

Second-Quarter 2010 Earnings Presentation

Non-GAAP Financial Measures

July 22, 2010

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.” Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. 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 the 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 also is used to measure our yield on market capitalization.

Non-GAAP Financial Measures

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

- Net income and Earnings per share (EPS) – second quarter actual and EPS guidance for third quarter and full-year 2010
- Effective tax rate
- Equity Income
- Other expenses, net
- Operating income and margin

The above have been adjusted for the following items:

- Restructuring and asset impairment charges (including those incurred by Fuji Xerox): Restructuring and asset impairment charges consist of costs primarily related to severance and benefits for employees terminated pursuant to formal restructuring and workforce reduction plans. We exclude these charges because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current or past operating performance. In addition, such charges are inconsistent in amount and frequency. Such charges are expected to yield future benefits and savings with respect to our operational performance.
- Acquisition related costs: We incurred significant expenses in connection with our acquisition of ACS which we generally would not have otherwise incurred in the periods presented as a part of our continuing operations. Acquisition related costs include transaction and integration costs, which represent external incremental costs directly related to completing the acquisition and the integration of ACS and Xerox. We believe it is useful for investors to understand the effects of these costs on our total operating expenses.
- 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. Accordingly, due to the incomparability of acquisition activity among companies and from period to period, we believe exclusion of the amortization associated with intangible assets acquired through our acquisitions allows investors to better compare and understand our results. 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.
- Other discrete, unusual or infrequent costs and expenses: In addition, we have also excluded the following additional items given the discrete, unusual or infrequent nature of these items on our results of operations for the period – 1) ACS shareholder litigation settlement (Q2); 2) Venezuela devaluation (Q1) and 3) Medicare subsidy tax law change (income tax effect only) (Q1). We believe exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods as well as expected trends in our business.

Non-GAAP Financial Measures

“Pro-Forma Basis”: To better understand the trends in our business, we discuss our 2010 operating results by comparing them against adjusted 2009 results which include ACS historical results for the comparable period. Accordingly, we have included ACS’s 2009 estimated results for the comparable period, April 1st through June 30th in 2009 in our reported 2009 results and, in the context of our first quarter and year-to-date results from February 5, 2009. We refer to comparisons against these adjusted 2009 results as “pro-forma” basis comparisons. ACS 2009 historical results have been adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition. We believe comparisons on a pro-forma basis are more meaningful than the actual comparisons given the size and nature of the ACS acquisition. We believe the pro-forma basis comparisons allow investors to have better understanding and additional perspective of the expected trends in our business as well as the impact of the ACS acquisition on the Company’s operations.

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 slides.

Q2 GAAP EPS to Adjusted EPS Track

(in millions; except per share amounts)	Three Months Ended June 30, 2010	
	Net Income	EPS
Reported	\$ 227	\$ 0.16
Adjustments:		
Xerox and Fuji Xerox restructuring charge	12	0.01
Acquisition-related costs	14	0.01
Amortization of intangible assets	53	0.04
ACS shareholders litigation settlement	36	0.02
	115	0.08
Adjusted	\$ 342	\$ 0.24

Average shares for the calculation of adjusted EPS were 1,446 million and include 27 million shares associated with the Series A convertible preferred stock and therefore excludes the quarterly dividends of \$6 million. On a quarterly basis we evaluate the dilutive effect of the Series A convertible preferred stock on an “if-converted” basis.

GAAP EPS to Adjusted EPS Guidance Track

	Earnings Per Share	
	Q3 2010	FY 2010
GAAP EPS	\$ 0.14 - \$ 0.16	\$ 0.47 - \$ 0.51
<u>Adjustments:</u>		
Xerox restructuring charge	0.01	0.14
Fuji Xerox restructuring charge	-	0.02
Acquisition related costs	-	0.04
Amortization of intangible assets	0.04	0.14
Venezuela devaluation	-	0.02
ACS shareholders litigation settlement		0.03
Senior note redemption		0.01
Medicare subsidy tax law change	-	0.01
	<u>0.05</u>	<u>0.41</u>
Adjusted EPS	<u>\$ 0.19 - \$ 0.21</u>	<u>\$ 0.88 - \$ 0.92</u>
Est. weighted avg shares for adj EPS*	1,419	1,389

*Q3 2010: Average shares exclude 27 million shares associated with the Series A convertible preferred stock because to include them would be anti-dilutive. However, the quarterly dividend of \$6 million associated with the preferred stock has been taken into account in the EPS guidance range.

*FY 2010: Average shares include a pro-rata portion of the 27 million shares associated with the Series A convertible preferred stock. As a result, the 2010 dividends of \$21 million have been excluded when calculating the full-year EPS guidance range.

Note: we evaluate the dilutive effect of the Series A convertible preferred stock on an "if-converted" basis.

Q2 Adjusted Operating Income/Margin

(in millions)	Three Months Ended		
	June 30, 2010		
	Amount	Revenue	Margin
Pre-tax Income/Margin - Reported	\$ 320	\$ 5,508	5.8 %
Adjustments:			
Xerox restructuring charge	11		
Acquisition-related costs	15		
Amortization of intangible assets	85		
Other expenses, net	128		
Operating Income/Margin - Adjusted	\$ 559	\$ 5,508	10.1%

Q2/YTD Free Cash Flow

(in millions)	<u>Three Months Ended</u> <u>June 30,</u> <u>2010</u>	<u>Six Months Ended</u> <u>June 30,</u> <u>2010</u>
Cash from Operations - Reported	\$ 678	\$ 1,053
<u>Adjustments:</u>		
Cost of additions to land, buildings and equipment	(83)	(134)
Cost of additions to internal use software	(44)	(69)
Free Cash Flow	\$ 551	\$ 850

Q2 Adjusted Effective Tax Rate

(in millions)	Three Months Ended June 30, 2010		
	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported	\$ 320	\$ 112	35.0%
Adjustments:			
Xerox restructuring charge	11	4	
Acquisition-related costs	15	1	
Amortization of intangible assets	85	32	
ACS shareholders litigation settlement	36	-	
Adjusted	\$ 467	\$ 149	31.9%

Q2 Adjusted Equity Income

(in millions)	Three Months Ended	
	June 30,	
	2010	2009
Equity Income - Reported	\$ 28	\$ 9
<u>Adjustments:</u>		
Fuji Xerox restructuring charge	5	9
Equity Income - Adjusted	\$ 33	\$ 18

Q2/YTD Adjusted Other, net

(in millions)	Three Months Ended June 30, <u>2010</u>	Six Months Ended June 30, <u>2010</u>
Other expenses, net - Reported	\$ 128	\$ 238
Adjustments:		
ACS shareholders litigation settlement	(36)	(36)
Venezuela devaluation	-	(21)
Net income attributable to noncontrolling interests	9	17
Other expenses, net - Adjusted	\$ 101	\$ 198

Pro-forma Reconciliation

Total Xerox:

Three Months Ended June 30,

(in millions)	As Reported 2010	As Reported 2009	Pro-forma 2009 ⁽¹⁾	Change	Pro-forma Change
Revenue Category					
Equipment sales	\$ 930	\$ 828	\$ 828	12 %	12 %
Supplies, paper and other	861	774	808	11 %	7 %
Sales	<u>1,791</u>	<u>1,602</u>	<u>1,636</u>	12 %	9 %
Service, outsourcing and rentals	3,553	1,951	3,577	82 %	(1 %)
Finance income	164	178	178	(8 %)	(8 %)
Total Revenues	<u><u>\$ 5,508</u></u>	<u><u>\$ 3,731</u></u>	<u><u>\$ 5,391</u></u>	48%	2%
Service, outsourcing and rentals	\$ 3,553	\$ 1,951	\$ 3,577	82%	(1%)
Add: Finance income	164	178	178		
Add: Supplies, paper and other sales	861	774	808		
Annuity Revenue	<u><u>\$ 4,578</u></u>	<u><u>\$ 2,903</u></u>	<u><u>\$ 4,563</u></u>	58%	-
SAG	\$ 1,163	\$ 1,013	\$ 1,154		
SAG % Revenue	21.1%	27.2%	21.4%	(6.1) pts	(0.3) pts

NOTES:

(1) Pro-forma reflects ACS's 2009 estimated results from April 1st through June 30th in 2009 adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition.

Operating Margin Pro-forma Reconciliation

Total Xerox:

Three Months Ended June 30,

(in millions)	As Reported 2010	As Reported 2009	Pro-forma 2009 ⁽¹⁾	Change	Pro-forma Change
Pre-tax Income	\$ 320	\$ 197	\$ 387		
Adjustments:					
Xerox restructuring charge	11	(1)	(1)		
Acquisition related costs	15	-	-		
Amortization of intangible assets	85	15	15		
Other expenses, net	128	72	97		
Adjusted Operating Income	\$ 559	\$ 283	\$ 498		
Pre-tax Income Margin	5.8%	5.3%	7.2%	0.5 pts	(1.4) pts
Adjusted Operating Margin	10.1%	7.6%	9.2%	2.5 pts	0.9 pts

NOTES:

- (1) Pro-forma reflects ACS's 2009 estimated results from April 1st through June 30th in 2009 adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition.

Segment Pro-forma Reconciliation

Services Segment:

Three Months Ended June 30,

(in millions)	As Reported 2010	As Reported 2009	Pro-forma 2009 ⁽¹⁾	Change	Pro-forma Change
Document Outsourcing	\$ 836	\$ 850	\$ 850	(2 %)	(2 %)
Business Processing Outsourcing ⁽²⁾	1,341	-	1,306	*	3 %
Information Technology Outsourcing	352	-	354	*	(1 %)
Total Revenue - Services	\$ 2,529	\$ 850	\$ 2,510	198%	1%
Segment Profit - Services	\$ 319	\$ 61	\$ 282	*	13%
Segment Margin - Services	12.6%	7.2%	11.2%		

* Percent change not meaningful.

NOTES:

- (1) Pro-forma reflects ACS's 2009 estimated results from April 1st through June 30th in 2009 adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses and other material non-recurring costs associated with the acquisition.
- (2) BPO does not include at this time historic Xerox BPO services, those are included in Document Outsourcing.