽¹⁾	<u>99</u>	<u>3</u>	<u>4</u>	<u>106</u>
Charges against reserve and currency	(112)	(5)	(4)	(121)
Balance at December 31, 2014	\$ 83	\$ 1	\$ —	\$ 84
Restructuring provision	35	2	7	44
Reversals of prior accruals	(16)	(1)	—	(17)
Net Current Period Charges⁽¹⁾	<u>19</u>	<u>1</u>	<u>7</u>	<u>27</u>
Charges against reserve and currency	(84)	(1)	(7)	(92)
Balance at December 31, 2015	\$ 18	\$ 1	\$ —	\$ 19
Restructuring provision	224	28	—	252
Reversals of prior accruals	(16)	(1)	(5)	(22)
Net Current Period Charges⁽¹⁾	<u>208</u>	<u>27</u>	<u>(5)</u>	<u>230</u>
Charges against reserve and currency	(122)	(5)	5	(122)
Balance at December 31, 2016	<u>\$ 104</u>	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ 127</u>

(1) Represents net amount recognized within the Consolidated Statements of (Loss) Income for the years shown for restructuring and asset impairments charges.

(2) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.

The following table summarizes the reconciliation to the Consolidated Statements of Cash Flows:

	Year Ended December 31,		
	2016	2015	2014
Charges against reserve	\$ (122)	\$ (92)	\$ (121)
Asset impairments	—	7	5
Effects of foreign currency and other non-cash items	4	6	6
Restructuring Cash Payments	<u>\$ (118)</u>	<u>\$ (79)</u>	<u>\$ (110)</u>

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Year Ended December 31,		
	2016	2015	2014
Document Technology	\$ 208	\$ 15	\$ 76
Services	25	4	16
Other	(3)	8	14
Total Net Restructuring Charges	<u>\$ 230</u>	<u>\$ 27</u>	<u>\$ 106</u>

Note 12 - Supplementary Financial Information

The components of Other assets and liabilities were as follows:

	December 31,	
	2016	2015
Other Current Assets		
Income taxes receivable	\$ 50	\$ 12
Royalties, license fees and software maintenance	21	34
Restricted cash	92	84
Prepaid expenses	45	51
Derivative instruments	88	55
Deferred purchase price from sales of accounts receivables	48	61
Beneficial interests - sales of finance receivables	8	8
Advances and deposits	15	25
Other	125	128
Due from Conduent	127	—
Total Other Current Assets	\$ 619	\$ 458
Other Current Liabilities		
Income taxes payable	\$ 45	\$ 28
Other taxes payable	78	76
Interest payable	55	73
Restructuring reserves	121	18
Derivative instruments	39	11
Product warranties	7	8
Dividends payable	91	85
Distributor and reseller rebates/commissions	120	106
Servicer liabilities	62	83
Other	290	227
Total Other Current Liabilities	\$ 908	\$ 715
Other Long-term Assets		
Deferred taxes	\$ 1,475	\$ 1,450
Income taxes receivable	14	9
Prepaid pension costs	17	22
Derivative instruments	4	7
Net investment in TRG	126	142
Internal use software, net	218	264
Product software, net	8	8
Restricted cash	87	72
Debt issuance costs, net	3	4
Customer contract costs, net	7	13
Beneficial interest - sales of finance receivables	16	30
Deferred compensation plan investments	15	13
Other	165	176
Total Other Long-term Assets	\$ 2,155	\$ 2,210
Other Long-term Liabilities		
Deferred taxes	\$ 42	\$ 51
Income taxes payable	16	49
Environmental reserves	9	11
Restructuring reserves	6	1
Other	120	126
Total Other Long-term Liabilities	\$ 193	\$ 238

Restricted Cash

As more fully discussed in Note 18 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. In addition, as more fully discussed in Note 5 - Accounts Receivable, Net and Note 6 - Finance Receivables, Net, we continue to service the receivables sold under most of our receivable sale agreements. As servicer, we may collect cash related to sold receivables prior to year-end that will be remitted to the purchaser the following year. Since we are acting on behalf of the purchaser in our capacity as servicer, such cash collected is reported as restricted cash. Restricted cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

Restricted cash amounts were as follows:

	December 31,	
	2016	2015
Tax and labor litigation deposits in Brazil	\$ 85	\$ 71
Escrow and cash collections related to receivable sales	62	83
Other restricted cash	32	2
Total Restricted Cash	\$ 179	\$ 156

Net Investment in TRG

At December 31, 2016, our net investment in The Resolution Group (TRG) primarily consisted of a \$140 performance-based instrument relating to the 1997 sale of TRG, net of remaining liabilities associated with our discontinued operations of \$14. The recovery of the performance-based instrument is dependent on the sufficiency of TRG's available cash flows, as guaranteed by TRG's ultimate parent, which are expected to be recovered in annual cash distributions through 2017. The performance-based instrument is pledged as security for our future funding obligations to our U.K. Pension Plan for salaried employees.

Due from Conduent

The balance Due from Conduent includes the following amounts:

<u>Due from\to) Conduent</u>	December 31, 2016	
Cash adjustment	\$	161
Taxes payable		(32)
Other		(2)
Total Due from Conduent	\$	127

The Cash adjustment primarily represents the final adjustment that was required to bring Conduent's cash balance to \$225 at Separation, as provided for in the Separation Agreement. This amount was paid to Xerox in January 2017. The income tax payable represents the final adjustment for income tax payments between the two companies for their consolidated 2016 tax returns; which will be the last returns to be filed on a consolidated basis. The tax sharing between the two companies was based on a separate return basis; as if Conduent filed a separate tax return.

Note 13 – Debt

Short-term borrowings were as follows:

	December 31,	
	2016	2015
Notes Payable	\$ 4	\$ 3
Current maturities of long-term debt	1,007	959
Total Short-term Debt	\$ 1,011	\$ 962

We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term, or to the first put date in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of (Loss) Income.

Long-term debt was as follows:

	December 31,			
	Stated Rate	Weighted Average Interest Rates at December 31, 2016 ⁽³⁾	2016	2015
Xerox Corporation				
Senior Notes due 2016			\$ —	\$ 700
Notes due 2016			—	250
Senior Notes due 2017 ⁽¹⁾	6.75%	6.83%	500	500
Senior Notes due 2017 ⁽¹⁾	2.95%	2.98%	500	500
Notes due 2018	0.57%	0.57%	1	1
Senior Notes due 2018	6.35%	6.37%	1,000	1,000
Senior Notes due 2019	2.75%	2.77%	500	500
Senior Notes due 2019	5.63%	5.66%	650	650
Senior Notes due 2020	2.80%	2.81%	400	400
Senior Notes due 2020	3.50%	3.70%	400	400
Senior Notes due 2020	2.75%	2.77%	400	400
Senior Notes due 2021	4.50%	5.39%	1,062	1,062
Senior Notes due 2024	3.80%	3.84%	300	300
Senior Notes due 2035	4.80%	4.84%	250	250
Senior Notes due 2039	6.75%	6.78%	350	350
Subtotal - Xerox Corporation			\$ 6,313	\$ 7,263
Subsidiary Companies				
Capital lease obligations		9.44%	31	39
Other		0.34%	1	1
Subtotal - Subsidiary Companies			\$ 32	\$ 40
Principal debt balance			\$ 6,345	\$ 7,303
Unamortized discount			(43)	(52)
Debt issuance costs			(21)	(29)
Fair value adjustments ⁽²⁾				
Terminated swaps			27	47
Current swaps			4	7
Less: current maturities			(1,007)	(959)
Total Long-term Debt			\$ 5,305	\$ 6,317

(1) Senior Notes maturing in 2017 expected to be paid in part from funds received in the distribution from Conduent as part of the Separation. Refer to Note 4 - Divestitures for additional information.

(2) Fair value adjustments include the following: (i) fair value adjustments to debt associated with terminated interest rate swaps, which are being amortized to interest expense over the remaining term of the related notes; and (ii) changes in fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported inclusive of any fair value adjustment.

(3) Represents weighted average effective interest rate which includes the effect of discounts and premiums on issued debt.

Scheduled principal payments due on our long-term debt for the next five years and thereafter are as follows:

2017 ⁽¹⁾	2018	2019	2020	2021	Thereafter	Total
\$ 1,007	\$ 1,008	\$ 1,156	\$ 1,207	\$ 1,067	\$ 900	\$ 6,345

(1) Quarterly long-term debt maturities from continuing operations for 2017 are \$1,001, \$2, \$2 and \$2 for the first, second, third and fourth quarters, respectively.

Term Loan Facility

On March 4, 2016, Xerox Corporation entered into a \$1.0 billion Senior Unsecured Term Facility. The facility was fully drawn by April 1, 2016 and was required to be repaid upon completion of the Separation. Borrowings under the facility bore interest at a rate of LIBOR plus 1.50% and interest rates varied between 1.95% and 2.16% during 2016.

The proceeds of the facility were used to repay maturing debt of \$950 (\$700 of 6.40% Senior Notes on March 15, 2016 and \$250 of 7.20% Notes on April 1, 2016).

As previously noted, this facility, which was required to be repaid upon completion of the Separation, was repaid in January 2017. Accordingly, the facility is excluded from Total Debt at December 31, 2016 and is reported in the Current Liabilities of discontinued operations at December 31, 2016. Interest expense associated with this borrowing incurred during 2016 is included in Loss from discontinued operations.

Refer to Note 1- Basis of Presentation for information regarding the Company separation.

Commercial Paper

We have a private placement commercial paper (CP) program in the U.S. under which we may issue CP up to a maximum amount of \$2.0 billion outstanding at any time. Aggregate CP and Credit Facility borrowings may not exceed \$2.0 billion outstanding at any time. The maturities of the CP Notes will vary, but may not exceed 390 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at market rates. We had no CP outstanding at December 31, 2016 and 2015.

Credit Facility

We have a \$2.0 billion unsecured revolving Credit Facility with a group of lenders, which matures in 2019. The Credit Facility contains a \$300 letter of credit sub-facility, and also includes an accordion feature that would allow us to increase (from time to time, with willing lenders) the overall size of the facility up to an aggregate amount not to exceed \$2.75 billion.

The Credit Facility provides a backstop to our \$2.0 billion CP program. Proceeds from any borrowings under the Credit Facility can be used to provide working capital for the Company and its subsidiaries and for general corporate purposes. At December 31, 2016 we had no outstanding borrowings or letters of credit under the Credit Facility.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. Any domestic subsidiary that guarantees more than \$100 of Xerox Corporation debt must also guaranty our obligations under the Credit Facility. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us.

Borrowings under the Credit Facility bear interest at our choice, at either (a) a Base Rate as defined in our Credit Facility agreement, plus a spread that varies between 0.000% and 0.45% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 0.90% and 1.45% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2016, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 0.30% and 1.30%, respectively.

An annual facility fee is payable to each lender in the Credit Facility at a rate that varies between 0.10% and 0.30% depending on our credit rating. Based on our credit rating as of December 31, 2016, the applicable rate is 0.20%.

The Credit Facility contains various conditions to borrowing and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

- (a) Maximum leverage ratio (a quarterly test that is calculated as principal debt divided by consolidated EBITDA, as defined) of 3.75x.
- (b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense) may not be less than 3.00x.
- (c) Limitations on (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries.

The Credit Facility also contains various events of default, the occurrence of which could result in termination of the lenders' commitments to lend and the acceleration of all our obligations under the Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the Credit Facility (certain of which breaches do not have any grace period), (iii) cross-defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

Interest

Interest paid on our short-term and long-term debt amounted to \$352, \$365 and \$400 for the years ended December 31, 2016, 2015 and 2014, respectively.

	Year Ended December 31,		
	2016	2015	2014
Interest paid - continuing operations	\$ 332	\$ 356	\$ 387
Interest paid - discontinued operations	20	9	13
Total interest paid on debt	\$ 352	\$ 365	\$ 400

Interest expense and interest income was as follows:

	Year Ended December 31,		
	2016	2015	2014
Interest expense ⁽¹⁾	\$ 309	\$ 346	\$ 366
Interest income ⁽²⁾	330	352	396

(1) Includes Equipment financing interest expense, as well as non-financing interest expense included in Other expenses, net in the Consolidated Statements of (Loss) Income.

(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Consolidated Statements of (Loss) Income.

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on the interest cost associated with actual borrowings determined to be in support of the leasing business. The estimated level of debt continues to be based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Note 14 – Financial Instruments

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Japanese Yen, Euro and U.K. Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency exchange rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with our derivative instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal only with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged.

Terminated Swaps

During the period from 2004 to 2011, we early terminated several interest rate swaps that were designated as fair value hedges of certain debt instruments. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2016, 2015 and 2014, the amortization of these fair value adjustments reduced interest expense by \$19, \$22 and \$31, respectively, and we expect to record a net decrease in interest expense of \$27 in future years through 2018.

Fair Value Hedges

As of December 31, 2016 and 2015, pay variable/received fixed interest rate swaps with notional amounts of \$300 and \$300, respectively, and net asset fair value of \$4 and \$7, respectively, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2016 or 2015.

The following is a summary of our fair value hedges at December 31, 2016:

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Note 2021	2014	\$ 300	\$ 4	2.60%	4.50%	Libor	2021

Foreign Exchange Risk Management

As a global company, we are exposed to foreign currency exchange rate fluctuations in the normal course of our business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchased option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings or protecting fair values of assets and liabilities:

- Foreign currency-denominated assets and liabilities
- Forecasted purchases, and sales in foreign currency

At December 31, 2016, we had outstanding forward exchange and purchased option contracts with gross notional values of \$3,149, which is typical of the amounts that are normally outstanding at any point during the year. Approximately 85% of these contracts mature within three months, 11% in three to six months and 4% in six to twelve months.

The following is a summary of the primary hedging positions and corresponding fair values as of December 31, 2016:

Currencies Hedged (Buy/Sell)	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
Euro/U.K. Pound Sterling	\$ 1,321	\$ 22
Japanese Yen/U.S. Dollar	389	(27)
U.S. Dollar/U.K. Pound Sterling	268	41
Japanese Yen/Euro	261	(6)
U.S. Dollar/Euro	210	6
Canadian Dollar/U.K. Pound Sterling	169	14
Swiss Franc/Euro	98	—
U.K. Pound Sterling/Euro	98	(1)
U.K. Pound Sterling/U.S. Dollar	77	(1)
Euro/Japanese Yen	26	—
Euro/Mexican Peso	25	2
All Other	207	(1)
Total Foreign Exchange Hedging	\$ 3,149	\$ 49

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2016

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Consolidated Statements of (Loss) Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. The net (liability) asset fair value of these contracts were \$(20) and \$1 as of December 31, 2016 and December 31, 2015, respectively.

Summary of Derivative Instruments Fair Value

The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	December 31,	
		2016	2015
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 6	\$ 4
	Other current liabilities	(26)	(2)
Foreign currency options	Other current assets	—	—
	Other current liabilities	—	(1)
Interest rate swaps	Other long-term assets	4	7
	Net Designated Derivative (Liability) Asset	\$ (16)	\$ 8
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 82	\$ 51
	Other current liabilities	(13)	(8)
	Net Undesignated Derivative Asset	\$ 69	\$ 43
Summary of Derivatives			
	Total Derivative Assets	\$ 92	\$ 62
	Total Derivative Liabilities	(39)	(11)
	Net Derivative Asset	\$ 53	\$ 51

Summary of Derivative Instruments Gains (Losses)

Derivative gains and (losses) affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains and (losses).

Designated Derivative Instruments Gains (Losses)

The following tables provide a summary of gains (losses) on derivative instruments:

Derivatives in Fair Value Relationships	Location of Gain (Loss) Recognized in Income	Year Ended December 31,					
		Derivative Gain (Loss) Recognized in Income			Hedged Item Gain (Loss) Recognized in Income		
		2016	2015	2014	2016	2015	2014
Interest rate contracts	Interest expense	\$ (3)	\$ 2	\$ 5	\$ 3	\$ (2)	\$ (5)

Derivatives in Cash Flow Hedging Relationships	Year Ended December 31,						
	Derivative Gain (Loss) Recognized in OCI (Effective Portion)			Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)		
	2016	2015	2014		2016	2015	2014
Foreign exchange contracts – forwards/options	\$ 20	\$ 17	\$ (20)	Cost of sales	\$ 42	\$ (23)	\$ (39)

No amount of ineffectiveness was recorded in the Consolidated Statements of (Loss) Income for these designated cash flow hedges and all components of each derivative's gain or (loss) were included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

As of December 31, 2016, net after-tax losses of \$13 were recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Losses

Non-designated derivative instruments are primarily instruments used to hedge foreign currency-denominated assets and liabilities. They are not designated as hedges since there is a natural offset for the re-measurement of the underlying foreign currency-denominated asset or liability.

The following table provides a summary of losses on non-designated derivative instruments:

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Loss	Year Ended December 31,		
		2016	2015	2014
Foreign exchange contracts – forwards	Other expense – Currency gains (losses), net	\$ 172	\$ 17	\$ (9)

During the three years ended December 31, 2016, we recorded Currency losses, net of \$13, \$2 and \$6, respectively. Currency (losses) gains, net includes the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the re-measurement of foreign currency-denominated assets and liabilities.

Note 15 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities fair value measured on a recurring basis. The basis for the measurement at fair value in all cases is Level 2 – Significant Other Observable Inputs.

	As of December 31,	
	2016	2015
Assets		
Foreign exchange contracts - forwards	\$ 88	\$ 55
Interest rate swaps	4	7
Deferred compensation investments in mutual funds	15	13
Total	\$ 107	\$ 75
Liabilities		
Foreign exchange contracts - forwards	\$ 39	\$ 10
Foreign currency options	—	1
Deferred compensation plan liabilities	17	15
Total	\$ 56	\$ 26

We utilize the income approach to measure the fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for those funds. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections.

Summary of Other Financial Assets and Liabilities

The estimated fair values of our other financial assets and liabilities were as follows:

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 2,223	\$ 2,223	\$ 1,228	\$ 1,228
Accounts receivable, net	961	961	1,068	1,068
Short-term debt	1,011	1,015	962	954
Long-term debt	5,305	5,438	6,317	6,358

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt was estimated based on the current rates offered to us for debt of similar maturities (Level 2). The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 16 – Employee Benefit Plans

We sponsor numerous defined benefit and defined contribution pension and other post-retirement benefit plans, primarily retiree health care, in our domestic and international operations. December 31 is the measurement date for all of our post-retirement benefit plans.

Over the past several years, where legally possible, we have amended our major defined benefit pension plans to freeze current benefits and eliminate benefits accruals for future service, including our primary U.S. defined benefit plan for salaried employees, the Canadian Salary Pension Plan and the U.K. Final Salary Pension Plan. The freeze of current benefits is the primary driver of the reduction in pension service costs since 2012. In certain Non-U.S. plans we are required to continue to consider salary increases and inflation in determining the benefit obligation related to prior service. The Netherlands defined benefit pension plan has also been amended to reflect the Company's ability to reduce the indexation of future pension benefits within the plan in scenarios when the returns on plan assets are insufficient to cover that indexation.

Prior to the freeze of current benefits, most of our defined benefit pension plans generally provided employees a benefit, depending on eligibility, calculated under a highest average pay and years of service formula. Our primary domestic defined benefit pension plans provided a benefit at the greater of (i) the highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown below in the "actual return on plan assets" caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2016	2015	2016	2015	2016	2015
Change in Benefit Obligation:						
Benefit obligation, January 1	\$ 4,126	\$ 4,642	\$ 6,308	\$ 6,962	\$ 855	\$ 937
Service cost	4	4	31	32	6	7
Interest cost	184	80	195	203	32	34
Plan participants' contributions	—	—	4	4	1	14
Actuarial loss (gain)	114	(223)	636	(94)	(75)	(4)
Currency exchange rate changes	—	—	(774)	(524)	4	(25)
Plan Amendments/Curtailments	—	—	—	(17)	—	(31)
Benefits paid/settlements	(275)	(377)	(234)	(255)	(62)	(77)
Other	8	—	(6)	(3)	—	—
Benefit Obligation, December 31	\$ 4,161	\$ 4,126	\$ 6,160	\$ 6,308	\$ 761	\$ 855
Change in Plan Assets:						
Fair value of plan assets, January 1	\$ 2,806	\$ 3,081	\$ 5,353	\$ 5,930	\$ —	\$ —
Actual return on plan assets	220	(70)	804	(20)	—	—
Employer contributions	24	173	154	128	61	63
Plan participants' contributions	—	—	4	4	1	14
Currency exchange rate changes	—	—	(694)	(428)	—	—
Benefits paid/settlements	(275)	(377)	(234)	(255)	(62)	(77)
Other	(1)	(1)	(3)	(6)	—	—
Fair Value of Plan Assets, December 31	\$ 2,774	\$ 2,806	\$ 5,384	\$ 5,353	\$ —	\$ —
Net Funded Status at December 31⁽¹⁾	\$ (1,387)	\$ (1,320)	\$ (776)	\$ (955)	\$ (761)	\$ (855)
Amounts Recognized in the Consolidated Balance Sheets:						
Other long-term assets	\$ —	\$ —	\$ 17	\$ 22	\$ —	\$ —
Accrued compensation and benefit costs	(24)	(23)	(22)	(26)	(63)	(68)
Pension and other benefit liabilities	(1,363)	(1,297)	(771)	(951)	—	—
Post-retirement medical benefits	—	—	—	—	(698)	(787)
Net Amounts Recognized	\$ (1,387)	\$ (1,320)	\$ (776)	\$ (955)	\$ (761)	\$ (855)

(1) Includes under-funded and un-funded plans.

Benefit plans pre-tax amounts recognized in AOCL at December 31:

	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2016	2015	2016	2015	2016	2015
Net actuarial loss	\$ 1,094	\$ 1,101	\$ 1,741	\$ 1,966	\$ 37	\$ 112
Prior service credit	(9)	(11)	(28)	(33)	(29)	(34)
Total Pre-tax Loss	\$ 1,085	\$ 1,090	\$ 1,713	\$ 1,933	\$ 8	\$ 78
Accumulated Benefit Obligation	\$ 4,161	\$ 4,126	\$ 5,931	\$ 6,068		

Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

	December 31, 2016			December 31, 2015		
	Projected benefit obligation	Accumulated benefit obligation	Fair value of plan assets	Projected benefit obligation	Accumulated benefit obligation	Fair value of plan assets
Underfunded Plans:						
U.S.	\$ 3,820	\$ 3,820	\$ 2,774	\$ 3,781	\$ 3,781	\$ 2,806
Non U.S.	4,535	4,368	4,194	4,803	4,644	4,300
Unfunded Plans:						
U.S.	\$ 341	\$ 341	\$ —	\$ 345	\$ 345	\$ —
Non U.S.	445	436	—	421	413	—
Total Underfunded and Unfunded Plans:						
U.S.	\$ 4,161	\$ 4,161	\$ 2,774	\$ 4,126	\$ 4,126	\$ 2,806
Non U.S.	4,980	4,804	4,194	5,224	5,057	4,300
Total	\$ 9,141	\$ 8,965	\$ 6,968	\$ 9,350	\$ 9,183	\$ 7,106

Our pension plan assets and benefit obligations at December 31, 2016 were as follows:

	Fair Value of Pension Plan Assets	Pension Benefit Obligations	Net Funded Status
U.S. funded	\$ 2,774	\$ 3,820	\$ (1,046)
U.S. unfunded	—	341	(341)
Total U.S.	\$ 2,774	\$ 4,161	\$ (1,387)
U.K.	3,445	3,679	(234)
Canada	661	700	(39)
Other	1,278	1,781	(503)
Total	\$ 8,158	\$ 10,321	\$ (2,163)

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Year Ended December 31,								
	Pension Benefits						Retiree Health		
	U.S. Plans			Non-U.S. Plans					
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Components of Net Periodic Benefit Costs:									
Service cost	\$ 4	\$ 4	\$ 4	\$ 31	\$ 32	\$ 31	\$ 6	\$ 7	\$ 9
Interest cost ⁽¹⁾	184	80	278	195	203	262	32	34	36
Expected return on plan assets ⁽²⁾	(190)	(79)	(287)	(249)	(284)	(332)	—	—	—
Recognized net actuarial loss	26	24	17	65	70	54	2	1	1
Amortization of prior service credit	(2)	(2)	(2)	(3)	4	(1)	(5)	(18)	(43)
Recognized settlement loss	65	88	51	1	1	—	—	—	—
Recognized curtailment gain	—	—	—	—	—	(1)	—	(22)	—
Defined Benefit Plans	87	115	61	40	26	13	35	2	3
Defined contribution plans	30	33	31	31	33	40	n/a	n/a	n/a
Net Periodic Benefit Cost	117	148	92	71	59	53	35	2	3
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income:									
Net actuarial (gain) loss	84	(74)	688	76	204	447	(75)	(4)	119
Prior service credit	—	—	—	—	(16)	(6)	—	(32)	—
Amortization of net actuarial loss	(92)	(112)	(68)	(66)	(71)	(54)	(2)	(1)	(1)
Amortization of net prior service credit	2	2	2	3	(4)	1	5	18	43
Curtailment gain	—	—	—	—	—	2	—	22	—
Total Recognized in Other Comprehensive Income	(6)	(184)	622	13	113	390	(72)	3	161
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 111	\$ (36)	\$ 714	\$ 84	\$ 172	\$ 443	\$ (37)	\$ 5	\$ 164

- (1) Interest cost for Pension Benefits includes interest expense on non-TRA obligations of \$296, \$311 and \$361 and interest expense (income) directly allocated to TRA participant accounts of \$83, \$(25) and \$182 for the years ended December 31, 2016, 2015 and 2014, respectively.
- (2) Expected return on plan assets includes expected investment income on non-TRA assets of \$356, \$388 and \$437 and actual investment income (loss) on TRA assets of \$83, \$(25) and \$182 for the years ended December 31, 2016, 2015 and 2014, respectively.

The net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from Accumulated other comprehensive (loss) income into net periodic benefit cost over the next fiscal year are \$(101) and \$5, respectively, excluding amounts that may be recognized through settlement losses. The net actuarial loss and prior service credit for the retiree health benefit plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$0 and \$4, respectively.

Plan Amendments

Retiree-Health Plan

In 2015 we amended our U.S. Retiree Health Plan to eliminate future benefit accruals for active salaried employees effective December 31, 2015. There was no change in benefits for union employees or existing retirees or employees that retired before December 31, 2015. As a result of this plan amendment, we recognized a pre-tax curtailment gain of \$22 in 2015. The gain represented the recognition of deferred gains from other prior-year amendments ("prior service credits") as a result of the discontinuation of the future benefit or service accrual period for active salaried employees.

Plan Assets

Current Allocation

As of the 2016 and 2015 measurement dates, the global pension plan assets were \$8,158 and \$8,159, respectively. These assets were invested among several asset classes.

The following tables present the defined benefit plans assets measured at fair value and the basis for that measurement.

December 31, 2016

Asset Class	U.S. Plans					Non-U.S. Plans				
	Level 1	Level 2	Level 3	Assets measured at NAV ⁽¹⁾	Total	Level 1	Level 2	Level 3	Assets measured at NAV ⁽¹⁾	Total
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 544	\$ —	\$ —	\$ —	\$ 544
Equity Securities:										
U.S.	320	—	—	68	388	266	42	—	—	308
International	258	—	—	160	418	358	722	—	127	1,207
Fixed Income Securities:										
U.S. treasury securities	—	233	—	—	233	—	44	—	—	44
Debt security issued by government agency	—	65	—	—	65	—	1,654	—	—	1,654
Corporate bonds	—	1,052	—	—	1,052	—	618	—	—	618
Asset backed securities	—	2	—	—	2	—	1	—	—	1
Derivatives	—	(38)	—	—	(38)	—	64	—	—	64
Real estate	36	—	12	34	82	—	—	121	168	289
Private equity/venture capital	—	—	—	490	490	—	60	6	425	491
Guaranteed insurance contracts	—	—	—	—	—	—	—	104	—	104
Other ⁽²⁾	15	—	—	67	82	6	54	—	—	60
Total Fair Value of Plan Assets	\$ 629	\$ 1,314	\$ 12	\$ 819	\$ 2,774	\$ 1,174	\$ 3,259	\$ 231	\$ 720	\$ 5,384

(1) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient, have not been classified in the fair value hierarchy.

(2) Other Level 1 includes net non-financial assets of \$15 U.S. and \$6 Non-U.S., respectively, such as due to/from broker, interest receivables and accrued expenses.

December 31, 2015

Asset Class	U.S. Plans					Non-U.S. Plans				
	Level 1	Level 2	Level 3	Assets measured at NAV ⁽¹⁾	Total	Level 1	Level 2	Level 3	Assets measured at NAV ⁽¹⁾	Total
Cash and cash equivalents	\$ 171	\$ —	\$ —	\$ —	\$ 171	\$ 577	\$ —	\$ —	\$ —	\$ 577
Equity Securities:										
U.S.	380	—	—	20	400	200	38	—	—	238
International	287	1	—	157	445	1,011	40	—	112	1,163
Fixed Income Securities:										
U.S. treasury securities	—	216	—	—	216	—	48	—	—	48
Debt security issued by government agency	—	156	—	—	156	3	1,599	—	—	1,602
Corporate bonds	—	913	—	—	913	3	692	—	—	695
Asset backed securities	—	2	—	—	2	—	1	—	—	1
Derivatives	—	(8)	—	—	(8)	—	5	—	—	5
Real estate	42	—	17	39	98	—	—	145	154	299
Private equity/venture capital	—	—	—	499	499	—	66	4	480	550
Guaranteed insurance contracts	—	—	—	—	—	—	—	120	—	120
Other ⁽²⁾	(103)	(1)	—	18	(86)	5	50	—	—	55
Total Fair Value of Plan Assets	\$ 777	\$ 1,279	\$ 17	\$ 733	\$ 2,806	\$ 1,799	\$ 2,539	\$ 269	\$ 746	\$ 5,353

(1) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(2) Other Level 1 includes net non-financial (liabilities) assets of \$(103) U.S. and \$5 Non-U.S., respectively, such as due to/from broker, interest receivables and accrued expenses. In 2015, the US Plans' Other included plan liabilities of \$116 related to unsettled transactions such as purchases or sales of US Treasury securities with settlement dates beyond fiscal year-end.

The following tables represents a roll-forward of the defined benefit plans assets measured at fair value using significant unobservable inputs (Level 3 assets):

	U.S.		Non-U.S.		Total
	Real Estate	Real Estate	Private Equity/ Venture Capital	Guaranteed Insurance Contracts	
Balance at December 31, 2014⁽¹⁾	\$ 22	\$ 147	\$ 4	\$ 128	\$ 279
Purchases	—	—	—	19	19
Sales	(15)	—	—	(21)	(21)
Realized (losses) gains	1	—	—	6	6
Unrealized gains (losses)	9	9	1	1	11
Currency translation	—	(11)	(1)	(13)	(25)
Balance at December 31, 2015	\$ 17	\$ 145	\$ 4	\$ 120	\$ 269
Purchases	—	1	2	2	5
Sales	(3)	(13)	(1)	(12)	(26)
Realized gains (losses)	—	6	—	1	7
Unrealized gains (losses)	(2)	(5)	(4)	(3)	(12)
Currency translation	—	(13)	5	(4)	(12)
Balance at December 31, 2016	\$ 12	\$ 121	\$ 6	\$ 104	\$ 231

(1) Adjusted to exclude assets of \$500 U.S. and \$545 Non-U.S. that are measured at fair value using the NAV per share (or its equivalent) practical expedient.

Level 3 Valuation Method

Our primary Level 3 assets are Real Estate and Private Equity/Venture Capital investments. The fair value of our real estate investment funds are based on the Net Asset Value (NAV) of our ownership interest in the funds. NAV information is received from the investment advisers and is primarily derived from third-party real estate appraisals for the properties owned. The fair value for our private equity/venture capital partnership investments are based on our share of the estimated fair values of the underlying investments held by these partnerships as reported (or expected to be reported) in their audited financial statements. The valuation techniques and inputs for our Level 3 assets have been consistently applied for all periods presented.

Investment Strategy

The target asset allocations for our worldwide defined benefit pension plans were:

	2016		2015	
	U.S.	Non-U.S.	U.S.	Non-U.S.
Equity investments	30%	28%	34%	28%
Fixed income investments	48%	45%	43%	48%
Real estate	6%	5%	6%	6%
Private equity	8%	9%	9%	10%
Other	8%	13%	8%	8%
Total Investment Strategy	100%	100%	100%	100%

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by exceeding the interest growth in long-term plan liabilities. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. This consideration involves the use of long-term measures that address both return and risk. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to improve portfolio diversification. Derivatives may be used to hedge market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and quarterly investment portfolio reviews.

Expected Long-term Rate of Return

We employ a “building block” approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established giving consideration to investment diversification and rebalancing. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

Contributions

The following table summarizes cash contributions to our defined benefit pension plans and retiree health benefit plans.

	Year Ended December 31,	
	2016	Estimated 2017
U.S. Plans	\$ 24	\$ 169
Non-U.S. Plans	154	181
Total	\$ 178	\$ 350
Retiree Health	\$ 61	\$ 63

The 2016 pension plan contributions did not include any contributions for our domestic tax-qualified defined benefit plans because none were required to meet the minimum funding requirements.

The 2017 expected pension plan contributions include \$145 for our domestic tax-qualified defined benefit plans, comprised of \$15 to meet the minimum funding requirements and \$130 of additional voluntary contributions.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

	Pension Benefits			Retiree Health
	U.S.	Non-U.S.	Total	
2017	\$ 852	\$ 210	\$ 1,062	\$ 63
2018	227	216	443	64
2019	223	222	445	62
2020	225	228	453	61
2021	296	237	533	59
Years 2022-2026	1,433	1,281	2,714	261

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits					
	2016		2015		2014	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	4.0%	2.5%	4.3%	3.3%	3.9%	3.1%
Rate of compensation increase	0.2%	2.6%	0.2%	2.7%	0.2%	2.6%

	Retiree Health		
	2016	2015	2014
Discount rate	3.9%	4.1%	3.8%

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits							
	2017		2016		2015		2014	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Discount rate	4.0%	2.5%	4.3%	3.3%	3.9%	3.1%	4.8%	4.2%
Expected return on plan assets	7.0%	4.1%	7.5%	4.8%	7.5%	5.2%	7.8%	6.1%
Rate of compensation increase	0.2%	2.6%	0.2%	2.7%	0.2%	2.6%	0.2%	2.6%

	Retiree Health			
	2017	2016	2015	2014
Discount rate	3.9%	4.1%	3.8%	4.5%

Note: Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded. Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

Assumed health care cost trend rates were as follows:

	December 31,	
	2016	2015
Health care cost trend rate assumed for next year	7.2%	7.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.8%	4.9%
Year that the rate reaches the ultimate trend rate	2026	2026

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total service and interest cost components	\$ 2	\$ (2)
Effect on post-retirement benefit obligation	53	(46)

Defined Contribution Plans

We have post-retirement savings and investment plans in several countries, including the U.S., U.K. and Canada. In many instances, employees from those defined benefit pension plans that have been amended to freeze future service accruals were transitioned to an enhanced defined contribution plan. In these plans employees are allowed to contribute a portion of their salaries and bonuses to the plans, and we match a portion of the employee contributions. We recorded charges related to our defined contribution plans of \$61 in 2016, \$66 in 2015 and \$71 in 2014.

Note 17 - Income and Other Taxes

Income before income taxes (pre-tax income) from continuing operations was as follows:

	Year Ended December 31,		
	2016	2015	2014
Domestic income	\$ 415	\$ 613	\$ 635
Foreign income	153	311	455
Income Before Income Taxes	\$ 568	\$ 924	\$ 1,090

(Benefit) provision for income taxes from continuing operations were as follows:

	Year Ended December 31,		
	2016	2015	2014
Federal Income Taxes			
Current	\$ (15)	\$ (225)	\$ (58)
Deferred	(4)	300	150
Foreign Income Taxes			
Current	71	73	83
Deferred	(13)	7	(16)
State Income Taxes			
Current	15	(38)	21
Deferred	8	76	18
Total (Benefit) Provision	<u>\$ 62</u>	<u>\$ 193</u>	<u>\$ 198</u>

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate was as follows:

	Year Ended December 31,		
	2016	2015	2014
U.S. federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Nondeductible expenses	2.9 %	1.1 %	1.3 %
Effect of tax law changes	1.2 %	(1.0)%	(5.2)%
Change in valuation allowance for deferred tax assets	(1.4)%	(1.6)%	(1.4)%
State taxes, net of federal benefit	3.0 %	2.2 %	2.0 %
Audit and other tax return adjustments	(4.1)%	1.3 %	(3.0)%
Tax-exempt income, credits and incentives	(4.0)%	(1.8)%	(1.9)%
Foreign rate differential adjusted for U.S. taxation of foreign profits ⁽¹⁾	(22.6)%	(15.3)%	(9.0)%
Other	0.9 %	1.0 %	0.4 %
Effective Income Tax Rate	<u>10.9 %</u>	<u>20.9 %</u>	<u>18.2 %</u>

(1) The "U.S. taxation of foreign profits" represents the U.S. tax, net of foreign tax credits, associated with actual and deemed repatriations of earnings from our non-U.S. subsidiaries.

On a consolidated basis, including discontinued operations, we paid a total of \$130, \$138 and \$121 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2016, respectively.

Total income tax expense (benefit) was allocated as follows:

	Year Ended December 31,		
	2016	2015	2014
Pre-tax income	\$ 62	\$ 193	\$ 198
Discontinued operations ⁽¹⁾	(250)	(134)	23
Common shareholders' equity:			
Changes in defined benefit plans	15	59	(408)
Stock option and incentive plans, net	—	(18)	(18)
Cash flow hedges	(8)	15	—
Translation adjustments	2	—	(2)
Total Income Tax Expense (Benefit)	<u>\$ (179)</u>	<u>\$ 115</u>	<u>\$ (207)</u>

(1) Refer to Note 4 - Divestitures for additional information regarding discontinued operations.

Unrecognized Tax Benefits and Audit Resolutions

We recognize tax liabilities when, despite our belief that our tax return positions are supportable, we believe that certain positions may not be fully sustained upon review by tax authorities. Each period, we assess uncertain tax positions for recognition, measurement and effective settlement. Benefits from uncertain tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement - the more-likely-than-not recognition threshold. Where we have determined that our tax return filing position does not satisfy the more likely than not recognition threshold, we have recorded no tax benefits.

We are also subject to ongoing tax examinations in numerous jurisdictions due to the extensive geographical scope of our operations. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. As of December 31, 2016, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2016	2015	2014
Balance at January 1	\$ 222	\$ 207	\$ 225
Additions (Reductions) related to current year	(9)	36	12
Additions related to prior years positions	—	—	9
Reductions related to prior years positions	(31)	(5)	(23)
Settlements with taxing authorities ⁽¹⁾	—	(6)	(8)
Reductions related to lapse of statute of limitations	(2)	(9)	(6)
Currency	(2)	(1)	(2)
Tax Positions assumed in Conduent Separation	(13)	—	—
Balance at December 31	\$ 165	\$ 222	\$ 207

(1) Majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2016, 2015 and 2014 are \$5, \$9 and \$12, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or that they may be reduced through an indirect benefit from other taxing jurisdictions. Because of the impact of deferred tax accounting, other than for the possible incurrence of interest and penalties, the disallowance of these positions would not affect the annual effective tax rate.

Within income tax expense, we recognize interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements. We had \$10, \$2 and \$3 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2016, 2015 and 2014, respectively.

In the U.S., we are no longer subject to U.S. federal income tax examinations for years before 2012. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2003.

Deferred Income Taxes

We have not provided deferred taxes on approximately \$7.0 billion of undistributed earnings of foreign subsidiaries and other foreign investments carried at equity at December 31, 2016, as such undistributed earnings have been determined to be indefinitely reinvested and we currently do not plan to initiate any action that would precipitate a deferred tax impact. We do not believe it is practical to calculate the potential deferred tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

	December 31,	
	2016	2015
Deferred Tax Assets		
Research and development	\$ 289	\$ 370
Post-retirement medical benefits	276	311
Net operating losses	407	367
Operating reserves, accruals and deferrals	190	171
Tax credit carryforwards	751	666
Deferred compensation	197	167
Pension	539	553
Other	81	138
Subtotal	2,730	2,743
Valuation allowance	(416)	(383)
Total	\$ 2,314	\$ 2,360
Deferred Tax Liabilities		
Unearned income and installment sales	\$ 633	\$ 705
Intangibles and goodwill	200	208
Other	48	48
Total	\$ 881	\$ 961
Total Deferred Taxes, Net	\$ 1,433	\$ 1,399

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more-likely-than-not, be realized in the future. The net change in the total valuation allowance for the years ended December 31, 2016 and 2015 was an increase of \$33 and a decrease of \$125, respectively. The valuation allowance relates primarily to certain net operating loss carryforwards, tax credit carryforwards and deductible temporary differences for which we have concluded it is more-likely-than-not that these items will not be realized in the ordinary course of operations.

Although realization is not assured, we have concluded that it is more-likely-than-not that the deferred tax assets, for which a valuation allowance was determined to be unnecessary, will be realized in the ordinary course of operations based on the available positive and negative evidence, including scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2016, we had tax credit carryforwards of \$751 available to offset future income taxes, of which \$48 are available to carryforward indefinitely while the remaining \$703 will expire 2017 through 2037 if not utilized. We also had net operating loss carryforwards for income tax purposes of \$0.7 billion that will expire 2017 through 2037, if not utilized, and \$1.7 billion available to offset future taxable income indefinitely.

Note 18 – Contingencies and Litigation

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement law; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Additionally, guarantees, indemnifications and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates, as well as through divestitures and sales of businesses, when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Nonperformance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, real estate, intellectual property such as patents, environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity. As of December 31, 2016, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows.

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2016, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of related interest, amounted to approximately \$750 with the increase from the December 31, 2015 balance of \$577, primarily related to currency and interest partially offset by closed cases. With respect to the unreserved balance of \$750, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2016 we had \$85 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of \$4 and additional letters of credit and surety bonds of \$142 and \$91, respectively, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Litigation Against the Company

State of Texas v. Xerox Corporation, Xerox State Healthcare, LLC, and ACS State Healthcare, LLC: On May 9, 2014, the State of Texas, via the Texas Office of Attorney General (the “State”), filed a lawsuit in the 53rd Judicial District Court of Travis County, Texas. The lawsuit alleges that Xerox Corporation, Xerox State Healthcare, LLC and ACS State Healthcare (collectively “ the Defendants”) violated the Texas Medicaid Fraud Prevention Act in the administration of ACS’s contract with the Texas Department of Health and Human Services (“HHSC”). Xerox Corporation provided a guaranty of contractual performance with respect to the ACS contract. The State alleges that the Defendants made false representations of material facts regarding the processes, procedures, implementation and results regarding the prior authorization of orthodontic claims. The State seeks recovery of actual damages, two times the amount of any overpayments made as a result of unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys’ fees. The State references the amount in controversy as exceeding hundreds of millions of dollars. The Defendants filed their Answer in June, 2014 denying all allegations. The Defendants will continue to vigorously defend themselves in this matter. This matter is a “Conduent Liability”, as defined in the Separation and Distribution Agreement dated as of December 31, 2016 between Xerox Corporation and Conduent Incorporated, for which Conduent is required to indemnify Xerox. Conduent is entitled to direct the defense of this matter.

Oklahoma Firefighters Pension and Retirement System v. Xerox Corporation, Ursula M. Burns, Luca Maestri, Kathryn A. Mikells, Lynn R. Blodgett and Robert K. Zapfel: On October 21, 2016, the Oklahoma Firefighters Pension and Retirement System (“plaintiff”) filed a purported securities class action complaint against Xerox Corporation, Ursula Burns, Luca Maestri, Kathryn Mikells, Lynn Blodgett and Robert Zapfel (collectively, “defendants”) in the U.S. District Court for the Southern District of New York on behalf of the plaintiff and certain purchasers or acquirers of Xerox common stock. The complaint alleges that defendants made false and misleading statements, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5, relating to the operations and prospects of Xerox’s Health Enterprise business. Plaintiff seeks, among other things, unspecified monetary damages and attorneys’ fees. Other, similar lawsuits may follow. On December 28, 2016, the Court entered a stipulated order setting out a schedule for amendment of the complaint and for defendants’ response to that complaint following the Court’s appointment of lead plaintiff under the Private Securities Litigation Reform Act. The Court has not yet ruled on the appointment of lead plaintiff. Xerox and the individual defendants will vigorously defend against this matter. At this time, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

Guarantees, Indemnifications and Warranty Liabilities

Indemnifications Provided as Part of Contracts and Agreements

Acquisitions/Divestitures:

We have indemnified, subject to certain deductibles and limits, the purchasers of businesses or divested assets for the occurrence of specified events under certain of our divestiture agreements. In addition, we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants, including such matters as adequate title to assets sold, intellectual property rights, specified environmental matters and certain income taxes arising prior to the date of acquisition. Where appropriate, an obligation for such indemnifications is recorded as a liability at the time of the acquisition or divestiture. Since the obligated amounts of these types of indemnifications are often not explicitly stated and/or are contingent on the occurrence of future events, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have not historically made significant payments for these indemnifications. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets are achieved post-closing. We have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. Contingent obligations related to indemnifications arising from our divestitures and contingent consideration provided for by our acquisitions are not expected to be material to our financial position, results of operations or cash flows.

Other Agreements:

We are also party to the following types of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters:

- Guarantees on behalf of our subsidiaries with respect to real estate leases. These lease guarantees may remain in effect subsequent to the sale of the subsidiary.
- Agreements to indemnify various service providers, trustees and bank agents from any third-party claims related to their performance on our behalf, with the exception of claims that result from third-party's own willful misconduct or gross negligence.
- Guarantees of our performance in certain sales and services contracts to our customers and indirectly the performance of third parties with whom we have subcontracted for their services. This includes indemnifications to customers for losses that may be sustained as a result of the use of our equipment at a customer's location.

In each of these circumstances, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract and such procedures also typically allow us to challenge the other party's claims. In the case of lease guarantees, we may contest the liabilities asserted under the lease. Further, our obligations under these agreements and guarantees may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments we made.

Patent Indemnifications

In most sales transactions to resellers of our products, we indemnify against possible claims of patent infringement caused by our products or solutions. In addition, we indemnify certain software providers against claims that may arise as a result of our use or our subsidiaries', customers' or resellers' use of their software in our products and solutions. These indemnities usually do not include limits on the claims, provided the claim is made pursuant to the procedures required in the sales contract.

Indemnification of Officers and Directors

Our corporate by-laws require that, except to the extent expressly prohibited by law, we must indemnify Xerox Corporation's officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to Xerox Corporation and our subsidiaries. Although the by-laws provide no limit on the amount of indemnification, we may have recourse against our insurance carriers for certain payments made by us. However, certain indemnification payments (such as those related to "clawback" provisions in certain compensation arrangements) may not be covered under our directors' and officers' insurance coverage. We also indemnify certain fiduciaries of our employee benefit plans for liabilities incurred in their service as fiduciary whether or not they are officers of the Company. Finally, in connection with our acquisition of businesses, we may become contractually obligated to indemnify certain former and current directors, officers and employees of those businesses in accordance with pre-acquisition by-laws and/or indemnification agreements and/or applicable state law.

Product Warranty Liabilities

In connection with our normal sales of equipment, including those under sales-type leases, we generally do not issue product warranties. Our arrangements typically involve a separate full service maintenance agreement with the customer. The agreements generally extend over a period equivalent to the lease term or the expected useful life of the equipment under a cash sale. The service agreements involve the payment of fees in return for our performance of repairs and maintenance. As a consequence, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs. In a few circumstances, particularly in certain cash sales, we may issue a limited product warranty if negotiated by the customer. We also issue warranties for certain of our entry level products, where full service maintenance agreements are not available. In these instances, we record warranty obligations at the time of the sale. Aggregate product warranty liability expenses for the three years ended December 31, 2016 were \$15, \$22 and \$25, respectively. Total product warranty liabilities as of December 31, 2016 and 2015 were \$8 and \$9, respectively.

Separation Related Guarantees and Indemnifications

We are required to retain performance guarantees on certain outsourcing contracts that were transferred to Conduent as part of the Separation transaction. The guarantees are primarily associated with government contracts and our liability may be capped in certain circumstances. We have received an indemnification from Conduent to

make payments to us in the event we are required to make a payment or incur a liability in connection with these performance guarantees. We expect Conduent to fully and completely perform their obligations under these contracts. In addition, we believe there is a sufficient pool of alternate providers for the services performed as part of these contracts and therefore we believe replacement providers could be identified to complete the contracted services in the event Conduent was unable to perform. Based on these considerations, we have assessed the potential loss under these guarantees and determined that no liability was required to be recorded in our financial statements associated with these guarantees. We are not required to, and will not, offer or agree to provide any performance guarantees with respect to any contract that Conduent enters into after the Separation, including renewals and extensions of existing contracts except for extensions at the sole option of the customer.

Other Contingencies

We have issued or provided approximately \$375 of guarantees as of December 31, 2016 in the form of letters of credit or surety bonds issued to i) support certain insurance programs; ii) support our obligations related to the Brazil tax and labor contingencies; and iii) support certain contracts, primarily with public sector customers, which require us to provide a surety bond as a guarantee of our performance of contractual obligations.

In general, we would only be liable for the amount of these guarantees in the event we defaulted in performing our obligations under each contract; the probability of which we believe is remote. We believe that our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

Note 19 - Preferred Stock

Series B Convertible Perpetual Preferred Stock

At Separation, 300,000 shares of Xerox Series A Convertible Perpetual Preferred Stock with a carrying value of \$356, which represented all of the issued and outstanding shares of Xerox Series A Convertible Perpetual Preferred Stock, were exchanged for 180,000 newly issued shares of Xerox Series B Convertible Perpetual Preferred Stock and 120,000 newly issued shares of Conduent Series A Convertible Perpetual Preferred Stock. The \$356 carrying value included a \$7 fair value adjustment for the modification of the awards upon the exchange.

The 120,000 shares of Conduent Series A Convertible Perpetual Preferred Stock has an aggregate liquidation value of \$120 and were included in the distribution of Conduent's net assets at a carrying value of \$142. The carrying value of \$142 is based on the proportional share of the carrying value of Xerox Series A Convertible Perpetual Preferred Stock being exchanged for Conduent's Series A Convertible Perpetual Preferred Stock.

The 180,000 shares of Xerox Series B Convertible Perpetual Preferred Stock has an aggregate liquidation value of \$180 and a carrying value of \$214, which likewise is the proportional share of the carrying value of Xerox Series A Convertible Perpetual Preferred Stock that was exchanged for Xerox Series B Convertible Perpetual Preferred Stock. The Xerox Series B Convertible Preferred Stock pays quarterly cash dividends at a rate of 8% per year (\$14 per year). Each share of convertible preferred stock is convertible at any time, at the option of the holder, into 149.8127 shares of common stock for a total of 26,966 thousand shares (reflecting an initial conversion price of approximately \$6.675 per share of common stock), subject to customary anti-dilution adjustments.

If the closing price of our common stock exceeds \$9.75 or 146.1% of the initial conversion price of \$6.675 per share of common stock for 20 out of 30 trading days, we have the right to cause any or all of the Xerox Series B Convertible Perpetual Preferred Stock to be converted into shares of common stock at the then applicable conversion rate. The convertible Preferred Stock is also convertible, at the option of the holder, upon a change in control, at the applicable conversion rate plus an additional number of shares determined by reference to the price paid for our common stock upon such change in control. In addition, upon the occurrence of certain fundamental change events, including a change in control or the delisting of Xerox's common stock, the holder of convertible preferred stock has the right to require us to redeem any or all of the convertible preferred stock in cash at a redemption price per share equal to the liquidation preference and any accrued and unpaid dividends to, but not including, the redemption date. The convertible preferred stock is classified as temporary equity (i.e., apart from permanent equity) as a result of the contingent redemption feature.

Note 20 – Shareholders' Equity

Preferred Stock

As of December 31, 2016, we had one class of preferred stock outstanding. See Note 19 - Preferred Stock for further information. We are authorized to issue approximately 22 million shares of cumulative preferred stock, \$1.00 par value per share.

Common Stock

We have 1.75 billion authorized shares of common stock, \$1.00 par value per share. At December 31, 2016, 101 million shares were reserved for issuance under our incentive compensation plans, 48 million shares were reserved for debt to equity exchanges and 27 million shares were reserved for conversion of the Series B convertible perpetual preferred stock.

Treasury Stock

We account for the repurchased common stock under the cost method and include such treasury stock as a component of our common shareholder's equity. Retirement of treasury stock is recorded as a reduction of Common stock and Additional paid-in capital at the time such retirement is approved by our Board of Directors.

The following provides cumulative information relating to our share repurchase programs from their inception in October 2005 through December 31, 2016 (shares in thousands). No shares were repurchased during 2016:

Authorized share repurchase programs	\$	8,000
Share repurchase cost	\$	7,755
Share repurchase fees	\$	12
Number of shares repurchased		695,230

Of the cumulative \$8.0 billion of share repurchase authority previously granted by our Board of Directors, approximately \$245 of that authority remained available as of December 31, 2016.

The following table reflects the changes in Common and Treasury stock shares (shares in thousands):

	Common Stock Shares	Treasury Stock Shares
Balance at December 31, 2013	1,210,321	22,001
Stock based compensation plans, net	13,965	—
Acquisition of Treasury stock	—	86,536
Cancellation of Treasury stock	(100,928)	(100,928)
Conversion of 2014 9% Notes	996	—
Balance at December 31, 2014	1,124,354	7,609
Stock based compensation plans, net	11,292	—
Acquisition of Treasury stock	—	115,201
Cancellation of Treasury stock	(122,810)	(122,810)
Balance at December 31, 2015	1,012,836	—
Stock based compensation plans, net	1,539	—
Balance at December 31, 2016	1,014,375	—

Stock-Based Compensation

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (RSUs), performance shares (PSs) and non-qualified stock options. We grant stock-based awards in order to continue to attract and retain employees and to better align employees' interests with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2016 and 2015, 41 million and 43 million shares, respectively, were available for grant of awards.

Stock-based compensation expense was as follows:

	Year Ended December 31,		
	2016	2015	2014
Stock-based compensation expense, pre-tax	\$ 50	\$ 27	\$ 63
Income tax benefit recognized in earnings	19	10	24

Restricted Stock Units: Compensation expense is based upon the grant date market price. The compensation expense is recorded over the vesting period, which is normally three years from the date of grant, based on management's estimate of the number of shares expected to vest.

Performance Shares: We grant officers, and selected executives and middle managers, PSs that vest contingent upon meeting pre-determined cumulative goals for Revenue, Earnings per Share (EPS) and Cash Flow from Operations, typically over a three-year performance period. If the cumulative three-year actual results exceed the stated targets, then the plan participants have the potential to earn additional shares of common stock: a maximum overachievement of 50% of the original grant for officers and selected executives and a maximum of 25% of the original grant for all other participants. All PSs entitle the holder to one share of common stock, payable after a three-year service period and the attainment of the stated goals.

In 2015, the maximum overachievement that could be earned was changed to 100% (from 50%) for officers and selected executives. All other terms of the awards remain unchanged.

Because of the difficulty in setting three-year performance goals that would appropriately take into account the Separation, PSs granted in 2016 vest contingent upon achieving one-year performance goals.

The fair value of PSs is based upon the market price of our stock on the date of the grant. Compensation expense is recognized over the vesting period, which is normally three years from the date of grant, based on management's estimate of the number of shares expected to vest. If the stated targets are not met, any recognized compensation cost would be reversed.

Employee Stock Options: With the exception of the conversion of options in connection with our acquisition of Affiliated Computer Systems (ACS) in 2010, we have not issued any new stock options associated with our employee long-term incentive plan since 2004. Accordingly, all of our outstanding options at December 31, 2016 were transferred to Conduent employees as part of the Separation. After the Separation, there are no longer any Xerox options outstanding.

Separation-Related Adjustments: Pursuant to the Employee Matters Agreement entered into in connection with the Separation, we made certain adjustments to the number of our share-based compensation awards, using the closing price of our common stock on the final day of trading prior to the effective date of the Separation and the volume weighted-average prices for the first trading day of Xerox or Conduent common stock, as applicable, immediately following the Separation. These adjustments were done with the intention of preserving the intrinsic value the awards had immediately prior to the Separation. All equity awards have been converted to equity awards of the post-Separation employer, as adjusted to reflect the Separation. These adjustments are reflected in the tables below. All awards continue to vest over the original vesting period. The difference between the fair value of the awards based on the volume weighted-average prices for the first trading day immediately following the Separation and the opening price on that day was not material.

The Separation-related adjustments did not have a material impact on the potentially dilutive securities to be considered in the calculation of diluted earnings per share of common stock.

Summary of Stock-based Compensation Activity

(shares in thousands)	2016		2015		2014	
	Shares	Weighted Average Grant Date Fair Value ⁽¹⁾	Shares	Weighted Average Grant Date Fair Value ⁽¹⁾	Shares	Weighted Average Grant Date Fair Value ⁽¹⁾
Restricted Stock Units						
Outstanding at January 1	2,390	\$ 11.05	12,197	\$ 9.50	19,079	\$ 9.62
Granted	7,174	9.57	798	11.08	926	12.30
Vested	(314)	9.62	(10,191)	7.86	(6,934)	10.33
Cancelled	(548)	10.12	(414)	9.27	(874)	8.55
Separation of Conduent	(3,144)	10.07	—	—	—	—
Shares granted in equity conversion	1,674	7.52	—	—	—	—
Outstanding at December 31	7,232	7.52	2,390	11.05	12,197	9.50
Performance Shares						
Outstanding at January 1	23,206	\$ 11.67	20,721	\$ 11.36	8,058	\$ 9.15
Granted	5,284	9.35	9,470	10.68	16,967	12.28
Vested	(33)	11.33	(3,268)	7.90	(2,404)	10.68
Cancelled	(4,935)	11.84	(3,717)	10.74	(1,900)	11.07
Separation of Conduent	(7,894)	11.09	—	—	—	—
Shares granted in equity conversion	4,595	8.50	—	—	—	—
Outstanding at December 31	20,223	8.50	23,206	11.67	20,721	11.36
Stock Options						
Outstanding at January 1	3,119	\$ 6.87	6,115	\$ 7.00	14,199	\$ 6.95
Canceled/expired	(392)	6.99	(405)	7.43	(215)	6.95
Exercised	(1,225)	7.03	(2,591)	7.09	(7,869)	6.92
Separation of Conduent	(1,502)	6.70	—	—	—	—
Outstanding at December 31	—	—	3,119	6.87	6,115	7.00
Exercisable at December 31	—	—	3,119	6.87	6,115	7.00

(1) Exercise Price for Stock Options.

The following information disclosures at December 31, 2016 reflect outstanding post-Separation stock-based awards for Xerox only and therefore exclude amounts associated with stock-based awards transferred to Conduent.

The total unrecognized compensation cost related to non-vested stock-based awards at December 31, 2016 was as follows:

Awards	Unrecognized Compensation	Remaining Weighted-Average Vesting Period (Years)
Restricted Stock Units	\$ 30	2.2
Performance Shares	39	1.8
Total	\$ 69	

The aggregate intrinsic value of outstanding RSUs and PSs awards was as follows:

Awards	December 31, 2016
Restricted Stock Units	\$ 48
Performance Shares	135

The total intrinsic value and actual tax benefit realized for all vested and exercised stock-based awards was as follows:

Awards	December 31, 2016			December 31, 2015			December 31, 2014		
	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit	Total Intrinsic Value	Cash Received	Tax Benefit
Restricted Stock Units	\$ 3	\$ —	\$ 1	\$ 109	\$ —	\$ 33	\$ 85	\$ —	\$ 26
Performance Shares	—	—	—	35	—	12	30	—	10
Stock Options	3	9	1	14	19	5	42	55	15

Note 21 – Other Comprehensive Loss

As previously disclosed in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies, the historical statements of Other Comprehensive Loss have not been revised to reflect the effect of the Separation. Refer to Note 4 - Divestitures for additional information regarding the Separation. Other Comprehensive Loss is comprised of the following:

	Year Ended December 31,					
	2016		2015		2014	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments Losses	\$ (344)	\$ (346)	\$ (660)	\$ (660)	\$ (736)	\$ (734)
Unrealized (Losses) Gains:						
Changes in fair value of cash flow hedges gains (losses)	18	14	13	12	(20)	(10)
Changes in cash flow hedges reclassified to earnings ⁽¹⁾	(40)	(28)	28	13	36	26
Other losses	(1)	(1)	(3)	(2)	(1)	(1)
Net Unrealized (Losses) Gains	<u>(23)</u>	<u>(15)</u>	<u>38</u>	<u>23</u>	<u>15</u>	<u>15</u>
Defined Benefit Plans Losses						
Net actuarial/prior service losses	(118)	(87)	(73)	(86)	(1,291)	(861)
Prior service amortization/curtailment ⁽²⁾	(10)	(6)	(38)	(23)	(46)	(29)
Actuarial loss amortization/settlement ⁽²⁾	160	109	186	126	121	83
Fuji Xerox changes in defined benefit plans, net ⁽³⁾	(93)	(93)	21	21	40	40
Other gains ⁽⁴⁾	202	203	116	115	106	105
Changes in Defined Benefit Plans Gains (Losses)	<u>141</u>	<u>126</u>	<u>212</u>	<u>153</u>	<u>(1,070)</u>	<u>(662)</u>
Other Comprehensive Loss	(226)	(235)	(410)	(484)	(1,791)	(1,381)
Less: Other comprehensive loss attributable to noncontrolling interests	(3)	(3)	(1)	(1)	(1)	(1)
Other Comprehensive Loss Attributable to Xerox	<u>\$ (223)</u>	<u>\$ (232)</u>	<u>\$ (409)</u>	<u>\$ (483)</u>	<u>\$ (1,790)</u>	<u>\$ (1,380)</u>

(1) Reclassified to Cost of sales - refer to Note 14 - Financial Instruments for additional information regarding our cash flow hedges.

(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 16 - Employee Benefit Plans for additional information.

(3) Represents our share of Fuji Xerox's benefit plan changes.

(4) Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits in AOCL.

Accumulated Other Comprehensive Loss (AOCL)

The AOCL balance at December 31, 2016, reflects the transfer of Conduent related AOCL balances at December 31, 2016 to Conduent - refer to Note 4 - Divestitures for additional information regarding the Separation. AOCL is comprised of the following:

	December 31,		
	2016	2015	2014
Cumulative translation adjustments	\$ (2,274)	\$ (2,402)	\$ (1,743)
Other unrealized (losses) gains, net	(13)	1	(22)
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(2,061)	(2,241)	(2,394)
Total Accumulated Other Comprehensive Loss Attributable to Xerox	<u>\$ (4,348)</u>	<u>\$ (4,642)</u>	<u>\$ (4,159)</u>

(1) Includes our share of Fuji Xerox.

Note 22 – (Loss) Earnings per Share

The following table sets forth the computation of basic and diluted (loss) earnings per share of common stock (shares in thousands):

	Year Ended December 31,		
	2016	2015	2014
Basic Earnings per Share:			
Net income from continuing operations attributable to Xerox	\$ 616	\$ 848	\$ 1,029
Accrued dividends on preferred stock	(24)	(24)	(24)
Adjusted Net Income From Continuing Operations Available to Common Shareholders	\$ 592	\$ 824	\$ 1,005
Net loss from discontinued operations attributable to Xerox	(1,093)	(374)	(16)
Adjusted Net (Loss) Income Available to Common Shareholders	\$ (501)	\$ 450	\$ 989
Weighted-average common shares outstanding	1,013,563	1,064,526	1,154,365
Basic (Loss) Earnings per Share:			
Continuing operations	\$ 0.58	\$ 0.77	\$ 0.87
Discontinued operations	(1.07)	(0.35)	(0.01)
Basic (Loss) Earnings per Share	\$ (0.49)	\$ 0.42	\$ 0.86
Diluted Earnings per Share:			
Net income from continuing operations attributable to Xerox	\$ 616	\$ 848	\$ 1,029
Accrued dividends on preferred stock	(24)	(24)	(24)
Adjusted Net Income From Continuing Operations Available to Common Shareholders	\$ 592	\$ 824	\$ 1,005
Net loss from discontinued operations attributable to Xerox	(1,093)	(374)	(16)
Adjusted Net (Loss) Income Available to Common Shareholders	\$ (501)	\$ 450	\$ 989
Weighted-average common shares outstanding	1,013,563	1,064,526	1,154,365
Common shares issuable with respect to:			
Stock options	694	1,294	2,976
Restricted stock and performance shares	9,722	10,404	14,256
Adjusted Weighted Average Common Shares Outstanding	1,023,979	1,076,224	1,171,597
Diluted (Loss) Earnings per Share:			
Continuing operations	\$ 0.58	\$ 0.77	\$ 0.86
Discontinued operations	(1.07)	(0.35)	(0.02)
Diluted (Loss) Earnings per Share	\$ (0.49)	\$ 0.42	\$ 0.84
The following securities were not included in the computation of diluted earnings per share as they were either contingently issuable shares or shares that if included would have been anti-dilutive (shares in thousands):			
Stock Options	808	1,825	3,139
Restricted stock and performance shares	21,721	17,607	17,987
Convertible preferred stock	26,966	26,966	26,966
Total Securities	49,495	46,398	48,092
Dividends per Common Share			
	\$ 0.31	\$ 0.28	\$ 0.25

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

(in millions, except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2016					
Revenues	\$ 2,615	\$ 2,793	\$ 2,629	\$ 2,734	\$ 10,771
Costs and Expenses	2,583	2,602	2,463	2,555	10,203
Income before Income Taxes and Equity Income	32	191	166	179	568
Income tax (benefit) expense	(2)	18	28	18	62
Equity in net income of unconsolidated affiliates	37	22	39	23	121
Income from Continuing Operations	71	195	177	184	627
(Loss) income from discontinued operations, net of tax	(35)	(38)	8	(1,028)	(1,093)
Net Income (Loss)	36	157	185	(844)	(466)
Less: Net income - noncontrolling interests	2	3	3	3	11
Net Income (Loss) Attributable to Xerox	\$ 34	\$ 154	\$ 182	\$ (847)	\$ (477)
Basic Earnings (Loss) per Share⁽¹⁾:					
Continuing operations	\$ 0.06	\$ 0.18	\$ 0.16	\$ 0.17	0.58
Discontinued operations	(0.03)	(0.03)	0.01	(1.01)	(1.07)
Total Basic Earnings (Loss) per Share	\$ 0.03	\$ 0.15	\$ 0.17	\$ (0.84)	\$ (0.49)
Diluted Earnings (Loss) per Share⁽¹⁾:					
Continuing operations	\$ 0.06	\$ 0.18	\$ 0.16	\$ 0.17	0.58
Discontinued operations	(0.03)	(0.03)	0.01	(1.00)	(1.07)
Total Diluted Earnings (Loss) per Share	\$ 0.03	\$ 0.15	\$ 0.17	\$ (0.83)	\$ (0.49)
2015					
Revenues	\$ 2,807	\$ 2,926	\$ 2,786	\$ 2,946	\$ 11,465
Costs and Expenses	2,612	2,697	2,573	2,659	10,541
Income before Income Taxes and Equity Income	195	229	213	287	924
Income tax expense	40	48	47	58	193
Equity in net income of unconsolidated affiliates	34	29	40	32	135
Income from Continuing Operations	189	210	206	261	866
Income (loss) from discontinued operations, net of tax	41	(193)	(237)	15	(374)
Net Income	230	17	(31)	276	492
Less: Net income - noncontrolling interests	5	5	3	5	18
Net Income Attributable to Xerox	\$ 225	\$ 12	\$ (34)	\$ 271	\$ 474
Basic Earnings (Loss) per Share⁽¹⁾:					
Continuing operations	\$ 0.16	\$ 0.18	\$ 0.19	\$ 0.25	0.77
Discontinued operations	0.04	(0.17)	(0.23)	0.01	(0.35)
Total Basic Earnings (Loss) per Share:	\$ 0.20	\$ 0.01	\$ (0.04)	\$ 0.26	\$ 0.42
Diluted Earnings (Loss) per Share⁽¹⁾:					
Continuing operations	\$ 0.16	\$ 0.18	\$ 0.19	\$ 0.24	0.77
Discontinued operations	0.03	(0.17)	(0.23)	0.02	(0.35)
Total Diluted Earnings (Loss) per Share	\$ 0.19	\$ 0.01	\$ (0.04)	\$ 0.26	\$ 0.42

(1) The sum of quarterly earnings per share may differ from the full-year amounts due to rounding, or in the case of diluted earnings per share, because securities that are anti-dilutive in certain quarters may not be anti-dilutive on a full-year basis.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.

Disclosure Controls and Procedures

The Company's management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms relating to Xerox Corporation, including our consolidated subsidiaries, and was accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding directors is incorporated herein by reference to the section entitled "Proposal 1 - Election of Directors" in our definitive Proxy Statement (2017 Proxy Statement) to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for our Annual Meeting of Stockholders to be held on May 23, 2017. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2016.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2017 Proxy Statement.

The information regarding the Audit Committee, its members and the Audit Committee financial experts is incorporated by reference herein from the subsection entitled "Committee Functions, Membership and Meetings" in the section entitled "Proposal 1 - Election of Directors" in our 2017 Proxy Statement.

We have adopted a code of ethics applicable to our principal executive officer, principal financial officer and principal accounting officer. The Finance Code of Conduct can be found on our website at: <http://www.xerox.com/investor> and then clicking on Corporate Governance. Information concerning our Finance Code of Conduct can be found under "Corporate Governance" in our 2017 definitive Proxy Statement and is incorporated here by reference.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

Name	Age	Present Position	Year Appointed to Present Position	Xerox Officer Since
Jeffrey Jacobson	57	Chief Executive Officer	2017	2012
Michael Feldman	50	Executive Vice President, President North America Operations	2017	2013
Darrell L. Ford	52	Executive Vice President, Chief Human Resources Officer	2015	2015
Sarah Hlavinka McConnell	52	Executive Vice President, General Counsel and Secretary	2017	2017
William F. Osbourn, Jr.	52	Executive Vice President, Chief Financial Officer	2017	2017
Herve Tessler	53	Executive Vice President, President International Operations	2017	2010
Kevin Warren	54	Executive Vice President, Chief Commercial Officer	2017	2010
Steve Hoover	56	Senior Vice President, Chief Technology Officer	2017	2017
Yehia Maaty	48	Senior Vice President, Chief Delivery Officer	2017	2014
Farooq Muzaffar	42	Senior Vice President, Chief Strategy and Marketing Officer	2017	2017
Joseph H. Mancini, Jr.	58	Vice President, Chief Accounting Officer	2013	2010

Of the officers named above, Mr. Hoover, Mr. Maaty, Mr. Mancini, Jr., Mr. Tessler and Mr. Warren have been officers or executives of Xerox, or its subsidiaries, for at least the past five years.

Mr. Jacobson joined Xerox in 2012 and served as the president of the company's Technology Business from 2014 to 2016. Previously, he was the president and CEO of Presstek, Inc. from 2007 to 2012, and chairman beginning in 2009. Prior to joining Presstek, he was a corporate vice president and the chief operating officer of the Graphic Communications Group at Eastman Kodak Company from 2005 to 2007 and was at Kodak Polychrome Graphics from 1998 to 2005, including serving as CEO from 2000 to 2005.

Mr. Feldman joined Xerox in 2013 and served as the president of Large Enterprise Operations for the Xerox Technology Business for the past 3 years. This followed 24 years at Hewlett-Packard where he served as HP's vice president and general manager of the Managed Enterprise Solutions Business Unit in the Imaging and Printing Group's Americas Organization.

Mr. Ford joined Xerox in 2015. Previously he served as senior vice president and chief human resources officer at Advanced Micro Devices (AMD) since 2012. Prior to joining AMD, he held senior HR leadership roles at Shell Oil, Honeywell International and AT&T.

Ms. McConnell joined Xerox in 2017. Prior to joining Xerox, she was executive vice president, general counsel and corporate secretary for ABM Industries Incorporated, a leading facility services provider with domestic and international operations, from 2007 to 2017. Prior to joining ABM, she served as vice president, assistant general counsel and secretary for Fisher Scientific International.

Mr. Osbourn joined Xerox in 2016 following 13 years at Time Warner Cable (TWC). After serving in a variety of roles, including controller and chief accounting officer for eight years, he was co-chief financial officer of TWC. Prior, he spent two years as executive director for External Financial Reporting and Accounting Policy at Time Warner Inc. Before Time Warner, he spent 14 years at PricewaterhouseCoopers LLP in roles of increasing responsibility and was admitted to partnership in 2000.

Mr. Muzaffar joined Xerox in 2017 after 12 years in executive positions at Verizon, including chief technology officer for Verizon Enterprise Solutions. Prior to his Verizon work, he was an investment banker in technology, media and telecom at Goldman Sachs, leading mergers and acquisitions in the software sector.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the following captions under “Proposal 1-Election of Directors” in our 2017 definitive Proxy Statement is incorporated herein by reference: “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards in 2016”, “Outstanding Equity Awards at 2016 Fiscal Year-End”, “Option Exercises and Stock Vested in 2016”, “Pension Benefits for the 2016 Fiscal Year”, “Nonqualified Deferred Compensation for the 2016 Fiscal Year”, “Potential Payments upon Termination or Change in Control”, “Summary of Director Annual Compensation”, “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee”. The information included under the heading “Compensation Committee Report” in our 2017 definitive Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is incorporated herein by reference to the subsections entitled “Ownership of Company Securities,” and “Equity Compensation Plan Information” under “Proposal 1- Election of Directors” in our 2017 definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions is incorporated herein by reference to the subsection entitled “Certain Relationships and Related Person Transactions” under “Proposal 1- Election of Directors” in our 2017 definitive Proxy Statement. The information regarding director independence is incorporated herein by reference to the subsections entitled “Corporate Governance” and “Director Independence” in the section entitled “Proposal 1 - Election of Directors” in our 2017 definitive Proxy Statement.

ITEM 14. PRINCIPAL AUDITOR FEES AND SERVICES

The information regarding principal auditor fees and services is incorporated herein by reference to the section entitled “Proposal 2 - Ratification of Election of Independent Registered Public Accounting Firm” in our 2017 definitive Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) (1) Index to Financial Statements and Financial Statement Schedule, incorporated by reference or filed as part of this report:
- Report of Independent Registered Public Accounting Firm including Report on Financial Statement Schedule;
 - Consolidated Statements of (Loss) Income for each of the years in the three-year period ended December 31, 2016;
 - Consolidated Statements of Comprehensive (Loss) Income for each of the years in the three-year period ended December 31, 2016;
 - Consolidated Balance Sheets as of December 31, 2016 and 2015;
 - Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2016;
 - Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2016;
 - Notes to the Consolidated Financial Statements;
 - Schedule II - Valuation and Qualifying Accounts for the three years ended December 31, 2016; and
 - All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.
- (2) Supplementary Data:
- Quarterly Results of Operations (unaudited); and
 - Five Years in Review.
- (3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.
- (b) The management contracts or compensatory plans or arrangements listed in the "Index of Exhibits" that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2017 Proxy Statement or to our directors are preceded by an asterisk (*).

ITEM 16. FORM 10-K SUMMARY

None

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XEROX CORPORATION

/s/ JEFFREY JACOBSON

Jeffrey Jacobson
Chief Executive Officer
February 27, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

February 27, 2017

Signature	Title
<i>Principal Executive Officer:</i> /s/ JEFFREY JACOBSON Jeffrey Jacobson	Chief Executive Officer and Director
<i>Principal Financial Officer:</i> /s/ WILLIAM F. OSBOURN JR. William F. Osbourn Jr.	Vice President and Chief Financial Officer
<i>Principal Accounting Officer:</i> /s/ JOSEPH H. MANCINI, JR. Joseph H. Mancini, Jr.	Vice President and Chief Accounting Officer
<i>Directors:</i> /s/ URSULA M. BURNS Ursula M. Burns	Chairman of the Board and Director
/s/ GREGORY Q. BROWN Gregory Q. Brown	Director
/s/ JONATHAN CHRISTODORO Jonathan Christodoro	Director
/s/ JOSEPH J. ECHEVARRIA Joseph J. Echevarria	Director
/s/ RICHARD J. HARRINGTON Richard J. Harrington	Director
/s/ WILLIAM CURT HUNTER William Curt Hunter	Director
/s/ ROBERT J. KEEGAN Robert J. Keegan	Director
/s/ CHERYL GORDON KRONGARD Cheryl Gordon Krongard	Director
/s/ CHARLES PRINCE Charles Prince	Director
/s/ ANN N. REESE Ann N. Reese	Director
/s/ STEPHEN H. RUSCKOWSKI Stephen Rusckowski	Director
/s/ SARA MARTINEZ TUCKER Sara Martinez Tucker	Director

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
For the three years ended December 31, 2016

(in millions)	Balance at beginning of period	Additions charged to bad debt provision ⁽¹⁾	Amounts (credited) charged to other income statement accounts ⁽¹⁾	Deductions and other, net of recoveries ⁽²⁾	Balance at end of period
2016 Allowance for Losses:					
Accounts Receivable	\$ 74	\$ 13	\$ 2	\$ (25)	\$ 64
Finance Receivables	118	24	4	(36)	110
	<u>\$ 192</u>	<u>\$ 37</u>	<u>\$ 6</u>	<u>\$ (61)</u>	<u>\$ 174</u>
2015 Allowance for Losses:					
Accounts Receivable	\$ 82	\$ 21	\$ 5	\$ (34)	\$ 74
Finance Receivables	131	28	—	(41)	118
	<u>\$ 213</u>	<u>\$ 49</u>	<u>\$ 5</u>	<u>\$ (75)</u>	<u>\$ 192</u>
2014 Allowance for Losses:					
Accounts Receivable	\$ 106	\$ 16	\$ (2)	\$ (38)	\$ 82
Finance Receivables	154	33	3	(59)	131
	<u>\$ 260</u>	<u>\$ 49</u>	<u>\$ 1</u>	<u>\$ (97)</u>	<u>\$ 213</u>

(1) Bad debt provisions relate to estimated losses due to credit and similar collectability issues. Other charges (credits) relate to adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(2) Deductions and other, net of recoveries primarily relates to receivable write-offs, but also includes the impact of foreign currency translation adjustments and recoveries of previously written off receivables.

INDEX OF EXHIBITS

Document and Location

- 2 Separation and Distribution Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.
Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471.
- 3(a) Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on February 21, 2013, as amended by Certificate of Amendment of Certificate of Incorporation filed with the Department of State of the State of New York on December 23, 2016.
- 3(b) By-Laws of Registrant as amended through August 15, 2016.
Incorporated by reference to Exhibit 3(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016. See SEC File Number 001-04471.
- 4(a)(1) Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "June 25, 2003 Indenture").
Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated June 25, 2003. See SEC File Number 001-04471.
- 4(a)(2) Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8-K dated March 20, 2006. See SEC File Number 001-04471.
- 4(a)(3) Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8-K dated August 18, 2006. See SEC File Number 001-04471.
- 4(a)(4) Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333-142900. See SEC File Number 001-04471.
- 4(b) Form of Amended and Restated Credit Agreement dated as of March 18, 2014 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and BNP Paribas Securities Corp. as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement").
Incorporated by reference to Exhibit 4(c) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014. See SEC File Number 001-04471.
- 4(c) Form of Indenture dated as of December 4, 2009 between Xerox Corporation and the Bank of New York Mellon, as trustee, relating to an unlimited amount of senior debt securities.
Incorporated by reference to Exhibit 4(b)(5) to Post-Effective Amendment No. 1 to Registrant's Registration Statement No. 333-142900. See SEC File Number 001-04471.
- 4(d) Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request.
- 10 The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2016 Proxy Statement or to our directors are preceded by an asterisk (*).
- *10(a)(1) Registrant's Form of Separation Agreement (with salary continuance) - February 2010.
Incorporated by reference to Exhibit 10(a)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.
- *10(a)(2) Registrant's Form of Separation Agreement (without salary continuance) - February 2010.
Incorporated by reference to Exhibit 10(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471.
- *10(a)(3) Registrant's Executive Salary Continuance Program effective March 1, 2017.
- *10(b)(1) Registrant's 2016 Separation Incentive Program.

Incorporated by reference to paragraph (A)(1) in Registrant's Current Report on Form 8-K dated March 25, 2016. See SEC File Number 001-04471.

- *10(b)(2) Form of Short-Term Cash Separation Award Agreement under 2016 Separation Incentive Program.
Incorporated by reference to Exhibit 10(b)(2) to Registrant's Quarterly Report on Form 10-Q for the quarter ended dated March 31, 2016. See SEC File Number 001-04471.
- *10(b)(3) Form of Long-Term Cash Separation Award Agreement under 2016 Separation Incentive Program.
Incorporated by reference to Exhibit 10(b)(3) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016. See SEC File Number 001-04471.
- *10(c) Letter Agreement dated May 20, 2016 between Registrant and Ursula M. Burns.
Incorporated by reference to Exhibit 10(c) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(d)(1) Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated as of May 21, 2013 ("2004 ECPNED").
Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(d)(2) Form of Agreement under 2004 ECPNED.
Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471.
- *10(d)(3) Form of Grant Summary under 2004 ECPNED.
Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471.
- *10(d)(4) Form of DSU Deferral under 2004 ECPNED.
Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471.
- *10(e)(1) Registrant's 2004 Performance Incentive Plan, as amended and restated as of May 24, 2012 ("2012 PIP").
Incorporated by reference to Exhibit 10(e)(26) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. See SEC File Number 001-04471.
- *10(e)(2) Amendment No. 1 dated as of December 11, 2013 to 2012 PIP.
Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(e)(3) Annual Performance Incentive Plan for 2014.
Incorporated by reference to Exhibit 10(e)(14) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. See SEC File number 001-04471.
- *10(e)(4) Performance Elements for 2014 Executive Long-Term Incentive Plan.
Incorporated by reference to Exhibit 10(e)(25) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(e)(5) Form of Award Agreement under 2012 PIP (Performance Shares).
Incorporated by reference to Exhibit 10(e)(26) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(e)(6) Form of Award Summary under 2012 PIP (Performance Shares).
Incorporated by reference to Exhibit 10(e)(27) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(e)(7) Form of Award Agreement under 2012 PIP (Retention Restricted Stock Units).
Incorporated by reference to Exhibit 10(e)(28) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(e)(8) Form of Award Summary under 2012 PIP (Retention Restricted Stock Units).
Incorporated by reference to Exhibit 10(e)(29) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471.
- *10(e)(9) Annual Performance Incentive Plan for 2015 ("2015 APIP")

- Incorporated by reference to Exhibit 10(e)(15) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.
- *10(e)(10) Performance Elements for 2015 Executive Long-Term Incentive Program ("2015 ELTIP")
Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. See SEC File number 001-04471.
- *10(e)(11) Form of Award Agreement under 2015 ELTIP (Performance Shares)
Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. See SEC File number 001-04471.
- *10(e)(12) Form of Award Agreement under 2015 ELTIP (Retention Restricted Stock Units)
Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. See SEC File number 001-04471.
- *10(e)(13) Annual Performance Incentive Plan for 2016 ("2016 APIP").
- *10(e)(14) Performance Elements for 2016 Executive Long-Term Incentive Program
Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471.
- *10(e)(15) Form of Award Agreement under 2016 ELTIP (Performance Shares)
Incorporated by reference to Exhibit 10(e)(21) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471.
- *10(e)(16) Form of Award Agreement under 2016 ELTIP (Restricted Stock Units)
Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471.
- *10(e)(17) Form of Award Agreement under 2016 ELTIP (Retention Restricted Stock Units)
Incorporated by reference to Exhibit 10(e)(23) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471.
- *10(e)(18) Form of Award Agreement under 2016 ELTIP (Performance Shares and Restricted Stock Units)
Incorporated by reference to Exhibit 10(e)(24) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471.
- *10(e)(19) Amendment No. 2 dated as of February 24, 2016 to 2012 APIP.
Incorporated by reference to Exhibit 10(e)(25) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(e)(20) Form of Award Agreement under 2016 ELTIP (Performance Shares and Restricted Stock Units - CEO).
Incorporated by reference to Exhibit 10(e)(26) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(e)(21) Registrant's 2004 Performance Incentive Plan, as amended and restated effective as of May 20, 2016.
Incorporated by reference to Exhibit 10(e)(27) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(e)(22) Amendment to Certain Restricted Stock Unit award agreements under Registrant's 2004 Performance Incentive Plan, as amended to date.
Incorporated by reference to Exhibit 10(e)(28) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(e)(23) 2016 CEO Executive Long-Term Incentive Program Award Agreement (Performance Shares and Restricted Stock Units).
Incorporated by reference to Exhibit 10(e)(29) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(e)(24) 2017 CEO Executive Long-Term Incentive Program Award Agreement (Restricted Stock Units).
Incorporated by reference to Exhibit 10(e)(30) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471.
- *10(e)(25) Annual Performance Incentive Plan ("APIP") for 2017.
- *10(e)(26) [RESERVED]
- *10(e)(27) Form of Omnibus Award Agreement under ELTIP (1-year graded Restricted Stock Units).

- *10(e)(28) Form of Omnibus Award Agreement under ELTIP (2-year graded Restricted Stock Units).
- *10(e)(29) Form of Omnibus Award Agreement under ELTIP (3-year graded Restricted Stock Units).
- *10(e)(30) Form of Omnibus Award Agreement under ELTIP (Restricted Stock Units).
- *10(e)(31) Form of Omnibus Award Agreement under ELTIP (Retention Restricted Stock Units).
- *10(e)(32) Form of Omnibus Award Agreement under ELTIP (Performance Shares).
- *10(e)(33) Form of Omnibus Award Agreement under ELTIP (Performance Shares and Restricted Stock Units).
- *10(f)(1) Letter Agreement dated March 19, 2014 between Registrant and Robert K. Zapfel, Executive Vice President and President, Services of Registrant ("Zapfel Letter Agreement").
Incorporated by reference to Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. See SEC File Number 001-04471.
- *10(f)(2) Modification dated March 25, 2016 to Zapfel Letter Agreement.
Incorporated by reference to paragraph (A)(2) in Registrant's Current Report on Form 8-K dated March 25, 2016. See SEC File Number 001-04471.
- *10(g)(1) 2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2007 USERP").
Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(g)(2) Amendment dated December 4, 2007 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(g)(3) Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471.
- *10(g)(4) Amendment No. 2 dated April 28, 2011 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- *10(g)(5) Amendment No. 3 dated December 7, 2011 to Registrant's 2007 USERP.
Incorporated by reference to Exhibit 10(g)(5) to Registrant's Current Report on Form 8-K dated December 7, 2011. See SEC File Number 001-04471.
- *10(g)(6) Modification to vesting under Registrant's 2007 USERP.
Incorporated by reference to paragraph (B) in Registrant's Current Report on Form 8-K dated March 25, 2016. See SEC File Number 001-04471.
- *10(h) 1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002.
Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. See SEC File Number 001-04471.
- 10(i) [RESERVED]
- *10(j)(1) Registrant's Universal Life Plan as amended and restated as of August 26, 2013.
Incorporated by reference to Exhibit 10(j)(1) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2013. See SEC File Number 001-00471.
- *10(j)(2) Participant Agreement for Registrant's Universal Life Plan.
Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2013. See SEC File Number 001-00471.
- *10(k)(1) Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD").
Incorporated by reference to Exhibit 10(k)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(k)(2) Amendment dated December 5, 2007 to DCPD.
Incorporated by reference to Exhibit 10(k)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471.
- *10(k)(3) Amendment No. 2 dated May 17, 2010 to DCPD.

- Incorporated by reference to Exhibit 10(k)(3) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010. See SEC File Number 001-04471.
- *10(l) Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004.
Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004. See SEC File Number 001-04471.
- 10(m) Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.
Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. See SEC File Number 001-04471.
- *10(n) Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant.
Incorporated by reference to Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471.
- 10(o) Exchange Agreement dated October 27, 2016 by and among Darwin Deason, Conduent Incorporated and Registrant.
Incorporated by reference to Exhibit 10(u) to Registrant's Current Report on Form 8-K dated October 27, 2016. See SEC File Number 001-04471.
- *10(p) Form of Severance Agreement entered into with various executive officers, effective October 2010.
Incorporated by reference to Exhibit 10(t) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.
- *10(q) Letter Agreement dated November 21, 2016 between Registrant and William F. Osbourn, Jr.
Incorporated by reference to Exhibit 10(v) to Registrant's Current Report on Form 8-K dated December 2, 2016. See SEC File Number 001-04471.
- *10(r) Master Plan Amendment dated May 2, 2011 to Registrant-Sponsored Benefit Plans.
Incorporated by reference to Exhibit 10(bb) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471.
- 10(s) Agreement dated January 28, 2016 between the Icahn Group and Registrant re: separation of Registrant's Business Process Outsourcing business and voting at Registrant's 2016 annual meeting of shareholders.
Incorporated by reference to Exhibit 10(s) to Registrant's Current Report on Form 8-K dated January 28, 2016. See SEC File Number 001-04471.
- 10(t) Agreement dated June 27, 2016 between the Icahn Group and Registrant re: voting provisions and election of a director to Registrant's Board.
Incorporated by reference to Exhibit 10(b) to Registrant's Current Report on Form 8-K dated June 27, 2016. See SEC File Number 001-04471.
- 10(u) Transition Services Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.
Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471.
- 10(v) Tax Matters Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.
Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471.
- 10(w) Employee Matters Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.
Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471.
- 10(x) Intellectual Property Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.
Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471.
- 10(y) Trademark License Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.

Incorporated by reference to Exhibit 10.5 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471.

12	Computation of Ratio of Earnings to Fixed charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
21	Subsidiaries of Registrant.
23	Consent of PricewaterhouseCoopers LLP.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.



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