XEROX CORP
Form 10-K
February 27, 2017

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2016
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: ______ to: _______
Commission File Number 001-04471

XEROX CORPORATION
(Exact Name of Registrant as specified in its charter)

New York	16-0468020
(State of incorporation)	(IRS Employer Identification No.)
P.O. Box 4505, 45 Glover Avenue, Norwalk, Connecticut 06856-4505	(203) 968-3000
(Address of principal executive offices)	(Registrants telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange
	Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

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

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

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

Class	Outstanding at January 31, 2017
Common Stock, $1 par value	1,016,583,502

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated herein by reference:

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

FORWARD-LOOKING STATEMENTS

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

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

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. Such factors include, but are not limited to: our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to manage changes in the printing environment and markets and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; the risk that we do not realize all of the expected strategic and financial benefits from the separation and spin-off of our Business Process Outsourcing (BPO) business; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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FORM 10-K
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PART I

ITEM 1. BUSINESS

Company Separation

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

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

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

Our Business

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

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

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

Our Strategy and Business Model

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

Maintain Market Leadership and Focus on Strategic Growth Areas

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

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

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

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

Innovate to Differentiate Our Offerings

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

Accelerate Productivity and Cost Initiatives through Strategic Transformation

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

Engage, Develop and Support Our People

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

Annuity-Based Business Model and Shareholder-Centered Capital Allocation

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

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

Acquisitions and Divestitures

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

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

Innovation and Research

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

Our research efforts can be categorized under four themes:

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

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

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

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

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

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

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

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

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

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

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

Segment Information

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

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

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

Revenues

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

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

- In our MPS business, we help companies assess and optimize their print infrastructure, secure and integrate their environment and automate and simplify their business processes. We provide the most comprehensive portfolio of MPS services in the industry and are recognized as an industry leader by major analyst firms including Gartner, IDC, Quocirca, InfoTrends and Forrester. As the market leader in MPS, we help clients reduce costs, increase productivity and meet their environmental sustainability goals while supporting their mobile and security needs.
  Our MPS offering targets clients ranging from large, global enterprises, to governmental entities and to small and medium-sized businesses, including those served via our channel partners.

Our Next Generation Xerox Partner Print Services is a comprehensive suite of services that allows channel partners to support their SMB customers with some of the same best-in-class tools, processes, and workflow solutions developed by Xerox for large enterprises.

Our Xerox Workflow Automation Services help our customers assess, optimize and automate their workflow in a secure and integrated IT environment. By eliminating ineffective processes, we bring our clients operational excellence in routine workflows as well as industry-specific processes.

- In our CMS business, we help large enterprise and global clients drive effective multi-channel customer communications across different digital and physical touch points. CMS offers a full range of managed services that deliver relevant and timely communications focused on customer acquisition, onboarding or retention. Our portfolio includes Document Publishing Services and Transactional Print Services, which continue to serve our existing and well established print and publishing clients. It also includes an expanded suite of service offerings focused on our new on-line digital services including Collateral Management Services, Demand Generation Services, Inbound and Outbound Digital Services, Product Information Management Services and multi-channel Communication Services.

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

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

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

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

Geographic Information

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

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

Patents, Trademarks and Licenses

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

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

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

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

Marketing and Distribution

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

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

Competition

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

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

Global Employment

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

Customer Financing

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

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

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

Manufacturing and Supply

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

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

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

Fuji Xerox

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

International Operations

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

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

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

Other Information
Xerox is a New York corporation, organized in 1906, and our principal executive offices are located at 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856-4505. Our telephone number is (203) 968-3000. As of March 27, 2017, our principal executive offices will be located at 201 Merritt 7, P.O. Box 4505, Norwalk, Connecticut 06856-4505.
In the Investor Information section of our Internet website, you will find our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. We make these documents available as soon as we can after we have filed them with, or furnished them to, the U.S. Securities and Exchange Commission.

Our Internet address is www.xerox.com.

ITEM 1A. RISK FACTORS
If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.
We are in the process of addressing many challenges facing our business. One set of challenges relates to dynamic and accelerating market trends, such as the declines in installations and printed pages, fewer devices per location and an increase in electronic documentation. A second set of challenges relates to changes in the competitive landscape. Our primary competitors are exerting increased competitive pressure in targeted areas and are entering new markets; our emerging competitors are introducing new technologies and business models. These market and competitive trends make it difficult to reverse the current declines in revenue over the past several years. A third set of challenges relates to our continued efforts to reduce costs and increase productivity in light of declining revenues. In addition, we are vulnerable to increased risks associated with our efforts to address these challenges given the markets in which we compete, as well as, the broad range of geographic regions in which we and our customers and partners operate. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.
Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes.
A significant portion of our revenue is generated from operations outside the United States. In addition, we maintain significant operations and acquire or manufacture many of our products and/or their components outside the United States. Our future revenues, costs and results of operations could be significantly affected by changes in foreign currency exchange rates - particularly the Japanese Yen to the U.S. Dollar and Euro and the Pound Sterling and Euro to the U.S. Dollar - as well as by a number of other factors, including changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements, local tax issues, capitalization and other related legal matters. We generally hedge foreign currency denominated assets, liabilities and anticipated transactions primarily through the use of currency derivative contracts. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. We do not hedge the translation effect of international revenues and expenses, which are denominated in currencies other than our U.S. parent functional currency, within our consolidated financial

statements. If our future revenues, costs and results of operations are significantly affected by economic conditions abroad and we are unable to effectively hedge these risks, they could materially adversely affect our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to breaches of our security systems, cyber attacks and service interruptions which could expose us to liability, litigation, and regulatory action and impair our reputation.
We have implemented security systems with the intent of maintaining and protecting our own, and our customers', clients' and suppliers' confidential information, including information related to identifiable individuals, against unauthorized access or disclosure. Despite such efforts, we may be subject to breaches of our security systems resulting in unauthorized access to our facilities or information systems and the information we are trying to protect. The techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. Therefore, we may be unable to anticipate these techniques or implement sufficient preventative measures. Unauthorized access to our facilities or electronic information systems, or those of our suppliers, or accidental loss or disclosure of proprietary or confidential information about us, our clients or our customers could result in, among other things, a total shutdown of our systems that would disrupt our ability to conduct business or pay vendors and employees, unfavorable publicity, governmental inquiry and oversight, difficulty in performing or marketing our services, litigation by affected parties and possible financial obligations for damages related to the theft or misuse of such information, any of which could have a material adverse effect on our profitability and cash flow. We may also find it necessary to make significant further investments to protect this information and our infrastructure.
We have outsourced a significant portion of our overall worldwide manufacturing operations and increasingly are relying on third-party manufacturers, subcontractors and external suppliers.
We have outsourced a significant portion of our overall worldwide manufacturing operations to third parties and various service providers. To the extent that we rely on third-party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming similar third-party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage our relationships with our customers and reduce our market share, all of which could materially adversely affect our results of operations and financial condition.
In addition, in our services business we may partner with other parties, including software and hardware vendors, to provide the complex solutions required by our customers. Therefore, our ability to deliver the solutions and provide the services required by our customers is dependent on our and our partners' ability to meet our customers' requirements and schedules. If we or our partners fail to deliver services or products as required and on time, our ability to complete the contract may be adversely affected, which may have an adverse impact on our revenue and profits.
We need to successfully manage changes in the printing environment and market because our operating results may be negatively impacted by lower equipment placements and usage trends.

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

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

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

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

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

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

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

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

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

The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). At December 31, 2016, we were in full compliance with the covenants and other provisions of the Credit Facility. Failure to comply with material provisions or covenants in the Credit Facility could have a material adverse effect on our liquidity, results of operations and financial condition.
Our business, results of operations and financial condition may be negatively impacted by legal and regulatory matters.
We have various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement laws; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations, as discussed in the “Contingencies” note in the Consolidated Financial Statements. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual or materially increase an existing accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts above any existing accruals, it could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.
Due to the international scope of our operations, we are subject to a complex system of commercial and trade regulations around the world. Recent years have seen an increase in the development and enforcement of laws regarding trade compliance and anti-corruption, such as the U.S. Foreign Corrupt Practices Act and similar laws from other countries. Our numerous foreign subsidiaries, affiliates and joint venture partners are governed by laws, rules and business practices that differ from those of the U.S. The activities of these entities may not comply with U.S. laws or business practices or our Code of Business Conduct. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our reputation, business and results of operations or financial condition. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.
Our operations and our products are subject to environmental regulations in each of the jurisdictions in which we conduct our business and sell our products. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. For example, various countries and jurisdictions have adopted, or are expected to adopt, restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items that we use or sell. Recently, a number of studies have been published by third parties regarding chemicals utilized in our industry, as well as potential health/safety impacts of machine emissions. Additional studies are planned, and depending on the results of such studies, regulatory initiatives could follow. Xerox is monitoring these developments. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prohibited from selling our products in their existing forms, which could have a material adverse effect on our results of operations and financial condition. Further, various countries and jurisdictions have adopted or are expected to adopt, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition.
Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements and/or possible bans on the use of certain chemicals, various efforts to limit energy use in products and other environmentally related programs impacting products and operations, such as those associated with climate change accords, agreements and regulations. For example, the European Union's Energy-Related Products Directive (ERP) has led to the adoption of “implementing measures” or "voluntary agreements" that require certain classes of products to achieve certain design and/or performance standards, in connection with energy use and potentially other environmental parameters and impacts. A number of our products are already required to comply with ERP requirements and further regulations are being developed by the EU authorities. Another example is the European

Union “REACH” Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that requires parties throughout the supply chain to register, assess and disclose information regarding many chemicals in their products. Depending on the types, applications, forms and uses of chemical substances in various products, REACH and similar regulatory programs in other jurisdictions could lead to restrictions and/or bans on certain chemical usage. In the United States, the Toxics Substances Control Act

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.
Part II

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

Stock Exchange Information

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

Xerox Common Stock Prices and Dividends

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

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* Price as of close of business.

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

Common Shareholders of Record

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

PERFORMANCE GRAPH

Total Return To Shareholders

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

Source: Standard & Poor's Investment Services

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

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

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

Dividend Equivalent

(a) Securities issued on October 31, 2016: Registrant issued 6,789 deferred stock units (DSUs), representing the right to receive shares of Common stock, par value $1 per share, at a future date.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Jonathan Christodoro, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Sara Martinez Tucker and Mary Agnes Wilderotter.

(c) The DSUs were issued at a deemed purchase price of $10.11 per DSU (aggregate price $68,637), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant’s 2004 Equity Compensation Plan for Non-Employee Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2016
Board Authorized Share Repurchase Program
Repurchases of Xerox Common Stock, par value $1 per share include the following:

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

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

Repurchases Related to Stock Compensation Programs[1]:

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

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

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEARS IN REVIEW
(in millions, except per-share data)

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

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

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

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

(4) Includes capital lease obligations.

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

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

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

Executive Overview

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

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

Separation Update

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

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

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

Market Strategy

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

- Document Outsourcing, especially managed print services in the small and medium business - or SMB - market.
-

Entry products, where pages are moving from single-function A4 sized printers to higher value A4 multi-function printers where we are better positioned.

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

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

Post-sale based Business Model

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

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

Strategic Transformation Program

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

Financial Overview

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

2016 Net income from continuing operations attributable to Xerox was $616 million and included $305 million of after-tax amortization of intangible assets, restructuring and related costs and non-service retirement-related costs, resulting in adjusted net income from continuing operations of $921 million. Net income from continuing operations attributable to Xerox for 2015 was $848 million and included $130 million of after-tax amortization of intangible assets, restructuring and related costs and non-service retirement-related costs, resulting in adjusted net income of

$978 million. The increase in adjustments is largely due to an increase in 2016 pre-tax restructuring and related costs of $237 million ($165 million after-tax). The decline in adjusted net income is largely due to lower revenues being only partially offset by cost savings and productivity improvements.

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

2017 Outlook

We expect total revenues to continue to decline in 2017 in the mid-single digit range, excluding the impact of currency. However, we do expect revenue trends to improve during the second half of the year as we start to see the benefit from the new product launches and other growth initiatives. At January 2017 exchange rates, we expect currency to have about a 2-percentage point negative impact on total revenues in 2017, reflecting the continued weakening of our major foreign currencies against the U.S. dollar as compared to prior year. GAAP earnings are expected to be lower in 2017 as higher non-service retirement costs from increased settlement losses are expected to be only partially offset by lower restructuring expense. Adjusted earnings in 2017 are expected to be lower as the decline in revenues, unfavorable currency and higher taxes are only partially offset by cost savings and productivity improvements from Strategic Transformation, along with lower interest expense from anticipated debt repayment. We expect 2017 cash flows from continuing operations to be between $700 million and $900 million and capital expenditures to be approximately $175 million. The decrease from 2016 is largely due to higher restructuring payments and pension contributions.

Our capital allocation plan for 2017 includes the following:

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

Currency Impact

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as "constant currency", “currency impact” or “the impact from currency.” This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency. In 2016 we revised our calculation of the currency impact on revenue growth, or constant currency revenue growth, to include the currency impacts from the developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe), which had been previously excluded from the calculation. As a result of economic changes in these markets over the past few years, we currently manage our exchange risk in our developing market countries in a similar manner to the exchange risk in our developed market countries, and therefore, the exclusion of the developing market countries from the calculation of the currency effect is no longer warranted. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

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

Application of Critical Accounting Policies

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

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

Revenue Recognition

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

- Bundled Lease Arrangements
- Sales to Distributors and Resellers

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

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

Allowance for Doubtful Accounts and Credit Losses

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

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

As discussed above, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology was consistently applied for all periods presented. During the three year period ended December 31, 2016, our reserve for doubtful accounts ranged from 3.6% to 3.7% of gross receivables. Holding all assumptions constant, a 0.5-percentage point increase or decrease in the reserve from the December 31, 2016 rate of 3.6% would change the 2016 provision by approximately $24 million.
Refer to Note 5 - Accounts Receivables, Net and Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information regarding our allowance for doubtful accounts.

Pension Plan Assumptions

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

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

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

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

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

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

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

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

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

(1) Excludes U.S. settlement losses.

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

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

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

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

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

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

Income Taxes

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

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

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

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

Business Combinations and Goodwill

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

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

Goodwill is not amortized but rather is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment may have been incurred. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, macro and reporting unit specific economic factors, supply costs, unanticipated competitive activities and acts by governments and courts. Application of the annual goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and the assessment qualitatively or quantitatively - of the fair value of each reporting unit against its carrying value. At December 31, 2016, we had two reporting units with goodwill balances - Document Technology with $2.3 billion of goodwill and Document Outsourcing with $1.5 billion of goodwill. Consistent with prior years, our annual impairment test of goodwill was performed in the fourth quarter of 2016 and we elected to utilize a quantitative assessment of the recoverability of our goodwill balances for our reporting units.

In our quantitative test, we estimate the fair value of each reporting unit by weighting the results from the income approach (discounted cash flow methodology) and market approach. These valuation approaches require significant judgment and consider a number of factors that include, but are not limited to, expected future cash flows, growth rates and discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding the current economic environment, industry factors and the future profitability of our businesses. When performing our discounted cash flow analysis for each reporting unit, we incorporate the use of projected financial information and discount rates that are developed using market participant-based assumptions. The cash flow projections are based on three-year financial forecasts developed by management that include revenue and expense projections, capital spending trends and investment in working capital to support anticipated revenue growth or other changes in the business and which are consistent with expected guidance for the Company as a whole. The selected discount rates consider the risk and nature of the respective reporting units' cash flows and an appropriate capital structure and rates of return that market participants would require to invest their capital in our reporting units.

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

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

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

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

BPO Business

As previously noted, the goodwill associated with the three reporting units comprising the BPO business was tested prior to the separation of the BPO business as part of the annual impairment test in the fourth quarter 2016 based on projections and information provided by Conduent management. Upon completion of that review, it was determined that the fair value of the Commercial Services reporting unit of the BPO business was below its carrying value. Goodwill was determined not to be impaired for the two other BPO business reporting units with goodwill balances. The decline in the estimated fair value of the Commercial Services reporting unit resulted from Conduent management’s expectations for lower projected revenue growth and profitability levels for this reporting unit following lower-than-expected results in the fourth quarter 2016 and the resultant increase in the company-specific risk premium that is included in the discount rate used to calculate the discounted cash flows. The increase in the company-specific risk premium reflects the challenges this reporting unit is expected to have in achieving its projected cash flows as well as market indicators, such as the market capitalization of Conduent, post Separation.

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

Revenue Results Summary

Total Revenue

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

	Revenues			% Change		CC % Change		Percent of Total Revenue		
(in millions)	2016	2015	2014	2016	2015	2016	2015	2016	2015	2014
Equipment sales	$2,525	$2,781	$3,104	(9)%	(10)%	(8)%	(6)%	23 %	24 %	24 %
Annuity/Post-Sale revenue	8,246	8,684	9,575	(5)%	(9)%	(3)%	(4)%	77 %	76 %	76 %
Total Revenue	$10,771	$11,465	$12,679	(6)%	(10)%	(4)%	(5)%	100%	100%	100%
Reconciliation to Consolidated Statements of (Loss) Income:										
Sales	$4,319	$4,674	$5,214							
Less: Supplies, paper and other sales	(1,794)	(1,893)	(2,110)							
Equipment Sales	$2,525	$2,781	$3,104	(9)%	(10)%	(8)%	(6)%			
Outsourcing, maintenance and rentals	$6,127	$6,445	$7,078	(5)%	(9)%	(3)%	(3)%			
Add: Supplies, paper and other sales	1,794	1,893	2,110	(5)%	(10)%	(3)%	(6)%			
Add: Financing	325	346	387	(6)%	(11)%	(5)%	(4)%			
Annuity/Post-Sale Revenue	$8,246	$8,684	$9,575	(5)%	(9)%	(3)%	(4)%			

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

Revenue 2016

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

- Annuity/Post-Sale revenue decreased 5% compared to the prior year with a 2-percentage point negative impact from currency. Annuity revenue is comprised of the following:

Outsourcing, maintenance and rentals revenue includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of $6,127 million decreased 5%, including a 2-percentage point negative impact from currency. The decline at constant currency[1] was driven by our Document Technology segment, while modest growth at constant currency[1] in Document Outsourcing provided a partial offset.

Supplies, paper and other sales includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of $1,794 million decreased 5% from the prior year, including a 2-percentage point negative impact from currency. The decline in constant currency[1] was largely driven by lower supplies sales, as we experienced lower demand consistent with lower equipment sales in prior periods, and OEM supplies below prior year levels.

Financing revenue is generated from financed equipment sale transactions primarily within our Document Technology segment. Financing revenues decreased 6% from the prior year reflecting a declining finance receivables balance due to lower equipment sales in prior periods, as well as a 1-percentage point negative impact from currency. Refer to the discussion on Sales of Finance Receivable in the Capital Resources and Liquidity section as well as Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

- Equipment sales revenue is reported primarily within our Document Technology segment and the Document Outsourcing business within our Services segment. Equipment sales revenue decreased 9% from the prior year, including a 1-percentage point negative impact from currency. The decline in equipment revenue was driven primarily by lower entry and mid-range sales, which partially reflects the timing of product launches, as well as lower OEM sales; the decline is also partially driven by lower sales in the developing markets, along with lower revenue from our high-end products (reflecting an unfavorable mix) and lower sales to Fuji Xerox. Revenue was also impacted by price declines of approximately 5%, in-line with our historic impact, as well as the modest decline in the overall market in which we operate.

Revenue 2015

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

- Annuity/Post-Sale revenue decreased 9% compared to the prior year with a 5-percentage point negative impact from currency. Annuity revenue is comprised of the following:

Outsourcing, maintenance and rentals revenue includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. Revenues of $6,445 million decreased 9%, including a 6-percentage point negative impact from currency and was primarily due to a decline in the Document Technology segment. The decline at constant currency[1] was also driven by our Document Technology segment.

Supplies, paper and other sales includes unbundled supplies and other sales, primarily within our Document Technology segment. Revenues of $1,893 million decreased 10% from the prior year including a 4-percentage point negative impact from currency. The decline in constant currency[1] was largely driven by lower supplies sales, as we experienced lower demand consistent with lower equipment sales in prior periods, OEM supplies below prior year levels and continued weakness in developing markets. Modest growth at constant currency[1] in Document Outsourcing provided a partial offset.

Financing revenue is generated from financed equipment sale transactions primarily within our Document Technology segment. Financing revenues decreased 11% from the prior year including a 7-percentage point negative impact from currency and a declining finance receivables balance due to lower prior period equipment sales. Refer to the discussion on Sales of Finance Receivable in the Capital Resources and Liquidity section as well as Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

- Equipment sales revenue is reported primarily within our Document Technology segment and the Document Outsourcing business within our Services segment. Equipment sales revenue decreased 10% from the prior year, including a 4-percentage point negative impact from currency. The constant currency[1] decline was driven by developing markets with the remainder reflecting lower high-end and OEM sales. Revenue was also impacted by price declines of approximately 5%, in-line with our historic impact. These areas of decline were partially offset by DO equipment sales growth.

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

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

Costs, Expenses and Other Income

Summary of Key Financial Ratios

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

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

Pre-tax Income Margin

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

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

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

Adjusted Operating Margin[1]

Adjusted Operating margin[1] for the year ended December 31, 2016 of 12.5% decreased 0.2-percentage points compared to 2015. Adverse currency as well as higher compensation expense resulting from a favorable prior-year compensation benefit adjustment, lower Equity in net income of unconsolidated affiliates associated with our share of Fuji Xerox net income, and an overall decline in total company revenue more than offset benefits from Strategic Transformation cost saving and productivity initiatives.

Adjusted Operating margin[1] for the year ended December 31, 2015 of 12.7% decreased 0.6-percentage points compared to 2014. The operating margin decline primarily reflects the decline in revenues and unfavorable currency partially offset by cost savings and productivity improvements.

Gross Margin

Total gross margin for the year ended December 31, 2016 of 39.6% decreased 0.4-percentage points compared to 2015. On an adjusted[1] basis, gross margin of 40.0% decreased by 0.3-percentage points compared to 2015 as price declines and unfavorable currency were only partially offset by the benefits from cost savings and productivity improvements from Strategic Transformation that increased during the second half of the year. The 0.1-percentage point differential in the decrease from adjusted[1] to reported gross margin is due to higher non-service retirement related costs primarily due to a $22 million curtailment gain recorded in 2015.

Total gross margin for year ended December 31, 2015 of 40.0% decreased 0.3-percentage points compared to 2014. On an adjusted[1] basis, gross margin of 40.3% decreased 0.2-percentage points compared to 2014 as price declines and unfavorable product mix were only partially offset by the benefits from cost savings and productivity improvements. The 0.1-percentage point differential in the decrease from adjusted[1] to reported gross margin is due to higher non-service retirement related costs due primarily to higher settlement costs in 2015 compared to 2014.

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

Research, Development and Engineering Expenses (RD&E)

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

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

RD&E as a percent of revenue for the year ended December 31, 2016 of 4.4% decreased 0.1-percentage points. On an adjusted[1] basis, RD&E was 4.2% of revenue and decreased 0.1-percentage points due to cost productivity and restructuring savings.

RD&E of $476 million for the year ended December 31, 2016, decreased $35 million from 2015. On an adjusted[1] basis, RD&E of $451 decreased by $41 million. We strategically coordinate our R&D investments with Fuji Xerox.

RD&E as a percent of revenue for the year ended December 31, 2015 of 4.5% increased 0.3-percentage points. On an adjusted[1] basis, RD&E was 4.3% of revenue and increased 0.2-percentage points due to overall total company revenue decline.

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

Selling, Administrative and General Expenses (SAG)

SAG as a percent of revenue of 25.0% was flat as compared to the prior year ended December 31, 2015. On an adjusted[1] basis, SAG as a percentage of revenue of 24.5% was also flat as compared to 2015. Higher compensation expense as well as the decline in total company revenue were offset by benefits from Strategic Transformation cost saving and productivity initiatives, which include restructuring savings.

SAG expenses of $2,695 million for the year ended December 31, 2016 were $170 million lower than the prior year period. On an adjusted basis[1], SAG of 2,638 million decreased $173 million, including an approximate $58 million favorable impact from currency and reflected the following:

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

SAG as a percent of revenue of 25.0% increased 0.3-percentage points compared to the prior year ended December 31, 2014. On an adjusted[1] basis, SAG as a percentage of revenue of 24.5% increased 0.1-percentage points. The increase was driven by total company revenue decline only partially offset by restructuring and productivity improvements and lower compensation expense.

SAG expenses of $2,865 million for the year ended December 31, 2015 were $268 million lower than the prior year period. On an adjusted basis[1], SAG of 2,811 million decreased $285 million and reflected the following:

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

Restructuring and Asset Impairment Charges

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

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

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

The above charges were partially offset by $22 million of net reversals for changes in estimated reserves from prior period initiatives, as well as a gain of $5 million from the sale of real estate impaired in prior periods.
We expect 2017 pre-tax savings of approximately $140 million from our 2016 restructuring actions.

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

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

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

Restructuring Summary

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

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

Amortization of Intangible Assets

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

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

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

Worldwide Employment

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

Other Expenses, Net

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

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

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

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

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

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

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

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

Litigation Matters: Litigation matters in 2016 and 2015 reflect probable losses and reserves for various legal matters. Litigation matters in 2014 reflect probable losses and reserves for various legal matters partially offset by the favorable resolution of a securities litigation matter dating from 1999.

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

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

Income Taxes

The 2016 effective tax rate was 10.9%. On an adjusted[1] basis, the 2016 effective tax rate was 20.9%. Both rates were lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the redetermination of certain unrecognized tax positions upon conclusion of several audits and the geographical mix of profits. The effective tax rate of 10.9% also included tax benefits associated with the following charges: restructuring and related costs, amortization of intangible assets and non-service retirement related costs. Excluding these benefits increases the effective tax rate on an adjusted[1] basis. The increase was much higher in 2016 as compared to 2015 due to a higher level of charges.

The 2015 effective tax rate was 20.9%. On an adjusted[1] basis, the 2015 effective tax rate was 24.0%. Both rates were lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the retroactive impact of the Protecting Americans from Tax Hikes Act as well as the geographical mix of profits.

The 2014 effective tax rate was 18.2%. On an adjusted[1] basis, the 2014 effective tax rate was 24.8%. Both rates were lower than the U.S. statutory tax rate primarily due to benefits from the redetermination of certain unrecognized tax positions upon conclusion of several audits, foreign tax credits and the retroactive impact from the U.S. Tax Increase Prevention Act of 2014 as well as the geographical mix of profits. The effective tax rate of 18.2% also included tax benefits associated with the following charges: restructuring and related costs, amortization of intangible assets and non-service retirement related costs as well as a $44 million benefit for a deferred tax liability adjustment associated with a tax law change[(2)].

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

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

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(1) See the "Non-GAAP Financial Measures" section for an explanation of the adjusted effective tax rate non-GAAP financial measure.

(2) In December 2014 a change in the U.K. - Japan Tax Treaty resulted in dividends from FX no longer being subject to a withholding tax. Accordingly, in 2014, we recorded a $44 million reversal of the deferred tax liability associated with the undistributed earnings of FX through December 2014, as it was no longer required as a result of the change in the Tax Treaty.

Equity in Net Income of Unconsolidated Affiliates

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

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

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

Net Income From Continuing Operations

Net income from continuing operations attributable to Xerox for the year ended December 31, 2016 was $616 million, or $0.58 per diluted share. On an adjusted[1] basis, net income attributable to Xerox was $921 million, or $0.88 per diluted share, and reflects adjustments for the amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs.

Net income from continuing operations attributable to Xerox for the year ended December 31, 2015 was $848 million, or $0.77 per diluted share. On an adjusted[1] basis, net income attributable to Xerox was $978 million, or $0.89 per diluted share, and reflects adjustments for the amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs. The increase in earnings per diluted share reflects a lower average share count as a result of share repurchases over the prior three years.

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

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

Discontinued Operations

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

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

Other Comprehensive Loss

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

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

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

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

Recent Accounting Pronouncements

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

Operations Review of Segment Revenue and Profit

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

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

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

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

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

Document Technology Segment

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

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

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

Revenue 2016

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

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

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

Segment Margin 2016

Document Technology segment margin of 13.4% declined 0.7-percentage points from prior year, including a 0.2-percentage point improvement in gross margin. The gross margin increase reflects restructuring and productivity improvements partially offset by price declines and adverse transaction currency. SAG as a percentage of revenue increased 0.9-percentage points, primarily as a result of higher compensation expense and lower segment revenues, which offset restructuring and productivity improvements in this area. Segment margin was also adversely impacted by lower Equity in net income of unconsolidated affiliates associated with our share of Fuji Xerox net income.

Total Installs 2016 (Document Technology and Document Outsourcing[1])

Entry[(2)]

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

Mid-Range[(3)]

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

High-End[(3)]

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

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

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

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

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

Revenue 2015

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

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

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

Segment Margin 2015

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

Installs 2015 (Document Technology and Document Outsourcing[1])

Entry[(2)]

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

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

Mid-Range[(3)]

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

High-End[(3)]

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

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

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

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

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

Services Segment

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

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

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

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

Revenue 2016

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

Segment Margin 2016

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

Metrics

Signings
Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Our DO signings were approximately $2.7 billion in Total Contract Value (TCV). Signings decreased 11% from prior year, with a 6% point negative impact from currency, reflecting lower contribution from new business. New business TCV at constant currency[1] decreased 18% from prior year. These declines reflect, in part, our decision to not pursue opportunities with lower margin and return profiles as well as higher competitive pressure related to timing of product launches. DO signings do not include signings from our growing partner print services offerings.
Note: TCV is the estimated total contractual revenue related to signed contracts.
Renewal Rate
Renewal rate is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period as a percentage of ARR on all contracts for which a renewal decision was made during the period. Our 2016 Document Outsourcing contract renewal rate was 82%, an increase of 4-percentage points as compared to 2015.
Revenue 2015
Services revenue of $3,557 million was 31% of total revenue and decreased 4% with a 6-percentage point negative impact from currency. Our legacy DO revenue decreased 3% and included a 7-percentage point negative impact from currency. Growth at constant currency[1] was primarily driven by growth in our partner print services offerings offset by declines in Europe and other markets due to contract run-off and new contract ramp timing.
Segment Margin 2015
Services segment margin of 12.9% increased 1.0-percentage points from the prior year primarily due to productivity improvements and an improvement in SAG reflecting restructuring benefits partially offset by a decrease in gross margin as well as expenses associated with higher compensation expenses and price declines consistent with prior years.
Other

Our Other segment primarily includes paper sales in developing market countries, network integration solutions and non-allocated corporate items including non-financing interest and other items included in other expenses, net.
Revenue 2016
Other segment revenue of $557 million increased 3%, with a 2-percentage point negative impact from currency. The improvement is driven by higher network integration-related solution sales, and paper sales within our developing markets, which more than offset lower wide format sales.

Other Loss 2016
Other loss of $223 million decreased $2 million from prior year period. Other expenses, net are reported within Other and was $200 million as compared to $195 million in the prior period. In addition to Other expenses, Net, our Other segment included profit increase of $7 million primarily related to higher revenues.
Revenue 2015
Other segment revenue of $543 million decreased 9% due to lower wide format revenues, paper sales as well as networking hardware and integration services.

Other Loss 2015
Other loss of $225 million increased $7 million from prior year period. Other expenses, net are reported within Other and was $195 million as compared to $185 million in the prior period. In addition to Other expenses, Net, our Other segment included a profit increase of $3 million primarily related to higher licensing revenues and network integration sales.
Segment Changes
Following the separation of the BPO business, we are realigning our business to better manage and serve our customers and the markets in which we operate. As a result, in 2017 we expect to shift to a geographic structure

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

Capital Resources and Liquidity

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

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

Cash Flow Analysis

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

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

Cash Flows from Operating Activities

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

- $115 million decrease in pre-tax income before depreciation and amortization, gain on sales of businesses and assets, stock-based compensation, restructuring and related costs and defined benefit pension cost.

- $331 million decrease from higher tax payments resulting from tax sharing with Conduent.

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

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

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

Cash Flows from Investing Activities

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

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

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

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

Cash Flows from Financing Activities

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

- $1,302 million increase, due to the absence of share repurchases in 2016.
-

$1,295 million increase from net debt activity. 2016 reflects net proceeds of $1.9 billion from debt incurred by Conduent in connection with the Separation partially offset by payments of $700 million on Senior Notes and $250 million on Notes. 2015 reflects payment of $1,250 million on Senior Notes and a decrease of $150 million in Commercial Paper offset by net proceeds of $1,045 million from the issuance of Senior Notes.

- $31 million increase due to the absence of a stock-based award vesting in 2016 and the related tax impacts.
- $45 million increase due to lower distributions to noncontrolling interests.
- $10 million decrease due to lower proceeds from the issuance of common stock under our incentive stock plans.

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

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

Debt and Customer Financing Activities

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

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

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

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in our Consolidated Balance Sheets.
(2) The change from December 31, 2015 includes a decrease of $90 million due to currency across all Finance Assets.

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

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

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

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

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

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

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

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

Capital Market Activity

Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information.
Refer to Note 4 - Divestitures and Note 19 - Preferred Stock for additional information regarding capital activity associated with the Separation and Distribution of Conduent.

Financial Instruments

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

Sales of Accounts Receivable

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have financial facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivables, without recourse, to third-parties. The accounts receivables sold are generally short-term trade receivables with payment due dates of less than 60 days.
Refer to Note 5 - Accounts Receivable, Net in the Consolidated Financial Statements for additional information.

Sales of Finance Receivables

In 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities. The transfers were accounted for as sales and resulted in the de-recognition of lease receivables with a net carrying value of $676 million in 2013 and $682 million in 2012, and associated pre-tax gains of $40 million and $44 million, respectively. There have been no sales since 2013. We continue to service the sold receivables and record servicing fee income over the expected life of the associated receivables.
Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for additional information.

Share Repurchase Programs - Treasury Stock

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

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

Dividends

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

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

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

Liquidity and Financial Flexibility

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

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

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

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

(2) Includes $4 million of Notes Payable.

Foreign Cash

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

We believe we have sufficient levels of cash and cash flows to support our domestic requirements. However, if the cash held by our foreign subsidiaries was needed to fund our U.S. requirements, there would not be a significant tax liability associated with repatriation of the cash, as any U.S. liability would be reduced by the foreign tax credits associated with the repatriated earnings. However, our determination above is based on the assumption that only the cash held outside the U.S. would be repatriated as a result of an unanticipated or unique domestic need. It does not assume repatriation of the entire amount of indefinitely reinvested earnings of our foreign subsidiaries. As disclosed in Note 17- Income and Other Taxes in our Consolidated Financial Statements, we have not estimated the potential tax consequences associated with the repatriation of the entire amount of our foreign earnings indefinitely reinvested outside the U.S. We do not believe it is practical to calculate the potential tax impact, as there is a significant amount of uncertainty with respect to determining the amount of foreign tax credits as well as any additional local withholding tax and other indirect tax consequences that may arise from the distribution of these earnings. In addition, because such earnings have been indefinitely reinvested in our foreign operations, repatriation would require liquidation of those investments or a recapitalization of our foreign subsidiaries, the impacts and effects of which are not readily determinable.

Loan Covenants and Compliance

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

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

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

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

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

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(1) Total debt for 2017 includes $4 million of Notes Payable. Refer to Note 13 - Debt in the Consolidated Financial Statements for additional information regarding debt and interest on debt.

(2) Refer to Note 8 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements for additional information related to minimum operating lease commitments.

(3) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. Refer to Note 9 - Investments in Affiliates, at Equity in the Consolidated Financial Statements for additional information related to transactions with Fuji Xerox.

(4) Flextronics: We outsource certain manufacturing activities to Flextronics. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment. In the past two years, actual purchases from Flextronics averaged approximately $409 million per year.

(5) Other purchase commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We currently do not have, nor do we anticipate, material loss contracts.

Pension and Other Post-retirement Benefit Plans

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

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

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. The unfunded balance of our retiree health plans is $761 million at December 31, 2016. Cash contributions are made each year to cover medical claims costs incurred during the year. The amounts reported in the above table as retiree health payments represent our estimate of future benefit payments.

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

Fuji Xerox

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

Brazil Tax and Labor Contingencies

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

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

Other Contingencies and Commitments

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

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

Unrecognized Tax Benefits

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

addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.
Refer to Note 17 - Income and Other Taxes in the Consolidated Financial Statements for additional information regarding unrecognized tax benefits.

Off-Balance Sheet Arrangements

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

- Operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 8 - Land, Buildings, Equipment and Software, Net in the Consolidated Financial Statements.

- We have facilities, primarily in the U.S., Canada and several countries in Europe that enable us to sell to third-parties certain accounts receivable without recourse. In most instances, a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related sold receivables. Refer to Note 5 - Accounts Receivables, Net in the Consolidated Financial Statements for further information regarding these facilities.

- During 2013 and 2012, we entered into arrangements to transfer and sell our entire interest in certain groups of finance receivables where we received cash and beneficial interests from the third-party purchaser. Refer to Note 6 - Finance Receivables, Net in the Consolidated Financial Statements for further information regarding these sales. There were no sales of Finance Receivables since the year ended December 31, 2013.

As of December 31, 2016, we do not believe we have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
In addition, see the preceding table for the Company's contractual cash obligations and other commercial commitments and Note 18 - Contingencies and Litigation in the Consolidated Financial Statements for additional information regarding contingencies, guarantees, indemnifications and warranty liabilities.

Non-GAAP Financial Measures

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

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

Adjusted Earnings Measures

- Net income and Earnings per share (EPS)

- Effective tax rate
- Gross margin, RD&E and SAG (adjusted for non-service retirement-related costs only)

The above measures were adjusted for the following items:
Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.
Restructuring and related costs: Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our Strategic Transformation program beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our Strategic Transformation program are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.
Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortized actuarial gains/losses and (iv) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. Adjusted earnings will continue to include the elements of our retirement costs related to current employee service (service cost and amortization of prior service cost) as well as the cost of our defined contribution plans.
Deferred tax liability adjustment (2014 Only): In December 2014 a change in the U.K. - Japan Tax Treaty resulted in dividends from FX no longer being subject to an additional withholding tax. Accordingly, in 2014, we recorded a $44 million reversal of the deferred tax liability associated with the undistributed earnings of FX through December 2014, as it was no longer required as a result of the change in the Tax Treaty. The deferred tax liability adjustment was excluded due to its non-cash impact and the unusual nature of the item both in terms of amount and the fact that it was the result of an infrequent change in a tax treaty impacting future distributions from Fuji Xerox.
Operating Income and Margin
We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts. In addition to the costs noted for our Adjusted Earnings measures, operating income and margin also excludes Other expenses, net. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business. Operating income and margin includes Equity in net income of unconsolidated affiliates. Equity in net income of affiliates primarily reflects our 25% share of Fuji Xerox net income. We include this amount in our measure of operating income and margin as Fuji Xerox is our primary intermediary to the Asia/Pacific market for distribution of Xerox branded products and services.

Net Income and EPS reconciliation:

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

(1) Net income and EPS from continuing operations.

(2) Refer to Effective Tax reconciliation

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

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

Effective Tax reconciliation:

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

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

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

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

Operating Income / Margin reconciliation:

	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin	Profit	Revenue	Margin

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

(1) Profit and revenue from continuing operations.

Key Financial Ratios reconciliation:

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

(1) Revenue and costs from continuing operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

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

Foreign Exchange Risk Management

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

Interest Rate Risk Management

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Xerox Corporation:

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

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

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

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Stamford, Connecticut

February 27, 2017

REPORTS OF MANAGEMENT

Management's Responsibility for Financial Statements

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

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

Management's Report on Internal Control Over Financial Reporting

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

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

/s/ JEFFREY JACOBSON	/s/ WILLIAM F. OSBOURN JR.	/s/ JOSEPH H. MANCINI, JR.
Chief Executive Officer	Chief Financial Officer	Chief Accounting Officer

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF (LOSS) INCOME

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

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

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

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

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

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

XEROX CORPORATION
CONSOLIDATED BALANCE SHEETS

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

Shares of common stock issued and outstanding	1,014,375	1,012,836

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

XEROX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in millions)	2016	2015	2014
Cash Flows from Operating Activities:			
Net (loss) income	$(466)	$492	$1,036
Loss from discontinued operations	1,093	374	16
Income from continuing operations	627	866	1,052
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	563	590	639
Provision for receivables	43	54	50
Provision for inventory	28	30	26
Deferred tax (benefit) expense	(9)	383	152
Net gain on sales of businesses and assets	(22)	(44)	(51)
Undistributed equity in net income of unconsolidated affiliates	(69)	(79)	(91)
Stock-based compensation	50	27	63
Restructuring and asset impairment charges	230	27	106
Payments for restructurings	(118)	(79)	(110)
Defined benefit pension cost	127	141	74
Contributions to defined benefit pension plans	(178)	(301)	(269)
Increase in accounts receivable and billed portion of finance receivables	(151)	(128)	(392)
Collections of deferred proceeds from sales of receivables	246	259	434
Decrease (increase) in inventories	7	(101)	(22)
Increase in equipment on operating leases	(268)	(291)	(283)
Decrease (increase) in finance receivables	126	(8)	(10)
Collections on beneficial interest from sales of finance receivables	24	46	79
Decrease in other current and long-term assets	82	15	9
(Decrease) increase in accounts payable and accrued compensation	(244)	(125)	54
Decrease in other current and long-term liabilities	(51)	(45)	(121)
Net change in income tax assets and liabilities	(182)	(112)	31
Net change in derivative assets and liabilities	(30)	(37)	(14)
Other operating, net	187	(10)	(73)
Net cash provided by operating activities of continuing operations	1,018	1,078	1,333
Net cash provided by operating activities of discontinued operations	77	533	730
Net cash provided by operating activities	1,095	1,611	2,063
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(93)	(84)	(119)
Proceeds from sales of land, buildings and equipment	25	92	53
Cost of additions to internal use software	(45)	(64)	(57)
Proceeds from sale of businesses	—	—	10
Acquisitions, net of cash acquired	(30)	(13)	(34)
Other investing, net	(3)	26	13
Net cash used in investing activities of continuing operations	(146)	(43)	(134)
Net cash (used in) provided by investing activities of discontinued operations	(251)	551	(569)
Net cash (used in) provided by investing activities	(397)	508	(703)
Cash Flows from Financing Activities:			
Net proceeds (payments) on short-term debt	1,888		