

January 17, 2020

U.S. Securities and Exchange Commission
Division of Corporation Finance
Office of Chief Counsel
100 F Street, N.E.
Washington, D.C. 20549
via email: shareholderproposals@sec.gov

Douglas H. Marshall
Corporate Secretary and
Associate General Counsel

Xerox Holdings Corporation
201 Merritt 7
Norwalk, CT 06851

douglas.marshall@xerox.com
tel 203.849.2339
fax 585.216.2475

*Connecticut Authorized
House Counsel*

**Re: Xerox Holdings Corporation
Shareholder Proposal Submitted by The City of Philadelphia Public
Employees Retirement System and the Trust for the International
Brotherhood of Electrical Workers' Pension Benefit Fund**

Ladies and Gentlemen:

We are writing pursuant to Rule 14a-8(j) promulgated under the Securities Exchange Act of 1934, as amended, to request that the Staff of the Division of Corporation Finance (the "Staff") of the Securities and Exchange Commission ("SEC") concur with our view that, for the reasons stated below, Xerox Holdings Corporation ("Xerox Holdings," the "Company" or "we")¹ may exclude from its proxy statement and form of proxy for the Company's 2020 Annual Meeting of Shareholders (collectively, the "2020 Proxy Materials") the shareholder proposal and related supporting statement (the "Proposal") submitted by The City of Philadelphia Public Employees Retirement System and the Trust for the International Brotherhood of Electrical Workers' Pension Benefit Fund (collectively, the "Proponents").

Pursuant to Staff Legal Bulletin No. 14D (November 7, 2008)("SLB No. 14D"), we have submitted this letter, the related correspondence between the Company and the Proponents, and the related exhibits to the Staff via email to shareholderproposals@sec.gov. In accordance with Rule 14a-8(j), a copy of this letter and related exhibits is being simultaneously emailed to the Proponents informing them of the Company's intention to exclude the Proposal from the 2020 Proxy Materials.

In accordance with Rule 14a-8(j), this letter is being filed with the SEC not less than 80 days before the Company plans to file its definitive proxy statement for its 2020 Annual Meeting of Shareholders.

¹ On July 31, 2019, Xerox Corporation effected a reorganization pursuant to which Xerox Corporation became a direct, wholly-owned subsidiary of Xerox Holdings Corporation, a publicly traded holding company. References in this letter to the "Company" and "we" refer to Xerox Corporation as appropriate.

I. The Proposal

The text of the Proposal is set forth below:

RESOLVED, that shareholders of Xerox Corporation (“Xerox”) urge the Board of Directors (the “Board”) to adopt a policy that when Xerox adjusts or modifies any generally accepted accounting principles (“GAAP”) financial performance metric for determining senior executive compensation, the Compensation Committee’s Compensation Discussion and Analysis shall include a specific explanation of the Compensation Committee’s rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP.

SUPPORTING STATEMENT:

Xerox selects several metrics to assess senior executive performance for purposes of determining incentive compensation. However, Xerox adjusts the calculation of some incentive metrics for reasons that are not specified.

For example, on page 56 of the 2019 proxy statement (“proxy”), Xerox offers the following explanation for adjustments to the Pre-Tax Income metric that informs the short-term incentive plan: “...adjusted to reflect the approved adjustment categories: addition of equity income, and excluding the impact of restructuring costs, amortization of intangibles, transaction and related costs, net, non-service retirement-related costs, and other items outside the ordinary course of business.”

We find this explanation unsatisfactory. The GAAP calculation for Pre-Tax Income yielded a result of \$598 million. However, the Adjusted Pre-Tax Income yielded a result of \$1,193 million, a 99.5% increase for executive pay purposes.

We believe that Xerox’s explanation on page 52 of the proxy for the adjustments is overly vague. Xerox states: “Management believes the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.”

Many investors believe that companies should do a better job disclosing the purpose of using adjusted-GAAP metrics for executive compensation. For example, the Council of Institutional Investors has petitioned the SEC to address this lack of transparency. The petition seeks “...a requirement for clear explanations and GAAP reconciliations that would permit a shareholder to understand the company’s approach and factor that into its say-on-pay vote and/or buy/sell decision” (<https://www.sec.gov/rules/petitions/2019/petn4-745.pdf>).

For these reasons, we urge a vote FOR this resolution.

A copy of the Proposal and related correspondence between the Company and the Proponents is attached hereto as Exhibit A.

II. Grounds for Exclusion

The Company respectfully requests that the Staff concur with the Company's view that the Proposal may be properly excluded from the 2020 Proxy Materials for the reasons set forth below.

A. The Proposal may be properly excluded from the 2020 Proxy Materials pursuant to Rule 14a-8(i)(10) because the Proposal has been substantially implemented by the Company.

Rule 14a-8(i)(10) permits a company to exclude a shareholder proposal from its proxy materials if the company has substantially implemented the proposal, so as "to avoid the possibility of shareholders having to consider matters which have already been favorably acted upon by the management." See SEC Release No. 34-12598 (July 7, 1976). The Staff originally interpreted this exclusion narrowly and granted no-action relief only when proposals were "'fully' effected" by the company. See SEC Release No. 34-19135 (Oct. 14, 1982) and SEC Release No. 34-20091 (Aug. 16, 1983). However, since announcing a revised approach to Rule 14a-8(i)(10) in 1983 in SEC Release No. 34-20091 (Aug. 16, 1983), the Staff has interpreted this exclusion to apply when the company has taken actions to address the proposal's underlying concerns and essential objective. See, e.g., *Bank of America Corp.* (Jan. 19, 2018) and *Anheuser-Busch Cos., Inc.* (Jan. 17, 2007).

Consistent with this interpretation, the Staff "has not required that a company implement the action requested in a proposal exactly in all details" in determining whether a proposal has been substantially implemented. *AECOM* (October 22, 2018). Instead, the Staff has found that differences between a company's actions and the actions requested by a shareholder proponent are permissible, provided, that the company's actions satisfactorily address the proposal's "essential objective." See, e.g., *Exxon Mobil Corp.* (Mar. 19, 2010). Accordingly, the Staff has regularly concurred in the exclusion of shareholder proposals under Rule 14a-8(i)(10) when it has determined that the company's "particular policies, practices and procedures" or public disclosures "compare favorably with the guidelines of the proposal," or where the company was able to demonstrate that it had already taken actions to address the underlying concerns of the proposal, even if the company had not "implement[ed] the action requested in a proposal exactly in all details." See, e.g., *Exelon Corporation* (February 26, 2010); *Texaco, Inc.* (Mar. 28, 1991). For example, in *Applied Materials, Inc.* (January 17, 2018), the Staff concurred in the exclusion of a shareholder proposal under Rule 14a-8(i)(10) requesting that the company "improve the method to disclose the Company's executive compensation information with their actual compensation," after finding that the company's public disclosures, which satisfied existing requirements under applicable securities laws, "compare favorably with the guidelines of the Proposal and that, therefore, the Company ha[d] substantially implemented the Proposal."

Here, the Proposal requests that the Company adopt a policy that, when any GAAP financial performance metric is adjusted or modified for purposes of determining senior executive compensation, the Compensation Discussion and Analysis ("CD&A") will include both "a specific explanation of the Compensation Committee's rationale" for each such adjustment or modification and "a reconciliation of the adjusted metrics to GAAP." For the reasons outlined below, the Company has already substantially implemented the request set forth in the Proposal.

i. The 2019 Proxy Statement includes disclosure addressing the Proposal’s request.

The Proposal acknowledges that the CD&A included in the Company’s joint proxy statement/prospectus for the Company’s 2019 Annual Meeting of Shareholders (the “2019 Proxy Statement”) includes disclosure addressing adjustments to financial performance metrics for purposes of determining senior executive compensation (“Adjustments”) but claims that this disclosure is “overly vague” and “unsatisfactory.” In support of this claim, the Proposal cites disclosure from the “Executive Summary” and “Summary of 2018 Compensation Actions” sections appearing at the beginning of the CD&A. However, the Proposal omits reference to the more detailed discussion of the Adjustments contained later in the CD&A under the heading “2018 Short-Term Incentive Award Performance Measures and Payouts” (see page 65). There, the Company includes the following table with detailed explanatory footnotes quantifying each of the Adjustments made with respect to each performance metric under the Company’s Annual Performance Incentive Plan (“APIP”) for 2018:

The weightings, target and maximum goals, payout ranges and performance results against the established performance measures follow:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)	Actual 2018 Performance Results
Revenue Growth at constant currency (1)	33.3%	(2.80)%	(0.80)%	(4.90)%
Adjusted Pre-Tax Income (2)	33.3%	\$1,240 million	\$1,340 million	\$1,193 million
Free Cash Flow (3)	33.3%	\$850 million	\$1,000 million	\$1,050 million

- (1) Generally Accepted Accounting Principles (GAAP) revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. GAAP revenue decreased 4.2%, excluding the impact of currency fluctuation (0.7% favorable), revenue decreased 4.9% at constant currency.
- (2) GAAP Pre-Tax Income of \$598 million, as reported in the Company’s 2018 Annual Report on Form 10-K, adjusted to reflect the approved adjustment categories: addition of equity income (\$33 million), and excluding the impact of restructuring costs (\$253 million) of which \$95 million related to Fuji Xerox, amortization of intangibles (\$48 million), transaction and related costs, net (\$68 million), non-service retirement-related costs (\$150 million), and other items outside the ordinary course of business (\$43 million).
- (3) GAAP net cash provided by operating activities of \$1,140 million, less capital expenditures (inclusive of internal use software) of \$90 million.

In terms of rationale for these Adjustments, on page 64 of the 2019 Proxy Statement, the Company explains that material unusual or infrequent charges or gains/(losses) may be excluded from the APIP short-term incentive calculations “in order to obtain normalized operational results of the business.” Further, the Company provides the following additional disclosures (page 52):

- “Revenue growth at constant currency is GAAP revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. Management believes the constant currency measure provides investors an additional perspective on revenue trends.”

- “Adjusted Pre-Tax Income is GAAP pre-tax income adjusted to exclude certain items pre-approved by the Compensation Committee. Management believes the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.”
- “Free cash flow is GAAP net cash provided by operating activities, less capital expenditures (inclusive of internal use software). Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment.”

The Company likewise provides detailed disclosure in the 2019 Proxy Statement regarding the pre-established Adjustments to be made in connection with the performance stock unit (“PSU”) awards granted in 2018 under the Company’s long-term incentive program. Under the heading “*Metrics for the 2018 Performance Cycle (2018 E-LTIP)*” (page 68), the Company discloses the applicable performance metrics, the adjustments that will be taken into account when measuring performance at the end of the three-year performance cycle and the rationale for these pre-established Adjustments:

The performance measures, weightings and goals for [our 2018 PSU awards] were as follows:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)
CAGR Revenue growth at constant currency (1)	33.3%	(2.80)%	(0.80)%
Free Cash Flow (2)	33.3%	\$850 million	\$1,000 million
Relative Total Shareholder Return (3)	33.3%	50 th percentile	80 th percentile

(1) Generally Accepted Accounting Principles (GAAP) revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars and based on a compound annual growth rate.

(2) GAAP net cash provided by operating activities, less capital expenditures (inclusive of internal use software).

(3) Measured by Xerox stock price appreciation plus reinvested dividends compared to the Xerox peer group companies approved by the Compensation Committee.

RTSR was adopted as a performance measure in 2018, replacing Earnings Per Share, to more directly align payouts with shareholder gains/(losses). Free Cash Flow was adopted in 2018, replacing Adjusted Operating Cash Flow. This measure provides shareholders and investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchases. Performance goals were aligned with our 2018 financial model at the time the goals were established and are disclosed solely in the context of our 2018 E-LTIP performance cycle. ...

Under the 2018 E-LTIP, actual Company results for the performance measures will be adjusted for the impacts of certain pre-established items, subject to thresholds, such as: acquisitions, separations or divestitures, effects of changes in accounting principles, certain items identified in other expenses, net, gains/(losses) from the settlement of tax audits or changes in tax laws, gains/(losses) from war, terrorism or natural disasters, cash payments for restructuring, pension contributions, changes in receivables factoring programs, and other types of unusual or infrequent items. Revenue Growth is adjusted to exclude the impact of changes in the translation of foreign currencies into USD.

Because we believe Revenue Growth at constant currency and Free Cash Flow to be two of the fundamental financial metrics that drive shareholder value, we used those financial metrics for both our short- and long-term incentive programs.

See Exhibit B-1 for the relevant pages from the 2019 Proxy Statement referenced above.

- ii. Similar disclosure also appears in the Company's proxy statements filed in connection with the 2018 Annual Meeting of Shareholders and the 2017 Annual Meeting of Shareholders.**

Disclosure similar to that described above regarding the Adjustments was also included in the proxy statements filed by the Company in 2018 and 2017. In each of these proxy statements, the CD&A disclosure includes a table quantifying the Adjustments made for purposes of determining the short-term incentive payouts for the applicable years and the rationale for each of the Adjustments—to obtain normalized operational results of the business. See Exhibit B-2 for the relevant disclosure in the 2018 proxy statement and 2017 proxy statement, respectively.

- iii. The Company's Annual Reports to Shareholders for the years ended December 31, 2018, 2017 and 2016 include additional disclosure explaining Adjustments.**

In connection with each Annual Meeting of Shareholders, each shareholder of the Company is mailed, or provided access to, the Company's proxy statement and Annual Report to Shareholders in accordance with SEC rules. The contents of Xerox's Annual Report to Shareholders include a copy of the Company's Annual Report on Form 10-K, making this document part of the proxy materials delivered to each shareholder in advance of each annual meeting.

In the Company's Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K"), under the heading "Non-GAAP Financial Measures" (page 52), the Company provides disclosure explaining the rationale for each of the Adjustments made in connection with determining Adjusted Pre-Tax Income, one of the performance metrics under the 2018 APIP. The 2018 Form 10-K also provides additional information explaining the rationale for constant currency Adjustments under the heading "Currency Impact" (page 24). Similar disclosure regarding the Adjustments was also included in the Company's Annual Reports on Form 10-K for the years ended December 31, 2017 and 2016. See Exhibit B-3 for the relevant disclosure from the above-referenced reports.

The Company's proxy statement disclosure clearly accomplishes, and compares favorably to, the objective of the Proposal by providing disclosure specifically quantifying the Adjustments and explaining the purpose of these Adjustments. Disclosure addressing the objective of the Proposal was included not only in the 2019 Proxy Statement but also in prior year proxy statements, evidencing a pattern of robust disclosure regarding Adjustments. The Company also provides disclosure explaining the purpose of its Adjustments in its Annual Report to Shareholders included in its proxy materials. In sum, the Company has demonstrated a practice of providing specific disclosure regarding the Adjustments used in determining senior executive compensation. For the foregoing reasons, Xerox Holdings has substantially implemented the Proposal.

B. The Proposal may be properly excluded from the 2020 Proxy Materials pursuant to Rule 14a-8(i)(3) because the Proposal is inherently vague and indefinite.

Rule 14a-8(i)(3) permits a company to exclude a shareholder proposal from its proxy materials if the proposal or supporting statement is contrary to SEC proxy rules, including Rule 14a-9, which prohibits materially false or misleading statements in proxy soliciting materials. The Staff has taken the position that a shareholder proposal is excludable under Rule 14a-8(i)(3) if it “is so inherently vague or indefinite that neither the stockholders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires.” Staff Legal Bulletin No. 14B (Sept. 15, 2004). The Staff has emphasized that it “consider[s] only the information contained in the proposal and supporting statement and determine[s] whether, based on that information, shareholders and the company can determine what actions the proposal seeks.” Staff Legal Bulletin No. 14G (Oct. 16, 2012).

In applying this standard, the Staff has routinely permitted the exclusion of shareholder proposals that fail to define key terms or otherwise fail to provide sufficient clarity or guidance to enable shareholders or the company to understand how the proposal would be implemented. *See, e.g., Ebay, Inc.* (Apr. 10, 2019) (concurring in the exclusion under Rule 14a-8(i)(3) of a shareholder proposal requesting that the company “reform the company’s executive compensation committee” on the basis that “neither shareholders nor the [c]ompany would be able to determine with any reasonable certainty the nature of the ‘reform’ the [p]roposal is requesting. Thus, the [p]roposal, taken as a whole, is so vague and indefinite that it is rendered materially misleading.”) The Staff has also concurred in the exclusion of proposals under Rule 14a-8(i)(3) where the meaning and application of key terms used in the proposal may be subject to differing interpretations, such that shareholders in voting on the proposal and the company in implementing it might be uncertain as to what the proposal calls for or might reach different conclusions regarding the manner in which the proposal should be implemented. *See, e.g., Walgreens Boots Alliance, Inc.* (Oct. 7, 2016) (permitting the exclusion of a proposal restricting the ability of the board of directors to “take[] any action whose primary purpose is to prevent the effectiveness of shareholder vote” on the same basis). In addition, the Staff has concurred in the exclusion under Rule 14a-8(i)(3) of other proposals purporting to address executive compensation. *See, e.g., Apple Inc.* (Dec. 6, 2019) (concurring in the exclusion of a proposal recommending that the company “improve guiding principles of executive compensation” on the basis that the proposal “lacks sufficient description about the changes, actions or ideas for the [c]ompany and its shareholders to consider that would potentially improve the guiding principles”).

Here, the Proposal is unclear as to the exact nature of the disclosure requested. The Proposal requests that the CD&A “include a specific explanation of the Compensation Committee’s rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP.”

First, the Proposal fails to define key terms, and as a result, it is unclear how the Company would implement the Proposal. Specifically, the Company is unable to interpret with clarity what the Proponent means by “a specific explanation” of the Compensation Committee’s “rationale”. As described above in Section I.A of this letter, the Company discloses its rationale for the Adjustments, including explanations specific to each adjustment, and provides detailed

reconciliation information as to each Adjustment. It is unclear how the Company would implement the Proponents' request beyond the disclosure that is already provided.

Second, as a more general matter, it is unclear whether the Proposal requests a policy requiring that the Committee explain the rationale for each non-GAAP performance metric used in the Company's incentive compensation programs or, alternatively, the rationale for each adjustment made with respect to each such non-GAAP performance metric. The Proposal requests, on one hand, a "specific explanation of the Compensation Committee's rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP", which appears to request disclosure specific to each adjustment to a GAAP performance metric. On the other hand, the Supporting Statement posits that companies "should do a better job disclosing the purpose of using adjusted-GAAP metrics for executive compensation," which appears to request disclosure specific to why a non-GAAP measure was chosen as a performance metric in the first instance.

Based on the foregoing analysis, the Proposal is so inherently vague, indefinite and ambiguous as to render it materially misleading, "because any action ultimately taken by the [c]ompany upon implementation could be significantly different from the actions envisioned by shareholders voting on the proposal." *Fuqua Industries, Inc.* (Mar. 12, 1991). Accordingly, we believe the Proposal may be excluded from the Company's 2020 Proxy Materials under Rule 14a-8(i)(3).

C. The Proposal may be properly excluded from the 2020 Proxy Materials pursuant to Rule 14a-8(i)(7) because the Proposal deals with the Company's ordinary business operations and micromanages the Company.

Rule 14a-8(i)(7) permits a company to exclude a shareholder proposal from its proxy materials if the proposal "deals with matters relating to the company's ordinary business operations." The policy underlying this exclusion is "to confine the resolution of ordinary business problems to management and the board of directors, since it is impracticable for shareholders to decide how to solve such problems at an annual meeting of shareholders." SEC Release No. 34-40018 (May 21, 1998) ("1998 Release"). In this context, the term "ordinary business" refers to "matters that are not necessarily 'ordinary' in the common meaning of the word, and is rooted in the corporate law concept providing management with flexibility in directing certain core matters involving the company's business and operations." *Id.*

In the 1998 Release, the SEC explains that "the policy underlying the ordinary business exclusion rests on two central considerations":

- (1) The first consideration, which relates to the subject matter of the proposal, is that "[c]ertain tasks are so fundamental to management's ability to run a company on a day-to-day basis" that they are not a proper subject matter for direct shareholder oversight. *Id.* In contrast to such ordinary business matters, "significant social policy issues" which "transcend the day-to-day business matters and raise policy issues so significant that it would be appropriate for a shareholder vote" are not excludable. *Id.* Although the Staff has historically viewed senior executive compensation as a "significant social policy issue," the Staff has "concurred in the exclusion of proposals that, while styled as senior executive and/or director compensation proposals, have had as their underlying concern ordinary business matters." Staff Legal Bulletin No. 14J (Oct. 23, 2018) ("SLB No. 14J").

- (2) The second consideration “relates to the degree to which the proposal seeks to ‘micro-manage’ the company by probing too deeply into matters of a complex nature upon which shareholders, as a group, would not be in a position to make an informed judgment.” 1998 Release. As such, the second consideration focuses solely on the implementation of the proposal. *See, e.g.*, SLB No. 14J (explaining that the consideration of the excludability of a proposal based on micromanagement “looks only to the degree to which a proposal seeks to micromanage” and does not focus on the subject matter of the proposal); Staff Legal Bulletin No. 14K (Oct. 16, 2019)(“SLB No. 14K”)(“When a proposal prescribes specific actions that the company’s management or the board must undertake without affording them sufficient flexibility or discretion in addressing the complex matter presented by the proposal, the proposal may micromanage the company to such a degree that exclusion of the proposal would be warranted.”).

Consistent with this guidance, the Staff has concurred in the exclusion of shareholder proposals under Rule 14a-8(i)(7) purporting to relate to executive compensation but primarily concerning ordinary business matters. *See, e.g., Apple Inc.* (Dec. 30, 2014) (granting relief to exclude a shareholder proposal urging the compensation committee “to include in the metrics used to determine incentive compensation for the company’s five most-highly compensated executives a metric related to the effectiveness of the company’s policies and procedures designed to promote adherence to laws and regulations” on the basis that “the thrust and focus of the proposal [was] on the ordinary business matter of the company’s legal compliance program,” even though “the proposal relates to executive compensation”); *Delta Air Lines, Inc.* (Mar. 27, 2012) (concurring in the exclusion of a shareholder proposal requesting that the board of directors prohibit payment of incentive compensation to executive officers unless the company first adopts a process to fund the retirement accounts of its pilots on the basis that “the thrust and focus of the proposal [was] on the ordinary business matter of general employee benefits,” even though “the proposal mentions executive compensation”).

In addition, the Staff has recently concurred in the exclusion of shareholder proposals involving matters related to senior executive compensation under Rule 14a-8(i)(7) on the basis that the proposals sought to micromanage the respective companies. *See, e.g., AbbVie Inc.* (Feb. 15, 2019) (concurring in the exclusion of a shareholder proposal “urging the board to adopt a policy prohibiting adjusting financial performance metrics to exclude compliance costs when determining executive compensation” on the basis that the proposal “micromanages the [c]ompany by seeking to impose specific methods for implementing complex policies”); *Johnson & Johnson* (Feb. 14, 2019) (same); *Abbott Laboratories* (Feb. 28, 2019) (concurring in the exclusion of a shareholder proposal urging the board of directors to adopt a policy requiring compensation committee approval of certain sales of shares by senior executives on the basis that the proposal “micromanages the [c]ompany because, among other things, the [p]roposal would require the compensation committee to approve each sale by a senior executive during a buyback and for the [c]ompany to include explanatory disclosure in the proxy statement describing how the committee concluded that approving the same was in the [c]ompany’s long-term best interest”).

When considering the Proposal in light of SEC guidance and the no-action letters cited above, it becomes apparent that (i) the thrust and focus of the Proposal is not senior executive compensation, but rather the Company’s disclosure of non-GAAP financial metrics, which is an

ordinary business matter that does not raise significant policy concerns, and (ii) the Proposal impermissibly seeks to micromanage the Company by supplanting the Committee's discretion and judgment as to the disclosure of non-GAAP adjustments in its CD&A.

Ordinary Business Subject Matter. With respect to the subject matter of the Proposal, the Proposal seeks to expand the Company's disclosure regarding the use of non-GAAP performance metrics in determining incentive compensation. The Proponents "believe that companies should do a better job disclosing the purpose of using adjusted-GAAP metrics for executive compensation" by including in the CD&A "a specific explanation of the Compensation Committee's rationale for each adjustment." However, such disclosure is already required by Item 402(b) of Regulation S-K ("Item 402(b)") and is already included in the Company's annual proxy statements, as described above in Section II(A) of this letter. The manner in which companies choose to comply with legal requirements such as the directives of Item 402(b) is "so fundamental to management's ability to run a company on a day-to-day basis" such that it is not appropriate for shareholder oversight.

Furthermore, the requested "reconciliation of the adjusted metrics to GAAP" expands upon the requirements of Item 402(b) and related SEC guidance which provide that disclosure of non-GAAP performance targets and performance against those targets are not subject to the detailed disclosure requirements of Regulation G and Regulation S-K Item 10(e); instead companies must provide disclosure "as to how the number is calculated from the registrant's audited financial statements." Accordingly, the Proposal seeks to enlarge the Company's presentation of financial information notwithstanding that the Staff has previously concurred that proposals seeking to modify or increase a company's disclosure regarding ordinary business matters were properly excludable under Rule 14a-8(i)(7) as ordinary business matters, including proposals that relate to the presentation of financial information outside the requirements of GAAP in reports to shareholders. *See, e.g., Amerinst Insurance Group, Ltd.* (Apr. 14, 2005) (concurring in the exclusion of a proposal requesting that the company disclose the accounting, on a quarterly basis, of its line items and amounts of operating and management expenses on the basis that the requested disclosure related to the ordinary business matter of the company's presentation of its financial information); *Johnson Controls, Inc.* (Oct. 26, 1999) (concurring in the exclusion of a proposal requesting revised disclosure of the company's accounting for goodwill, which was fully in compliance with GAAP, on the basis that the requested disclosure related to the ordinary business matter of the company's presentation of its financial statements in reports to shareholders).

Micromanagement. With respect to micromanagement, the Proposal requests that the Company provide "a specific explanation of the Compensation Committee's rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP". As discussed above, the Proposal's request is ambiguous; however, any reading of the Proposal's terms reveals that the Proposal "involves intricate detail, or seeks to impose specific . . . methods for implementing complex policies," and the requested actions would "unduly limit the ability of the [Committee] to manage complex matters with a level of flexibility necessary to fulfill [its] fiduciary duties to shareholders." 1998 Release; SLB No. 14K. The Proposal seeks to micromanage the Company by requesting "intricate detail" about non-GAAP financial measures, thereby affording the Committee no flexibility or discretion in determining whether it is appropriate to include "a specific explanation" of the rationale for such adjustments. Instead, the Proposal requests that a

policy be adopted that prescribes detailed disclosure with respect to such adjustments in all cases, regardless of materiality and other relevant considerations. Such a policy is impermissibly inflexible and is rendered unnecessary by the Company's annual proxy statement disclosure, which consistently satisfies SEC disclosure requirements regarding material aspects of the Committee's executive compensation determinations.

Based on the foregoing analysis, and consistent with the Staff's guidance and the no-action letters cited above, we believe the Proposal may be excluded from the Company's 2020 Proxy Materials under Rule 14a-8(i)(7).

III. Conclusion

For the foregoing reasons, and consistent with the Staff's prior no-action letters, we respectfully request that the Staff concur that it will take no action if the Company excludes the Proposal from its 2020 Proxy Materials under Rule 14a-8(i)(10) on the basis that the Company has substantially implemented the Proposal, under Rule 14a-8(i)(3) on the basis that the Proposal is inherently vague and indefinite and is therefore materially misleading, and under Rule 14a-8(i)(7) on the basis that the Proposal deals with a matter relating to the Company's ordinary business operations and seeks to micromanage the Company.

We would be happy to provide you with any additional information and answer any questions that you may have regarding this matter. Should you disagree with the conclusions set forth herein, we respectfully request the opportunity to confer with you prior to the determination of the Staff's final position. Please do not hesitate to call me at (203) 849-2339 if we may be of any further assistance in this matter. In addition, should the Proponents choose to submit any response or other correspondence to the SEC, we request that the Proponents concurrently submit that response or other correspondence to the Company, as required pursuant to Rule 14a-8(k) and SLB No. 14D, and copy the undersigned.

Very truly yours,



Douglas H. Marshall

cc: The City of Philadelphia Public Employees Retirement System, *via e-mail*:
Kristyn.Bair@phila.gov

Trust for the International Brotherhood of Electrical Workers' Pension Benefit Fund,
via overnight for Monday delivery:

Kenneth W. Cooper
900 Seventh Street, NW
Washington, D.C. 20001

EXHIBIT A

The Proposal and Related Correspondence

[See attached.]

Marshall, Douglas H

From: Pettrone, Ann D
Sent: Thursday, October 17, 2019 6:12 PM
To: Marshall, Douglas H
Subject: FW: City of Philadelphia Board of Pensions and Retirement Shareholder Proposal-Xerox
Attachments: Xerox 10.17.19.pdf

Doug, I see this was sent to you, let me know if there is anything I need to do.
Thanks,
Ann

From: Kristyn Bair <Kristyn.Bair@Phila.gov>
Sent: Thursday, October 17, 2019 2:50 PM
To: Pettrone, Ann D <Ann.Pettrone@xerox.com>; Cala, Maria F <Maria.Cala@xerox.com>
Cc: James Cousounis <James.Cousounis@Phila.gov>; Maureen O'Brien (mobrien@segalmarco.com) <mobrien@segalmarco.com>
Subject: City of Philadelphia Board of Pensions and Retirement Shareholder Proposal-Xerox

Good Afternoon,

Please see attached shareholder proposal and custodial verification from City of Philadelphia Board of Pensions and Retirement. If you have any questions do not hesitate to contact me.

Thank you,

Kristyn Bair
Investment Officer II
City of Philadelphia Board of Pensions and Retirement
Two Penn Center Plaza, 17th Floor
1500 John F. Kennedy Blvd.
Philadelphia, PA 19102
(p) 215-685-3477 | Kristyn.Bair@phila.gov



BOARD OF PENSIONS AND RETIREMENT
PHILADELPHIA PUBLIC EMPLOYEES
RETIREMENT SYSTEM

BOARD MEMBERS:
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VERONICA M. PANKEY
BRIAN P. COUGHLIN

CHRISTOPHER DIFUSCO
Chief Investment Officer

Sixteenth Floor
Two Penn Center Plaza
Philadelphia, PA 19102-1712
(215) 685-3463
FAX (215) 496-7460

October 17, 2019

By regular mail and email: ann.petrone@xerox.com, maria.cala@xerox.com

Mr. Douglas H. Marshall
Corporate Secretary
Xerox Corporation
201 Merritt 7
Norwalk, CT 06851-1056

Re: The City of Philadelphia Public Employees Retirement System

Dear Mr. Marshall:

In my capacity as the Chief Investment Officer of The City of Philadelphia Public Employees Retirement System (the "Fund"), I write to give notice that pursuant to the 2019 proxy statement of Xerox Corporation (the "Company"), the Fund intends to present the attached proposal (the "Proposal") at the 2020 annual meeting of shareholders (the "Annual Meeting"). The Fund requests that the Company include the Proposal in the Company's proxy statement for the Annual Meeting.

A letter from the Fund's custodian documenting the Fund's continuous ownership of the requisite amount of the Company's stock for at least one year prior to the date of this letter is being sent under separate cover. The Fund also intends to continue its ownership of at least the minimum number of shares required by the SEC regulations through the date of the Annual Meeting.

I represent that the Fund or its agent intends to appear in person or by proxy at the Annual Meeting to present the attached Proposal. I declare the Fund has no "material interest" other than that believed to be shared by stockholders of the Company generally.

Sincerely,


Christopher DiFusco
Chief Investment Officer

RESOLVED, that shareholders of Xerox Corporation (“Xerox”) urge the Board of Directors (the “Board”) to adopt a policy that when Xerox adjusts or modifies any generally accepted accounting principles (“GAAP”) financial performance metric for determining senior executive compensation, the Compensation Committee’s Compensation Discussion and Analysis shall include a specific explanation of the Compensation Committee’s rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP.

SUPPORTING STATEMENT:

Xerox selects several metrics to assess senior executive performance for purposes of determining incentive compensation. However, Xerox adjusts the calculation of some incentive metrics for reasons that are not specified.

For example, on page 56 of the 2019 proxy statement (“proxy”), Xerox offers the following explanation for adjustments to the Pre-Tax Income metric that informs the short-term incentive plan: “...adjusted to reflect the approved adjustment categories: addition of equity income, and excluding the impact of restructuring costs, amortization of intangibles, transaction and related costs, net, non-service retirement-related costs, and other items outside the ordinary course of business.”

We find this explanation unsatisfactory. The GAAP calculation for Pre-Tax Income yielded a result of \$598 million. However, the Adjusted Pre-Tax Income yielded a result of \$1,193 million, a 99.5% increase for executive pay purposes.

We believe that Xerox’s explanation on page 52 of the proxy for the adjustments is overly vague. Xerox states: “Management believes the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.”

Many investors believe that companies should do a better job disclosing the purpose of using adjusted-GAAP metrics for executive compensation. For example, the Council of Institutional Investors has petitioned the SEC to address this lack of transparency. The petition seeks “...a requirement for clear explanations and GAAP reconciliations that would permit a shareholder to understand the company’s approach and factor that into its say-on-pay vote and/or buy/sell decision” (<https://www.sec.gov/rules/petitions/2019/petn4-745.pdf>).

For these reasons, we urge a vote FOR this resolution.

J.P.Morgan

Neil Kleinberg
Client Service
Securities Services

10/17/19

By regular mail and email: ann.petrone@xerox.com, maria.gala@xerox.com

Mr. Douglas H. Marshall
Corporate Secretary
Xerox Corporation
201 Merritt 7
Norwalk, CT 06851-1056

Re: The City of Philadelphia Public Employees Retirement System.

Dear Mr. Marshall:

As custodian of The City of Philadelphia Public Employees Retirement System (the "Fund"), we are writing to report that as of the close of business on 10/17/19 the Fund held shares of Xerox Corporation ("Company") stock in our account at Depository Trust Company and registered in its nominee name of Cede & Co. The Fund has held in excess of \$2,000 worth of shares in your Company continuously since 10/17/18.

If there are any other questions or concerns regarding this matter, please feel free to contact me at 212-623-8787.

Sincerely,



Neil Kleinberg



BOARD OF PENSIONS AND RETIREMENT
PHILADELPHIA PUBLIC EMPLOYEES
RETIREMENT SYSTEM

BOARD MEMBERS:
ROB DUBOW, Chairperson
REBECCA RHYNHART
MARCEL PRATT, Esq.
BRIAN ABERNATHY
MICHAEL ZACCAGNI
RONALD STAGLIANO, Vice Chair
CAROL G. STUKES-BAYLOR
VERONICA M. PANKEY
BRIAN P. COUGHLIN

CHRISTOPHER DIFUSCO
Chief Investment Officer

Sixteenth Floor
Two Penn Center Plaza
Philadelphia, PA 19102-1712
(215) 685-3463
FAX (215) 496-7460

October 17, 2019

By regular mail and email: ann.petrone@xerox.com, maria.cala@xerox.com

Mr. Douglas H. Marshall
Corporate Secretary
Xerox Corporation
201 Merritt 7
Norwalk, CT 06851-1056

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A letter from the Fund's custodian documenting the Fund's continuous ownership of the requisite amount of the Company's stock for at least one year prior to the date of this letter is being sent under separate cover. The Fund also intends to continue its ownership of at least the minimum number of shares required by the SEC regulations through the date of the Annual Meeting.

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Sincerely,

Christopher DiFusco
Chief Investment Officer

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For these reasons, we urge a vote FOR this resolution.

Neil Kleinberg
Client Service
Securities Services

10/17/19

By regular mail and email: ann.pettrone@xerox.com, maria.cala@xerox.com

Mr. Douglas H. Marshall
Corporate Secretary
Xerox Corporation
201 Merritt 7
Norwalk, CT 06851-1056

Re: The City of Philadelphia Public Employees Retirement System.

Dear Mr. Marshall:

As custodian of The City of Philadelphia Public Employees Retirement System (the "Fund"), we are writing to report that as of the close of business on 10/17/19 the Fund held shares of Xerox Corporation ("Company") stock in our account at Depository Trust Company and registered in its nominee name of Cede & Co. The Fund has held in excess of \$2,000 worth of shares in your Company continuously since 10/17/18.

If there are any other questions or concerns regarding this matter, please feel free to contact me at 212-623-8787.

Sincerely,



Neil Kleinberg



BOARD OF PENSIONS & RETIREMENT
 CITY OF PHILADELPHIA
 SIXTEENTH FLOOR
 TWO PENN CENTER PLAZA
 PHILADELPHIA, PA 19102-1721

FIRST-CLASS

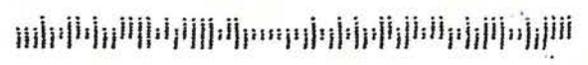


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Mr. Douglas H. Marshall
 Corporate Secretary
 Xerox Corporation
 201 Merritt 7
 Norwalk, CT 06851-1050

068511050 0007



Marshall, Douglas H

From: Marshall, Douglas H
Sent: Friday, January 17, 2020 2:37 PM
To: kristyn.bair@phila.gov
Subject: Shareholder Proposal Submitted to Xerox

Dear Kristyn – I received your voicemail message and thanks for getting back to me.

I'll get in touch again next week to determine who is the lead spokesperson for this co-filed proposal and then we can set up a call to discuss the proposal.

Best regards,

Doug Marshall

Douglas H. Marshall
Corporate Secretary and Associate General Counsel
Xerox Holdings Corporation
Xerox Corporation
201 Merritt 7
Norwalk, Connecticut 06851 USA
Tel: 203.849.2339
* Connecticut Authorized House Counsel

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Marshall, Douglas H

From: Kristyn Bair <Kristyn.Bair@Phila.gov>
Sent: Friday, January 17, 2020 2:49 PM
To: Marshall, Douglas H
Cc: Maureen O'Brien (obrien@marcoconsulting.com); James Cousounis
Subject: RE: Shareholder Proposal Submitted to Xerox

Hi Doug,

Thank you for the email, I have copied Maureen O'Brien with Segal Marco, our Proxy consultant, on this email. She may be able to assist with a contact person.

Looking forward to speaking with you.

Kristyn Bair
Investment Officer II
City of Philadelphia Board of Pensions and Retirement
Two Penn Center Plaza, 17th Floor
1500 John F. Kennedy Blvd.
Philadelphia, PA 19102
(p) 215-685-3477 | Kristyn.Bair@phila.gov

From: Marshall, Douglas H <Douglas.Marshall@xerox.com>
Sent: Friday, January 17, 2020 2:37 PM
To: Kristyn Bair <Kristyn.Bair@Phila.gov>
Subject: Shareholder Proposal Submitted to Xerox

External Email Notice. This email comes from outside of City government. Do not click on links or open attachments unless you recognize the sender.

Dear Kristyn – I received your voicemail message and thanks for getting back to me.

I'll get in touch again next week to determine who is the lead spokesperson for this co-filed proposal and then we can set up a call to discuss the proposal.

Best regards,

Doug Marshall

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Norwalk, Connecticut 06851 USA
Tel: 203.849.2339
* Connecticut Authorized House Counsel

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**TRUST FOR THE
INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS'
PENSION BENEFIT FUND**

900 Seventh Street, NW • Washington, DC 20001 • 202.833.7000

Lonnie R. Stephenson
Trustee

November 26, 2019

Kenneth W. Cooper
Trustee

OVERNIGHT MAIL

Mr. Douglas H. Marshall
Corporate Secretary
Xerox Corporation
201 Merritt 7
Norwalk, CT 06851-1056

Dear Mr. Marshall:

On behalf of the Board of Trustees of the International Brotherhood of Electrical Workers Pension Benefit Fund (IBEW PBF) ("Fund"), I hereby submit the enclosed shareholder proposal for inclusion in Xerox Corporation's ("Company") proxy statement to be circulated to shareholders in conjunction with the next Annual Meeting of Shareholders in 2020. Please note that additional institutional investors may co-file.

The proposal is submitted under Rule 14(a)-8 (Proposals of Security Holders) of the U.S. Securities and Exchange Commission's Proxy Guidelines.

The Fund is a beneficial holder of Xerox Corporation's common stock valued at more than \$2,000 and has continuously held the requisite number of shares, as required under Rule 14a-8(a)(1), for more than a year. The Fund intends to hold the shares through the date of the company's 2020 Annual Meeting of Shareholders. The record holder of the stock will provide the appropriate verification of the Fund's beneficial ownership by separate letter.

Should you decide to adopt the provisions of the proposal as corporate policy, I will ask that the proposal be withdrawn from consideration at the annual meeting.

A designated representative will present the proposal for consideration at the Annual Meeting of the Shareholders.

Sincerely yours,

Kenneth W. Cooper
Trustee

KWC:jll
Enclosure: shareholder proposal

RESOLVED, that shareholders of Xerox Corporation (“Xerox”) urge the Board of Directors (the “Board”) to adopt a policy that when Xerox adjusts or modifies any generally accepted accounting principles (“GAAP”) financial performance metric for determining senior executive compensation, the Compensation Committee’s Compensation Discussion and Analysis shall include a specific explanation of the Compensation Committee’s rationale for each adjustment and a reconciliation of the adjusted metrics to GAAP.

SUPPORTING STATEMENT:

Xerox selects several metrics to assess senior executive performance for purposes of determining incentive compensation. However, Xerox adjusts the calculation of some incentive metrics for reasons that are not specified.

For example, on page 56 of the 2019 proxy statement (“proxy”), Xerox offers the following explanation for adjustments to the Pre-Tax Income metric that informs the short-term incentive plan: “...adjusted to reflect the approved adjustment categories: addition of equity income, and excluding the impact of restructuring costs, amortization of intangibles, transaction and related costs, net, non-service retirement-related costs, and other items outside the ordinary course of business.”

We find this explanation unsatisfactory. The GAAP calculation for Pre-Tax Income yielded a result of \$598 million. However, the Adjusted Pre-Tax Income yielded a result of \$1,193 million, a 99.5% increase for executive pay purposes.

We believe that Xerox’s explanation on page 52 of the proxy for the adjustments is overly vague. Xerox states: “Management believes the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.”

Many investors believe that companies should do a better job disclosing the purpose of using adjusted-GAAP metrics for executive compensation. For example, the Council of Institutional Investors has petitioned the SEC to address this lack of transparency. The petition seeks “...a requirement for clear explanations and GAAP reconciliations that would permit a shareholder to understand the company’s approach and factor that into its say-on-pay vote and/or buy/sell decision” (<https://www.sec.gov/rules/petitions/2019/petn4-745.pdf>).

For these reasons, we urge a vote FOR this resolution.



**INTERNATIONAL
BROTHERHOOD
OF ELECTRICAL
WORKERS®**

900 Seventh Street, NW
Washington, DC 20001



Mr. Douglas H. Marshall
Corporate Secretary
Xerox Corporation
201 Merritt 7
Norwalk, CT 06851-1056

EXHIBIT B-1

2019 Proxy Statement Disclosure

[See attached.]

Table of Contents**EXECUTIVE SUMMARY****Delivering on 2018 Commitments**

On May 15, 2018, Mr. Visentin was appointed Vice Chairman and Chief Executive Officer. Mr. Visentin, in collaboration with the executive team, established four strategic initiatives to position Xerox for success and to transform Xerox into a technology powerhouse. Our success will be driven by the following priorities:

Optimize Operations for Simplicity	<ul style="list-style-type: none"> • Simplify operating model for greater accountability and efficiency • Optimize supply chain and heighten supplier competitiveness • Make it easier for customers and partners to do business with Xerox
Drive Revenue	<ul style="list-style-type: none"> • Service customers via channels that most effectively meet their needs • Enhance capabilities to sell higher-value services and integrated solutions • Expand software and services offerings
Re-energize Innovation	<ul style="list-style-type: none"> • Capitalize on growing industry trends in Artificial Intelligence, Analytics and IoT (Internet of Things) • Leverage existing expertise to develop differentiated technology • Revamp innovation business model to focus on monetization
Focus on Cash Flow and Increasing Capital Returns	<ul style="list-style-type: none"> • Maximize cash flow generation • Return at least 50% of free cash flow⁽¹⁾ to shareholders • Focus on Return on Investment (ROI) and Internal Rate of Return (IRR) to make capital allocation decisions

The focus this year has been on creating a simpler, more agile and effective organization by enhancing Xerox's focus on customers and partners and instilling a culture of continuous improvement, leading to improved financial results. One aspect of our strategic initiatives is to drive end-to-end transformation of our systems and processes to create greater focus, speed, accountability and effectiveness. This will enable Xerox to be more competitive and ultimately invest in growth and maximize shareholder returns.

In 2018, we made significant progress as a result of Project Own It, an enterprise-wide initiative launched in mid-2018, to simplify and streamline our operations and instill a culture of continuous improvement while driving sustainable, lower costs. We exceeded our Annual Performance Incentive Program (APIP) Free Cash Flow (1) metric but did not meet our Revenue Growth at constant currency (1) or Adjusted (1) Pre-Tax Income

(1) The above non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results, in the Company's 2018 Annual Report on Form 10-K, prepared in accordance with Generally Accepted Accounting Principles (GAAP). Free cash flow is GAAP net cash provided by operating activities, less capital expenditures (inclusive of internal use software). Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. Revenue growth at constant currency is GAAP revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Adjusted Pre-Tax Income is GAAP pre-tax income adjusted to exclude certain items pre-approved by the Compensation Committee. Management believes the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.

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SUMMARY OF 2018 COMPENSATION ACTIONS

The primary elements of our executive compensation program for the named executive officers are:

- base salary
- short-term incentives
- long-term incentives
- pension and savings plans
- perquisites
- change in control benefits

The Compensation Committee made several decisions regarding the compensation of named executive officers in 2018, as summarized below.

Base Salaries

The salaries for Mr. Visentin and Mr. Bandrowczak were determined as part of their new hire negotiations and reflect peer group compensation data and the level of complexity of their roles. See *Named Executive Officers with Unique Compensation Arrangements* for further information. During 2018, the salaries for Messrs. Jacobson, Osbourn, Feldman and Tessler did not change from 2017 levels.

For further information on base salaries, see *2018 Compensation for the Named Executive Officers — Base Salary*.

Short-Term Incentives

The 2018 performance measures and weightings for our Annual Performance Incentive Program (APIP) were: Revenue Growth at constant currency (33.3%), Adjusted Pre-Tax Income (33.3%) and Free Cash Flow (33.3%). Free Cash Flow replaced Operating Cash Flow from Continuing Operations. This change was made to better reflect the broader impact of a Free Cash Flow metric.

The target award opportunities for Mr. Visentin and Mr. Bandrowczak under the APIP were approved as part of their new hire negotiations and reflect peer group compensation data and the level of complexity of their roles. See *Named Executive Officers with Unique Compensation Arrangements* for further information. The 2018 target award opportunities remained the same as in 2017 for Messrs. Jacobson, Osbourn, Feldman and Tessler.

For 2018, results were achieved below threshold for the Revenue Growth at constant currency and Adjusted Pre-Tax Income measures, and above maximum for the Free Cash Flow measure. Based on these results, the Compensation Committee approved the short-term incentive calculated payout factor of 66.7% of target. A summary of performance results relative to predetermined performance levels is shown below:

Metric	Actual 2018 Performance Results
Revenue Growth at constant currency (1)	Below Threshold
Adjusted Pre-Tax Income (2)	Below Threshold
Free Cash Flow (3)	Above Maximum

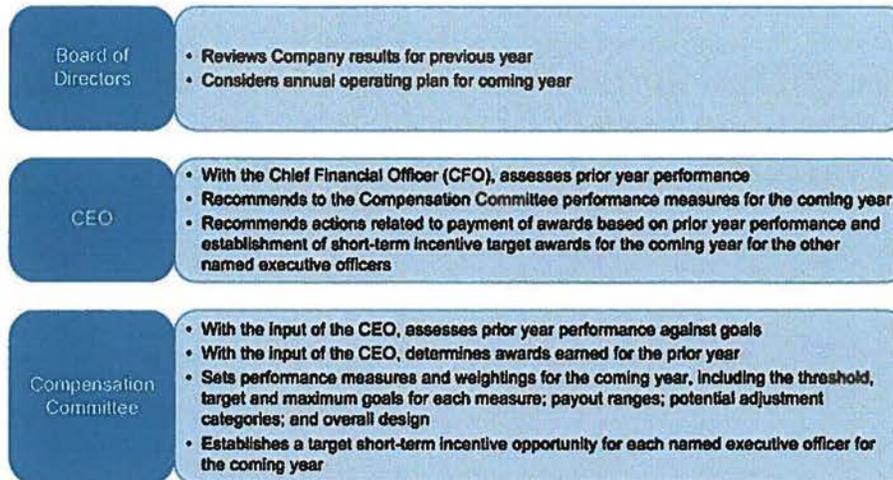
(1) Generally Accepted Accounting Principles (GAAP) revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars.

(2) GAAP Pre-Tax Income, as reported in the Company's 2018 Annual Report on Form 10-K, adjusted to reflect the approved adjustment categories: addition of equity income, and excluding the impact of restructuring costs, amortization of intangibles, transaction and related costs, net, non-service retirement-related costs, and other items outside the ordinary course of business.

(3) GAAP Net Cash provided by Operating Activities less capital expenditures (inclusive of internal use software).

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The following chart shows our process for setting short-term incentive awards. This process typically takes place in the first quarter of the year.



Short-term incentives, if earned based on the previous fiscal year's performance, generally have been paid in the April time frame.

Short-Term Incentive Target Award Opportunity for the Individual Named Executive Officers

The short-term incentive target award opportunity for each named executive officer takes into account many factors, including scope of responsibility and comparable targets for named executive officers in the peer group. If an executive's responsibilities change after February, when the terms of the short-term incentive awards are generally approved, the Compensation Committee may adjust the short-term incentive target award opportunity for that executive. The target award opportunities for Mr. Visentin and Mr. Bandrowczak were approved as part of their new hire negotiations and reflect peer group compensation data and the level of complexity of their roles. No changes were made to target award opportunities for the other named executive officers from their 2017 levels.

Determining Short-Term Incentive Award Payouts

After the end of each fiscal year, the CFO confirms the financial results and communicates the results to the Compensation Committee. Subject to the Committee's review and approval, any material unusual or infrequent charges or gains/(losses) may be excluded from the APIP short-term incentive calculations in order to obtain normalized operational results of the business.

Each performance measure is assessed and calculated independently. The weighted results of each measure are added together to determine overall performance results. Even if pre-established performance measures are achieved, the Compensation Committee retains the discretion to grant a lower or higher short-term incentive than the calculated incentive payout or no short-term incentive at all, as it deems appropriate, based on overall Xerox performance. The Committee also may use its discretion to increase or decrease an APIP award based on individual performance provided that an individual executive's award never exceeds two times the executive's target award opportunity.

Under extraordinary circumstances, if the Compensation Committee believes an additional incentive is appropriate to reward and motivate executives, it has authority to pay discretionary cash awards outside of the APIP that are separate and independent of any calculated APIP incentive payout.

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2018 Short-Term Incentive Award Performance Measures and Payouts

The performance measures set by the Compensation Committee for 2018 were Revenue Growth at constant currency, Adjusted Pre-Tax Income and Free Cash Flow. The payout for achieving target performance goals is 100% of target and the payout for achieving maximum performance goals is 200% of target, with payout at 200% representing attainment of outstanding performance results. The payout for achieving threshold performance goals is 50% of target. There is no payout for results below the threshold levels established by the Compensation Committee. Payouts are made proportionately for achievement at levels between threshold and maximum goals.

The weightings, target and maximum goals, payout ranges and performance results against the established performance measures follow:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)	Actual 2018 Performance Results
Revenue Growth at constant currency (1)	33.3%	(2.80)%	(0.80)%	(4.90)%
Adjusted Pre-Tax Income (2)	33.3%	\$1,240 million	\$1,340 million	\$1,193 million
Free Cash Flow (3)	33.3%	\$850 million	\$1,000 million	\$1,050 million

- (1) Generally Accepted Accounting Principles (GAAP) revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. GAAP revenue decreased 4.2%, excluding the impact of currency fluctuation (0.7% favorable), revenue decreased 4.9% at constant currency.
- (2) GAAP Pre-Tax Income of \$598 million, as reported in the Company's 2018 Annual Report on Form 10-K, adjusted to reflect the approved adjustment categories: addition of equity income (\$33 million), and excluding the impact of restructuring costs (\$253 million) of which \$95 million related to Fuji Xerox, amortization of intangibles (\$48 million), transaction and related costs, net (\$68 million), non-service retirement-related costs (\$150 million), and other items outside the ordinary course of business (\$43 million).
- (3) GAAP net cash provided by operating activities of \$1,140 million, less capital expenditures (inclusive of internal use software) of \$90 million.

The short-term plan contains specific metrics, but also permits the Compensation Committee some limited discretion as described above under *Determining Short-Term Incentive Award Payouts*.

Although we consider historical performance when setting future performance goals, these goals were aligned with our 2018 operating plan at the time they were established and designed to be challenging, yet achievable.

Performance results with respect to the APIP goals established by the Compensation Committee for Revenue Growth at constant currency and Adjusted Pre-Tax Income were below threshold and for Free Cash Flow, was above maximum. The Compensation Committee approved the calculated payout factor of 66.7% of target, reflecting performance results for all three measures, determined in accordance with the process and applicable goals and weightings described above. After reviewing overall Company, business unit and individual results, the Compensation Committee approved named executive officer payouts. The CEO received a payout of 100% of target at the discretion of the Compensation Committee. The Compensation Committee determined Mr. Visentin's award based on the progress made on our four strategic initiatives: to optimize our operations for greater simplicity, drive revenue, re-energize our innovation engine and focus on cash flow to drive increasing shareholder returns. Over the last two quarters, under Mr. Visentin's strong leadership and direction, Xerox focused on creating a simpler more agile and effective organization to enhance our focus on our customers and our partners, instill a culture of continuous improvement and improve our financial results. See *Named Executive Officers with Unique Compensation Arrangements* for further information on Mr. Visentin's 2018 short-term incentive award. The other named executive officers received payouts within a

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The 2018 E-LTIP target award opportunities for Mr. Visentin and Mr. Bandrowczak were approved as part of their new hire negotiation. The target 2018 E-LTIP award opportunities for Messrs. Jacobson, Osbourn, Feldman and Tessler remained the same as in 2017.

The target numbers of PSUs, RSUs and stock options granted to our named executive officers were determined by dividing the approved E-LTIP target awards (dollar value) by the fair value of Xerox Common Stock on the respective grant dates (or last trading day prior to the grant date if the market was closed on the grant date). The fair value used to determine the number of RSUs granted was the closing price of Xerox Common Stock on the date of grant. The fair value used to determine the number of stock options granted was based on a modified Black-Scholes model. The fair value used to determine the number of PSUs granted was determined as follows: two-thirds based on the closing price of Xerox Common Stock on the grant date (for the revenue and free cash flow ⁽¹⁾ measures) and one-third based on a Monte Carlo valuation (for the rTSR measure).

See *Named Executive Officers with Unique Compensation Arrangements* for additional information on certain stock awards.

(1) Free cash flow is GAAP net cash provided by operating activities, less capital expenditures (inclusive of internal use software).

Metrics for the 2018 Performance Cycle (2018 E-LTIP)

The 2018 E-LTIP performance measures, weightings, target to maximum goals and payout ranges set by the Compensation Committee for the portion of the award granted as PSUs are as follows: Revenue Growth at constant currency (33.3%) measured based on a compound annual growth rate (CAGR), Free Cash Flow (33.3%) and relative Total Shareholder Return (rTSR) (33.3%). CAGR Revenue Growth at constant currency and Free Cash Flow are both based on fiscal year performance from January through December 2018, and rTSR is measured by stock appreciation plus reinvested dividends paid from April 3, 2018 through April 2, 2019, relative to that of the Xerox peer group companies.

The performance measures, weightings and goals for 2018 were as follows:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)
CAGR Revenue growth at constant currency (1)	33.3%	(2.80)%	(0.80)%
Free Cash Flow (2)	33.3%	\$850 million	\$1,000 million
Relative Total Shareholder Return (3)	33.3%	50 th percentile	80 th percentile

(1) Generally Accepted Accounting Principles (GAAP) revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars and based on a compound annual growth rate.

(2) GAAP net cash provided by operating activities, less capital expenditures (inclusive of internal use software).

(3) Measured by Xerox stock price appreciation plus reinvested dividends compared to the Xerox peer group companies approved by the Compensation Committee.

rTSR was adopted as a performance measure in 2018, replacing Earnings Per Share, to more directly align payouts with shareholder gains/(losses). Free Cash Flow was adopted in 2018, replacing Adjusted Operating Cash Flow. This measure provides shareholders and investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchases. Performance goals were aligned with our 2018 financial model at the time the goals were established and are disclosed solely in the context of our 2018 E-LTIP performance cycle. Target performance goals are reasonably achievable with a level of performance that is in line with the Company's Board-approved operating plan, whereas maximum performance levels represent stretch goals which can only be achieved with outstanding performance. These goals should not be used or relied upon as estimates of results or applied to other contexts.

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To ensure that the value delivered based on rTSR is aligned with performance:

- If Xerox rTSR performance is negative, even if it is at or above the maximum performance level, no more than target will be paid for this performance measure.
- There is a cap on the overall payout where the maximum rTSR payout will not be more than four times (considering the number of shares issued and stock price) the original value at grant, in all cases subject to a maximum payout of 200% of target per the terms of the PSU awards. For example, if maximum performance (equal to 200% of target) is achieved and the stock price doubles, payout would be reduced to cap the payout at no more than four times the original grant value (solely for the rTSR portion of the award).

Under the 2018 E-LTIP, actual Company results for the performance measures will be adjusted for the impacts of certain pre-established items, subject to thresholds, such as: acquisitions, separations or divestitures, effects of changes in accounting principles, certain items identified in other expenses, net, gains/(losses) from the settlement of tax audits or changes in tax laws, gains/(losses) from war, terrorism or natural disasters, cash payments for restructuring, pension contributions, changes in receivables factoring programs, and other types of unusual or infrequent items. Revenue Growth is adjusted to exclude the impact of changes in the translation of foreign currencies into USD.

Because we believe Revenue Growth at constant currency and Free Cash Flow to be two of the fundamental financial metrics that drive shareholder value, we used those financial metrics for both our short- and long-term incentive programs.

- Performance measures for our short-term incentive awards, as previously described, are set on an annual basis and are paid in cash following the end of the annual performance period, based on achievement of annual performance goals.
- Performance measures for our long-term incentive awards are typically set at the beginning of the first year. Earned long-term incentive performance based awards vest and pay out three years from the date of grant. The actual value realized by our named executive officers with respect to these awards is based on achievement of performance goals and stock price at the time of vesting.

Additional information on the 2018 E-LTIP awards can be found in the *Summary Compensation Table* and the *Grants of Plan-Based Awards* table.

Performance and Payouts under Prior E-LTIP Awards

2015 PSUs

The 2015 E-LTIP was based on two-year cumulative performance from 2015 through 2016 and 2017 performance at target. 2017 performance was deemed to be achieved at target as a result of the Separation because the 2017 goals were no longer applicable since they had applied to the combined company prior to the Separation. Performance results against the pre-established performance measures and definitions for this award follows. For additional information on the performance measures and definitions, see Exhibit 10(e)(21) of the Annual Report on Form 10-K for the 2014 fiscal year filed on February 24, 2015.

Performance Measure	Weighting	Two-Year Cumulative Performance	Performance Shares Earned
PSUs Earned Based on 2015 and 2016 Performance:			
Revenue Growth at constant currency (1)	30%	(7.4)% — below threshold	0%
Adjusted Earnings Per Share (EPS) (2)	50%	\$1.68 — below threshold	0%
Adjusted Operating Cash Flow (3)	20%	\$3.093 billion — below threshold	0%
Total PSUs earned as a percentage of shares granted for 2015 and 2016			0%
Total PSUs earned for 2017 (PSUs earned at target) (4)			33.34%

EXHIBIT B-2

2018 and 2017 Proxy Statement Disclosure

[See attached.]

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Short-term incentives, if earned based on the previous fiscal year's performance, are generally paid in early April.

Short-Term Incentive Target Award Opportunity for the Individual Named Executive Officers

The short-term incentive target award opportunity for each named executive officer takes into account many factors, including scope of responsibility and comparable targets for named executive officers in the peer group. If an executive's responsibilities change after February, when the terms of the short-term incentive awards are generally approved, the Compensation Committee may adjust the short-term incentive target award opportunity for that executive, but the award will not exceed the executive's established allocation under the Short-Term Incentive Pool.

The Compensation Committee approved an increase to the target award opportunity for Mr. Feldman and Mr. Warren from 75% to 100% of base salary, effective January 1, 2017, reflecting their new leadership roles and in line with peer group data.

Short-Term Incentive Performance Measures

The performance measures for 2017 were adjusted pre-tax income, constant currency revenue growth, operating cash flow from continuing operations and a strategic transformation measure based on cost savings initiatives. Because we believe constant currency revenue growth and operating cash flow from continuing operations to be two of the fundamental financial metrics that drive shareholder value, we used those financial metrics for both our short- and long-term incentive programs.

- Performance measures for our short-term incentive awards are set on an annual basis and are paid in cash following the end of the annual performance period, based on achievement of annual performance goals.
- Performance measures for our long-term incentive awards are set at the beginning of the first year and are based on compound annual growth rates or three-year cumulative performance goals. Earned long-term incentive performance based awards vest and pay out three years from the date of grant. The actual value realized by our named executive officers with respect to these awards is based on achievement of performance goals and stock price at the time of vesting.

Adjusted pre-tax income was based on pre-tax income from continuing operations plus equity income, excluding the impacts of amortization of intangibles, non-service related defined benefit pension and retiree health costs, and restructuring costs. The strategic transformation cost savings measure was based on gross savings from 2015 baseline costs. The short-term plan contains specific metrics, but also permits the Compensation Committee some limited discretion as described below under *Determining Short-Term Incentive Award Payouts*.

The measures, weightings, goals and target and maximum payout ranges set by the Compensation Committee for 2017 were as follows:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)
Revenue growth at constant currency (1)	20%	(5.0)%	(3.5)%
Adjusted pre-tax income	30%	\$1,166 million	\$1,226 million
Operating cash flow from continuing operations (2)	25%	\$800 million	\$950 million
Strategic transformation (cost savings)	25%	\$600 million	\$675 million

(1) Revenue growth at constant currency is Generally Accepted Accounting Principles (GAAP) revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars.

(2) GAAP Operating Cash Flow from continuing operations adjusted to reflect the approved adjustment categories.

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There is no payout for results below threshold levels established by the Compensation Committee. Payouts are made proportionately for achievement at levels between threshold and maximum goals.

Although we consider historical performance when setting future performance goals, these goals were aligned with our 2017 operating plan at the time they were established and designed to be challenging, yet achievable.

Determining Short-Term Incentive Award Payouts

After the end of each fiscal year, the CFO confirms the financial results and communicates the results to the Compensation Committee. Subject to the Committee's review and approval, any material unusual or infrequent charges or gains may be excluded from the APIP short-term incentive calculations in order to obtain normalized operational results of the business, but in no event will an award exceed the executive's allocation under the Short-Term Incentive Pool.

Each performance measure is assessed and calculated independently. The weighted results of each measure are added together to determine overall performance results. Even if pre-established performance measures are achieved, the Compensation Committee retains the discretion to grant a lower short-term incentive than the calculated incentive payout or no short-term incentive at all, as it deems appropriate. The Committee also may use its discretion to increase or decrease an APIP award based on individual performance provided that an individual award never exceeds the executive's allocation of the Short-Term Incentive Pool.

Under extraordinary circumstances, if the Compensation Committee believes an additional incentive is appropriate to reward and motivate executives, it has authority to pay discretionary cash awards outside of the APIP and the Short-Term Incentive Pool that are separate and independent of any calculated APIP incentive payout, but this has not been its practice.

2017 Performance for Short-Term Incentive Award Payouts

Performance results for 2017 against the established performance measures were:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)	Actual 2017 Performance Results
Revenue growth at constant currency (1)	20%	(5.0)%	(3.5)%	(4.8)%
Adjusted pre-tax income	30%	\$1,166 million	\$1,226 million	\$1,175 million
Operating cash flow from continuing operations (2)	25%	\$800 million	\$950 million	\$952 million
Strategic transformation (cost savings)	25%	\$600 million	\$675 million	\$680 million

(1) Revenue growth at constant currency is GAAP revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars.

(2) GAAP Operating Cash Flow from continuing operations adjusted to reflect the approved adjustment categories.

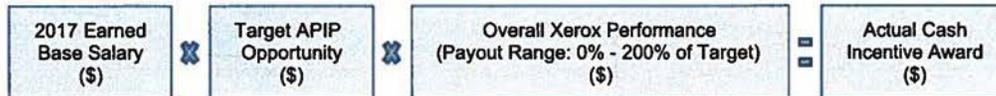
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In 2017, all financial measures were based on total company results. Adjusted pre-tax income, as reflected in the table below, was based on pre-tax income from continuing operations of \$570 million plus equity income of \$115 million and excluding the impacts of amortization of intangibles (\$53 million), non-service related defined benefit pension and retiree health costs (\$198 million), restructuring costs (\$230 million) of which \$10 million relates to Fuji Xerox, and other items outside the ordinary course of business (\$29 million). The 2017 performance measures were also adjusted for the following items:

	Revenue Growth at CC	Adjusted Pre-tax Income	Operating Cash Flow from Continuing Operations	Strategic Transformation
Adjusted (1),(2)/Reported (3)	(4.7)%	\$1,195 million	\$122 million	\$680 million
Adjustments				
Sales of licenses	(0.1)%	\$(20) million	\$(20) million	-
Incremental, voluntary U.S. pension contribution	-	-	\$500 million	-
Termination of certain A/R sales programs	-	-	\$350 million	-
Performance Results	(4.8)%	\$1,175 million	\$952 million	\$680 million

- (1) Revenue growth at constant currency (CC) is GAAP revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars.
- (2) Adjusted pre-tax income is GAAP pre-tax income from continuing operations adjusted for items discussed in the preceding paragraph.
- (3) Operating Cash Flow from continuing operations and Strategic Transformation, reflect actual GAAP results as disclosed in our Consolidated Financial Statements per our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Performance results with respect to the goals established by the Compensation Committee for adjusted pre-tax income and constant currency revenue growth were above target and for operating cash flow from continuing operations and strategic transformation, were above maximum. Management recommended to the Compensation Committee the calculated payout factor that reflected performance results for all four measures. These payouts were determined in accordance with the process and applicable goals and weightings described above, balancing business unit results with overall Company results. After reviewing overall Company results, the Compensation Committee agreed with management's recommendation and used its negative discretion to reduce the short-term incentive awards to a payout factor of 129% of target, below the payout level calculated by the award formula. The CEO received a payout of 129% of target and the other named executive officers received payouts within a range of 126% to 133% of target based on business unit results and individual performance. For more information on short-term incentive payouts, see the *Total Compensation* section on page 39.



The Compensation Committee believes that the fiscal 2017 short-term incentive payments are consistent with our strategy of compensating named executive officers for achieving important business goals. In view of the Company's 2017 results, the Compensation Committee believes that the annual short-term incentive payments resulted in reasonable and appropriate performance-related incentive payments to the named executive officers.

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Mr. Jacobson received a 116.7% increase to his 2017 E-LTIP target award opportunity to reflect the significant change in his responsibilities upon appointment as our CEO following the Separation. The Compensation Committee also approved increases in E-LTIP target award opportunities for Messrs. Feldman (233.3%), Tessler (33.3%) and Warren (212.5%) to reflect their new roles leading Xerox. The target number of performance shares and RSUs granted to our named executive officers was determined by dividing the previously approved E-LTIP target award opportunity (expressed as a dollar amount) by the closing price of Xerox Common Stock on the last trading day prior to the July 1, 2017 grant date. In addition, Mr. Osbourn received an RSU award on January 1, 2017 that was approved as part of his new hire package in 2016. The number of RSUs was determined by dividing the target award opportunity (expressed as a dollar amount) by the closing price of Xerox Common Stock on the last trading day prior to the January 1, 2017 grant date.

Metrics for the 2017 Performance Cycle (2017 E-LTIP granted on July 1, 2017)

The performance measures, weightings, target to maximum goals and payout ranges set by the Compensation Committee for the 2017 E-LTIP performance cycle are based on a combination of three-year compound annual growth rate (CAGR) and cumulative goals as follows:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)
CAGR Revenue Growth at constant currency (1)	20%	(3.0)%	(1.5)%
CAGR Adjusted Earnings Per Share	50%	2.2%	5.7%
Cumulative Adjusted Operating Cash Flow from Continuing Operations (in billions)	30%	\$2.20	\$2.40

(1) Revenue growth at constant currency is GAAP revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into USD.

The performance measures are the same as in prior years with increased emphasis in 2017 on operating cash flow. Performance goals were aligned with our 2017 financial model at the time the goals were established and are disclosed solely in the context of our 2017 E-LTIP performance cycle. Target performance goals are reasonably achievable with a level of performance that is in line with the Company's Board-approved operating plan, whereas maximum performance levels represent stretch goals which can only be achieved with outstanding performance. These goals should not be used or relied upon as estimates of results or applied to other contexts.

Under the 2017 E-LTIP, actual Company results for the performance measures will be adjusted for certain pre-established items, subject to thresholds, such as: amortization of acquisition-related intangibles; non-service related defined benefit pension and retiree health costs and discretionary pension funding, restructuring — including our share of Fuji Xerox restructuring, separation and related costs, non-cash asset write-offs, gains/losses from war, terrorism or natural disasters, share repurchases, gains/losses from settlement of tax audits or changes in tax laws, changes in receivables factoring programs, acquisitions and divestitures, changes in accounting principles, after-tax effects of certain adjustments incurred by Fuji Xerox, and other types of unusual or infrequent items. Revenue Growth is adjusted to exclude the impact of changes in the translation of foreign currencies into USD.

Additional information on the 2017 E-LTIP awards can be found in the *Summary Compensation Table* and the *Grants of Plan-Based Awards* table.

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Performance and Payouts under Prior E-LTIP Awards

2014 Performance Shares

The performance shares granted under the 2014 E-LTIP were based on three-year cumulative performance from 2014 through 2016. Performance results against the pre-established performance measures and definitions for these awards follow. For additional information on the performance measures and definitions, please see Exhibit 10(e)(25) of the 10-K for the 2013 fiscal year filed on February 21, 2014.

Performance Measure	Weighting	Three-Year Cumulative Performance	Performance Shares Earned for Three-Year Cumulative Results
Adjusted EPS	50%	\$2.90 – below threshold	0%
Revenue Growth at constant currency (1)	30%	(9.4)% – below threshold	0%
Adjusted Operating Cash Flow	20%	\$5.362 billion – below target	12.91%
Total performance shares earned as a percentage of shares granted (2)			12.91%

- (1) Revenue growth at constant currency is GAAP revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars.
- (2) The actual payout for the 2014 E-LTIP as a percent of grant date value on 7/1/2014, was 9.81% due to actual performance results (actual performance = 12.91% of target), plus the difference in the fair market value per share on July 1, 2014 (\$37.80) and the July 1, 2017 closing price (\$28.73).

In February 2017, based on the above, the Compensation Committee determined a payout level for the 2014 performance shares of 12.91% of target. This award vested on July 1, 2017. See the *Outstanding Equity Awards* table for additional information on shares earned.

Payout for the 2014 E-LTIP as a percent of grant date value was 9.81% due to performance results of 12.91% of target and a lower share price.

SAY-ON-PAY VOTES AND SHAREHOLDER ENGAGEMENT

At our annual meeting of shareholders held in May 2017, 93.31% of the votes cast on our annual say-on-pay proposal were voted in favor of our named executive officer compensation as disclosed in our 2017 proxy statement. The Compensation Committee believes the favorable vote supports the Company's approach to executive compensation. At our May 2017 annual meeting, our shareholders also voted in favor of holding our say-on-pay vote on an annual basis, and, based on this expressed preference, the Compensation Committee determined to continue to hold an annual advisory say-on-pay vote.

As described under *Shareholder Outreach and Engagement*, we regularly meet with institutional investors, both individually and in group forums, to provide them with the opportunity to engage directly with Company representatives to address their questions and to provide feedback to us on topics of importance to them. The Board and management team carefully consider the feedback from our engagements (which historically has been favorable) when reviewing our business, corporate governance and executive compensation program.

As a result of our ongoing engagement and communication with shareholders, for 2017 and into 2018, we: continue to maintain short- and long-term performance measures that have some overlap but are not identical; maintain a heavier weighting on performance shares than other stock award vehicles; incorporated a share repurchase limit into the 2017 EPS performance measure and eliminated EPS as a measure in 2018; and added rTSR to our 2018 E-LTIP.

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Annual short-term incentives, if earned based on the previous fiscal year's performance, are generally paid in early April.

Short-Term Incentive Performance Measures

Because we believe adjusted EPS, operating cash flow and constant currency revenue growth are the three fundamental financial metrics that drive shareholder value, we use similar financial metrics for both our short- and long-term incentive programs.

- Performance measures for our short-term incentive awards are set on an annual basis and are paid in cash at the end of the annual performance period, based on achievement of annual performance goals.
- Performance measures for our long-term incentive awards are set at the beginning of the first year and are typically based on three-year cumulative performance goals. Long-term incentive awards vest and pay out three years from the date of grant. The actual value of these awards is based on achievement of performance goals and stock price at the time of vesting.

New for our 2016 short-term incentive awards was a measure related to the successful Separation of Xerox into two companies. The Separation measure was given significant weighting to emphasize the challenges, effort and focus required for a successful Separation. The short-term plan contains specific metrics, but also permits the Compensation Committee some limited discretion as described below.

The measures, weightings, goals and target and maximum payout ranges set by the Compensation Committee for 2016 were as follows:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)
adjusted EPS	20%	\$1.14	\$1.21
constant currency revenue growth (defined as revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars)	20%	(3)%	(1)%
operating cash flow	20%	\$1.3 billion	\$1.55 billion
Separation	40%	January 1, 2017	

The payout factor for the Separation performance measure was determined by the Compensation Committee, with input from the CEO, based on an assessment of the successful completion of the Separation by year-end.

There is no payout for results below threshold levels established by the Compensation Committee. Payouts are made proportionately for achievement at levels between the goals.

Although we consider historical performance when setting future performance goals, these goals were aligned with our 2016 operating plan at the time they were established and designed to be challenging yet achievable. The 2016 operating cash flow target was lower than the 2015 target and 2015 actual performance, driven by expected cash outflows as a result of our 2015 Health Enterprise settlements, higher restructuring costs related to our strategic transformation initiative and Separation-related costs.

Short-Term Incentive Target Award Opportunity for the Individual Named Executive Officers

The annual short-term incentive target award opportunity for each named executive officer takes into account many factors, including scope of responsibility and comparable targets for named executive officers in the peer group. If an executive's responsibilities change after February, when the terms of the short-term incentive awards are generally approved, the Compensation Committee may adjust the short-term incentive target award opportunity at that time but the award will not exceed the executive's allocation under the Short-Term Incentive Pool.

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The Compensation Committee approved an increase to Mr. Jacobson's 2016 target award opportunity from 100% to 150% of base salary, effective July 1, 2016, reflecting his appointment to succeed Ms. Burns as CEO of Xerox upon Separation and taking into consideration the challenges required to prepare for the successful Separation. The Compensation Committee also increased Ms. Varon's target award opportunity from 60% to 100% of base salary for 2016, to reflect her increased responsibility as Chief Financial Officer and internal and peer group compensation data. Mr. Vemuri's 2016 target award opportunity was approved at 150% of base salary pursuant to his letter agreement entered into in connection with his hiring. The 2016 target award opportunity remained at 200% of base salary for Ms. Burns and at 100% of base salary for Mr. Zapfel.

Determining Short-Term Incentive Award Payouts

After the end of each fiscal year, the CFO confirms the financial results and communicates the results to the Compensation Committee. Subject to the Committee's review and approval, any material unusual or infrequent charges or gains may be excluded from the APIP short-term incentive calculations in order to obtain normalized operational results of the business, but in no event will an award exceed the executive's allocation under the Short-Term Incentive Pool.

Each performance measure is assessed and calculated independently. The weighted results of each measure are added together to determine overall performance results. Even if pre-established performance measures are achieved, the Compensation Committee retains the discretion to grant a lower short-term incentive than the calculated incentive payout or no short-term incentive at all, as it deems appropriate. The Committee also may use its discretion to increase or decrease an APIP award based on individual performance so long as an individual award never exceeds the executive's allocation of the Short-Term Incentive Pool.

Under extraordinary circumstances, if the Compensation Committee believes an additional incentive is appropriate to reward and motivate executives, it has authority to pay discretionary cash awards outside of the APIP and the Short-Term Incentive Pool that are separate and independent of any calculated APIP incentive payout, but this has not been its practice.

2016 Performance for Short-Term Incentive Award Payouts

Performance results for 2016 against the established performance measures were:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)	Actual Results
adjusted EPS	20%	\$1.14	\$1.21	\$1.13 – 0.9% below target
constant currency revenue growth	20%	(3)%	(1)%	(4.0)% – 33% below target
operating cash flow	20%	\$1.3 billion	\$1.55 billion	\$1.293 billion – 0.5% below target
Separation	40%	January 1, 2017		Completed – at target

In 2016, all financial measures were based on total company results. Total company GAAP EPS of \$(0.49) was adjusted for amortization of intangible assets (\$0.21), Conduent goodwill impairment (\$0.81), restructuring (\$0.24), Separation and related items (\$0.24), non-service related pension costs (\$0.08) and other significant charges outside the normal course of business (\$0.04). Total company GAAP operating cash flow of \$1.095 billion was adjusted for Separation-related and strategic transformation costs of \$198 million. The Separation was successfully completed, as intended, by January 1, 2017.

Management recommended to the Compensation Committee the calculated payout factor that reflected performance results for all four measures. After reviewing the results, the Compensation Committee agreed with management's recommendation of a 93% payout factor, which was determined in accordance with the process

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Metrics for the 2016 Performance Cycle (2016 E-LTIP granted on July 1, 2016)

The measures, weightings, goals and target to maximum payout ranges set by the Compensation Committee for the 2016 E-LTIP performance cycle are as follows:

Performance Measure	Weighting	Target (100% payout)	Maximum (200% payout)
Adjusted EPS	50%	\$1.14	\$1.21
Revenue Growth	30%	(3)%	(1)%
Adjusted Operating Cash Flow	20%	\$1.30 billion	\$1.55 billion

These performance goals were aligned with our 2016 financial model at the time the goals were established and are disclosed solely in the context of our 2016 E-LTIP performance cycle. Target performance levels are challenging but achievable with a level of performance that is in line with the Company's Board-approved operating plan, whereas maximum performance levels represent stretch goals which can only be achieved with exceptional performance. These goals should not be used or relied upon as estimates of results or applied to other contexts.

Under the 2016 E-LTIP, actual Company results for the performance measures (Adjusted EPS, Revenue Growth and Adjusted Operating Cash Flow) are adjusted for certain pre-established items, subject to thresholds, such as: amortization of acquisition-related intangibles; non-cash asset write-offs; litigation; restructuring; non-service related defined benefit pension and retiree health costs and discretionary pension fundings; Separation costs; effects of changes in tax laws and accounting principles; acquisitions and divestitures; losses from war, terrorism or natural disaster; settlements of tax audits; and other types of unusual items. Revenue Growth is also adjusted for the impact of changes in the translation of foreign currencies into U.S. dollars.

Additional information on the 2016 E-LTIP awards can be found in the *Summary Compensation Table* and the *Grants of Plan-Based Awards* table.

Performance and Payouts under Prior E-LTIP Awards

The 2014 E-LTIP was based on three-year cumulative performance from 2014 through 2016 and will vest on July 1, 2017. Performance results against the established performance measures for 2014 E-LTIP awards are:

Performance Measure	Weighting	Three-Year Cumulative Performance	Performance Shares Earned for Three-Year Cumulative Results
Adjusted EPS	50%	\$2.90 – below threshold	0%
Revenue Growth	30%	(9.4)% – below threshold	0%
Adjusted Operating Cash Flow	20%	\$5.362 billion – below target	12.91%
Total performance shares earned as a percentage of shares granted			12.91%

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The 2015 E-LTIP is based on two-year cumulative performance from 2015 through 2016 while 2017 performance is deemed to be achieved at target as a result of the Separation. This award will vest on July 1, 2018. Performance results against the established performance measures for 2015 E-LTIP awards are:

Performance Measure	Weighting	Two-Year Cumulative Performance	Performance Shares Earned
Performance Shares Earned for 2015 and 2016 Performance:			
Adjusted EPS	50%	\$1.68 – below threshold	0%
Revenue Growth	30%	(7.4)% – below threshold	0%
Adjusted Operating Cash Flow	20%	\$3.093 billion – below threshold	0%
Total performance shares earned as a percentage of shares granted for 2015 and 2016			0%
Total shares to be earned for 2017 (performance shares earned at target)*			33.34%

* See Separation Adjustments to Outstanding E-LTIP Awards for additional information.

The 2016 E-LTIP was based on 2016 performance only. Performance results against the established performance measures are:

Performance Measure	Weighting	One-Year Performance*	Performance Shares Earned for 2016 Results
Adjusted EPS	50%	\$1.12 – below target	42.86%
Revenue Growth	30%	(3.4)% – below target	27.00%
Adjusted Operating Cash Flow	20%	\$1.378 billion – above target	26.24%
Total performance shares earned as a percentage of shares granted			96.10%

* Actual performance results for each E-LTIP performance measure are calculated in accordance with definitions as approved by the Compensation Committee at the time of grant. Actual E-LTIP results may differ from those under our short-term incentive program where performance is calculated pursuant to the terms of the APIP, as described under *Determining Short-Term Incentive Award Payouts*.

See the *Outstanding Equity Awards* table for additional information on shares earned.

- Current payouts demonstrate pay for performance.
- Historical payouts align with performance and stock price at the time of vesting.

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Payouts under Prior E-LTIP Awards

The chart below reflects historical payouts for performance shares based on achievement against performance measures and the actual stock price on the vesting date:

Award	Grant Date	Vesting Date	Performance Shares Earned as a Percentage of Target Shares Granted	Actual Payout Value at Vesting as a Percentage of Grant Date Award Value*
2011 E-LTIP	July 1, 2011	July 1, 2014	64.74%	75.0%
2012 E-LTIP	July 1, 2012	July 1, 2015	75.64%	102.6%
2013 E-LTIP	January 1, 2014	January 1, 2017	31.40%	23.3%

* The actual payout value is calculated by multiplying the number of shares earned under the applicable performance cycle by the closing stock price on the vesting date.

SEPARATION INCENTIVE AWARD PROGRAM

In light of the multiple and varied challenges in executing the announced Separation, the Committee felt it was beneficial to the Company and shareholders to provide a special Separation incentive award program for select executives key to the success of the Separation. The Separation incentive award program was also structured to retain executives beyond the Separation to guide the Company as a global leader in document management and outsourcing and drive shareholder value. Under this program, the Committee approved Separation incentive awards in April 2016 for Mr. Jacobson and Ms. Varon. Mr. Jacobson received a \$500,000 cash award to be paid on the one-year anniversary of the Separation and a \$500,000 RSU award subject to three-year cliff vesting. Ms. Varon received a \$400,000 cash award to be paid on the one-year anniversary of the Separation. These awards will be paid if they remain an employee of Xerox on the payment date or if their employment is terminated not for cause or upon death.

SAY-ON-PAY VOTES AND SHAREHOLDER ENGAGEMENT

At our annual meeting of shareholders held in May 2016, 96.75% of the votes cast on the annual advisory vote were voted in favor of our say-on-pay proposal. The Compensation Committee believes the favorable vote supports the Company's approach to executive compensation. In order to ensure the successful completion of the Separation and solidify the future management of the Company, there were several compensation actions taken in 2016 that were not consistent with our historical practices. In 2017, the Company has resumed compensation practices consistent with our pay philosophy.

As described under *Shareholder Outreach and Engagement*, we regularly meet with institutional investors, both individually and in group forums, to provide them with the opportunity to engage directly with Company representatives to address their questions and to provide feedback to us on topics of importance to them. The Board and management team carefully consider the feedback from our engagements (which historically has been favorable) when reviewing our business, corporate governance and executive compensation program. As a result of our ongoing engagement and communication with our shareholders, we have taken several actions in 2017.

EXHIBIT B-3

2018, 2017 and 2016 Form 10-K Disclosure

[See attached.]

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We expect 2019 operating cash flows from continuing operations to be between \$1.15 and \$1.25 billion and capital expenditures to be approximately \$150 million.

Our capital allocation plan for 2019 includes the following:

- Share repurchases – we expect to repurchase at least \$300 million.
- Dividends - expect dividend payments to be approximately \$250 million, reflecting the current annualized common stock dividend of \$1.00 per share.

Economic and Market Factors

Our business, results of operations and financial condition may be negatively impacted by a potential increase in the cost of our products as a result of new or incremental trade protection measures such as, increased import tariffs, import or export restrictions and requirements and the revocation or material modification of trade agreements. At this stage, we do not anticipate a material impact from the additional China tariffs announced to date on the cost of our imported products. However, we are continuing to assess the impact of potentially new import tariffs on our products and we continue to monitor developments in this area and will make efforts to mitigate the impact to the extent possible.

In June 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit", and in March 2017, the U.K. formally started the process to leave the E.U. Given the lack of comparable precedent, it is unclear what financial, trade, regulatory and legal implications the withdrawal of the U.K. from the E.U. will have. Brexit creates global political and economic uncertainty, which may cause, among other consequences, volatility in exchange rates and interest rates and changes in regulations. Additionally, there may be potential risks to our supply chain including additional administrative requirements, customs delays, and possibly tariffs. We currently do not believe that these and other related effects will have a material impact on the Company's consolidated financial position or operating results. However, we continue to assess the situation and expect to take any necessary steps to mitigate the potential volatility, increased costs or disruptions to our supply chain that may result from this matter. For the year ended December 31, 2018, revenues and assets in Europe, including the U.K., represented approximately 30% of our consolidated revenues and total assets, respectively.

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. 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, foreign currency translation had a 0.7-percentage point favorable impact on revenue in 2018 and no impact on revenue in 2017.

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 or have entered 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 9 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.
- Accounts receivable sales facilities. During 2017, we terminated all accounts receivable sales arrangements in North America and all but one arrangement in Europe. Refer to Note 6 - Accounts Receivable, Net in the Consolidated Financial Statements for further information regarding accounts receivable sales.
- Sales of finance receivables. During 2013 and 2012, we entered into arrangements to transfer and sell finance receivables. During 2017, we exercised the various clean-up calls we, as the servicer, held on the sold receivables and accordingly repurchased the remaining balances of the previously derecognized receivables and terminated the programs. Refer to Note 7 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales. There were no sales of finance receivables since 2013.

As of December 31, 2018, 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 19 - 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 the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below in the following tables as well as the fourth quarter 2018 presentation slides available at www.xerox.com/investor.

Adjusted Earnings Measures

- Net income and Earnings per share (EPS)
- Effective tax rate

The above measures were adjusted for the following items:

Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

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

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Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net as a result of our adoption of ASU 2017-07 - Reporting of Retired Related Benefit Costs in 2018. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.

Transaction and related costs, net: Transaction and related costs, net are expenses incurred in connection with Xerox's planned combination transaction with Fuji Xerox, which was terminated in May 2018, as well as costs and expenses related to the previously disclosed settlement agreement reached with certain shareholders and litigation related to the terminated transaction and other shareholder actions. These costs are considered incremental to our normal operating charges and were incurred or are expected to be incurred solely as a result of the planned combination transaction and the related shareholder settlement agreement and litigation. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

Restructuring and other charges - Fuji Xerox: We adjust our 25% share of Fuji Xerox's net income for similar items noted above such as Restructuring and related costs and Transaction and related costs, net based on the same rationale discussed above.

Other discrete, unusual or infrequent items: In addition, we have also excluded the following additional items given their discrete, unusual or infrequent nature and their impact on our results for the period:

- 2018 - Contract termination costs associated with a minimum purchase commitment for IT services.
- 2017 - Losses on early extinguishment of debt.
- 2017 - A benefit from the remeasurement of a tax matter that related to a previously adjusted item.
- 2018 and 2017 - The impacts associated with the Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017. See the **Income Taxes** section in the MD&A for further explanation.

We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.

Adjusted Operating Income and Margin

We also calculate and utilize adjusted operating income and margin measures by adjusting our pre-tax income and margin amounts. In addition to the costs and expenses noted as adjustments for our Adjusted Earnings measures, adjusted operating income and margin also exclude the remaining amounts included in Other expenses, net, which are primarily comprised of Non-financing interest expense and certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business. Adjusted operating income and margin also include Equity in net income of unconsolidated affiliates. Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox's net income. In 2019, we plan on modifying the definition of Adjusted operating margin to exclude Equity in net income of unconsolidated affiliates - accordingly in 2019 adjusted operating margin will be compared to a revised full-year 2018 adjusted operating margin on the same basis.

Constant Currency (CC)

Refer to the **Currency Impact** section in the MD&A for discussion of this measure and its use in our analysis of revenue growth.

Operating cash flow from continuing operations was \$122 million in 2017 as compared to \$1,018 million in 2016. The decrease is primarily due to higher pension contributions of \$658 million, which reflect an incremental \$500 million contribution to our U.S. defined benefit pension plans that was funded through a \$1.0 billion Senior Note offering and an additional contribution of approximately \$105 million (GBP 80 million) to our U.K. Pension Plan for salaried employees. The U.K. contribution was funded through the cash received from an investment associated with our 1997 sale of The Resolution Group (TRG), a discontinued insurance business, and reported in investing cash flows. The decrease is also due to the one-time impact of approximately \$350 million from the termination of certain accounts receivable sales programs in the fourth quarter of 2017. Cash used in investing activities of continuing operations of \$31 million decreased \$115 million as compared to 2016 primarily due to the cash receipt of \$127 million from the TRG investment previously noted. Cash used in financing activities was \$985 million in 2017 as compared to cash provided by financing activities of \$584 million in 2016. The increase in the use of cash primarily reflects payments of \$1.5 billion on Senior Notes, net payments of \$326 million on the tender and exchange of certain Senior Notes and dividend payments of \$291 million, partially offset by proceeds from the issuance of \$1.0 billion of Senior Notes and \$161 million from the final cash adjustment with Conduent.

2018 Outlook

We expect total revenues to decline in 2018 in the 2% to 4% range, excluding the impact of currency. At January 2018 exchange rates, we expect translation currency to have about a 1.4-percentage point positive impact on total revenues in 2018, reflecting the weakening of the U.S. dollar against our major foreign currencies as compared to prior year. Reported earnings should improve in 2018 due to the inclusion of the \$400 million charge in 2017 related to the enactment of the Tax Act. In addition, both reported and adjusted¹ earnings are expected to reflect the continued benefits of cost savings and productivity improvements from our Strategic Transformation program, which are expected to offset the projected decline in revenues.

We expect 2018 operating cash flows from continuing operations to be between \$900 and \$1,100 million and capital expenditures to be approximately \$150 million.

Our capital allocation plan for 2018 includes the following:

- Debt – committed to maintaining our investment grade rating and we expect to repay approximately \$265 million of maturing debt.
- Dividends - expect dividend payments to be approximately \$260 million, which reflects the current annualized dividend of \$1.00 per share.
- Acquisitions – we expect to invest about \$150 to \$200 million, focusing on acquiring companies that will expand our portfolio mix and distribution channels.

The 2018 outlook discussed above does not include any impacts associated with the proposed transaction to combine Xerox and Fuji Xerox.

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. 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 no impact on revenue in 2017 and 1.8-percentage point negative impact on revenue in 2016.

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 or have entered 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 9 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.
- Accounts receivable sales facilities. During the fourth quarter 2017 we terminated all accounts receivable sales arrangements in North America and all but one arrangement in Europe. Refer to Note 6 - Accounts Receivable, Net in the Consolidated Financial Statements for further information regarding these facilities.
- Sales of finance receivables. During 2013 and 2012, we entered into arrangements to transfer and sell finance receivables. During 2017, we exercised the various clean-up calls we, as the servicer, held on the sold receivables and accordingly repurchased the remaining balances of the previously derecognized receivables and terminated the programs. Refer to Note 7 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales. There were no sales of finance receivables since 2013.

As of December 31, 2017, 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 19 - 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.

We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

Management believes that all of these non-GAAP financial measures provide an additional means of analyzing the current period's results against the corresponding period's results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth on the following tables as well as the fourth quarter 2017 presentation slides available at www.xerox.com/investor.

Adjusted Earnings Measures

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

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.

Other discrete, unusual or infrequent items: In addition, we have also excluded the following additional items given their discrete, unusual or infrequent nature and their impact on our results for the period:

- Losses on early extinguishment of debt in the first and fourth quarter of 2017.
- A benefit from the remeasurement of a tax matter in the first quarter of 2017 that related to a previously adjusted item.
- Costs incurred in the fourth quarter of 2017 related to the recently announced transaction with Fujifilm as well as to our expected proxy contest. These costs are primarily for third-party investment banking, legal, accounting, consulting and other similar services.
- The estimated non-cash charge in the fourth quarter 2017 reflecting the impact associated with the enactment of the Tax Cuts and Jobs Act (the "Tax Act") in December 2017. See the "Income Taxes" section in the MD&A for further explanation.

We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.

Adjusted Operating Income and Margin

We also calculate and utilize adjusted operating income and margin earnings measures by adjusting our pre-tax income and margin amounts. In addition to the costs and expenses noted as adjustments for our Adjusted Earnings measures, adjusted operating income and margin also exclude 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. Adjusted operating income and margin also includes Equity in net income of unconsolidated affiliates. Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net income. We include this amount in our measure of adjusted operating income and margin as Fuji Xerox is our primary product supplier and intermediary to the Asia/Pacific market for the distribution of Xerox branded products and services.

Constant Currency (CC)

Refer to the "Currency Impact" in the MD&A for discussion of this measure and its use in our analysis of revenue growth.

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.

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.