

Fourth Quarter 2016 Earnings Presentation

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Forward Looking Statements

This presentation contains “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management’s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to expand equipment placements; interest rates, cost of borrowing and access to credit markets; the risk that our products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives; the outcome of litigation and regulatory proceedings to which we may be a party; the potential that Xerox will not realize all of the expected benefits of the separation of its former business process outsourcing business; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016 and our 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.



The New Xerox – Well Positioned for the Future

| | |
|--|---|
| Attractive Business Model | Market opportunity of ~\$85B >75% annuity ¹ revenue and strong cash flow |
| Laser Focus on Cost and Productivity | Track record of operating discipline \$1.5B+ three-year strategic transformation program |
| Well Positioned to Capitalize on Areas of Growth | Increasing our participation in growing market segments Largest ever product launch and expanding channel reach |
| Balanced Shareholder Return | Committed to investment grade credit profile Strong free cash flow ² supports attractive dividend and shareholder returns |

¹Annuity (post sale) revenue primarily includes contracted outsourcing services, equipment maintenance services, consumable supplies and financing

²Free Cash Flow: see Non-GAAP Financial Measures



2016 Highlights

- Completed separation of Conduent
- Exceeded Year 1 Strategic Transformation goal
- Streamlined operating model
- Continued recognition for innovation and market leadership

Fourth-Quarter Overview

Strategic Transformation savings offset revenue declines

- Revenue pressure driven by equipment, annuity trend stable
- Operating margin expanded

Operating cash flow seasonally strong and above expectations

Revenue

\$2.7B, down 7% or 5% CC²

Equipment down 12% or 10% CC²

Annuity down 5% or 3% CC²

Profitability

Operating margin²: 14.0%, up 70 bps

GAAP¹ EPS: 17 cents, down 7 cents

Adjusted² EPS: 25 cents, down 2 cents

Cash

Operating cash flow from continuing operations: \$462M Q4, \$1.0B FY

Ending Cash: \$2.2B

¹GAAP EPS from Continuing Operations

²Adjusted EPS, Constant Currency (CC) and Adjusted Operating Margin: see Non-GAAP Financial Measures



Earnings (Continuing Operations)

| (in millions, except per share data) | Q4 2016 | B/(W) YOY |
|--|----------------|------------------|
| Revenue | \$ 2,734 | \$ (212) |
| Adjusted Gross Margin ¹ | 40.3% | 0.1 pts |
| Adjusted RD&E ¹ | \$ 109 | \$ 14 |
| Adjusted SAG ¹ | \$ 631 | \$ 68 |
| Equity Income | \$ 23 | \$ (9) |
| Adjusted Operating Income¹ | \$ 384 | \$ (9) |
| Operating Income % of Revenue | 14.0% | 0.7 pts |
| Adjusted Other expense, net ¹ | \$ 60 | \$ (25) |
| Adjusted Tax Rate ¹ | 21.1% | 1.0 pt |
| Adjusted Net Income – Xerox¹ | \$ 260 | \$ (25) |
| Adjusted EPS¹ | \$ 0.25 | \$ (0.02) |
| GAAP EPS² | \$ 0.17 | \$ (0.07) |

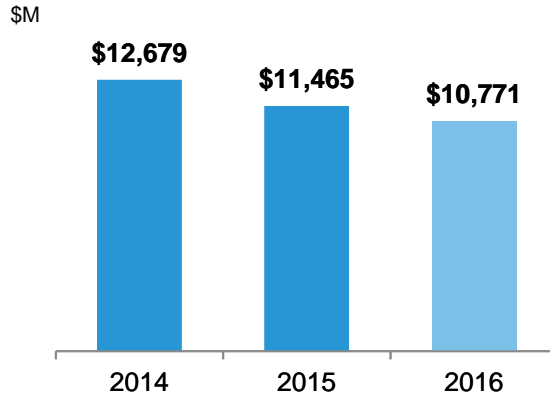


⁶ ¹Adjusted Measures: see Non-GAAP Financial Measures

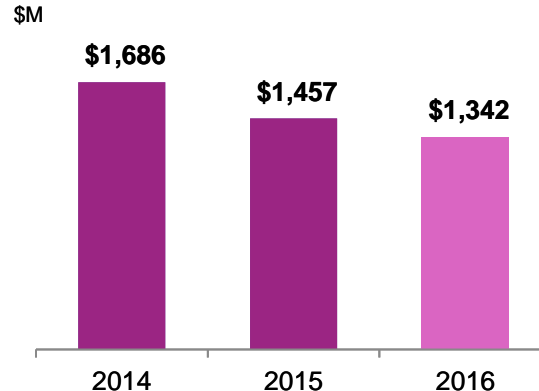
²GAAP EPS from Continuing Operations

Full-Year Performance Trends

Revenue



Operating Profit¹



% Y-o-Y Decline at CC¹

(3.9%) (4.6%) (4.3%)

Translation Currency 0 pts (5) pts (2) pts

% Adjusted Operating Margin¹

13.3% 12.7% 12.5%

Transaction Currency 1.1 pts (0.1) pts (0.5) pts

Key Messages

Constant Currency revenue declines stable for past three years

2016 Adjusted Operating Margin¹ at high-end of expected range

Currency remains a headwind to both revenue and margin



⁷ ¹ Adjusted Operating Profit and Margin, Constant Currency (CC) : see Non-GAAP Financial Measures

Key Performance Metrics

Strategic Growth Areas



MPS & Workflow Automation



A4 MFPs



Color Production

2016 Results

↑ 2%

YOY growth at
CC¹

38%

% of Revenue
in Strategic
Growth Areas

↑ 2 pts

Mix shift in
2016

Installs

| (% change YOY) | Color | | B&W | |
|----------------|-------|------|-------|-------|
| | Q4 | FY | Q4 | FY |
| High-End | 3% | 16% | (18)% | (13)% |
| Mid-Range | 0% | 3% | (13)% | (16)% |
| Entry A4 MFDs | (8)% | (1)% | (19)% | (12)% |

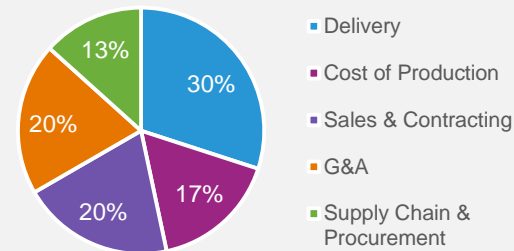
Signings

| | Q4 2016 | FY 2016 |
|----------------------------|---------|---------|
| Document Outsourcing | \$0.8B | \$2.7B |
| YOY Growth CC ¹ | (18)% | (5)% |

Strategic Transformation

| | |
|------------------------------------|---------|
| 2016 FY Gross Savings ² | \$550M |
| 2016 Target | \$500M |
| 2017 Target | \$600M |
| Cumulative thru 2018 Target | \$1.5B+ |

Sources of Productivity



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

²Gross savings are the year over year savings, assuming similar operating levels

Cash Flow

Operating Cash Flow:

- Strong Q4 cash flow of \$462M, \$1,018M FY
- Restructuring payments of \$35M Q4, \$118M FY
- Pension contributions of \$76M Q4, \$178M FY
- Working Capital² a source of \$194M in Q4, use of \$142M FY

CapEx⁵:

- \$39M Q4, \$138M FY

| (in millions) | Q4 2016 | FY 2016 |
|---|----------------|-----------------|
| Pre-tax Income from Continuing Ops | \$ 179 | \$ 568 |
| Non-cash add-backs ¹ | 191 | 743 |
| Restructuring payments | (35) | (118) |
| Pension Contributions | (76) | (178) |
| Working Capital, net ² | 194 | (142) |
| Change in Finance Assets ³ | (3) | 158 |
| Other ⁴ | 12 | (13) |
| Cash from Operations from Continuing Ops | \$ 462 | \$ 1,018 |
| Cash from Investing from Continuing Ops | \$ (59) | \$ (146) |
| Memo: Free Cash Flow⁶ | \$ 423 | \$ 880 |

¹ Non-Cash Add-backs include depreciation & amortization excluding equipment on operating lease, provisions, stock-based compensation, pension expense, restructuring charges and gain on sales of businesses and assets

² Working Capital, net includes accounts receivable, collections of deferred proceeds from sales of receivables, accounts payable and accrued compensation and inventory

³ Includes equipment on operating leases and its related depreciation, finance receivables and collections on beneficial interest from sales of finance receivables

⁴ Includes other current and long-term assets and liabilities, derivative assets and liabilities, other operating, net, distributions from net income unconsolidated affiliates and taxes

⁵ CAPEX including Internal Use Software

⁶ Free Cash Flow: see Non-GAAP Financial Measures



Capital Structure

Customer Financing and Leverage

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

| | Year Ended December 31, 2016 | | | Pro forma | |
|---------------|------------------------------|------------|--------|------------|--------|
| (in billions) | Fin. Assets | Debt* | Cash* | Debt | Cash |
| Financing | \$ 4.2 | \$ 3.7 | | \$ 3.7 | |
| Core | ___- | <u>2.6</u> | | <u>1.6</u> | |
| Total Xerox | \$ 4.2 | \$ 6.3 | \$ 2.2 | \$ 5.3 | \$ 1.4 |

*Excludes cash and debt attributable to Conduent / discontinued operations

Core debt level managed to maintain investment grade financial profile

~ 70% of Xerox pro forma debt supports finance assets

Pro Forma Details

- Year end 2016 \$2.6 billion core debt reflects repayment of \$1 billion term loan upon separation. Pro forma core debt of \$1.6 billion reflects repayment of \$1B for senior notes that mature in Q1'17.
- Year end 2016 cash includes ~\$1.8B cash transfer from Conduent less \$1B for repayment of term loan. Pro forma cash reflects \$1 billion Q1'17 senior notes debt repayment and receipt in Jan'17 of \$0.2B of separation-related cash adjustment.



2017 Full-Year Guidance

Revenue: down mid-single digits CC²

Operating Margin²: 12.5 -13.5%

EPS¹:

- GAAP \$0.44 - \$0.52
- Adjusted^{2,3} \$0.80 - \$0.88

Cash Flow from Continuing Ops:

- Operating Cash Flow ~\$700M - \$900M
- Free Cash Flow² ~\$525M - \$725M

Revenue assumptions

- At recent exchange rates, translation currency an approximate (2) pt impact

Operating Margin assumptions

- Strategic Transformation gross savings of \$600M
- ~ \$100M negative transaction currency

Additional EPS assumptions

- Lower Interest Expense ~4 cents
- Unfavorable Foreign Currency ~(8) cents
- Higher Effective Tax Rate (25% - 28%) ~(6) cents

Operating Cash Flow guidance includes:

- ~\$350M of Pension contributions
- ~\$215M of Restructuring payments



¹ EPS from Continuing Operations

² Constant Currency (CC), Operating Margin, Adjusted EPS and Free Cash Flow: see Non-GAAP Financial Measures

³ Adjusted EPS to GAAP EPS differences include non-service retirement related costs, restructuring and related costs, amortization of intangibles

Capital Allocation

Available Cash Sources

| | |
|---|-----------------|
| Pro forma Q4'16 Ending Cash | \$1.4B |
| 2017 Targeted Ending Cash | \$1.0B |
| Available Cash Balance | \$400M |
| Payment of Separation Costs in 2017 (in Discontinued Operations Cash Flow) | \$(100)M |
| 2017 Operating Cash Flow from Continuing Operations ¹ | \$700M - \$900M |
| Available Cash | \$1.0B - \$1.2B |

Available Cash Uses

| | |
|---|-----------------|
| Incremental debt repayment ² | ~\$300M |
| Dividends ³ | ~\$280M |
| CapEx | ~\$175M |
| M&A | ~\$100M |
| Opportunistic: debt repayment, M&A and pension contributions | \$145M - \$345M |

¹Includes ~\$350M of pension contributions

²Incremental debt repayment above the \$1 billion in Q1 senior note maturities

³Common and preferred dividends

⁴Free Cash Flow: see Non-GAAP Financial Measures

- Committed to maintaining investment grade credit profile
 - Incremental debt repayment of \$300M
- Initial annualized common dividend of \$0.25 per share
- Selectively pursuing M&A and investing in CapEx in targeted growth areas to improve portfolio mix and drive profit expansion
- No planned share repurchases in 2017
- Target >50% of Annual Free Cash Flow⁴ returned through dividends and share repurchases over time



In Summary

1 A new Xerox

Streamlining and re-focusing our operations to deliver innovative products and solutions to our customers and strong returns for our shareholders

2 2016 results

Laid foundation for future with launch of Strategic Transformation program and Strategic Growth area focus

3 2017 commitments

Focused on executing our strategy, achieving our financial objectives and building on our market leadership



Appendix

Revenue Trend

| | 2015 | 2016 | | | | |
|------------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|
| (in millions) | FY | Q1 | Q2 | Q3 | Q4 | FY |
| Total Revenue | \$11,465 | \$2,615 | \$2,793 | \$2,629 | \$2,734 | \$10,771 |
| <i>Growth</i> | (9.6)% | (6.8)% | (4.6)% | (5.6)% | (7.2)% | (6.1)% |
| <i>CC¹ Growth</i> | (4.6)% | (4.7)% | (3.4)% | (4.1)% | (5.0)% | (4.3)% |
| Annuity | \$8,684 | \$2,055 | \$2,118 | \$2,016 | \$2,057 | \$8,246 |
| <i>Growth</i> | (9.3)% | (5.9)% | (4.0)% | (4.8)% | (5.4)% | (5.0)% |
| <i>CC¹ Growth</i> | (4.3)% | (3.5)% | (2.7)% | (3.2)% | (3.2)% | (3.1)% |
| Annuity % Revenue | 76% | 79% | 76% | 77% | 75% | 77% |
| Equipment | \$2,781 | \$560 | \$675 | \$613 | \$677 | \$2,525 |
| <i>Growth</i> | (10.4)% | (10.2)% | (6.1)% | (8.2)% | (12.1)% | (9.2)% |
| <i>CC¹ Growth</i> | (5.5)% | (8.9)% | (5.4)% | (7.2)% | (10.1)% | (7.9)% |

Non-GAAP Financial Measures

Non-GAAP Financial Measures

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

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

Prior year amounts were revised accordingly to reflect these changes.

“Adjusted Earnings Measures”: To better understand the trends in our business, we believe it is necessary to adjust the following amounts determined in accordance with GAAP to exclude the effects of certain items as well as their related income tax effects.

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

The above measures were adjusted for the following items:

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

Non-GAAP Financial Measures

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

Non-service retirement related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortized actuarial gains/losses and (iv) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. Adjusted earnings will continue to include the elements of our retirement costs related to current employee service (service cost and amortization of prior service cost) as well as the cost of our defined contribution plans.

Operating Income

We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts. In addition to the costs noted for our Adjusted Earnings measures, operating income and margin also exclude other expenses, net. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Operating income and margin 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.

Non-GAAP Financial Measures

Constant Currency

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as “constant currency.” In 2016 we revised our calculation of the currency impact on revenue growth, or constant currency revenue growth, to include the currency impacts from the developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe), which had been previously excluded from the calculation. As a result of economic changes in these markets over the past few years, we currently manage our exchange risk in our developing market countries in a similar manner to the exchange risk in our developed market countries, and therefore, the exclusion of the developing market countries from the calculation of the currency effect is no longer warranted. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Free Cash Flow

To better understand trends in our business, we believe that it is helpful to adjust cash flows from operations to exclude amounts for capital expenditures including internal use software. Management believes this measure gives investors an additional perspective on cash flow from operating activities in excess of amounts required for reinvestment. It provides a measure of our ability to fund acquisitions, dividends and share repurchase. It is also used to measure our yield on market capitalization.

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

A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following slides.

Q4/FY GAAP EPS to Adjusted EPS from Continuing Operations

| (in millions, except per share amounts) | Three Months Ended December 31, 2016 | | Three Months Ended December 31, 2015 | | Year Ended December 31, 2016 | | Year Ended December 31, 2015 | |
|---|---|----------------|---|----------------|---------------------------------|----------------|---------------------------------|----------------|
| | Net Income | Diluted EPS | Net Income | Diluted EPS | Net Income | Diluted EPS | Net Income | Diluted EPS |
| As Reported ⁽¹⁾ | \$ 181 | \$ 0.17 | \$ 256 | \$ 0.24 | \$ 616 | \$ 0.58 | \$ 848 | \$ 0.77 |
| Amortization of intangible assets | 14 | | 14 | | 58 | | 60 | |
| Restructuring and related costs - Xerox | 92 | | (4) | | 264 | | 27 | |
| Non-service retirement related costs | 19 | | 34 | | 131 | | 116 | |
| Income tax on adjustments ⁽²⁾ | (46) | | (15) | | (151) | | (77) | |
| Restructuring charges - Fuji Xerox | - | | - | | 3 | | 4 | |
| Adjusted | \$ 260 | \$ 0.25 | \$ 285 | \$ 0.27 | \$ 921 | \$ 0.88 | \$ 978 | \$ 0.89 |
| Weighted average shares - adjusted EPS ⁽³⁾ | | 1,055 | | 1,046 | | 1,024 | | 1,076 |
| Fully diluted shares at end of period ⁽⁴⁾ | | 1,055 | | | | | | |

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

(2) Refer to Continuing Operations Effective Tax Rate reconciliation.

(3) Average shares for the quarterly calculations of adjusted EPS include 27 million shares associated with our Series A convertible preferred stock and therefore the related quarterly dividend of \$6 million was excluded. Average shares for the yearly calculations of adjusted EPS exclude 27 million shares associated with our Series A convertible preferred stock and therefore the related annual dividend of \$24 million was included.

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

FY EPS from Continuing Operations Guidance

| | <u>FY 2017</u> |
|--|--------------------------------------|
| GAAP EPS from Continuing Operations | \$0.44 - \$0.52 |
| Non-GAAP Adjustments | <u>0.36</u> |
| Adjusted EPS from Continuing Operations | <u><u>\$0.80 - \$0.88</u></u> |

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

Q4/FY Adj Effective Tax Rate from Continuing Operations

| (in millions) | Three Months Ended December 31, 2016 | | | Three Months Ended December 31, 2015 | | | Year Ended December 31, 2016 | | | Year Ended December 31, 2015 | | |
|---|---|--------------------------|-----------------------|---|-----------------------|-----------------------|---------------------------------|----------------|-----------------------|---------------------------------|-----------------------|-----------------------|
| | Pre-Tax Income | Income Tax Expense | Effective Tax Rate | Pre-Tax Income | Income Tax Expense | Effective Tax Rate | Pre-Tax Income | Tax Expense | Effective Tax Rate | Pre-Tax Income | Income Tax Expense | Effective Tax Rate |
| Reported⁽¹⁾ | \$ 179 | \$ 18 | 10.1% | \$ 287 | \$ 58 | 20.2% | \$ 568 | \$ 62 | 10.9% | \$ 924 | \$ 193 | 20.9% |
| Non-GAAP Adjustments ⁽²⁾ | 125 | 46 | | 44 | 15 | | 453 | 151 | | 203 | 77 | |
| Adjusted - revised⁽³⁾ | \$ 304 | \$ 64 | 21.1% | \$ 331 | \$ 73 | 22.1% | \$ 1,021 | \$ 213 | 20.9% | \$ 1,127 | \$ 270 | 24.0% |

(1) Pre-Tax Income and Income Tax Expense from continued operations.

(2) Refer to Continuing Operations Net Income and EPS reconciliations for details. Amounts exclude Fuji Xerox restructuring as these amounts are net of tax.

(3) The tax impact on the Adjusted Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

Q4 Adjusted Operating Income/Margin

| (in millions) | Three Months Ended December 31, 2016 | | | Three Months Ended December 31, 2015 | | |
|---|---|-----------------|--------------|---|-----------------|--------------|
| | Profit | Revenue | Margin | Profit | Revenue | Margin |
| Reported Pre-tax Income⁽¹⁾ | \$ 179 | \$ 2,734 | 6.5% | \$ 287 | \$ 2,946 | 9.7% |
| Adjustments: | | | | | | |
| Amortization of intangible assets | 14 | | | 14 | | |
| Restructuring and related costs | 92 | | | (4) | | |
| Non-service retirement-related costs | 19 | | | 34 | | |
| Equity in net income of unconsolidated affiliates | 23 | | | 32 | | |
| Other expenses, net | 57 | | | 30 | | |
| Adjusted Operating | \$ 384 | \$ 2,734 | 14.0% | \$ 393 | \$ 2,946 | 13.3% |

(1) Profit and revenue from continuing operations.

FY Adjusted Operating Income/Margin

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

(1) Profit and revenue from continuing operations.

Q4/FY Free Cash Flow

(in millions)

Operating Cash Flow from Continuing Operations

Less: CAPEX

Free Cash Flow from Continuing Operations

| | Q4 2016 Actual | FY 2016 Actual | FY 2017 Estimated |
|--|-----------------------|-----------------------|--------------------------|
| | \$ 462 | \$ 1,018 | \$ 700 - 900 |
| | (39) | (138) | (175) |
| | \$ 423 | \$ 880 | \$ 525 - 725 |

Q4 Adjusted Key Financial Ratios

| (in millions) | Three Months Ended December 31, 2016 | | | Three Months Ended December 31, 2015 | | |
|----------------------|---|---|----------|---|---|----------|
| | As Reported ⁽¹⁾ | Non-service retirement- related costs | Adjusted | As Reported ⁽¹⁾ | Non-service retirement- related costs | Adjusted |
| Revenue | \$ 2,734 | \$ - | \$ 2,734 | \$ 2,946 | \$ - | \$ 2,946 |
| Gross Profit | 1,094 | 7 | 1,101 | 1,170 | 13 | 1,183 |
| RD&E | 113 | (4) | 109 | 128 | (5) | 123 |
| SAG | 639 | (8) | 631 | 715 | (16) | 699 |
| Gross Margin | 40.0% | | 40.3% | 39.7% | | 40.2% |
| RD&E as % of Revenue | 4.1% | | 4.0% | 4.3% | | 4.2% |
| SAG as % of Revenue | 23.4% | | 23.1% | 24.3% | | 23.7% |

⁽¹⁾ Revenue and costs from continuing operations.

Q4 Adjusted Other, Net

| <u>(in millions)</u> | Three Months Ended December 31, 2016 | Three Months Ended December 31, 2015 |
|---|---|---|
| Other expenses, net - Reported | \$ 57 | \$ 30 |
| Adjustment: | | |
| Net income attributable to noncontrolling interests | <u>3</u> | <u>5</u> |
| Other expenses, net - Adjusted | <u><u>\$ 60</u></u> | <u><u>\$ 35</u></u> |

