

Section 86.1 Information for Canadian Shareholders of Xerox Corporation and Additional Information for Québec Income Tax Filers

On December 31, 2016, Xerox Corporation completed a reorganization in which it spun-off its subsidiary Conduent Incorporated. If you received your Conduent Incorporated common shares in this reorganization, this summary contains important Canadian tax information that may be relevant to you.¹

Where a Canadian shareholder of share(s) of a foreign company (“distributing company”) receives a distribution of shares (“spin-off shares”) as a result of the distributing company’s eligible corporate reorganization (“spin-off”), section 86.1 of the federal Canadian *Income Tax Act* may permit such a spin-off share distribution to pass to the shareholder on a rollover (i.e., tax-deferred) basis, provided the shareholder complies with certain filing requirements specified in section 86.1.

This memo provides a basic overview of the filing requirements pursuant to section 86.1 as they may apply to the December 31, 2016 **Xerox Corporation** (“XRX”) spin-off of **Conduent Incorporated** (“CNDT”), which has been approved by the Canada Revenue Agency as eligible for Canadian tax purposes. Additional information for Québec income tax filers is provided in a separate section below.

PLEASE NOTE THAT THIS MEMO PROVIDES ONLY A BASIC OVERVIEW OF THE FILING REQUIREMENTS AND OFFERS NO ACCOUNTING OR TAX GUIDANCE, AS A TAX ADVISOR SHOULD BE CONSULTED FOR THOSE PURPOSES.

A Summary of the Spin-Off

XRX’s December 31, 2016 (“Distribution Date”) transactions affecting the Canadian shareholders involved:

- On the Distribution Date, 100% of CNDT common shares were distributed, through a pro-rata distribution, to holders of XRX Common Shares (“common shareholder”) (“Spin-off”). Each XRX common shareholder received one (1) CNDT common share for every five (5) XRX common shares owned at the close of business on December 15, 2016.
- The distribution agent will not be distributing any fractional shares in connection with the spin-off, rather fractional shares will be aggregated into whole shares to which they will be sold in the open market at prevailing market prices. XRX shareholders, who would have otherwise received a fractional share, will be entitled to the aggregate cash proceeds of the sale (net of brokerage fees and other costs) on a pro-rata basis.

Basic Overview - Section 86.1 Election Requirements

In order for the spin-off shares on an eligible distribution to pass to the shareholder on a rollover basis, paragraph 86.1(2)(f) of the *Income Tax Act* requires the shareholder to provide the following documentation and information to the Canada Revenue Agency (“CRA”):

¹ Certain taxpayer are not affected by the filing requirements pursuant to 86.1 (i.e. non-residents of Canada, shareholders that held XRX shares in an RRSP, RRIF, TFSA or other Canadian tax-exempt plan).

1. A letter addressed to the CRA stating that the taxpayer wishes section 86.1 of the *Income Tax Act* to apply to the distribution (the taxpayer must use a letter as there is currently no prescribed form for this specific election);
2. The letter must be filed with the taxpayer's income tax return within the prescribed filing time for the taxation year in which the distribution took place (late filings may be accepted, but penalties may apply);
3. The letter must state the following information about the shares of the distributing company ("original shares") the taxpayer owned **immediately before** the distribution of the spin-off shares to the shareholder:
 - i. The number of the original shares owned;
 - ii. The aggregate adjusted cost base of all the original shares to the taxpayer (i.e. the price the shareholder paid on acquisition of the XRX common shares);
 - iii. The aggregate fair market value of the original shares (see section "Determining the Fair Market Value of the Shares" below);
4. The letter must state the following information about the CNDT and original shares the taxpayer owned **immediately after** the distribution:
 - i. The number of the original shares owned;
 - ii. The aggregate fair market value of the original shares (see section "Determining the Fair Market Value of the Shares" below);
 - iii. The number of the CNDT shares received;
 - iv. The aggregate fair market value of the CNDT shares (see section "Determining the Fair Market Value of the Shares" below).

For greater certainty, the original and spin-off shares are the XRX common shares and CNDT common shares, respectively.

Determining the Cost of the Shares

The cost of the original shares is determined by the allocation of the tax basis between a XRX common share and CNDT common share based on their relative fair market value immediately after the distribution of the CNDT common shares. The fair market value determination is not prescribed or defined under the *Income Tax Act*. The approach taken by XRX is based on the fair market values of the average high and low trading prices of XRX common shares and CNDT common shares on the trading after the Distribution, January 3, 2017. The average of the high and low trading price of XRX common shares and CNDT common shares was \$6.73 and \$14.21, respectively.

See below for the tax basis allocation percentage:

| No. of Shares after | Fair Market Value | Total Fair Market | Tax Basis Allocation |
|---------------------|-------------------|-------------------|----------------------|
|---------------------|-------------------|-------------------|----------------------|

| | Distribution | | Value | (%) |
|------|--------------|---------|----------|--------|
| XRX | 100 | \$6.73 | \$673.00 | 70.31% |
| CNDT | 20 | \$14.21 | \$284.20 | 29.69% |

Summary of the Purpose of the Election

If the election is not made then the expectation is that the value of the CNDT shares received will be 100% taxable as a dividend in respect of the XRX shares held. This dividend income may already reported on any form T5 received although certain funds assume the election will be made and don't include it. The adjusted cost base of the XRX shares would not change.

If the election is made then the dividend income would not be subject to tax and therefore could be deducted from the amount otherwise reported per the form T5 if the dividend income was included on the T5 reporting. The cost basis of the XRX common shares prior to the spin-off would be allocated between the XRX and CNDC shares per the allocation noted above.

Additional Information for Québec Income Tax Filers

Québec income tax filers who wish to take advantage of the section 86.1 rollover for the XRX distribution for both, the federal and Québec tax purposes, should enclose, in their Québec income tax returns, a copy of the section 86.1 election letter addressed to the CRA and also a separate letter addressed to Revenu Québec explaining that the enclosed copy of the letter to the CRA is in compliance with subsection 578.1(f) of the Québec *Taxation Act* and sets out the information required by subsection 578.3(2) of the Québec *Taxation Act*. Québec filers should additionally enclose a copy of the CRA letter which confirms the eligibility of the December 31, 2016 Spin-Off.