Our word. Our work. Our world.

XEROX®

Improving the world through our work.

Inspiring the work through our word.

Our commitment to global citizenship starts with our word, which is our inspiration and our bond. If we speak it, we do it. We walk the talk.

Our word leads to the important work we do to make the world a better place – from environmental stewardship and sustainability to ethical governance and community involvement. By performing this important work, and reporting on it in a uniform transparent manner, we are standing by our word.

Our profit-making activities improve commerce, at home and abroad, and the lives of those it touches. The work of our foundation, and other non-profit work, is directed to where it is needed. It is not an overstatement to say that our work, inspired by our word, influences the world, yours and ours, every day.

Chairman's Letter

Dear Stakeholders:

All of us at Xerox are keenly aware that we serve a wide variety of constituencies – our shareholders who trust us to give them a good return on their investment; our customers who trust us to help them be more productive and successful; our employees who trust us to treat them fairly and provide them with a workplace that enables them to contribute and grow; and our communities who trust us to act responsibly and to strive to leave our world a little better than we found it.

The foundation for that trust is our word. When we say we will do something, we give every ounce of energy to deliver on our promise. When we fall short we admit it, we learn from it and we move forward with renewed intensity. One very telling and measurable sign is our performance in the marketplace: we have met our earnings expectations in 20 of the past 21 quarters.

Our word is very important to us. So is our work. Our ability to respond to *all* constituents effectively rests on the success of Xerox as both a business enterprise *and* a socially responsible institution. We are on a never-ending effort to demonstrate that good business and good citizenship are not only compatible, but synergistic.

A case in point is our commitment to diversity. It was born out of a desire to do the right thing – to be part of the solution to the race riots that plagued American cities in the mid-1960s. We quickly saw that a diverse workforce was a better workforce in a myriad of ways. This is a company that thrives on innovation. Diversity is key to keeping us on the cutting edge of what is possible. There's mounting evidence to document what we've always believed – that a diverse workforce is more creative, more dynamic, more open to new ideas and more challenging of the status quo. Today diversity is integrated into the way we do business. In fact, we view it as a business imperative. What began as good citizenship has morphed into competitive advantage. We have one of the most diverse workforces in industry – top to bottom. We believe it's no coincidence that it's also one of the most productive and innovative.

Another case in point is our commitment to sustainability. It, too, began in the 1960s as the right thing to do. That early commitment has led us on an endlessly fascinating journey. We pioneered two-sided copying, print-on-demand, the use of recycled paper in the office, recycling toner cartridges and the promulgation of tough green standards for our paper suppliers. The more we have integrated sustainability into our business operations, the more it has become a part of our DNA. For Xerox, a pioneer of "going green," we're encouraged by the heightened focus on sustainability. The headlines are prompting our customers to ask more questions about the environmental aspects of our products and to factor our answers into their purchasing decisions. Now we like to think of ourselves as a leader, still pushing the boundaries of what is possible.

Anne M. Mulcahy
Chairman and Chief Executive Officer

Chairman's Letter

That thinking has taken us to some interesting places and produced some significant results. One concrete example: we were the first company in our industry to remanufacture and reuse parts and components. As a result, we estimate that we have given life to the equivalent of more than 2.8 million products. Last year alone, we diverted more than 122 million pounds of waste from landfills.

Our commitment to sustainability doesn't stop there. We've also reduced air emissions from our facilities by 94% in the past 16 years. We're changing the way we manufacture toners, yielding an estimated 20% reduction in energy demand. We've introduced self-erasable paper. Our Palo Alto Research Center – through its Clean Tech research initiatives – is focusing on delivering affordable renewable energy, clean air and water and other environmentally friendly solutions – not just for Xerox but across the industry. Just recently we unveiled a breakthrough paper for digital printing that uses half as many trees to produce as traditional paper. We believe it will enhance sustainability and create an important new market for Xerox.

Our successes in sustainability have led us to take on a more visible leadership role. In recent years, we've partnered with Outward Bound to teach respect for the environment, The Nature Conservancy to help move the paper industry closer to ideal environmental management practices and The Business Roundtable's S.E.E. (Social, Environmental, Economic) Change initiative to promote better practices and a better world by integrating sustainability priorities and goals into business planning. Earlier this year, we became the first high-technology company to join the United States Climate Action Partnership (USCAP), an alliance of business and environmental leaders working together to protect the climate and foster legislation aimed at reducing greenhouse gas emissions. And, we committed $1 million to fund the development of green technologies and other important research at the Massachusetts Institute of Technology.

The journey that we have followed in environmental stewardship – from altruism to business opportunity – is true of all our citizenship strategies: ethical governance, community involvement, philanthropy, delivering customer value and so on. All have followed a similar path, starting as the right thing to do, maturing into good business practices and eventually becoming integrated into the way we manage our operations.

When I visit Xerox people around the world, I'm always impressed with their strong connections to their communities. Xerox people in Romania who turned a teambuilding exercise into building a playground for kindergarteners. Xerox Charity Day in Ireland that brings employees together for one major fundraising cause. Lean Six Sigma Black Belts donating their time and talent to help non-profits simplify their work processes. And, dozens of our engineers and researchers who make science fun for the next generation. This commitment to public service is pervasive across our company and, frankly, is just part of our culture. We don't ask our employees to do it. They just do – and it speaks to our rich heritage of citizenship and a loyalty to serving the communities where we work and live.

We also believe we have a role to play in the larger business community and look for opportunities to add value there as well. Businesses today are rightfully under scrutiny. We need to find new solutions to regain trust. That means taking a collaborative approach – influencing and highlighting reforms that benefit our stakeholders. That's why I agreed to chair the Business Roundtable's Governance

Committee. The business community has made great strides toward increased transparency and has strengthened relationships with shareholders, policymakers and the public. Through initiatives like The Aspen Principles, which set governance guidelines that are both aspirational and achievable, we're focusing on strengthening a system that delivers long-term value.

Xerox people take great pride in the culture they have created – a culture that values Xerox as a profit-making enterprise *and* an institution that strives to be a positive force in the world around us. You will see that philosophy running throughout this report. It's organized around five themes that capture the essence of our citizenship efforts:

"Xerox people take great pride in the culture they have created – a culture that values Xerox as a profit-making enterprise *and* an institution that strives to be a positive force in the world around us."

- Conducting our business with integrity and transparency builds credibility and attracts investors.
- Aligning our resources around customer need provides the revenue stream that enables investment in innovation and future growth.
- Nurturing a greener world through sustainable innovation and development saves money, creates value and helps develop new markets.
- Creating a great workplace for our people strengthens our competitiveness.
- Leveraging our resources to make our world better improves the quality of life for our people and the economic climate for our customers.

If you conclude that we are satisfied with our progress, let me assure you that nothing could be further from the truth. I hope you will sense in this report a certain restlessness – a healthy disdain for the status quo and a realization that as good as we may be today we must be even better tomorrow and not by a little but by a lot. As one of my predecessors at the helm of Xerox, David Kearns, used to say: "We're in a race without a finish line." We don't shrink from the challenge; we embrace it.

At Xerox, we clearly don't have all the answers. We may not even ask the right questions. What we do have is a group of people who are passionate about their responsibilities to make our world better, a corporate culture that is committed to continuous improvement, an innovation community that feeds on harnessing the potential of technology to the promise of a better world, an abiding belief that our best days are yet to come and an assumption that by working together everything is possible.

Anne M. Mulcahy
Chairman and Chief Executive Officer
Xerox Corporation

Progress Report

Success is a Journey

By almost any measure, we continue to make significant strides toward our goals in all of the five areas we've identified for corporate citizenship. And as good as our progress has been, we will continue to reset the bar for the future. That's because, for matters as important as these, there simply is no ultimate attainment, only continual improvement.

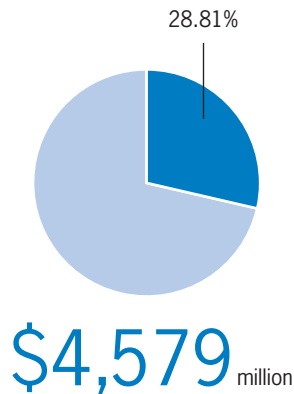| Activity	2005
Conducting Our Business with Integrity	
Total number of cases investigated by our Ethics Office	655
Amount of spend with minority suppliers	• $143 million from minority suppliers • $187.2 million from women-owned businesses
Aligning Resources around Customer Needs	
Broadened Product Portfolio: Product launches	49
Number of patents awarded to Xerox group, includes Fuji Xerox	643
Customer Service	J.D. Powers & Assoc. certification for excellence
Nurturing a Greener World through Sustainable Innovation and Development	
Environmental Management	All manufacturing facilities certified to ISO 14001
Recycle rate (non-hazardous solid waste)	91%, up 2% from 2004
Water consumption	Up 3% from 2004
Energy consumption	Down 4% from 2004
Greenhouse Gas Emissions	• Down 2% from 2004 • Down 8% from 2002
Products launched achieving the ENERGY STAR® (eligible products)	100%, up from 97% in 2004
Waste diverted from landfill through equipment and supplies return, reuse and recycling programs	1.9 billion pounds since 1991
Strengthening our Competitiveness by Creating a Great Workplace for Our People	
Employee Engagement Survey – Favorable response rate to the question: Taking everything into account, how satisfied are you with Xerox as a place to work?	73%
Employee Engagement Survey – Favorable response rate to question: I would recommend Xerox as a good place to work.	71%
Diversity – percentage of women employees	31.8%
Diversity – percentage of minority employees	29.2%
Employee Injury rates: Total Recordable Incident (TRI) rate	• Up 4% from 2004 • Down 53% from 1997
Employee Injury rates: Day Away From Work (DAFW) case rate	• Down 14% from 2004 • Down 47% from 1997
Leveraging Our Resources to Make Our World Better	
Xerox Foundation giving – total	$13.2 million
Xerox Community Involvement Program – number of U.S. employees who participated in community activities	U.S. – 8,776

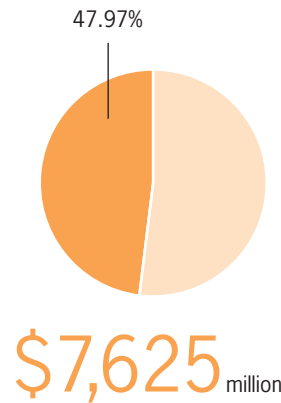| 2006	Highlights	More Details
506	Xerox Ethics Hotline encourages reports and questions regarding ethical behavior.	Page 14
• $147 million from minority suppliers • $179 million from women-owned businesses	Total spending with minority and women-owned businesses represented 24% of Xerox's annual qualified purchases. About 1,000 suppliers benefited from these purchases.	Page 17
14	Xerox offers industry's broadest portfolio of document technology and services; 38 more products launched through September of 2007.	Page 9
813	Xerox invests about 5–6% of revenue in research, development and engineering and holds 15,000 active patents.	Page 9
J.D. Powers & Assoc. certification for excellence	First document management company to receive excellence certification for quality technical support.	Page 24
• All manufacturing facilities certified to ISO 14001 • Three facilities named to U.S. E.P.A. National Environmental Performance Track	As of 2007, all five of Xerox's major U.S. facilities are National Environmental Performance Track sites, validating environmental performance beyond regulatory compliance.	Page 42
91%, unchanged from 2005	Xerox's waste-free initiatives invoke the 3Rs – reduce, reuse, recycle – to avoid or divert millions of pounds of waste from landfill each year.	Page 39
Down 3% from 2005	The environmental impacts of water use are monitored and managed throughout our worldwide operations.	Page 43
Down 13% from 2005	Down 21% from 2002 due to our Energy Challenge 2012 program.	Page 36
• Down 11% from 2005 • Down 18% from 2002	Down 18% from 2002, the result of improved energy efficiency, new technologies and improved energy management practices.	Page 36
100%, unchanged from 2005	Xerox is a charter partner of the U.S. E.P.A. ENERGY STAR program. Estimated savings from ENERGY STAR placements equal enough energy to light nearly 1 million U.S. homes for a year.	Page 34
2.0 billion pounds since 1991	Xerox launched its reuse and recycle program in 1994, setting the standard for the industry.	Page 40
76%	82% participation rate in employee engagement survey; managers required to develop action plans to improve workgroup satisfaction.	Page 49
73%	• Xerox Portugal named Most Family-Responsible Company by the business management school Escola de Direcção e Negócios, and the consulting firm Deloitte. • Xerox Greece named a best place to work in the European Union by The Great Place to Work Institute Europe.	Page 51
32.3%	Xerox named to Top Companies for Executive Women list by the National Association for Female Executives.	Page 50
29.3%	Xerox recognized on "top" lists for diversity by *DiversityInc., Hispanic Magazine, Black Enterprise,* and the Human Rights Campaign.	Page 50
• Down 2% from 2005 • Down 53% from 1997	Xerox's Zero Injury program focuses on workplace safety in any Xerox setting and includes ergonomic assessments of offices, labs and manufacturing plants.	Page 52
• Down 2% from 2005 • Down 49% from 1997		Page 52
$12 million	Giving for 2005 includes contributions to support U.S. Gulf Coast hurricane relief and Southeast Asia tsunami relief.	Page 57
U.S. – 9,303	Xerox people contribute the gift of time and talent through several Xerox-sponsored activities including community-focused sabbaticals, FIRST robotics competition and teaching of science lessons to elementary students.	Page 59

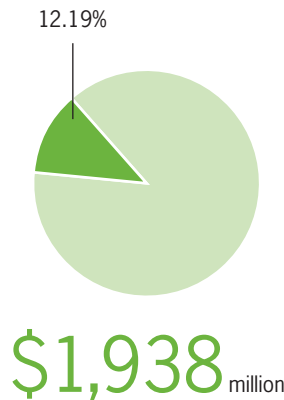# Company Profile

Xerox Revenue by Reporting Segment – 2006

Production

28.81%

$4,579 million

High-end digital monochrome and color systems for large enterprises and for customers in the graphic communications industry.

Office

47.97%
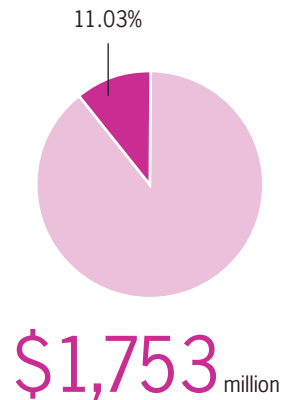

$7,625 million

Serves global, national and small to medium-size commercial customers; government, education and customers in other public sectors.

DMO

12.19%

$1,938 million

Marketing, direct sales, distributors and service operations for Xerox products, supplies and services in Latin America, the Middle East, India, Eurasia, Central-Eastern Europe and Africa.

Other

11.03%

$1,753 million

Includes revenue from value-added services, paper sales and wide-format systems.

Organizational Overview

Our vision is "helping people find better ways to do great work" by constantly leading in document technologies, products and services that improve our customers' work processes and business results.

Our products include high-end printing and publishing systems, digital multifunction devices (which can print, copy, scan and fax), digital copiers, laser and solid ink printers, fax machines, document management software, and supplies such as toner, paper and ink. We provide software and workflow solutions that help businesses easily and affordably print books, create personalized documents for their customers, and scan, distribute and archive digital information. In addition, we provide a range of comprehensive document management services, such as operating in-house production centers, e-discovery, developing online document repositories and analyzing how customers can most efficiently create and share documents in the office.

We operate in more than

160

countries worldwide.

We report our financial results through four segments: Production, Office, Developing Markets Operations (DMO) and Other. Financial information for operating segments is presented in our quarterly and annual reports available at www.xerox.com/investor.

Xerox around the World

Xerox customers include small and medium-sized businesses, graphic communications companies, government entities, education institutions, Fortune 1000 corporate accounts, and firms in document-intensive industries such as healthcare, legal and financial services. Xerox offerings are sold through its global sales force; through a network of independent agents, dealers, value-added resellers and systems integrators; through the 22 core companies of Global Imaging Systems, a wholly owned subsidiary of Xerox; and through phone and Internet sales channels.
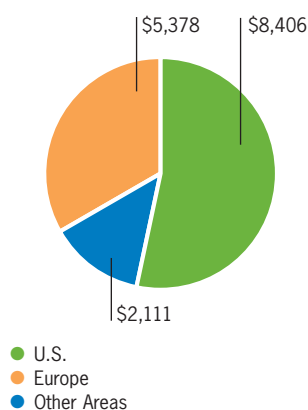
We have:

- 7,800 sales professionals, 13,000 managed service employees at customer sites and 13,500 technical service employees.

- More than 7,000 agents and concessionaires and more than 10,000 technology resellers that extend Xerox's local and global reach.

- Alliances with top IT and business partners that integrate Xerox systems and services into their customer solutions.

In 2006, our international operations represented about one-half of our total revenues. Our largest subsidiary outside the U.S. is Xerox Limited, which operates predominantly

Revenues by Geography
($ millions)

$5,378 $8,406

$2,111

- U.S.
- Europe
- Other Areas

in Europe. We conduct our DMO operations in Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe, and Africa through operating companies, subsidiaries and distributors.

Fuji Xerox, an unconsolidated entity of which we own 25%, develops, manufactures and distributes document processing products and services in Japan, China, Hong Kong and other areas of the Pacific Rim, Australia and New Zealand.

Over the past 18 months Xerox has acquired four companies that contribute to our growth strategy:

- Amici LLC, a leading provider of e-discovery services for litigation and regulatory compliance.

- XMPie, a variable information software company for the graphic arts and marketing industries.

- Global Imaging Systems, an office technology distributor for small and mid-size business in the U.S.

- Advectis, Inc., a provider of electronic document collaboration tools for the mortgage industry.

Xerox Corporation is the world's largest document management company. A nearly $16 billion technology and services enterprise, Xerox develops and markets innovative technologies, products and solutions that customers can depend on to improve business results. We provide the industry's broadest portfolio of document systems and services, ranging from high-speed color presses to digital imaging and archiving services. Operations are guided by customer-focused and employee-centered core values, augmented by a passion for innovation, speed and adaptability.

2006 Revenue: $15.9 billion
2006 Income: $1,210 million
Employees: 58,000 worldwide
Operates In: More than 160 countries
Founded: In 1906 as The Haloid Company; named Haloid Xerox in 1958; named Xerox Corporation in 1961
Fortune 500 Ranking: No. 145
NYSE: XRX
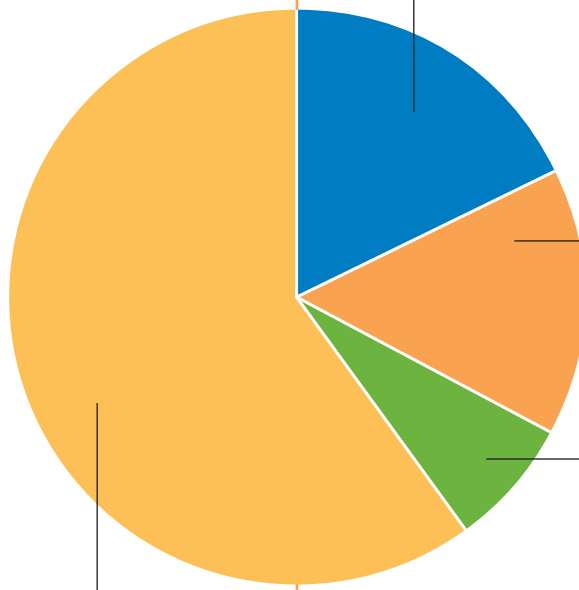**Headquarters:** Norwalk, Conn., U.S.A.
800-ASK-XEROX
www.xerox.com

Company Profile

Market Opportunity

The document industry is transitioning to digital systems, to color, and to an increased reliance on electronic documents. More and more, businesses are creating and storing documents digitally and using the Internet to exchange electronic documents. We believe these trends play to the strengths of our product and service offerings and represent opportunities for future growth in the $117 billion market we serve.

Xerox serves a

$117

billion market.

Revenue for Document Industry by Segment – 2006
($ billions)

Services: $21

Our value-added services deliver solutions that streamline, simplify and digitize document-intensive business processes.

Eligible Offset: $17

We are creating new market opportunities with digital printing as a complement to traditional offset printing.

Production: $8

We are the only manufacturer that offers both a complete family of monochrome production systems from 65 to 180 impressions per minute and color production systems from 40 to 110 pages per minute.

Office: $71

We are leading the transition to color and reaching new customers with the industry's broadest portfolio and expanded distribution channels.

Our Values

Since our inception, we have operated under the guidance of six core values:

- We succeed through satisfied customers.
- We deliver quality and excellence in all we do.
- We require premium return on assets.
- We use technology to develop market leadership.
- We value and empower our employees.
- We behave responsibly as a corporate citizen.

Xerox Corporation

Global Services

Consulting and outsourcing services for any enterprise

- Services to help companies simplify document-driven processes.
- Services to analyze and improve technology infrastructure in the office.
- Management of IT help desks, technology procurement, print/copy centers in-house, and for special events.
- Document outsourcing and communication services to improve commercial print operations.
- Digital imaging, archiving and indexing to make information easier to find and manage.
- Key offerings include: Office Assessment Services, Records Management, Litigation and Mortgage Services, Sarbanes-Oxley and HR Compliance Services.

Production Environments

Commercial printing systems and services for graphic arts and production environments

- Color and black-and-white digital printers and presses.
- Wide-format and continuous-feed printers and copiers.
- Publishing solutions and software for books, on-demand documents, transactional applications, personalized printing and more.
- Workflow software to simplify how print jobs are created and managed.
- Key offerings include: Xerox iGen3®, DocuTech®, DocuPrint®, Xerox Nuvera™, XMPie®, DocuColor® and FreeFlow®.

The Office

Printers and services for small businesses to global enterprises

- Color and black-and-white multifunction systems that combine printing, copying, faxing and scanning.
- Solid ink and laser network printers.
- Digital office copiers.
- Software and services to boost worker productivity and streamline how information is stored and shared.
- Key offerings include: WorkCentre®, Phaser®, DocuShare®, CentreWare®, Office Document Assessment.

Innovation

Research and development

- Five centers that span the U.S., Canada and Europe.
- Focus on color science, computing, digital imaging, work practices, electro-mechanical systems, novel materials and other disciplines.
- About 6% of revenue dedicated to research, development and engineering.
- Twenty-four percent more patent applications filed in 2006 over previous year.
- About 8,000 active U.S. patents in the current portfolio.

Stakeholder Engagement

Listening, Learning, Responding

Running a successful business requires deep knowledge and respect of stakeholders' needs. These examples of stakeholder engagement help us understand how well we're fulfilling our responsibility as a valuable partner for customers and suppliers, as a good employer for our people, as a sound investment for shareholders, as a good corporate citizen for the communities where we live and work, and much more.

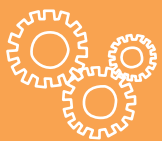| Focus	How We Engage	Examples
Our Customers	• Sentinel Customer Satisfaction Measurement System: real-time customer feedback in a closed-loop process • Annual Customer Satisfaction Measurement Survey • Competitive Benchmark Surveys • Customer Care Officer of the Day	• Xerox Security Summits increase awareness of the growing information technology threats facing global, networked environments. In 2006, we hosted seven summits in North America. • The Customer Connection program brings together Xerox researchers, engineers and management with customers who help guide the development of relevant research for the next generation of Xerox products and services. Xerox scientists often call this, "dreaming with customers."
Our People	• Employee Engagement Survey every 18 months • Sentinel Employee feedback tool on intranet • Ethics Hotline • Open-door policy • Global Webcasts • Town hall meetings • Employee roundtables	• Broadcast live on the company's intranet, Xerox "WebChats" are informal, interactive monthly exchanges between members of the Xerox executive team and employees from around the world. • In addition, our CEO Anne Mulcahy hosts 3 global Webcasts each year and participates in 30 town hall meetings with employees.
Our Shareholders	• Annual meeting of shareholders • Quarterly teleconferences • 1:1 investor briefings • Annual investor conference	• We hosted 16 small group meetings with potential investors in major markets including Boston, Chicago, New York, San Francisco, Toronto, Frankfurt, Milan and Zurich. • Xerox executives spoke with investors/analysts through more than 130 one-on-one meetings and phone calls.
Our Suppliers	• Quarterly business reviews with key suppliers • Supplier satisfaction surveys to assess business relationship with Xerox	• Last year, we opened purchasing offices in Hong Kong, China, Malaysia, Singapore, South Korea, Japan and India. Now Xerox purchasing managers are able to work even more closely with our growing network of suppliers in these countries.
Our Communities	• Employees contributed their time and talents in over 1,000 community-related projects worldwide.	• In Xerox Canada, all employees are granted one day a year to volunteer at a non-profit organization during working hours. • Xerox's Social Service Leave has granted sabbaticals of up to one year to 475 employees since the program began in 1971. Employees volunteer full-time for community organizations during their leave.
Our World: Public Policy Makers and Influencers	• Through active membership with business and trade associations and frequent engagement with public policy makers, Xerox helps to educate on key issues related to its business, industry and stakeholders.	• This is the second year of a partnership with The Nature Conservancy to advance the practice of sustainable forest management. Our partnership focuses on forest management in Brazil, Canada, Indonesia and the U.S. • Xerox CEO Anne Mulcahy serves as chairperson of the Corporate Governance task force for Business Roundtable, an association of chief executive officers of leading U.S. companies. • We joined the U.S. Climate Action Partnership, a coalition of business and not-for-profit groups, to develop an action plan to enact federal legislation to reduce greenhouse gas emissions and educate Congress on a cap and trade system.

About this Report

Our second annual Xerox Report on Global Citizenship addresses our principles, policies and practices in areas viewed under the broad definition of corporate social responsibility including governance and ethics, customer privacy and satisfaction, employee diversity and development, environmental initiatives, corporate donations and volunteerism, and much more. This report includes global reporting metrics when available; some of our systems for collecting and reporting reliable social and environmental performance data do not always encompass all our operations. Unless otherwise indicated, the performance data reflects full-year 2006 results. The information in this report on citizenship reflects the business activities of Xerox Corporation in the 160 countries where we operate. Fuji Xerox publishes its own citizenship report, which is available at www.fujixerox.co.jp/eng/sr/.

Xerox relied on the Global Reporting Initiative Sustainability Guidelines (G3) to determine the content and performance metrics for key sections of this report. We self declare this report to the GRI Application Level B. A table linking the content of this report to the GRI indicators can be found at www.xerox.com/citizenship. Information about GRI is available at www.globalreporting.org.

Xerox consulted with Business for Social Responsibility on the relevance, completeness and responsiveness of this report.

This report was printed on a Xerox iGen3® 110 Digital Production Press on uncoated 24 lb. text Xerox High Yield Business Paper™ – the industry's first mechanical fiber paper made by grinding wood into pulp. The process uses half as many trees as the standard chemical pulping process, reduces the chemicals and water consumed, and is produced in a plant using hydro-electricity to partially power the pulping process, resulting in reduced fossil fuel use and up to 75% reduction in greenhouse gas emissions. The cover was printed on 100 lb. Xerox Graphic Xpressions True White containing 20% PCW.

As part of our ongoing dialogue with stakeholders, we welcome your feedback. For additional information, questions or comments on this report, please e-mail us at citizenship@xerox.com.

Conduct:

Conducting Our Business with Integrity and Transparency

OUR WORD.

Some may view corporate "governance" as restrictive. We view it as empowering. Long-term success depends on it. Governing ourselves responsibly makes us the best citizen we can be.

OUR WORK.

Our governance keeps us healthy and whole. It embraces ethics, human rights, supplier responsibility, managing risk, planning for business continuity, the environment, free trade, protection of intellectual property and how we support the political process.

OUR WORLD.

In an age when virtually any piece of information can be distributed to potentially every citizen of the world, an enterprise can no longer sequester itself and expect to succeed. We applaud the emergence of openness, candor and transparency.

BACK ROW (L–R) Ursula Burns, Glenn Britt, Vernon Jordan, William Curt Hunter, Anne Mulcahy, Richard Harrington, Robert McDonald, Mary Agnes Wilderotter, Ralph Larsen FRONT ROW (L–R) Ann Reese, N.J. Nicholas

Governance

The Xerox Board of Directors represents our shareholders' interest in the company's successful operation. This active responsibility includes optimizing long-term financial returns and delivering value to our customers, employees, suppliers, communities and other key stakeholders. The Board is accountable for the company executing its responsibilities in a legal and ethical manner in any business environment.

The Board also provides oversight of the company's role as a corporate citizen and ensures that our actions are aligned with our core values and priorities for citizenship. To that end, members of the Board have reviewed a detailed outline of this report and have supported its disclosures. The Board was also engaged in a full review of the company's previous citizenship report and has been briefed on the significance of the Global Reporting Index.

Xerox's corporate governance guidelines are available at www.xerox.com/governance.

Independence of the Board

Based on standards for independence developed by the New York Stock Exchange, the Xerox Board is 82% independent. It includes two non-independent Directors: Xerox Chairman and CEO Anne M. Mulcahy and Xerox President Ursula M. Burns.

More information on the Board's independence is available at www.xerox.com/governance.

Criteria for Membership

Nominations for the Board are based on a candidate's ability to bring to the Board a broad perspective, integrity, independent judgment, experience, expertise and diversity. Nominees also need to be able to devote adequate time and effort to Board responsibilities, make independent analytical inquiries and understand the company's business environment. Each Director stands for re-election every year at the company's annual shareholder meeting.

Director Election

In an uncontested election, any nominee for Director who receives a greater number of votes "withheld" for his or her election than votes "for" election is required to submit his or her resignation promptly. The remaining independent Directors

then evaluate relevant facts and circumstances and determine whether to accept or reject the resignation. Within 90 days following the official results of the election, the Board is required to disclose, in a filing with the Securities and Exchange Commission, its decision and the reasons for it.

Requirement for Ownership of Shares

All non-employee Directors must establish and maintain an equity ownership interest in the company equivalent to five times the annual cash fees (excluding committee fees) that they receive for serving on the Board. A newly appointed Director has up to five years to attain this threshold of ownership.

Access to Management, Employees and Advisors

Board members have complete access to all company employees and, at the company's expense, they are authorized to obtain advice and assistance from outside professional advisors of their choosing.

Conducting Our Business with | Integrity and Transparency

Interaction with Stakeholders

Board members are expected to attend the company's annual meeting of shareholders and are available to speak with Xerox stakeholders. To communicate with the non-management Directors, you may contact:

Vernon E. Jordan, Jr.
Chairman of the Xerox Corporate Governance Committee
Senior Managing Director,
Lazard Frères & Co., LLC
30 Rockefeller Center
New York, NY 10020

Executive Sessions of Outside Directors

Each regularly scheduled Board meeting includes an executive session of all Directors and the chief executive officer, and a separate executive session of only the independent Directors. The chairpersons of the Governance Committee and the Compensation Committee rotate responsibility for presiding over non-management executive sessions and are responsible for providing appropriate feedback to the CEO.

Board Committees

The company has four standing committees: Audit, Compensation, Corporate Governance and Finance. Each is composed entirely of independent Directors.

Code of Conduct

Reflecting how seriously we take our responsibilities to customers, shareholders, employees and the communities in which we work and live, we have had an employee Code of Conduct in place for nearly 40 years. Every year, all of our employees must acknowledge a comprehensive understanding of it. Key topics include:

- Conflicts of interest.
- Legal and financial requirements and controls.
- Community and political activities.
- Information privacy, data security, record retention and information classifications.
- Insider trading.
- Intellectual property.
- Proper use of information systems and company assets.
- Employee and customer privacy.
- Environment, health and safety.
- Diversity.
- Harassment.
- Use of alcohol and controlled substances.
- Workplace violence.
- Gifts and entertainment.
- Supplier guidelines.
- Guidelines for government customers.
- Fair competition.
- International trade and export control.
- Bribery, improper payments and money laundering.
- Collusive bidding and kickbacks.

  To view the company's Code of Conduct handbook, visit www.xerox.com/governance.

Ethics

The Xerox Ethics and Compliance Governance Board, a committee of 21 senior executives from business units and corporate functions, integrates the company's ethics and compliance program into all worldwide business operations. The Board reports to the President's office and to the Audit Committee of the Board of Directors.

Key components of the ethics and compliance program include:

- Global Code of Conduct for all employees (produced in 18 languages).
- Annual CEO communiqué on business ethics distributed to all employees.
- Annual certification that senior managers are in compliance with the Code of Conduct and have processes in place to support the ethics and compliance program.
- Annual acknowledgement by all employees of the Code of Conduct.
- Biannual training for all employees on the Code of Conduct and supporting policies.
- Ethics Helpline, accessible toll-free from anywhere in the world, plus direct e-mail access to the Ethics Office.
- Monthly ethics survey to a random sample, conducted in 19 countries.
- Ethics Web site, newsletters and company intranet postings.

  The Ethics Office has a formal, consistent method for assessing alleged violations and complaints and directing them to the appropriate functional areas for investigation, resolution and closure.

Activity of the Business Ethics and Compliance Office

	2004	2005	2006
Total Number of Cases	596	655	506
Number of Allegations	293	260	100
Percentage of Total	49%	40%	20%
Number of Substantiations	139	145	58
Percentage of Allegations	47%	56%	58%
Number of Terminations	67	46	44

While the Ethics Office can respond to many cases right away or take action simply after clarification or guidance, about 37% of incoming cases (three-year average) involve an allegation of wrongdoing and require investigation. In 52% of the investigations, at least some part of the allegation is substantiated. All of these cases result in some sort of disciplinary action – counseling, training, warning letter, job reassignment, financial penalty and, in about one-third of cases, dismissal from the company. In addition to disciplinary action, resolution of many cases may also involve changes in process or policy to prevent future occurrences.

Note: Since some cases involve the dismissal of more than one individual, data in the above table cannot be used to calculate the percentage of cases involving dismissal.

Allegations of Ethics Violations (Percentage of Occurrence)

Violation Category	(2004–2006)
Asset Theft	24.8%
Human Resources Issues	13.9%
Vendor Issues/External Parties/Gifts	13.6%
Fraud/Improper Payments/ Expense Reports	13.2%
Conflicts of Interest	8.7%
Harassment/Workplace Violence	4.7%
Internal Controls and Reporting Integrity	8.6%
Employee Privacy	3.1%
Misuse of Company IT Systems	3.7%
Confidential Information	1.5%
Retaliation	0.9%
Environmental Issues	0.8%
Other	2.5%

Human Rights

Xerox Corporation was founded on the basic principle that we have an obligation to respect the rights of stakeholders and to be a participatory member of the communities where our people work and live and where our brand is represented and visible. As our company has grown, human rights practices and policies have become fundamental to how we conduct our business. This holds true today.

To further our commitment, Xerox last year subscribed to the Electronic Industry Code of Conduct. EICC is a standards-based approach for monitoring suppliers' compliance across several areas of social responsibility, including labor, health, safety, and environmental activity (see page 17 for more information). We also committed in last year's Global Report on Citizenship to develop a policy letter on human rights that aligns directly with our core values. With consideration to our key stakeholder groups and in compliance with respected global principles of human rights, we published earlier this year this statement that represents our firm commitment.

Policy Letter on Human Rights

Xerox Corporation and our affiliates and distributors do business in more than 160 countries. Our 58,000 employees work with customers, suppliers and partners in every corner of the globe. We are truly a global enterprise and with that comes the responsibility to behave responsibly as a corporate citizen in the smallest towns to the largest countries, with every employee engagement, every partner relationship and every customer touch point. We do this by running our global business with great respect for human rights. We are principally guided by the United Nations Universal Declaration of Human Rights. Our support for these principles is embedded in our codes of conduct, in our position on labor relations, in our employment practices, in our relationships with suppliers and in how we build our business in emerging markets. We inspect for compliance through our management processes including operations reviews, risk management and internal audit systems, and supplier assessments.

Our People

People are at the core of a successful enterprise, and they deserve much more than a way to make a living. Our first priority is the protection of the health and safety of our people, no matter where in the world they work. We apply employee health, safety and emergency preparedness standards that meet and often exceed regulatory requirements. We believe strongly that every employee should be treated with

respect and dignity. That's why our employee code of conduct and human resources policies and practices reflect our firm commitment to providing a workplace that is safe, inclusive, and ethical. We provide fair performance-based compensation and offer opportunities for our people to build rewarding careers. The benefits and assistance we offer as an employer are aimed at helping our people have healthy, balanced lives. We support this commitment through well-defined policies and in compliance with rights and responsibilities provided for in local laws. Through our relationships with our people, we are guided by human rights principles established in the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. These principles call for creating environments free from discrimination, prohibitions against child and forced labor, freedom of association and the right to engage in collective bargaining.

Our Customers

Xerox is mindful of doing business with customers who too are respectful of human rights. We have high standards for how we conduct our business around the world to ensure interactions with all customers are based on ethics and integrity. We do not let local norms rule our business but we respect local cultures. The values of our company and our codes of conduct guide our business operations and customer relationships. We comply with U.S. laws and regulations prohibiting commerce with certain countries, organizations and individuals.

Through the advancements of digital printing technology, our industry can be exposed to improper use such as counterfeiting and black market sales of products and supplies. We cooperate with appropriate law enforcement officials to help ensure that Xerox technology and services are not used for illegal activity and that Xerox plays a leading role in ceasing illicit operations involving document management systems and supplies.

The company's risk management and internal audit organizations assess Xerox's business operations around the world, helping to ensure compliance of human rights principles for our business and with our customer relationships.

Our Supply Chain and Distribution Channels

The productivity of our business model is increasingly more dependent on working with partners and suppliers from around the world. While globalization increases our ability to compete more effectively in the marketplace, it adds a heightened responsibility to ensure that these third parties act on behalf of Xerox in a manner consistent with our human rights ideals, respect for the environment and ethical business practices.

Xerox has adopted the Electronic Industry Code of Conduct (EICC) to set standards for our vendors throughout our supply chain. The EICC is based on recognized standards and principles including the ILO and the Universal Declaration of Human Rights while maintaining a focus on our industry and applicable local laws and regulations. In addition to setting standards, our membership in EICC includes provisions for monitoring and auditing for compliance in our supply chain.

The company's high standards for human rights and sustainable business practices are manifested in supplier relationships not only in the manufacturing of Xerox products but also in the sourcing of paper and other supplies that carry the Xerox brand name. In addition, third parties that conduct business on our behalf by selling and servicing Xerox technology are expected to manage their businesses with high ethical standards and respect for human rights.

Our Communities

Corporate citizenship and human rights extend into the communities where Xerox people work and live and where our brand is represented and visible. We respect laws, labor practices and customs in the countries in which we operate, ensuring alignment with our high standards and codes of conduct, many of which exceed the requirements dictated by local laws and regulations. We serve to be a positive influence in communities, demonstrating that respect for human rights fosters successful businesses and successful people, all of which help to nurture successful economies and develop stronger communities. We are mindful of the people and environment affected by our business infrastructure. In developing our business around the world, we carefully evaluate each country in which we operate to protect our brand and reputation and to ensure that Xerox can operate successfully while maintaining our own standards of integrity and ethical business practices.

Supplier Relations

Performance and Reviews

Xerox's Global Purchasing organization routinely tracks and reports on current and potential suppliers for adherence to our requirements, and we hold quarterly on-site reviews with our top 38 suppliers. This provides a forum to discuss our business relationships and to define and refine the metrics for Xerox and the supplier performance evaluations.

Xerox requires all production suppliers to complete an assessment of their quality management system prior to being added to the Approved Vendors List (AVL), which now includes about 1,500 active suppliers. Our vendors use the Xerox Multinational Supplier Assessment, which is equivalent to the ISO 9000, but was implemented ten years earlier.

Before our primary suppliers are permitted to do business with us, we make on-site visits. Once they are added to our AVL, we conduct on-site audits every one to three years, depending on the scope of our relationship with them. About 80% of our spending for the manufacturing of Xerox technology (i.e., for components, wiring, plastics, etc.) comes from 50 global suppliers. These suppliers are assessed regularly to measure compliance with Xerox standards and applicable local laws. Xerox audited more than 90% of them in 2006.

As with any relationship-based engagement, face-to-face communication is critical to building trust, respect and credibility. With more and more of Xerox's suppliers now located in Asia, we felt the need to develop a stronger Xerox purchasing presence in this region, enabling more direct interaction between Xerox buyers and suppliers. In the last year, Xerox has transferred the vast majority of its production

purchasing operation to the Asia-Pacific area and we now have Xerox Global Purchasing representatives in Hong Kong, China, Malaysia, Singapore, Korea, Japan and India. These purchasing professionals conduct quarterly, if not more frequent, on-site reviews to assess the quality, cost and delivery of the vendor's products and ensure the business is run with the highest ethical standards. In addition, we have opened access for the supplier community to work more directly with Xerox. Through the Web site www.xerox.com/suppliers, vendors and potential vendors can learn about the latest procurement initiative and find information on supplier diversity, procurement policies, supplier quality assurance and supplier ethics.

Consistent with our comprehensive environmental initiatives, Xerox has specific guidelines for our paper suppliers. These paper-sourcing practices are outlined on page 37 of this report.

EICC Membership

In October 2006, Xerox became a coalition member of, and adopted, the Electronic Industry Code of Conduct (EICC), a standards-based approach for monitoring suppliers' compliance across several areas of social responsibility, including labor, health, safety and environmental activity. Xerox has validated its compliance with all EICC guidelines and has committed to ensure compliance by our key vendors that contribute to the manufacturing of Xerox systems. We also participate in EICC quarterly conferences, where members share industry best practices for managing the supply chain.

We have also developed a process that measures suppliers' compliance and incorporates EICC activities into our communication plans. And in 2007, in conjunction with the EICC coalition, we participated in third-party audits of 17 suppliers, five of which are current providers to Xerox. As the third-party audit program expands its coverage to more suppliers, we will continue to participate in its future phases.

Ethical Business Environment

To report concerns that suppliers feel may jeopardize otherwise constructive business relationships, we provide them with an ethics hotline and P.O. box address, and we promptly investigate all concerns. More information on the EICC Code of Conduct can be found online at www.eicc.com/info and click on the EICC Code link.

Supplier Diversity

Xerox is recognized as an industry leader in supplier diversity. We have established partnerships with minority- and women-owned business enterprises (MWBE), veterans/service disabled veterans, HUBZone programs and Protected Workshop Vendors. We are also establishing supplier relationships with gay and lesbian business enterprises. Over the past 20 years, Xerox has purchased more than $5.7 billion in goods and services from qualified companies owned by minorities, women and veterans/service disabled veterans. In 2006, Xerox purchased $326 million of goods and services from approximately 1,000 MWBE suppliers. That's about 25% more than originally targeted and 27.6% of the qualified purchases.

More information about our supplier diversity is available at www.xerox.com/supplierdiversity.

Risk Management

To strengthen our risk-management capability and assess all categories of business risk – strategic, operational, compliance and financial reporting, Xerox has implemented an Enterprise Risk Management (ERM) process aligned with the framework of the COSO II (Committee of Sponsoring Organizations of the Treadway Commission). Enabling elements include:

- Consistent senior management "Tone at the Top," which emphasizes integrity and ethical values, open and honest communication, and the development and competency of our people.

- A clearly defined business strategy, aligned with annual direction and organizational goals, that is communicated to all our people.

In addition, the Audit Committee of the Board of Directors has active oversight of risk management and is responsible for:

- Status and results of ERM activities.

- Corporate risk profile and mitigation plans to address significant risks.

- Significant risk management policies and decisions on risk acceptance.

To ensure that ERM is integrated with our business management, the Management and Strategy Committees, Business Ethics and Compliance Board and Internal Control Committees monitor risk exposure and the effectiveness of how we manage significant risks. Our major operating units are responsible for monitoring and managing the risks within their business. The units report on the risk mitigation plans and changing risk profiles through normal management processes.

The Board of Directors regularly monitors the effectiveness of management policies and decisions including risk management activities. The Audit Committee is responsible for:

- Status and results of ERM activities.

- Corporate risk profile and mitigation plans to address significant risks.

- Significant risk management policies and risk acceptance decisions.

Business Continuity

In the event of natural disasters or any major event that could disrupt customers, employees, suppliers or shareholders, Xerox responds with comprehensive business-continuity action plans designed to minimize adverse impact to our people, customer relationships, assets, cash flow and reputation. The plans are well documented, communicated across all business units and tested to help ensure rapid and effective response.

The Xerox Business Continuity Services organization has responsibility for governance of the Business Continuity Assurance Process, which requires all Xerox organizations to assess their continuity plans against a standard set of criteria and to report the status of plans during operational reviews.
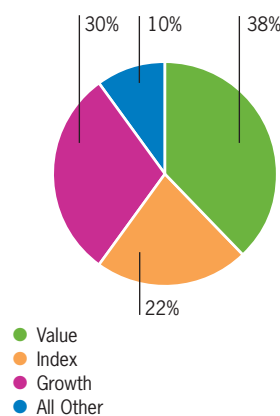
Investor Relations

Xerox Investor Relations provides investors, financial analysts and potential shareholders clear, consistent and credible information about the company's financial performance, strategic intent, and expectations for long-term profitable revenue growth. We communicate with our shareholders in a timely manner, providing accurate, complete and publicly accessible information through press releases, Webcasts, quarterly earnings presentations, annual reports and

Securities and Exchange Commission (SEC) filings. In 2006, our engagement with investors included these and other activities:

- More than 150 institutional investors, analysts and investment bankers attended the company's annual investor conference in New York City.

- Xerox executives participated in seven brokerage conferences (six equity and one fixed-income).

- Investors and analysts met with Xerox leaders at the AIIM/On Demand trade show.

- The company hosted 16 small group meetings with potential investors in major markets including Boston, Chicago, New York, San Francisco, Toronto, Frankfurt, Milan and Zurich.

- Xerox executives spoke with investors/analysts through more than 130 one-on-one meetings and phone calls.

Institutional investors hold nearly all of Xerox's common shares, and the top ten investors hold about one-half of these.

Investment Styles

30% 10% 38% 22%

- Value
- Index
- Growth
- All Other

Great notices for our Good behavior

Xerox was named one of the World's Most Ethical Companies in 2007 by *Ethisphere Magazine*. The elite list of companies, which includes less than 100 global corporations, was recognized for strong leadership in ethics and compliance, advancement of industry discourse on social and ethical issues, and positive engagement in the communities in which they operate. We also received the added distinction of being "Ethics Inside Certified" – a special designation given by the editors for companies that have truly embedded ethical concepts and behaviors in the organization.

Xerox enforces a stringent policy on financial disclosure that helps ensure the company complies with applicable laws, including the U.S. Securities and Exchange Commission Fair Disclosure Rules (Regulation FD), which was enacted in 2000 to govern disclosure of material, non-public information to the investment community.

The financial disclosure policy is circulated to all corporate officers annually and shared in detail with Xerox's country general managers and finance executives. It is shared also with communications and public relations professionals worldwide and is available at www.xerox.com/investor.

Public Policy

On issues for which Xerox's experience and knowledge add an important perspective to public debate, the company provides direct input and advice to policymakers. We also play a leadership role in various organizations, including the Business Roundtable, the U.S. Chamber of Commerce and the National Association of Manufacturers, that are active in the development and promotion of public policies considered important to our interests and operations.

In addition, we have interactions with governments and government organizations throughout the U.S. (at both state and federal levels), and around the world. We discuss issues that range from legal, trade, tax policy and financial activities to regulatory compliance, intellectual property and procurement.

Here are examples of public policy issues that Xerox follows closely:

- **Environment**
  We believe that industry needs to do its part to address growing concern over increased concentrations of greenhouse gas emissions in the atmosphere. Xerox was the first high-technology company to join the United States Climate Action Partnership (USCAP), an alliance of business and environmental leaders working together to protect the climate and spur legislation and regulation aimed at reducing greenhouse gas emissions.

  Xerox is a member of the U.S. Environmental Protection Agency's Climate Leaders Program and the Business Roundtable's Climate RESOLVE program. Both are voluntary initiatives to help companies develop long-term strategies for climate change. We also helped create and design the ENERGY STAR® program for imaging equipment which is intended to ensure maximum energy efficiency in imaging products.

- **Health and Retirement Policy**
  We believe policymakers should foster a legal and economic framework that encourages employers to maintain and increase the number of workers who have access to employer-provided retirement security and healthcare. Policymakers must also work with employers and healthcare providers to control the escalating costs of healthcare.

- **Free Trade**
  We support open markets and free trade. International trade is a powerful engine of global economic growth, and economic growth fosters improved living conditions and opportunities around the world. We support government-to-government negotiations aimed at liberalizing trading rules and opening markets, both on a bilateral and multi-national basis. We believe that rules based only on fair trade are those that are sustainable, and that all participants must be responsible citizens of the countries in which they do business.

- **Intellectual Property and Competitiveness**
  As a participant in the Coalition Against Counterfeiting and Piracy, Xerox plays an active role in combating theft of intellectual property by counterfeiters who manufacture "knock-off" products. While much of the harm done by such products can be quantified in economic terms, such as lost sales and jobs, they also pose a serious risk to human health and safety. Examples include counterfeit auto parts that fail to operate properly or counterfeit drugs that can cause death among the sick. The coalition is a strong advocate of stronger laws against dealing in counterfeit goods and has developed best-practice guidelines that help companies protect their supply chains from counterfeit items.

  Through our support of the American Competitive Initiative, which directs more resources to math and science education, we are focused on improving the nation's ability to compete on the global stage.

  We also support necessary reforms to the U.S. patent system that serve to reduce the threats to innovation that come from frivolous litigation.

Employee Contributions to Political Activities

While we encourage our people to participate in community and political activities, we do not endorse any organization or activity in which employees choose to participate, and we do not discriminate in favor of or against employees based on the organizations they choose to support.

Xerox Political Action Committee

The Xerox Political Action Committee (XPAC) is supported entirely by voluntary contributions from employees, with all contributions allocated directly to candidate campaigns for U.S. federal office. In most cases, XPAC supports candidates who represent districts where Xerox has a strong presence and/or candidates who play an influential role on Congressional committees whose actions could affect our business. As part of campaign finance reform, Congress created PACs in the 1970s. They are the most transparent and closely regulated method of making contributions to electoral campaigns. In accordance with the PAC's updated Articles of Organization, XPAC distributed $22,000 in political contributions to eight candidates during the 2006 election cycle. All XPAC filings with the Federal Election Commission are current.

"When I was appointed to chair the Business Roundtable's Corporate Governance Task Force, I reminded my colleagues that we're in a spotlight that is glaring and unforgiving. We're facing a crisis of waning trust in corporate America.

Our influence on the well-being of society, the economy and the environment cannot be overstated. When stakeholders question the credibility of corporate America, we have an obligation to acknowledge our changing role and to highlight the value we create for all stakeholders – investors, employees, customers, our communities and elected officials.

With corporate America perceived as the problem, corporate America needs to find the solutions to regain trust in our well-established institutions. We need to promote the value that publicly held companies bring to our global economy and to the communities where our people live and work.

To me, that means taking a cooperative approach – influencing and highlighting reforms that benefit our shareholders by creating long-term value. We're doing our part. I'm pleased, for example, that Xerox has adopted the Aspen Principles, a statement of governance principles that was prompted by concerns about the growing corrosiveness that short-term pressures are having upon publicly traded companies.

Some of the principles are bold, like the complete elimination of short-term guidance for quarterly earnings. Others are consistent with how we operate today. They lay a foundation for principles of governance that are both aspirational and appropriate in today's environment.

The signing of the Aspen Principles by a diverse group of organizations – including labor unions, pension funds, investors and big business – is a milestone in business history. What's especially significant is the focus on long-term value and opening lines of communication with shareholders."

Anne Mulcahy
Chairman and CEO,
Xerox Corporation

"Well-managed companies that behave responsibly as corporate citizens produce long-term value for our stakeholders. That's why governance is so paramount to running a successful business."

Align:

Aligning Our Resources around Customer Need

OUR WORD.

We succeed through satisfied customers. Customers have choices and competition for them is fierce. That's why we view every day as another opportunity to delight them.

OUR WORK.

Responding to customer needs is good; anticipating them is better. We have forward-looking programs that protect privacy, ensure product safety and security, provide better access to our products, services and to our people, and provide timely feedback.

OUR WORLD.

We are both proud and humbled to be the world's leading document management company. We have earned this distinction one customer at a time, and we are aware of the enormous responsibility of retaining the trust of every one of them.

What Xerox Offers: Document Management Systems, Services, Software and Supplies

Xerox provides hundreds of systems and services that help our customers create, manage and share documents: high-end digital production printers, office multifunction systems, toner and paper, digital imaging and archiving, outsourced document management and more.

For detailed information on our key product divisions, offerings and innovations, please see the company profile on page 9 and visit www.xerox.com.

Customers' Privacy Rights

Xerox takes the utmost care to prevent the unauthorized use of information that customers provide us.

Privacy – Personally Identifiable Information

To us, the right to privacy includes the right of individuals to have a voice in the use and dissemination of their personal information. Every year, we review the data-protection laws in the countries where we do business, and we implement controls appropriate to any specific country requirements. For example, Xerox is in compliance with:

- Canadian Personal Information Protection and Electronic Documents Act (PIPEDA).
- European Union Directive 95/46/EC on the protection of personal data.
- U.S. "Safe Harbor" framework, which was negotiated between the U.S. Department of Commerce and the European Commission as a way for U.S. companies to provide privacy protection as required by Directive 95/46/EC.
- Applicable U.S. federal and state privacy laws.

We govern our privacy practices through Xerox's Ethics Hotline and external sources such as the BBB Online program of the Better Business Bureau. Both programs give customers and employees an outlet to report any concerns about the potential misuse of their data.

eCommerce at Xerox

Xerox is focused on making the customer experience simpler, faster and more reliable. And, while we're in the business of producing paper, we know that eliminating paper and digitizing work processes make for a better customer experience. To that end, Xerox has taken some paper out of the process. Online resources include easy order processing for Xerox products and supplies, and specialized portals that allow corporate customers to place orders anytime, anywhere, and under pre-determined global contracts. For more information, visit www.xerox.com and click "Where to Buy."

Product Safety and Access

Safety has always been a cornerstone of our work in product development. Technological features inside Xerox digital systems ensure our products operate safely and efficiently. Just as important are the design standards – the look and feel of the product. They help ensure that our customers can operate our systems easily and comfortably.

Just as we provide ergonomic office furniture for our employees, we also only design products that are ergonomically sound. Our design teams consider a product's height, curves, placement of touch-screens and paper trays, and all points of human interface. Customers work directly with the designers in our labs to test and help adapt the usability features of new products.

Xerox has set the standard in the industry for safety. To assure our customers that products and supplies from Xerox are safe to use, we have invested in health studies for the past 25 years to examine the potential for long-term health effects from exposure to toner.

Xerox's health studies are based on assessing the health of workers in manufacturing and equipment servicing roles who work with toner every day. By evaluating the long-term health of these workers, we can conservatively draw conclusions regarding the risks of potential exposures in very low toner exposure settings such as an office environment. Our decades of studies give no indication that there are chronic health consequences due to toner exposure in either our workplace setting or in customer settings.

To encourage customers to review product safety information and understand the environmental profile of Xerox devices, we provide them access to comprehensive safety data about our products and the materials contained within Xerox systems.

We also produce Material Safety Data Sheets, which identify hazards associated with a specific material and describe how a hazardous material can be safely handled, used and stored. Our Product Safety Data Sheets provide environmental, health and safety information for specific Xerox devices. Customers can gain access to these reports at www.xerox.com/environment, where they can search by product name and/or number.

Product Security

We're committed to helping customers maintain a secure network environment, particularly as it relates to the use of multifunction products (MFPs) – those that print, copy, fax and scan. Since all MFPs, regardless of vendor, contain hard drives and software, they require security precautions associated with other network peripherals. We introduced the industry's first office MFP in 1995 and continue to be a leader in the development of security features for these systems.

We have earned the internationally recognized National Information Assurance Partnership (NIAP) certification for more than 30 of our office MFPs. This gives Xerox one

of the industry's broadest arrays of printers and copiers certified to meet our customers' strictest security requirements. Our policy and practice is to have an entire multifunction system evaluated – not just individual features or a security kit.

Although we test extensively for security vulnerabilities in our software before we bring a product to market, we recognize that someone with intent and the requisite knowledge can, at times, find a way around security protections. We encourage people to notify us of any network security concerns, and we move immediately to provide a solution. We develop software patches for vulnerabilities and post them at www.xerox.com/security, and Xerox service representatives load the upgrades onto our customers' products during regular service calls. In addition, we quickly update our manufacturing process to integrate the security fix.

Accessible Products

Xerox was the first in our industry to design products that are accessible and easy for every customer to operate. Our dedicated team of design professionals continues to focus on adapting products so that ease of use is never compromised. To make Xerox systems more accessible for people with disabilities, Xerox has developed dozens of accessories, such as angled consoles, Braille console labels and "start print" foot switches.

In 1998, when Congress amended Section 508 of the U.S. Rehabilitation Act of 1973, Xerox again stepped forward with solutions to adapt our technology for accessible use by government workers who are disabled. We established a rigorous process to evaluate our products' compliance with Section 508. The results can be read online at www.xerox.com/section508.

Anti-counterfeiting Efforts

Every year, the global imaging industry endures the loss of millions of dollars in counterfeit or stolen supplies. We continually remind our customers that counterfeit supplies can result in poor equipment performance, low supply yields, inferior print quality, toner leakage, increased failure rates and equipment downtime – all of which can cost time and money.

Xerox is leading the charge against counterfeiting and other black-market activities. We have our own security professionals who work to protect our customers and the Xerox brand name from counterfeiters. To combat acts of piracy and fraud, our security team routinely works with the Federal Bureau of Investigation, attorney generals' offices, the Postal Inspector's office and other global law enforcement agencies. In addition, we are a member of the Imaging Supplies Coalition (ISC), a trade association of imaging companies that band together to heighten customer awareness of the issue. Wholesalers, dealers and consumers may submit questionable goods to the ISC for authentication by the manufacturer. For more information, visit www.isc-inc.org.

The increasingly improved quality of digital color printing technology has created heightened concerns of currency counterfeiting. That's why Xerox, along with other imaging companies, consults with the U.S. Secret Service and the Central Bank Counterfeit Deterrence Group, a consortium of banks from 28 countries, to assess threats to currency and to promote and support the use of anti-counterfeiting technologies. To provide protection against specific criminal behavior, technology to detect counterfeiting is being standardized.

The Customer Experience

Creating a great customer experience is more than just words; it's how we run our business. To understand how each customer account defines its own version of a "great experience," we engage measurable processes to listen and respond to the voice of the customer.

Transactional Surveys

To monitor our performance, we assess key points in time during our customers' relationship with Xerox – such as ease of purchase, the installation of a product and responsiveness from technical service representatives. Customer surveys that are rated "not satisfactory" are assigned to a person responsible for resolving the problem through a closed-loop process.

Xerox is the first company to achieve J.D. Power and Associates' Technology Service and Support Certification two years in a row. The certification is for excellence in customer service and support and for providing "an outstanding customer service experience."

J.D. Power and Associates evaluated the company's customer service on site, by phone and online. Auditors conducted comprehensive visits to our call centers to interview personnel, listen in on customer calls and validate processes. They also surveyed more than 1,600 customers about their service experience with Xerox.

Periodic or Relationship Surveys

The Customer Satisfaction Measurement Survey is an annual Web-based survey that helps to measure our customers' overall level of satisfaction with their decision to select Xerox as a solutions provider.

Xerox's Competitive Benchmark Survey measures customer satisfaction with our brand and loyalty to it, and compares Xerox against key competitors across these attributes: product quality,

customer support, price/value, problem resolution, facilities management, on-site personnel, brand image, overall satisfaction, value and loyalty.

Tone at the Top

The Xerox Customer Experience Leadership team includes senior Xerox executives from across our value chain. The team meets four times a year to review data from voice of the customer and to direct strategy on improving the customer experience.

Focus 500 Program

Our Focus 500 program assigns the top 500 major customer accounts around the world to our top executives. Each executive is responsible for communicating with at least one of our customers, understanding their concerns and requirements, and making sure the appropriate Xerox resources are marshaled to fix problems, address issues and capture opportunities.

Customer Care Officer of the Day

The company's 30 officers rotate responsibility to be Customer Care Officer of the Day.

On the assigned day, the officer assumes personal responsibility for dealing with any and all customer concerns that come into headquarters that day. The Xerox "Officer of the Day" has three responsibilities: listening to customers, resolving their problems and assuming responsibility for fixing the underlying causes.

OUR WORD

"We've found that as many as two out of every five pages printed in the office – like e-mails and Web – are for daily use. We've invented a way to make prints whose images can last only a matter of days. 'Erasable paper' uses compounds that change color when it absorbs a certain wavelength of light that gradually disappears. That means a sheet of paper can be used over and over.

Our High Yield Business Paper™ uses half as many trees, is manufactured with less water and fewer chemicals, and is produced in a mill that uses hydroelectricity to cut greenhouse gas emissions by 75%. It's the first and only paper of its kind that performs reliably in digital printers and copiers. And because it's lighter, it costs less to ship and mail.

Recycled content is another way Xerox reduces the environmental impact of its papers. Our recycled papers use post-consumer waste in place of new pulp. Every ton of recycled fiber avoids the use of three and one-half tons of virgin fiber. When you're the world's largest brand distributor of cut-sheet paper, those numbers add up.

This year Xerox introduced papers that comply with Forest Stewardship Council (FSC) standards, the world's strongest system for guiding sustainable forest management. These papers use raw materials from an FSC-certified source, controlled wood sources or post-consumer reclaimed sources. As a requirement for displaying the FSC label, Xerox earned FSC Chain-of-Custody certification from the Rainforest Alliance's SmartWood program.

And Xerox has provided a $1 million grant to fund sustainable forest management throughout the world. The Xerox/Nature Conservancy partnership is identifying and promoting best practices that will enable environmental scientists, forest managers and paper suppliers to work cooperatively toward sustainable forest management.

We're in the business of putting marks on paper. And despite talk of a paperless society, we find our customers are more dependent on paper today to manage the influx of information from e-mail and the Web."

Paul Smith
Manager, New Materials Design and Synthesis Lab,
Xerox Research Centre of Canada

"Paper can take a huge toll on the environment. That's why managing it responsibly is so important to us."

Green Tech

Running our business in an environmentally responsible manner is just one way we demonstrate a commitment to sustainability. We have our house in order – by reducing greenhouse gas emissions, integrating energy-efficient tools in our facilities and walking the talk on recycling. But the real test of our commitment is how we help *our customers* create greener workplaces. When we help them work smarter, faster and better in ways that are good for their bottom line and good for the environment, everyone wins, including Mother Earth. Here are just some "green tech" ways that are fostering sustainability for us and for our customers:

1 Solid Ink

This proprietary Xerox printing technology is known not only for its ease of use and ability to create vibrant color images but also for generating 90% less waste than comparable laser printing. With solid ink, there are no toner cartridges, just ink sticks – like crayons – that melt and adhere to paper. While a color laser printer can produce 157 pounds of waste after 100,000 prints, a solid ink printer produces only five. Our latest solid ink printers consume 15% less energy than previous models. And the ink sticks come in boxes – 100% recyclable packaging printed on 100% recycled paper – that represent a 50% reduction in packaging.

2 Emulsion Aggregation (EA) toner

This chemically produced toner – with Xerox patents behind it – uses 60% to 70% less energy per page than conventional toner. It also doubles the number of pages printed per pound of toner, thereby reducing waste. In September, Xerox opened a new five-story EA Toner plant in Webster, N.Y., Xerox's most energy-efficient building to date. It has more than 3,000 sensors that feed information about temperature, humidity, airflow and other variables into a networked system. Depending on what's happening in the plant, entire zones of the building may be shut off to reduce energy.

3 E-Agent

Thanks to a special chemical ingredient known as an embrittling agent, we're reducing by up to 22% the energy needed to make certain Xerox printer toner. As a result, Xerox is well on the way to saving more than 30 million kilowatt hours of electricity by 2008 – enough power to light more than 24,000 U.S. households for a year.

4 ENERGY STAR seal of approval

In 2007, the U.S. Environmental Protection Agency toughened its standards for ENERGY STAR® compliance. Fortunately, Xerox engineers were already at work integrating energy-reducing technologies into Xerox products. As a result, more than 50% of Xerox's product line now qualifies for ENERGY STAR designation versus an expected 25% for other office document systems. Just as Xerox helped the E.P.A. develop its first set of ENERGY STAR standards for printing systems, we continue to work with the E.P.A. in helping other companies comply with ENERGY STAR.

With thinking green a long-standing part of our value system, it's no surprise that Xerox researchers have sustainability high on the list when they are incubating ideas in the labs. In fact, a "green team" of researchers has identified more than 100 ideas for green tech exploration. Based on customer focus groups to help set priorities, these ideas become the foundation of our research investments that will continue to create breakthroughs in our industry.

Xerox Lean Six Sigma

Since 2003, Xerox people have been using industry-recognized Lean Six Sigma tools and methods to bring measurable improvement to the company's ability to reduce waste and increase effectiveness in vital business processes.

A diverse array of Xerox customers – global manufacturers, financial services providers, commercial printers, government agencies and universities – is directly experiencing the benefits of our commitment to deliver increasing value. By year-end 2006, more than 600 trained Xerox Black Belts and Master Black Belts, along with almost 4,500 Green Belts, were integrating Lean Six Sigma and Design for Lean Six Sigma into our daily operations and the services we offer to our customers.

To help organizations such as the American Red Cross and United Way streamline operations and capitalize on limited resources, Xerox Black Belts and Green Belts provide volunteer leadership and coaching in community projects. Our people benefit as the organizations benefit – by deepening their leadership and technical skills while giving back to their communities.

5 Sensible, intuitive power modes

Several Xerox products are embedded with technology that learns how its users work so that they power off when they know they won't be needed. Over an initial three-week period, a Xerox printing device will monitor usage in 15-minute intervals, effectively learning when to be on and when to power off.

6 Low-cost solar energy systems

Xerox's Palo Alto Research Center (PARC) has a team of researchers who focus on creating "cleantech" innovation in areas like generating solar energy, keeping the air clean, and distributing and conserving water and energy. Through a partnership with PARC, SolFocus, Inc. is creating solar energy systems that cut in half the cost of solar power.

7 Self-erasing reusable paper

Xerox scientists have invented a way to make prints whose images are temporary so that the paper can be used again and again. The experimental printing technology, a collaboration of the Xerox Research Centre of Canada and PARC, could someday replace printed pages that are used only briefly before being discarded. We estimate that as many as two out of every five pages printed in the office are for daily use. These include e-mails, Web pages and reference materials that have been printed for a single viewing. Self-erasing paper, still being developed in the Xerox labs, could ultimately reduce paper use significantly.

8 High-yield business paper

Launched earlier this year, high-yield business paper is made through a process that uses half as many trees as paper made by chemical pulping. It is manufactured with less water and fewer chemicals, and it is made in a mill using hydroelectricity, which cuts greenhouse gas emissions by 75%.

Nurture:

Nurturing a Greener World through Sustainable Innovation and Development

OUR WORD.

Sustainability is no longer a nice-to-do. It is an integral part of developing products, serving customers and posting profits. We view it not as a cost of doing business, but as a way of doing business.

OUR WORK.

Our responsibility to the environment focuses on four areas where we can have the most impact: climate change, biodiversity and forest management, preserving clean air and water, and preventing and managing waste.

OUR WORLD.

Attaining our goals for sustainability means going beyond what we can control directly. We engage our suppliers, our customers, our people and other important stakeholders to extend our reach and magnify our impact.

Environmental Goals and Priorities

Over the past year, Xerox has strengthened and realigned its environmental goals around four challenges that intersect areas through which we can make a significant impact across our entire value chain of products and services.

The Challenge	Xerox Strategic Goal	Xerox Impact
Climate Change	**Carbon-neutral:** Invest in technologies that reduce both the carbon footprint of our operations and the document management solutions offered to our customers. Aim to be a carbon-neutral company.	Xerox markets energy-using document management equipment, and energy is consumed in the manufacture, transport and end-of-life disposal of Xerox equipment and supplies.
Preserve Biodiversity and the World's Forests	**Sustainable paper cycle:** Work in partnership with Xerox customers, suppliers and key stakeholders to support the development of a sustainable paper cycle.	Xerox is the world's largest brand distributor of cut-sheet paper. We and our customers rely on a sustainable supply of paper from forests around the world.
Preserve Clean Air and Water through Reducing Use of Toxics and Heavy Metals	**Zero persistent, bioaccumulative, toxic (PBT) footprint:** Xerox will strive to eliminate the use of persistent, bioaccumulative and toxic materials throughout the supply chain.	From raw material extraction, materials processing and parts fabrication, the manufacture of Xerox equipment and supplies relies on a global supply chain.
Waste Prevention and Management	**Waste-free:** Produce waste-free products in waste-free facilities to promote waste-free offices for our customers.	Xerox must responsibly manage the waste created during the manufacture and use of Xerox equipment and supplies.

Our policy is to integrate these global environmental challenges, along with their risks and opportunities, into our core business strategy and practices. Our strategy is to invest in innovation, market leadership and sound management practices that deliver measurable benefits to the environment, our customers and society, and that increase shareholder value. We recognize the importance of creative partnerships with suppliers, customers and other stakeholders to achieve these benefits and maximize their value.

In its four environmental challenges, Xerox has established the following strategic goals, objectives, metrics and targets:

Challenge	Strategic Goal	Objective	Metric/Target
Climate Change	Carbon-neutral	• Reduce company-wide greenhouse gas (GHG) emissions. • Help customers meet their printing needs with the most energy efficient document management solutions. • Move Xerox employees to take action to reduce their environmental footprint at work and at home.	• Reduce GHGs 10% from 2002 to 2012 – **Achieved**. New target will be announced by year-end 2007. • Obtain the 2007 ENERGY STAR for 90% or more of new product launches by 2010.
Preserve Biodiversity and the World's Forests	Sustainable paper cycle	• Certify Xerox-branded paper to standards for sustainable forest management. • Improve forest management among Xerox suppliers through our partnership with The Nature Conservancy.	• Maintain supplier adherence to Xerox requirements for sustainable forest management. • Obtain Forest Stewardship Council and Pan European Forest Certification Chain of Custody certifications for Xerox operations in 2007. • Launch first FSC and PEFC certified papers in 2007, increasing percentage in portfolio in 2008 and beyond. • Share findings and best practices resulting from partnership with Xerox suppliers in 2008/2009.
Preserve Clean Air and Water through Reducing Use of Toxics and Heavy Metals	Zero persistent, bioaccumulative, toxic (PBT) footprint	• Reduce PBT footprint throughout supply chain.	• Xerox's five National Environmental Performance Track facilities achieve goals by 2008/2009. • Life Cycle Analysis to prioritize areas for future technology development. • Reduce use of PBTs in Xerox supply chain through adherence to Xerox and EICC requirements by 90% of suppliers (based on spend) by 2012.
Waste Prevention and Management	Waste-free facilities and products	• Reduce material footprint of Xerox equipment and supplies.	• Continued investment in "cartridge-free" solid ink technology that produce 90% less waste than conventional office printers. • Maintain >90% reuse or recycling of recovered Xerox equipment and supplies offerings. • Expand ISO 14001 environmental management certification to Xerox U.S. supplies warehouses in 2008 and additional operations and geographies 2009–2011.

Environmental, Health and Safety Governance

The Environment, Health and Safety (EH&S) organization is charged with ensuring company-wide adherence to Xerox's environmental, health and safety policy. The governance model we use to accomplish this task is illustrated to the right. Its central elements include clearly defined goals, a single set of worldwide standards and an audit process that ensures conformance to these requirements.

Standards and Programs

Environmental, health and safety standards are our primary tool for ensuring compliance with corporate policies and goals. These worldwide standards establish specific requirements for product safety, materials safety, packaging, environmental management and reporting, workplace safety, emergency response and asset protection. We have also established company-wide programs such as Zero Injury, Emergency Preparedness and Energy Challenge 2012 to engage and support employees worldwide.

Environmental, Health and Safety Governance Model

ENVIRONMENTAL, HEALTH AND SAFETY CORPORATE POLICY

STRATEGIC GOALS

- Safe Workplace and Healthy Workforce
- Safe Products
- Carbon-Neutral
- Sustainable Paper Cycle
- Zero Persistent, Bioaccumulative, Toxic (PBT) Footprint
- Waste-Free Products and Facilities

STANDARDS

- Wellness and Zero Injury Program
- Emergency Preparedness
- Energy Challenge 2012 Program
- ISO 14001 Environmental Management
- EH&S Integration into Product Development and Technology Investment
- Supplier Management

XEROX BUSINESS DIVISIONS AND OPERATIONS

ENVIRONMENTAL, HEALTH AND SAFETY AUDIT PROGRAM

Supplier Environmental, Health and Safety Management

Xerox extends environmental, health and safety requirements across its supply chain. Since 1998, Xerox has asked its materials and components suppliers to meet specific environmental, health and safety requirements. These requirements were broadened in 2004 to better manage the chemical content of our products. By adopting the Electronic Industry Code of Conduct (see page 17 for information on EICC), Xerox has further strengthened its commitment to ensure that its suppliers are operating according to accepted industry standards for environmental management. Starting in 2003, Xerox extended additional requirements to companies that provide paper to Xerox for resale. More information on these standards can be found at www.xerox.com/environment.

Audit Program

To maintain and achieve regulatory compliance, a well-established audit program measures our success in implementing corporate standards and guidelines. To identify environmental, health and safety risks and potential areas of non-compliance, Xerox audits research, manufacturing and service operations on an average of once every three years. Xerox audit teams evaluate operations against Xerox standards, regulations and industry guidelines, and with the assistance of the audit teams, local managers develop action plans to correct deficiencies. Senior management pays particular attention to situations with the potential to pose a high risk of environmental damage, serious injury to employees, or regulatory non-compliance. In 2007, Xerox met its goal of resolution of these issues within 90 days, and has demonstrated that the audit program has become an important mechanism for identifying and correcting performance gaps.

Employee Training and Education

Through training and internal communication, Xerox makes its employees aware of how our operations affect the environment. Manufacturing employees who can have a potential impact on the environment receive training annually on topics such as hazardous waste management, spill prevention and response, recycling and ISO 14001. Customer Service Engineer training covers safety hazards, exposures and processes for risk mitigation. We post our environmental policy in our facilities, and we deploy environmental, health and safety goals for our products through our product development process. Through our ISO 14001 environmental management, employees are routinely involved in identifying the environmental aspects associated with their responsibilities.

We also use our internal Web site to communicate the company's environmental goals. Employees are encouraged to do their part to reduce environmental impact through programs such as office recycling and our Energy Challenge 2012.

Stakeholder Outreach

Through a variety of means, Xerox communicates with stakeholders about our programs, performance and goals for environmental health and safety. Stakeholders include employees, customers, investors, universities, government agencies and environmental groups. We use their inputs in our reviews and strategy planning. Xerox tracks inquires from customers and other stakeholders and comments through our customer EH&S Support "hotlines" in North America and Europe. We also hear from customers through focus groups, and we hear from the larger community by participating in a number of external organizations.

Integrating Environmental Priorities Into Manufacturing Operations

All of Xerox's manufacturing operations employ an ISO 14001-conforming environmental management system. This ensures compliance with regulations and Xerox standards, identifies environmental impact and sets objective and performance targets. The ISO 14001 system requires that day-to-day business activities be integrated with environmental planning and program management. It encourages innovative engineering solutions, creative partnerships and employee involvement.

Our major manufacturing operations have been certified to ISO 14001 since 1997. In 2002, we completed the certification of all current manufacturing operations. New plants are scheduled for certification as they become operational.

In 2007, starting with our largest U.S. supplies warehouse operations, Xerox began to expand the adoption of ISO 14001 beyond manufacturing. Our intention is to expand adoption of ISO 14001 to all other U.S. supplies warehouses in 2008 and to additional operations and geographies over the next several years.

Environmental, Health and Safety Governance and Policy, adopted in 1991, forms the foundation of our Environmental Leadership Program.

Xerox Corporation is committed to the protection of the environment and the health and safety of its employees, customers and neighbors. This commitment is applied worldwide. The following principles govern all business practices in the design, manufacture, procurement, marketing, distribution, maintenance, reuse/recycling and disposal of products and related services:

- Protection of the environment and the health and safety of Xerox employees, customers and neighbors from unacceptable risks takes priority over economic considerations and will not be compromised.

- Xerox operations must be conducted in a manner that safeguards health, protects the environment, conserves valuable materials and resources, and minimizes risk of asset losses.

- Xerox is committed to designing, manufacturing, distributing and marketing products and processes to optimize resource utilization and minimize environmental impact.

- All Xerox operations and products are, at a minimum, in full compliance with applicable governmental requirements and Xerox standards.

- Xerox is dedicated to continuous improvement of its performance in environment, health and safety.

Nurturing a Greener World | through Sustainable Innovation and Development

To advance global efforts to improve our environment, Xerox partners with these private and public organizations:
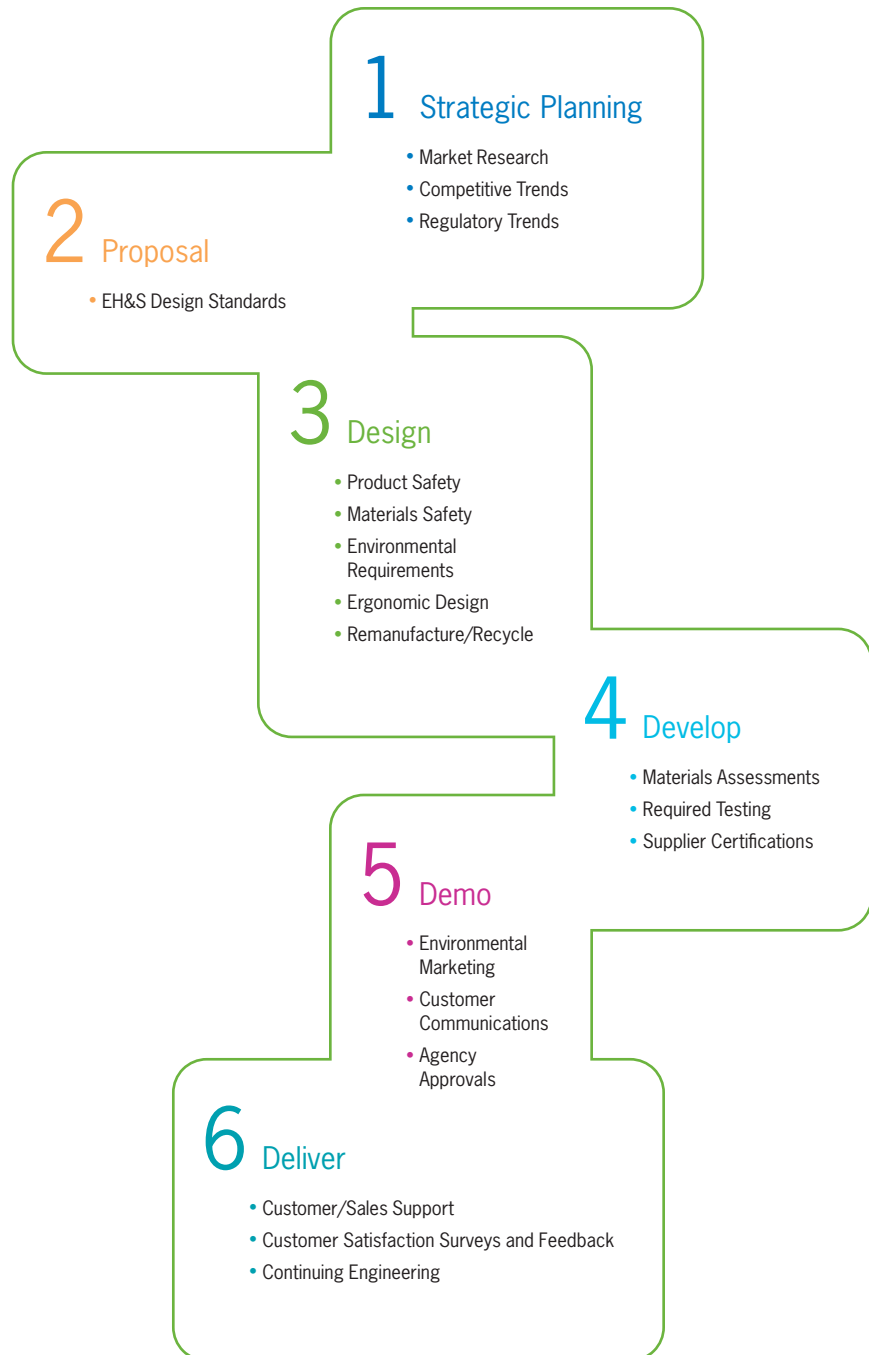
- Business Roundtable Climate Resolve
- Business Roundtable S.E.E. (Society, Environment, Economy) Change
- Business for Social Responsibility
- California's Climate Action Registry
- Advisory Board of Golisano Sustainability Institute at Rochester Institute of Technology
- Sustainable Energy Ireland
- International Leadership Council of The Nature Conservancy
- Advisory Board of the Center for Sustainable Systems at the University of Michigan
- U.S. Climate Action Partnership
- U.S. E.P.A. Climate Leaders
- U.S. E.P.A. ENERGY STAR
- U.S. E.P.A. National Environmental Performance Track
- U.S. E.P.A. WasteWise

Integrating Environmental Priorities Into Product Design

Xerox recognizes that the best results – both environmental and financial – are achieved when environmental priorities are considered from the outset of product design. Customer feedback, along with a forward-looking view of global trends in technology, regulations and ecolabels, have led us to a comprehensive set of standards that encompasses: energy efficiency, chemical management, parts reuse and recycling, electrical and mechanical safety, ergonomics, electromagnetic emissions, fire resistance and materials safety.

Xerox business teams and the EH&S organization review Xerox products at each stage of the "time to market" product development process. This is a requirement for the introduction of any new product.

Xerox's Time to Market Product Development Process

1 Strategic Planning
- Market Research
- Competitive Trends
- Regulatory Trends

2 Proposal
- EH&S Design Standards

3 Design
- Product Safety
- Materials Safety
- Environmental Requirements
- Ergonomic Design
- Remanufacture/Recycle

4 Develop
- Materials Assessments
- Required Testing
- Supplier Certifications

5 Demo
- Environmental Marketing
- Customer Communications
- Agency Approvals

6 Deliver
- Customer/Sales Support
- Customer Satisfaction Surveys and Feedback
- Continuing Engineering
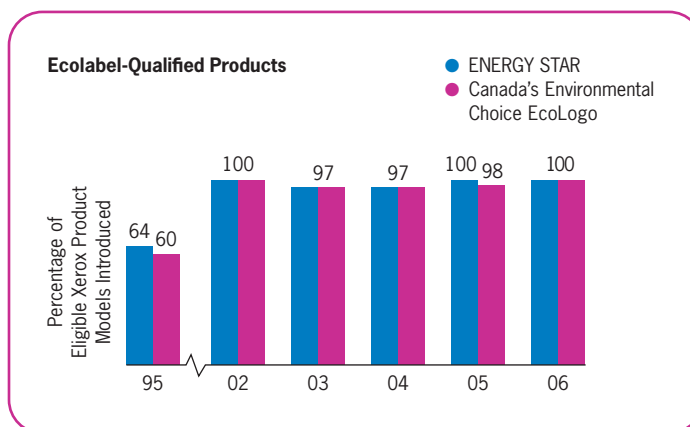
Reducing the Risk of Climate Change

Reductions in Energy Consumption and Greenhouse Gas Emissions

Xerox believes that industry must do its part to reduce increased concentrations of greenhouse gas emissions in the atmosphere. The consensus in the scientific community is that these concentrations – largely the result of the accelerated burning of fossil fuels to meet growing energy demand – increase the risk of global climate change. Xerox contributes to reduced energy demand through its energy-efficient product designs and strategies for the end-of-life of equipment. We also have a long history of energy conservation within our major facilities and have implemented an internal program called Energy Challenge 2012 to support our commitment to reduce greenhouse gas emissions from our company-wide operations.

Design for Product Energy Efficiency

Xerox's approach to reducing product energy consumption is comprehensive. First, in the design phase, product teams evaluate the system as a whole, not just by its components, to maximize energy efficiency. Second, while products are being used, features such as automatic power-saver modes lower the energy consumed. Finally, remanufacture and reuse programs require less energy than building new parts from raw materials. Together, these initiatives dramatically reduce energy needs, generate cost savings for Xerox as well as for our customers, and produce notable environmental benefits.

One measure of success in integrating environmental goals into our product designs is the number of Xerox products launched that meet the world's most widely recognized environmental certifications. In 2006, for example, 100% of Xerox's eligible product offerings met ENERGY STAR® and Canada's Environmental Choice EcoLogo criteria.

Ecolabel-Qualified Products

Legend:
- ● ENERGY STAR
- ● Canada's Environmental Choice EcoLogo

Percentage of Eligible Xerox Product Models Introduced

Year	ENERGY STAR	Canada's Environmental Choice EcoLogo
95	64	60
02	100	
03	97	
04	97	
05	100	98
06	100	

ENERGY STAR Savings

Xerox formalized its commitment to energy-efficient product design in 1993 by joining the U.S. Environmental Protection Agency's ENERGY STAR Office Equipment program as a Charter Partner. Since then, we have introduced more than 350 copier, printer, fax and multifunction products that have earned ENERGY STAR status. All eligible Xerox products introduced in 2006 met ENERGY STAR criteria. A key factor in winning ENERGY STAR status is a product's ability to enter power-saver mode, or a series of modes, after a specified period of inactivity, substantially reducing energy use.

Xerox coordinates advances in fusing technology and new electronics architectures to make today's equipment significantly more energy-efficient than comparable 1990 models, even with enhanced functionality, such as color. In 2006 alone, Xerox ENERGY STAR equipment – several million machines in customer locations around the world – produced energy savings of 29 million therms (1.0 million megawatt hours).

These energy savings translate into the equivalent of nearly 460,000 tons of carbon dioxide emissions.

By remanufacturing equipment with reused parts, in 2006, Xerox saved an additional 6 million therms of energy (170,000 megawatt hours) and prevented 33,000 tons of carbon dioxide emissions from entering the atmosphere.
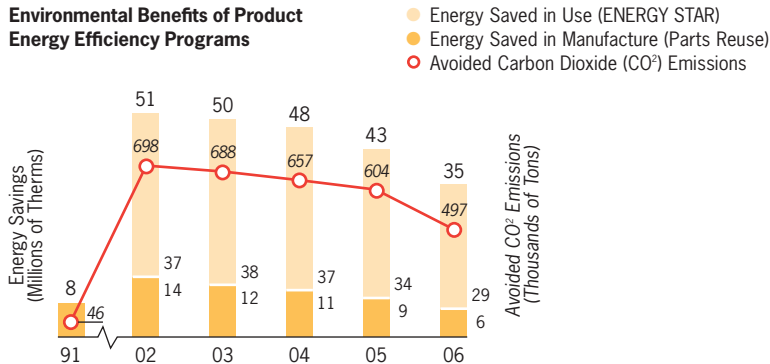
From 2002, the decreases in estimated savings from ENERGY STAR and remanufacturing programs are caused primarily by these three trends:

- Fewer product placements, which reflect a shift from standalone devices such as copiers, printers, scanners and fax machines to all-in-one multifunction devices.
- Lighter-weight machines.
- A decrease in the number of products returned for remanufacturing in Europe, where scrap office products are now driven into national collection and recycling programs as a result of new European Union legislation.

In total, the energy saved in 2006 through ENERGY STAR® product features and equipment remanufacturing was enough to light nearly one million U.S. homes for a year.

Environmental Benefits of Product Energy Efficiency Programs

- ○ Energy Saved in Use (ENERGY STAR)
- ● Energy Saved in Manufacture (Parts Reuse)
- ○ Avoided Carbon Dioxide (CO_2) Emissions

Energy Savings (Millions of Therms) / Avoided CO_2 Emissions (Thousands of Tons)

Year	91	02	03	04	05	06
Energy Saved in Use	8	51	50	48	43	35
Avoided CO_2	46	698	688	657	604	497
Energy Saved in Manufacture (upper)		37	38	37	34	29
Energy Saved in Manufacture (lower)		14	12	11	9	6

Energy savings from parts reuse is the difference between energy required to build new parts and energy required to process parts for reuse. (Refer to footnote on Page 41 for more details.) Annual energy savings from ENERGY STAR features are calculated by comparing the annual energy consumption of Xerox ENERGY STAR-qualified product types to non-ENERGY STAR counterparts. Savings are aggregated across the estimated number of Xerox ENERGY STAR-qualified machines in customer locations worldwide. Energy reductions are translated into avoided carbon dioxide emissions using conversion factors from the U.S. Environmental Protection Agency, the U.S. Department of Energy and the International Energy Agency.

"New" ENERGY STAR Standard

A new U.S. E.P.A. ENERGY STAR standard became effective on April 1, 2007. Previously the ENERGY STAR criteria for office copiers, printers and multifunction systems measured power consumed only in standby and low-power modes. The new standard asks a different question: How much energy would the device use during a typical week? It measures the energy consumed if the system mimics the tempo of a normal office, running a sample job mix with downtime for lunch, overnight and on weekends. The result is a Typical Electricity Consumption (TEC) number that must meet the E.P.A.'s tough new requirements in order for a product to achieve ENERGY STAR status. The E.P.A.'s new ENERGY STAR requirements raise the bar so significantly that only 25% of products in the marketplace were expected to meet the new criteria. At Xerox, more than 50% of our current product line and 80% of office configurations pass this tough test.

As an ENERGY STAR Charter Partner since the early 1990s, Xerox has long applied its technical expertise to building energy savings into its products. Starting about four years ago, we took a fresh look at all the subsystems in our laser printing-based products, hoping to bring the power usage down even further. As a result, engineers identified four opportunities to cut power consumption: the fuser, the toner, the electronic controls and the xerographic system. One example of the company's success is the Xerox WorkCentre 5600 multifunction series of products with speeds from 32–87 pages per minute. These are networked black-and-white office multifunction products designed for 10–30 users. The WorkCentre 5645 uses 14 kilowatt hours per week of electricity, about 30% less than a comparable multifunction system of two years ago.

Xerox WorkCentre 5645

30% Less Energy Consumption than Previous Model
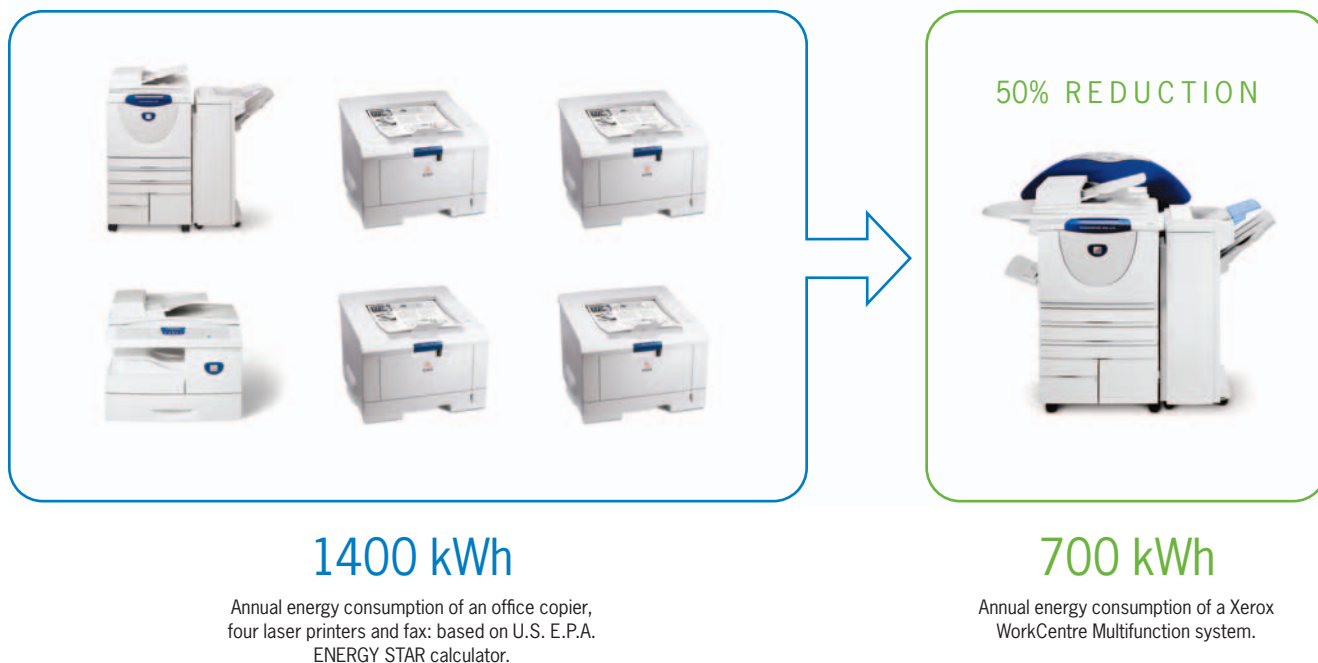

30% less total energy

Xerox engineers improved power management and upgraded hardware to reduce energy consumption in Xerox multifunction devices. The result? The Xerox Workcentre 5645 uses 30% less total energy compared to the previous model.

**Xerox Multifunction Systems:
Inherent Environmental Benefits**

50% R E D U C T I O N

1400 kWh

Annual energy consumption of an office copier,
four laser printers and fax: based on U.S. E.P.A.
ENERGY STAR calculator.

700 kWh

Annual energy consumption of a Xerox
WorkCentre Multifunction system.

"All in One" = Less Energy Use

Xerox multifunction systems further
reduce the amount of energy required to
copy, print, fax and scan by combining
the functions of multiple products
into one machine. The annual energy
consumption of a Xerox WorkCentre® or
WorkCentre Pro® multifunction system
is about one-half of the combined annual
energy consumption of the individual
ENERGY STAR qualified copiers, fax
machines and printers that it replaces.
Energy savings increase to 73% if a
multifunction system replaces individual
products that have not earned the
ENERGY STAR rating.

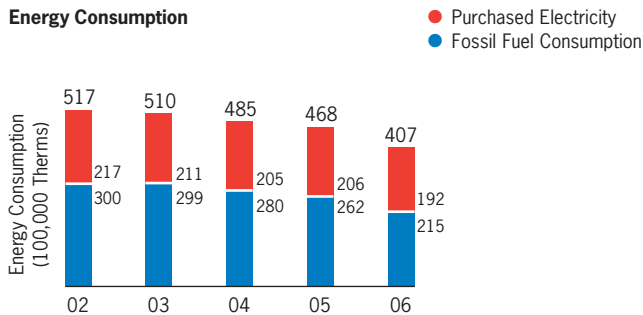### Reducing Company-wide Carbon Footprint

In 2003, Xerox made a public
commitment to reduce greenhouse gas
emissions – our carbon footprint – by
joining the U.S. E.P.A. Climate Leaders
program. We adopted a goal of reducing
by 10% our absolute greenhouse
gas emissions, across all company
operations, by 2012 from a 2002
baseline. By focusing efforts on energy
efficiency, new technologies and
business productivity, Xerox met this
target six years early – in 2006.
We have reduced emissions by 18%,
or 87,000 tons of carbon dioxide
equivalent. This was achieved by
reducing energy consumption in our
facilities, manufacturing operations and
across our service and sales vehicle

fleet. In 2006, energy consumption
decreased 13% compared to 2005
and by 21% compared to 2002. With
energy and fuel costs rising, additional
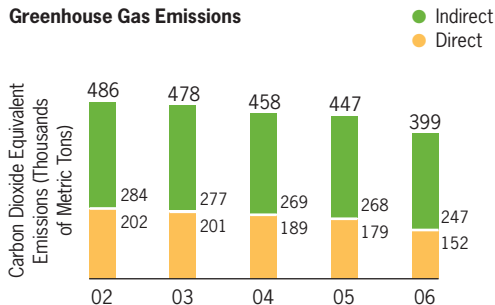benefits have included avoiding certain
energy-related costs.

Recognizing our obligation to do even more, Xerox will set a new and challenging goal to reduce our carbon footprint. Our intention is to announce this new goal by the end of 2007.

Energy Consumption

- ● Purchased Electricity
- ● Fossil Fuel Consumption

Energy Consumption (100,000 Therms)

Year	Total	Purchased Electricity	Fossil Fuel
02	517	217	300
03	510	211	299
04	485	205	280
05	468	206	262
06	407	192	215

Greenhouse Gas Emissions

- ● Indirect
- ● Direct

Carbon Dioxide Equivalent Emissions (Thousands of Metric Tons)

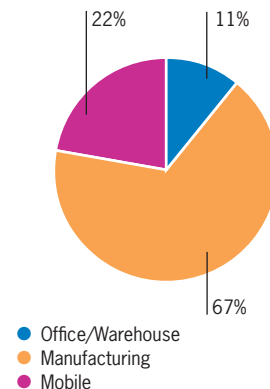| Year	Total	Indirect	Direct
02	486	284	202
03	478	277	201
04	458	269	189
05	447	268	179
06	399	247	152

Greenhouse Gas Inventory

In keeping with the international guidelines of the Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development, Xerox expresses its carbon footprint in terms of carbon dioxide equivalents (CO_2e). In fact, carbon dioxide accounts for more than 99% of its greenhouse gas emissions.

Xerox's greenhouse gas inventory includes direct emissions from the combustion of fossil fuels, primarily natural gas, and indirect emissions from purchased electricity and steam at our manufacturing sites, offices and warehouses. The inventory also includes the combustion of gasoline and diesel fuels in our service and sales vehicle fleet. Xerox's inventory does not yet include optional sources such as employee business travel, contract manufacturing or outsourced product distribution.

2006 Sources of Greenhouse Gas Emissions

22%   11%

67%

- ● Office/Warehouse
- ● Manufacturing
- ● Mobile

In 2006, Xerox greenhouse gas emissions totaled 399,000 metric tons of CO_2e. About 62% were indirect emissions from purchased electricity and steam. The remaining 38% were direct emissions from the combustion of natural gas, gasoline and diesel fuel. Xerox-owned or -leased facilities such as manufacturing sites, offices and warehouses are associated with 78% of our greenhouse gas emissions. The remaining 22% are emissions from our service and sales vehicle fleet and other mobile sources.

Strategies for Meeting Our Reduction Target

Our strategies include:

- **Shifts Toward More Energy-Efficient Technologies**
  One example is Xerox's commitment to emulsion aggregation (EA) technology, or chemical toner, which is estimated to require 25% less energy to manufacture than conventional toner.

- **Process Improvements That Reduce Energy Demand**
  Xerox has changed the way we make certain conventional toners, reducing energy demand by an estimated 15–25% per pound of toner.

- **Increased Reliability of Xerox Equipment and Parts**
  Digital technology has improved the reliability of components inside our products. This reduces service calls, which results in fewer miles driven by Xerox technicians and less gasoline consumed. Longer-lasting parts also mean that less manufacturing energy is invested over the life of a Xerox product.

- **Equipment Upgrades and Energy Management Programs**
  Every year, Xerox facilities identify opportunities to reduce energy consumption through equipment upgrades and better energy management. Some Xerox facilities save energy through "free" cooling. In winter months, the facilities cool process water by running it through outdoor pipes instead of using chillers, which are the equivalent of industrial air conditioners.

- **Use of Renewable Energy Sources**
  We are reducing greenhouse gas emissions through renewable sources of energy such as wind and solar. By purchasing "green power," several Xerox sites, including those in the United Kingdom and the U.S., are reducing annual greenhouse gas emissions by more than 6,000 metric tons.

Climate Change Risks and Opportunities

Xerox has examined the regulatory, physical and commercial risks and opportunities associated with climate change. We are preparing for potential future regulation by investing in a robust greenhouse gas emission inventory including registration of emissions via the California Climate Action Registry and participation in the U.S. Climate Action Partnership. Increased energy costs will be mitigated through continued energy efficiency investments. Consistent with our

sustainability strategy, the company will continue to invest in energy-efficient product designs and solutions to meet future customer demands and product-centric regulatory requirements.

Xerox is not subject to unique risks due to changing weather patterns, rising temperature and sea level rise. In the case that our operations or customers' operations are impacted by unpredictable events such as extreme weather, the company's well-defined crisis management plan will be executed. It covers communication with employees and customers, management of employee health and safety issues, business continuity and resumption processes, and interaction with government organizations.

Preserving Biodiversity and Forests: Xerox and Paper

As one of the largest distributors of paper for office printers and copiers, Xerox recognizes its obligation to responsibly produce and source paper. Through partnerships with our customers, suppliers and key stakeholders, our long-term goal is to support a sustainable paper cycle. Starting with the source of the fiber used to make the paper, through its manufacture and use, Xerox strives to minimize environmental impact while meeting our customers' exacting business needs.

Paper-Sourcing Guidelines

For companies that provide paper to Xerox for resale, we phased in stringent requirements from 2003 to 2005 that cover all aspects of papermaking, from forest management to production of finished goods. On an annual basis, Xerox suppliers submit detailed documentation that verifies compliance. In 2006, suppliers representing more than 90% of the paper Xerox supplies to our customers met these requirements.

Xerox continues to work with our suppliers to increase the rate of compliance to 100%.

Key elements of the requirements include:

- Commitment to compliance with all applicable environmental, health and safety regulatory requirements, including forestry codes of practice and regulations governing legal harvesting of wood.

- An effective environmental management system for mills and objectives for continual improvement in environmental performance above and beyond regulatory compliance.

- An effective procurement process that:
  – Ensures the exclusion of illegally harvested wood raw materials.
  – Ensures the exclusion of wood raw materials derived from forest areas of significant ecological or cultural importance unless certified to a sustainable forest management standard that has been accepted by Xerox.
  – Encourages all suppliers of wood raw materials to practice sustainable forest management.

- Strict limits on the use of hazardous materials, including the exclusion of elemental chlorine, in the processing and content of Xerox papers.

We recognize that one of the challenges paper companies face in meeting Xerox's requirements will be to demonstrate that they are safeguarding forest areas of significant ecological or cultural importance. Xerox fully supports multi-stakeholder efforts to develop information sources and tools that will help suppliers identify these areas on their own forestlands and in their procurement of wood raw materials from third-party lands. Xerox expects its suppliers to take full advantage of these resources as part of their efforts toward sustainable forestry.

Partnership with The Nature Conservancy

Xerox is in its second year of a three-year, $1 million grant to The Nature Conservancy to fund efforts to advance sustainable forest management. The Xerox/Nature Conservancy partnership is focusing on forest management in Brazil, Canada, Indonesia and the U.S. It is identifying and promoting best practices that will enable environmental scientists, forest managers and paper suppliers to work cooperatively toward sustainable forest management. In the first year of the partnership, Xerox supported the launch of the Canadian Boreal Data Center linking Boreal Forest data and information to diverse users to improve resource management, monitoring and conservation planning.

Forest Stewardship Council-Certified Papers

In 2007, Xerox introduced papers that comply with Forest Stewardship Council (FSC) standards, the world's strongest system for guiding sustainable forest management. These papers use raw materials from a FSC-certified source, controlled wood sources or post-consumer reclaimed sources. As a requirement for displaying the FSC label on its papers, Xerox earned FSC Chain-of-Custody certification from the Rainforest Alliance's SmartWood program. Xerox has also earned Program for the Endorsement of Forest Certification (PEFC) and plans to offer PEFC-labeled papers.

Recycled Paper

Recycled content is another way Xerox reduces the environmental impact of its papers. Our recycled papers use post-consumer waste in place of new pulp. Every ton of recycled fiber avoids the use of three and one-half tons of virgin fiber.[1] When you're the world's largest brand distributor of cut-sheet paper, those numbers add up.

Recycled products are required to meet the same strict performance specifications as virgin products, and are designed for optimal performance in Xerox equipment. Xerox offers multipurpose papers with up to 30% post-consumer recycled content.

For more information on Xerox paper visit www.xerox.com/supplies.

First Mechanical Paper for Digital Printing

The Xerox High Yield Business Paper™ is a mechanical fiber paper developed by scientists and engineers at the Xerox Media and Compatibles Technology Center, a lab devoted to paper innovation located in Webster, N.Y. Xerox High Yield Business Paper is made through a "greener" process than standard paper used with digital printers. The sheet is produced by mechanically grinding wood into papermaking pulp instead of using a traditional chemical pulping process for producing digital business papers. For example, 90% of the tree by weight ends up in the High Yield Business Paper versus only 45% in creating traditional digital printing paper. In addition, High Yield Business Paper requires less water and fewer chemicals and is produced in a plant using hydroelectricity to partially power the pulping process.

The paper brings the benefits of traditional mechanical fiber paper to digital printers that produce high quality, shorter-life print applications. The lighter weight of High Yield Business Paper makes it ideal for transactional printers and direct-mail centers seeking to reduce shipping costs.

Efficient Use of Paper

Including reliable two-sided (duplex) printing, Xerox equipment and software are also designed with features that allow customers to make efficient use of paper. Software products such as DocuShare,® FreeFlow® SMARTsend,® FreeFlow Scan to PC Desktop, FreeFlow SMARTdocument Travel™ and FreeFlow Digital Workflow Collection help Xerox customers reduce paper consumption by facilitating electronic data management, scan to e-mail, print-on-demand, and distribute-then-print workflows.

Preserving Clean Air and Water through Reducing Use of Toxics and Heavy Metals

Xerox's long-term commitment is to eliminate the use of persistent, bioaccumulative and toxic materials throughout the supply chain. We apply strict internal standards and, over time, have re-engineered or substituted processes to dramatically reduce the use of toxics and heavy metals. Some examples:

- More than 10 years ago, Xerox switched to a solvent-free process for cleaning machine parts.
- Since 2005, we have nearly eliminated the use of lead and mercury from our new products.
- Since 1991, our manufacturing operations have reduced by 94% emissions of particulate and toxics into the air.

[1] Paper Task Force Recommendations for Purchasing and Using Environmentally Preferable Paper, Updated Lifecycle Environmental Charts (2002).

Controlling the Chemical Content of Xerox Products throughout the Supply Chain

Xerox requirements for minimizing toxic materials govern our product design and materials selection. Xerox toxicologists conduct a comprehensive assessment of new materials in our products to ensure conformance with these criteria. They include compliance with applicable global registration, hazard communication and waste handling and disposal. The requirements prohibit the use of materials that:

- Are carcinogenic, mutagenic, or cause adverse developmental or reproductive effects.
- Pose a toxicity hazard to humans or aquatic species.
- Can cause a permanent adverse impact to the skin, eyes or respiratory system.
- Have the potential to generate hazardous waste.

In 1999, Xerox banned the use of certain flame retardants in our products, and we have made good progress in eliminating the use of mercury. Mercury-containing lamps that scan images and back-light user displays will be phased out as alternatives become available.

In 2004, Xerox issued updated requirements for Xerox suppliers to better control the use of chemicals in our products. All new product designs refer to these requirements, and suppliers are expected to verify their compliance with them. To learn more about them, visit www.xerox.com/environment.

Concern about the use of hazardous materials in electronics has prompted many countries around the world to consider restricting the use of certain substances. Most notably, the European Union's Restriction of Hazardous Substances directive (RoHS) now requires new electronic products to be free of lead, mercury, cadmium, hexavalent chromium and certain brominated flame retardants, unless feasible alternatives are unavailable. Xerox products subject to RoHS have met this deadline. In 2007 and beyond, Xerox's newly launched products will be designed to meet these requirements in all markets. However, where regulations allow, some products will contain non-RoHS-compliant parts in order to avoid premature disposal of existing parts.

In 2007, the first phase of the European Union's new regulatory plan for chemical control goes into effect. The regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) aims to establish a regulatory framework for evaluating the impact chemicals have on the environment and human health, and for assessing whether the most potentially hazardous of those chemicals should be subject to an authorization or ban. Xerox's efforts to understand the implications of this new regimen are underway. We expect to be fully prepared for the registration phase that begins in 2008.

Low Emissions

Consistent with the world's most stringent ecolabels, Xerox designs its products to control emissions of chemicals and noise. As a result, current products have achieved chemical emission levels that are well below global regulatory requirements – often at or near the detection limit of our measurement equipment – and are considered to have a negligible impact on customers' work environments.

Since 1991, ozone and dust emissions from office and production copying and printing systems have decreased by more than 50%. Future Xerox products are being developed to maintain these low levels.

Waste Prevention and Management

Our waste-free commitment is to produce waste-free products in waste-free facilities to promote waste-free offices for our customers. Our aim is to design products, packaging and supplies that make efficient use of resources, minimize waste, reuse material where feasible and recycle what can't be reused. To meet this commitment, Xerox has put in place several programs:
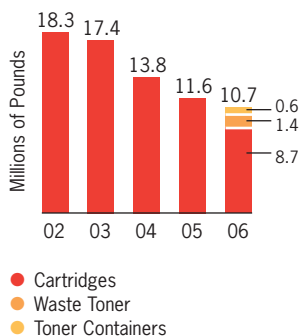
- Xerox's Green World Alliance program provides a collection and reuse/recycling program for spent imaging supplies.
- Xerox's Product Takeback and Recycling program manages equipment at end of life.
- Xerox facilities manage their operations to our waste-free commitment as described in the Environmental Performance in Xerox Facilities section of this report beginning on page 42.
- Xerox is investing in waste-free technologies. Xerox's solid ink imaging process utilizes compact, "cartridge-free" solid ink sticks with no plastic housings or casings, thereby reducing office waste by 90% compared with comparable laser products.

Xerox Green World Alliance

The Xerox Green World Alliance reuse/recycle program for imaging supplies is central to our commitment to waste-free products. This partnership with Xerox customers has resulted in more than 2.7 million cartridges and toner containers being returned in 2006. Xerox processed 1.3 million pounds of post-consumer waste toner for reuse, and the plastic bottles customers used to return waste toner to Xerox – nearly 100,000 of them – have been recycled. The annual reduction in the volume of returned supplies for recycling reflects primarily a change in technology and product mix.

Xerox Green World Alliance: Total Waste Diverted from Landfills

Millions of Pounds

18.3 17.4 13.8 11.6 10.7
0.6
1.4
8.7

02 03 04 05 06

● Cartridges
● Waste Toner
● Toner Containers

Well-Established Collecting and Reprocessing Methods

Prepaid postage labels and packaging from new supplies allow customers to return spent materials to Xerox for reuse and recycling. Return labels for toner containers are available from Xerox upon request or by downloading a prepaid label from www.xerox.com/gwa.

Returned products are cleaned, inspected, and then remanufactured or recycled. Remanufactured cartridges, containing an average of 90% reused/recycled parts, are built and tested to the same performance specifications as new products. Similarly, waste toners that qualify for reuse may account for 25% of the weight of new toner, without compromising toner functionality. Reusing waste toner saves several million dollars in raw-material costs each year.

Product Take-Back and Recycling

Since 1991, remanufacturing and recycling have given new life to more than 2.8 million copiers, printers and multifunction systems, while diverting nearly *two billion pounds of potential waste from landfills.*
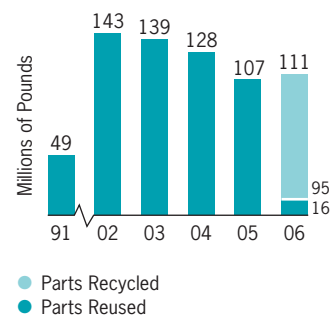
Begun in the early 1990s, Xerox has pioneered the practice of converting end-of-life electronic equipment into new products and parts. We have developed a comprehensive process for taking back end-of-life products, and have established a remanufacture, parts reuse and recycling program that fully supports our waste-free initiatives.

Our approach to managing products at end-of-life translates into significant environmental and financial benefits. Equipment remanufacture and the reuse and recycling of parts prevent millions of pounds of waste from entering landfills each year – 111 million pounds (50,000 metric tons) in 2006 alone.

With the implementation of the European Union's Waste Electrical and Electronic Equipment (WEEE) Directive, Xerox will continue to operate its European take-back program to enable equipment remanufacturing and parts reuse. It will also participate as needed in European member states' individual collection and recycling programs.

The annual trend in reduction in waste diverted from landfill since 2002 is due in part to lighter-weight machines, and a decrease in the number of office machines returned for remanufacturing in Europe, where the new WEEE legislation mandates the national collection and recycling of scrap office products.

Waste Diverted from Landfills Through Parts Reuse/Recycle

Millions of Pounds

49 143 139 128 107 111
95
16

91 02 03 04 05 06

● Parts Recycled
● Parts Reused

NOTE: These data cover the remanufacturing and reuse/recycle of Xerox equipment and parts at Xerox facilities and those of our contract office equipment manufacturer, Flextronics.

Designing for Reuse

Xerox maximizes the end-of-life potential of products and components by considering reuse in the design process. Machines are designed for easy disassembly and contain fewer parts. Parts are durable – designed for multiple product life cycles. Coded with instructions on how to dispose, the parts are also easy to reuse or recycle.
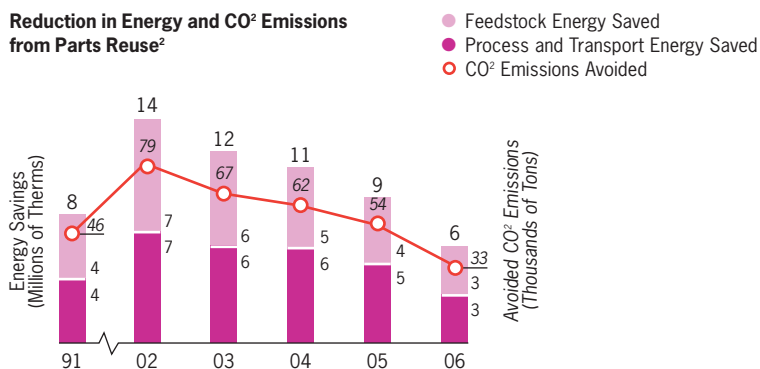
As a result, equipment returned to Xerox at end of life can be rebuilt to as-new performance specifications, reusing 70–90% of machine components (by weight), while meeting performance specifications for equipment with parts that are all new.

Xerox also designs product families around modular product architectures and a common set of core components. These advances offer us many options for breathing new life into old equipment. A returned machine can be rebuilt as the same model through remanufacture, converted to a new model within the same product family, or used as a source of parts for next-generation models.

Improved forecasting of equipment returns has allowed Xerox to rely on previous generations of equipment as a source of components for products in development. A Xerox product whose designs are based on previous models may have 60% of its parts in common with previous equipment.
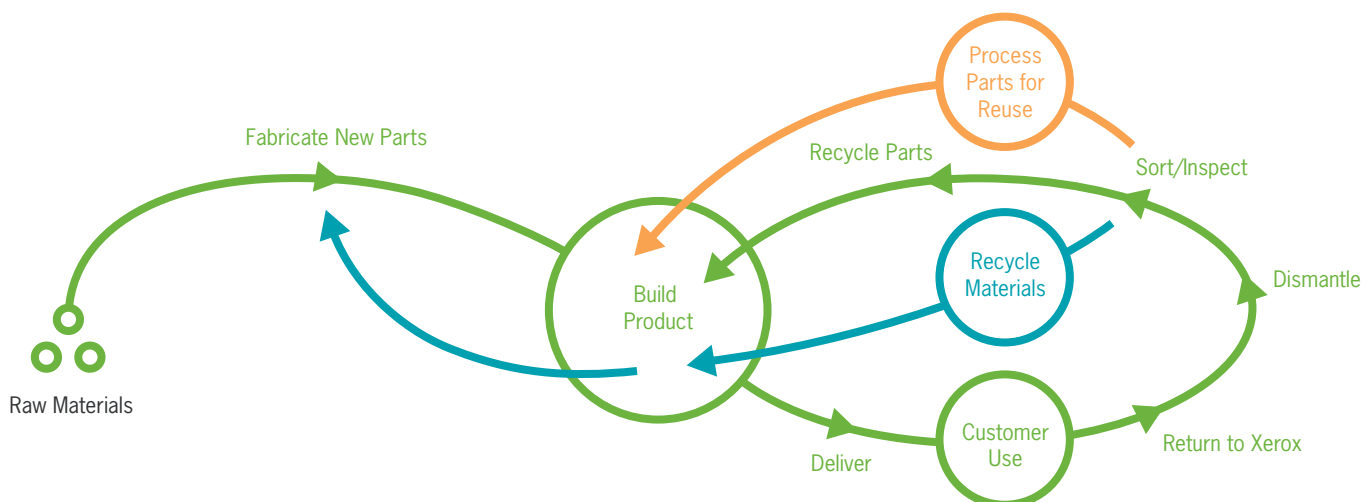
The practice of reusing parts reduces the amount of raw material needed to manufacture new parts, which generates several hundred million dollars in cost savings each year. And there are energy savings. We estimate that in 2006, energy savings from reused parts totaled six million therms (170,000 megawatt hours) – enough energy to light more than 136,000 U.S. homes for a year.

Reduction in Energy and CO_2 Emissions from Parts Reuse[2]

- Feedstock Energy Saved
- Process and Transport Energy Saved
- CO_2 Emissions Avoided

[2] Energy savings represent the difference between energy required to build new parts and energy required to process parts for reuse, assuming an average machine composition of 60% plastic and 40% steel. Energy savings calculations encompass "feedstock energy" (the energy content of the petroleum and coal raw materials converted to plastic and steel, respectively) and energy required to process and transport materials throughout the lifecycle. Lifecycle energy data were obtained from Franklin Associates, Ltd. Energy savings are converted into avoided emissions of carbon dioxide using U.S. energy profile and emissions factors calculated by the U.S. Environmental Protection Agency. Feedstock energy was excluded from this conversion.

Xerox Equipment Recovery and Parts Reuse/Recycle Process

Ensuring Product Quality

Xerox has developed unique processes and technologies to ensure that all Xerox products, regardless of their reused or recycled part content, meet the same specifications for performance, appearance, quality and reliability. Signature analysis, for example, enables Xerox engineers to determine the life expectancy of motors and other electromechanical components. Through it, we test new parts to determine a "signature" – an acceptable range for the noise, heat or vibration that electromechanical parts produce while in use. We then test the same characteristics in parts from returned equipment. Only those parts whose signatures are consistent with those of newly built parts are approved and processed for reuse.

Machines with reused/recycled parts are built on the same manufacturing lines as newly manufactured equipment, and they undergo the same rigorous tests for quality assurance. As a result, products with reused/recycled parts carry the same Xerox guarantees, warranties and service agreements as Xerox equipment made from all-new parts.

Meeting Customer Requirements

Customer acceptance of reused/recycled parts was a significant challenge for Xerox's program throughout the 1990s. Today, with more than a decade of proof, we find that far fewer customers share the misperception that products with reused/recycled parts are inferior to those built from all-new parts. Nonetheless, we continue to educate customers about the quality and reliability of reused parts and, whenever necessary, we promote environmentally responsible purchasing policies and practices. These eliminate barriers to reuse by focusing on the quality and performance of products regardless of recycled content.

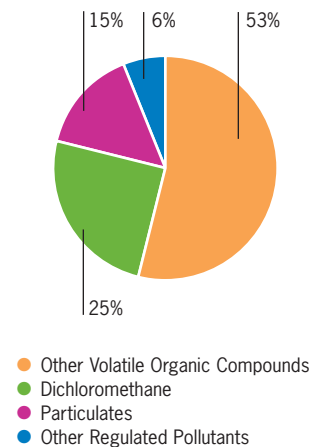## Environmental Performance in Xerox Facilities

About Environmental Performance Results

Data in this section on environmental performance represent total quantities for Xerox's manufacturing, research, development and equipment recovery/recycle operations in 11 countries. Energy consumption and greenhouse gas emissions are reported across all our operations. Starting in 2002, these data – with the exception of solid waste figures – do not include Xerox office equipment manufacturing operations, which were outsourced in late 2001 to Flextronics, an electronics manufacturing company. Unless otherwise noted, all numbers represent worldwide totals and are reported in generally accepted international metrics.

Air Emissions

Xerox facilities released 46 metric tons of chemicals and particulates into the air in 2006, a 13% decrease from 2005. The decrease came primarily from decommissioning and consolidations, and declines in production.

2006 Air Emissions: Distribution by Type

- 53% — Other Volatile Organic Compounds
- 25% — Dichloromethane
- 15% — Particulates
- 6% — Other Regulated Pollutants

Xerox's Major Sites Recognized for Improving Environmental Management
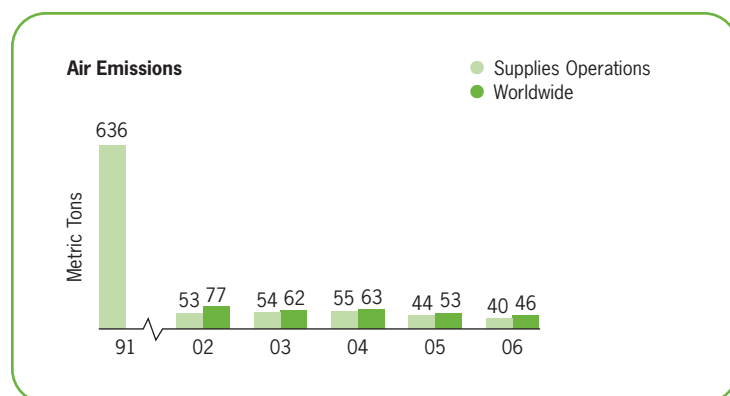
All of Xerox's major U.S. facilities have earned membership in the National Environmental Performance Track, a program of the U.S. Environmental Protection Agency for participating facilities that achieve top environmental performance.

Performance Track, which includes five enrolled Xerox sites, recognizes facilities that voluntarily exceed regulatory requirements, implement systems to improve environmental management, work with their communities, and set three-year goals for even better environmental performance. Only facilities with a record of sustained regulatory compliance and a history of environmental achievements are eligible to participate in the program.

As part of its application to Performance Track, the Xerox sites committed themselves to decreasing energy consumption, increasing solid waste recycling, eliminating hazardous materials from products and using less water. The Webster, N.Y, facility, for example, made a commitment to reduce hazardous waste by 42% over three years.

Most of Xerox's air emissions come from operations that manufacture Xerox imaging supplies – toners, inks and photoreceptors. Effectively executing strategies for reduction, reuse and recycling between 1991 and 1996 resulted in a reduction of air emissions by 87% during that period. Since then, declines in production and continuous improvements in our processes have resulted in additional reductions, totaling a 94% reduction from 1991 levels. While we have not adopted a specific target for reducing air emissions, continuous improvement remains a priority.

Air Emissions
- Supplies Operations
- Worldwide

Metric Tons

636
53 77
54 62
55 63
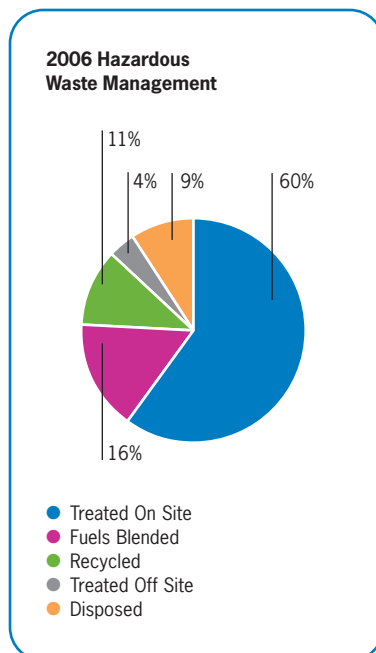44 53
40 46

91 02 03 04 05 06

Ozone Depleting Substances

Xerox operations worldwide conform to the Xerox Ozone Depleting Substances (ODS) Policy, established in 1992, that prohibits ODS from all Xerox products, services and processes. Xerox is nearing a complete phase-out of ODS used as refrigerants, with just one remaining operation using a small quantity (48 lbs.) of R-12.

Hazardous Waste

Xerox strives to deploy effective waste disposal and to minimize hazardous waste generation. Through treatment, recycling, energy recovery or fuels blending, 91% of hazardous waste generated in 2006 was beneficially managed. The remaining 9% was incinerated or disposed in landfills permitted to accept hazardous waste.

2006 Hazardous Waste Management

11%
4% 9%
60%
16%

- Treated On Site
- Fuels Blended
- Recycled
- Treated Off Site
- Disposed

Worldwide hazardous waste volumes decreased by 91% between 2005 and 2006. In prior years, the vast majority of Xerox's reported hazardous waste generation resulted from the neutralization and discharge of wastewaters to

the sanitary sewer in connection with Xerox's solid ink printhead manufacturing operations. In 2006, Xerox received notification from the state agency with jurisdiction over the operation indicating a change in regulatory interpretation, resulting in the reclassification of most of this waste water from hazardous to nonhazardous for reporting purposes and triggering a greater than 90% reduction in reported hazardous waste generation. With this adjustment, the largest reported hazardous waste stream in 2006 was organic solvent waste. Captured using efficient reclamation systems, organic waste is sent off site for recycling or energy recovery. Off-site recycling converts waste into reusable products.

Hazardous Waste Generated

Thousands of Metric Tons

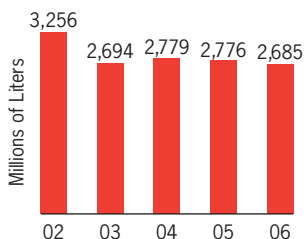12.3
15.2
17.5
34.4
3.0

02 03 04 05 06

Water Consumption and Treatment

As part of our commitment to conserve resources, Xerox monitors water consumption at its facilities worldwide. Improved use of cooling towers at several Xerox sites, building consolidation and process improvements, all part of our long-term goal to reduce water consumption, resulted in water consumption decreasing 3% from 2005 to 2006.

Wastewater from manufacturing processes is treated where necessary before being discharged into local sanitary sewers. The treatment includes adjusting pH and, as necessary, removing suspended solids. In addition, the company engages best-management practices to prevent unwanted pollutants from entering waterways via surface contamination and run-off. Extensive sampling of wastewater discharged to both sanitary and storm sewers ensures that discharged water meets our strict requirements.
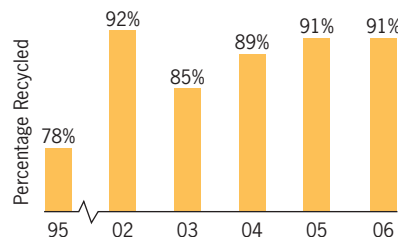
Water Consumption

Millions of Liters

3,256 2,694 2,779 2,776 2,685
02   03   04   05   06

Non-hazardous Solid Waste

Xerox recycled 91% of its non-hazardous solid waste in 2006 – no change from 2005.

Non-hazardous Solid Waste Recycling Rate: All Facilities

Percentage Recycled

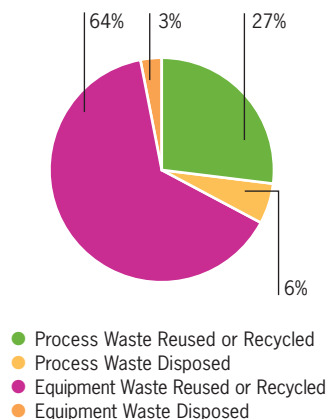78% 92% 85% 89% 91% 91%
95   02   03   04   05   06

In addition to typical solid waste generated from manufacturing, construction and maintenance, Xerox manages end-of-life machines returned to Xerox equipment recovery/recycle facilities. Returned equipment and parts that cannot be reused through remanufacturing, which we classify as "equipment waste," make up more than 60% of the non-hazardous solid waste managed by Xerox operations.

2006 Non-hazardous Waste Management: Distribution by Type

64%   3%   27%

6%

- ● Process Waste Reused or Recycled
- ● Process Waste Disposed
- ● Equipment Waste Reused or Recycled
- ● Equipment Waste Disposed

Equipment that reaches the end of its useful life is returned to Xerox equipment recovery/recycle facilities. To maximize environmental and financial benefits, Xerox first evaluates returned equipment for its reuse potential. Products suitable for reuse undergo the rigorous equipment remanufacture processes described on pages 40 and 41 of this report.
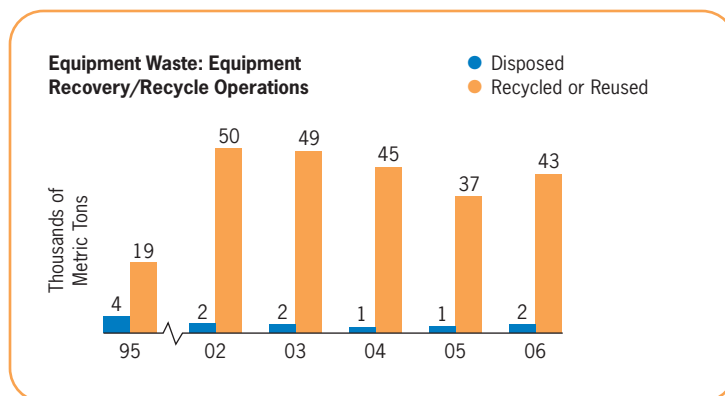
Returned products that cannot be remanufactured are designated as equipment waste. Xerox equipment recovery/recycle operations disassemble these machines for recycling, removing parts that can be processed for reuse according to stringent standards for quality and performance. The remaining components are recycled or disposed. Of the 43,000 metric tons collected in 2006, Xerox was able to reuse or recycle 96%.
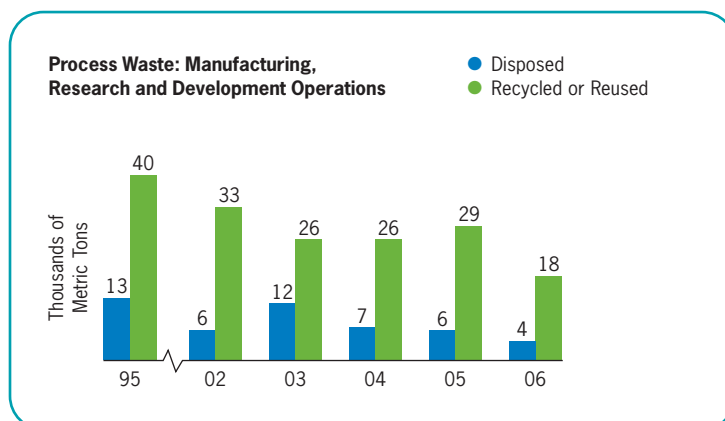
We also carefully manage suppliers that provide recycling and waste disposal services. An audit process ensures that vendor practices are safe, environmentally sound and compliant with regulations. We require these companies to document the final disposition of materials sent to their facilities, including electronic scrap. Xerox does not allow its vendors to send electronic scrap overseas for processing.

Equipment Waste: Equipment Recovery/Recycle Operations

● Disposed
● Recycled or Reused

Thousands of Metric Tons

Year	Disposed	Recycled or Reused
95	4	19
02	2	50
03	2	49
04	1	45
05	1	37
06	2	43

Xerox manufacturing operations generated 22,000 metric tons of non-hazardous solid waste in 2006, compared to 35,000 metric tons in 2005. The decrease in recycled/reused volumes is the result of declines in production levels and more-accurate classification of waste as either "equipment" or "process" waste. The waste stream consists primarily of paper, wood pallets, plastics and packaging waste such as corrugated cardboard. It also includes manufacturing-related wastes such as scrap metal, waste toner, waste batteries and lamps, and miscellaneous trash. In 2006, 82% of this waste was reused or recycled, compared with 83% in 2005.

Xerox has had waste reduction efforts in place for many years that include reusable boxes, pallets and containers for parts delivery, reuse of toner that is outside the acceptable size range during manufacturing, and reusable totes for recycling scrap metal and paper.

Process Waste: Manufacturing, Research and Development Operations

● Disposed
● Recycled or Reused

Thousands of Metric Tons

Year	Disposed	Recycled or Reused
95	13	40
02	6	33
03	12	26
04	7	26
05	6	29
06	4	18

Environmental Remediation and Compliance Penalties
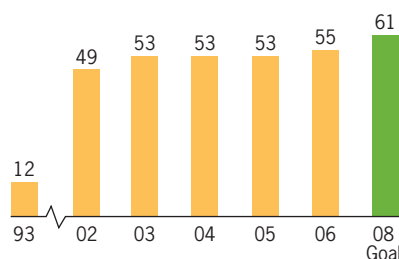
Environmental Remediation

For more than 20 years, Xerox has conducted an aggressive program to identify and clean up contaminated sites around the world. These efforts include a voluntary program, begun in 1985, that has resulted in identifying 68 facilities and operations sites that have required remediation. As the sites were identified, the company, where necessary, took immediate measures to protect employees, neighbors and the environment from possible adversity.

To accelerate some of the remedial time frames, we concentrated our initial efforts on source areas of contamination. This strategy, often involving interim remedial measures approved by regulatory agencies, produced significant results. In most instances, source area remedial measures have achieved their source reduction goals. Many of these sites may now be managed with control techniques that limit potential migration and exposure. Today, only 13 of the 68 sites require further remedial or control measures.

In addition to using conventional techniques for groundwater pumping and soil excavation, Xerox has been at the forefront of developing and using innovative remedial technologies. These include techniques that enhance the recovery of contaminants such as High Vacuum 2-Phase Extraction® and bedrock and hydraulic fracturing. In addition, contaminants are converted to less-harmful substances through technologies such as enhanced biodegradation.

All Xerox manufacturing operations conform to the requirements of the ISO 14001 Environmental Management system. This approach, along with implementation of spill prevention plans, has resulted in only one new site identified for remediation in more than ten years. In prior years, Xerox has centrally tracked spill and accidental chemical release information for its operations in North America and Europe but has not included that data in its annual progress reports. This year, Xerox is providing this information on "reportable" releases, which Xerox defines as accidental releases of substances by Xerox that are required to be reported to a regulatory body. In 2006 Xerox's North American and European operations identified no reportable accidental spills/releases. Preventing further contamination is our goal.

Cumulative Number of Sites Remediated[3]

[3] Our goal is to complete 90% of remediation activities by 2008.

Compliance Penalties

In 2006, Xerox was not subject to any compliance penalties for environmental, health or safety violations in either its workplaces or areas related to its products or services.

"In 2003 we made a commitment to reduce greenhouse gas emissions by partnering with the Environmental Protection Agency's Climate Leaders program. By 2005 we had issued a company-wide directive that we called 'Energy Challenge: 2012.' It pledged to reduce our own operations' emissions by 10% by the year 2012. Now it's 2007 and, well, we met our target. In August 2007 we informed the EPA that we had met our goal five years early. How did we do it?

For starters, we developed a new way of making selected toners, saving 15% to 25% in energy consumption per pound produced. We're well on our way to saving more than 30 million kilowatt hours of electricity in 2008. That's enough power to light more than 24,000 U.S. households for one year. And there's more.

We've improved the reliability of components inside Xerox products. That means our service people drive a whole lot less to service machines – 34 million miles less in the U.S. alone. We've implemented lighting initiatives, upgraded equipment and installed centrally managed digital controls

for energy use at our large sites. Some Xerox facilities cool process water by running it through outdoor pipes instead of using energy-consuming industrial air conditioners.

What's next? Xerox is working to develop another aggressive carbon reduction goal for our company-wide operations. We'll continue to focus on our long-standing commitment to make our products even more energy efficient and we'll look for ways to encourage our suppliers to make improvements too.

We will truly raise the bar. It is our belief that we have an unending obligation to the environment and to advancing sustainable business practices."

Patty Calkins
VP, Environment, Health and Safety,
Xerox Corporation

"Two years ago, we pledged to reduce greenhouse gas emissions 10% by 2012. This year, we were six years early."

Strengthen:

Strengthening Our Competitiveness by Creating a Great Workplace for Our People
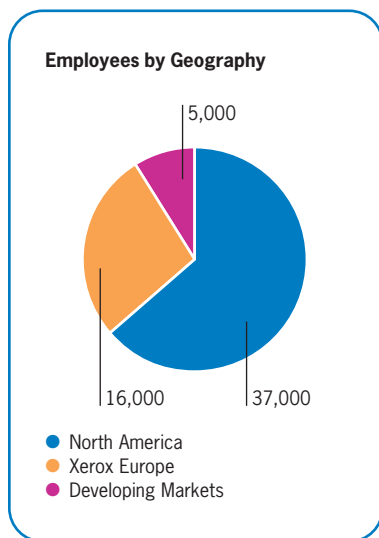
OUR WORK.

Our commitment goes beyond our words; it shows in our actions: valuing diversity and inclusiveness, rewarding good performance, offering excellent opportunities for learning and development, and achieving the right work/life balance.

OUR WORD.

Our most precious resource is our human resource. Our people command our unwavering support, nurturing and respect. Our people *are* Xerox. We celebrate all of them.

OUR WORLD.

In a recent employee survey, 31,000 responses from 41 countries gave 98%+ high-satisfaction ratings to our employee communications, manager-employee relationships, the job itself and work/life balance. Excellent results, in any language.

Xerox Employs Approximately 58,000 People around the World.

Employees by Geography

5,000

16,000   37,000

- North America
- Xerox Europe
- Developing Markets

Our Workplace

Xerox holds its employees to the highest ethical standards. Our people are required to acknowledge our business Code of Conduct each year, which includes understanding our important workplace policies.

For more information on our Code of Conduct, go to page 14 or visit www.xerox.com/governance.

Employee Engagement

Every 18 months, Xerox administers the Employee Engagement Survey (EES), which is designed to help the company understand our employees' views of the work environment and areas of opportunity. Here are some key facts about the survey:

- It is available worldwide – 41 countries, 16 languages.
- It is administered online by a third-party vendor to ensure anonymity.
- 68 questions cover 15 categories.
- Our most recent survey produced more than 25,000 write-in comments.
- Results are shared with managers for action planning and are rolled up to business unit heads, senior management, and to our CEO.

The 82% employee response rate remains very high. Yet, we didn't stop with the numbers. We used our own categorizing technology, developed at the Xerox Research Centre of Europe, to help process more than 25,000 comments and identify the major concerns and trends.

Favorable responses were higher than responses from the previous survey cycle. Results from the following areas placed Xerox in the 98th to 99th percentile for comparative companies:

- Communication (99)
- Manager-employee relationship (99)
- Job itself (98)
- Work/life balance (98)

Employees told us they are proud to work for Xerox and that they care deeply about the company, their work, each other and our customers. Survey results also indicated a four-point gain overall for the last three years in employees' view that Xerox behaves responsibly as a corporate citizen.

There are also some areas that need improvement. Employees are concerned, for example, that bureaucracy gets in the way of their work (only 37% favorable regarding doing a good job of minimizing or eliminating bureaucracy). They have told us management needs to be more focused on reducing complexity and increasing effectiveness.

It is one of the reasons we invested in Lean Six Sigma and have made it pervasive across the enterprise, with several projects dedicated to simplifying our internal processes and systems. (See Lean Six Sigma overview on page 27.) As a large, global business we recognize that bureaucracy is often required to ensure compliance with appropriate policies and regulations. But, we also know that we can help simplify processes and improve the way work gets done, just like what we do for customers who need to streamline document-intensive workflows. For example, we continue to automate standard processes for the way our people work – from creating purchase orders and paying our vendors to tracking employee performance objectives and providing real-time access to benefits and compensation information. There is much more we can do across our entire value chain and we are responsive to employee suggestions on how we can streamline and simplify so bureaucracy seems less, well… bureaucratic.

Job security remains a concern (52%, 15th percentile – up three points but low compared to peer companies). And our employees believe we can improve on total pay (50%, 26th percentile – up two points but low compared to peers). As we increase our focus on these areas, they have been improving and we continue to assess new ways to deliver total value to our employees.

Diversity, Inclusion and Opportunity

Our goal is to make Xerox a great place to work. Through a comprehensive set of employee-focused initiatives, we promote diversity by nurturing a culture of inclusion and opportunity, and through measurable actions.

Executive Commitment and Councils

The Xerox Executive Diversity Council includes about 15 senior leaders who meet three times a year to review Xerox diversity practices and to provide recommendations to our CEO and head of Human Resources. This group focuses on:

- Workforce representation.
- Work environment.
- Diverse customer markets.
- Diversity practices, including training.
- Organizational efforts to improve multicultural dimensions.

Caucus groups, independent groups of Xerox employees dating from the 1960s, play an important role in our diversity story. These caucuses, similar to networking and affinity groups, are instrumental in advocating openness, opportunity and inclusion for the entire Xerox community. They work with management to achieve common business objectives, self-advocacy and to create an environment of inclusion. Caucuses exist for employees who are African-American, Hispanic, Asian, women, African-American women, gay, lesbian, transgender and bisexual.

The Corporate Champion program matches senior executives with caucus groups to facilitate and maintain open communications with the various employee groups. For example, Sophie Vandebroek, Chief Technology Officer and President, Xerox Innovation Group, is the champion of the Black Women's Leadership Caucus (BWLC). She meets regularly with the BWLC leadership team, conducts roundtables with BWLC members and helps identify, mentor and develop high-potential employees from BWLC who may pursue leadership positions. In addition, Sophie represents the voice and views of

BWLC during discussions with the Xerox senior leadership team on diversity and other workplace matters. Similar "champion" relationships exist with each of the caucus groups.

Through executive roundtables, our CEO and other senior leaders meet with diverse teams of Xerox employees, often representing one of our caucus groups. During these informal sessions, participants share their views on Xerox's work environment and business concerns, and identify actionable items for discussion with Xerox's senior team. The process ensures that the executive leadership team and the CEO are working together to resolve concerns about the work environment.

U.S. Employee Race and Ethnicity Representation

	Black		Hispanic		Asian		Native American		Women		Minorities	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Executives	10.6%	10.2%	5.1%	5.5%	4.9%	5.2%	0.7%	0.7%	30.3%	31.2%	21.5%	21.6%
Professionals	6.9%	7.5%	5.3%	5.2%	9.8%	9.6%	0.6%	0.6%	33.6%	32.6%	22.9%	22.9%
All Others	17.6%	17.9%	10.0%	10.3%	4.2%	4.3%	0.8%	0.8%	31.5%	32.4%	32.7%	33.3%
Total	14.4%	14.4%	8.4%	8.4%	5.5%	5.7%	0.7%	0.8%	31.8%	32.3%	29.2%	29.3%

Non-discrimination Policy

Xerox complies with Equal Employment Opportunity (EEO) guidelines and applicable state and municipal statutes and orders that govern the hiring and treatment of its employees. Xerox does not discriminate by race, color, religious belief, sex, age, national origin, citizenship status, marital status, union status, sexual orientation or gender identity. Neither does it discriminate against veterans of the Vietnam era, disabled veterans, individuals with a disability or employees who take protected leave time.

By focusing on diversity in all areas of hiring, Xerox promotes and retains the brightest people best suited for our business. Our hiring and promotion efforts ensure a deep, diverse reserve of strong players who are ready to assume leadership roles. Our hiring practices include engaging Xerox people to recruit at universities and career fairs, providing scholarships to minority students interested in information technology, and offering internships and co-op programs to diverse groups of students and new graduates.

We grant 150 scholarships each year through our Technical Minority Scholarship Program. And we're reaching out to young people through programs such as the FIRST robotics competition and Science Consultant Program to encourage broader interest in science and technology. (See page 59 for more information on these initiatives.)

The FIRST Robotics Competition 2007

We introduced Xerox career opportunities to the Hispanic student population among 32 universities and institutions and, to further expand our recruitment efforts, we are partnering with the Society of Hispanic Engineers. We have a similar university outreach program for recruiting African-American employees.

Here are examples of Xerox's recognition as a great place to work:

- *DiversityInc* magazine, "Top 50 Companies for Diversity"
- *Hispanic* magazine, "Corporate 100"
- *Hispanic Business* magazine, "Diversity Elite"
- *Black Enterprise* magazine's "Best Companies for Diversity"
- *Black Professional* magazine's "Top 100 Companies for Diversity"
- *LATINA Style* magazine, "Top 50"
- Xerox Greece, among Best Workplaces in Europe
- Xerox Portugal, recognized for Family-Friendly Policies
- Xerox Canada, among the "50 Best Employers" for 2007

Supporting Our Employees

Pay and Benefits Programs

By providing our people competitive rewards that are linked to their individual performance and company results, our pay philosophy supports both individual and business needs. Recognizing the diverse needs of our employees, our benefits are designed to provide flexibility, choice, value and quality. Our U.S. benefits programs include medical, dental, vision, salary-redirection and healthcare accounts, life insurance, accident insurance, long- and short-term disability and a 401(k) savings plan with a company match. Our time-off programs include holidays,

company-provided vacation, purchased vacation time, personal leaves and family medical leave. We offer employee assistance programs, childcare and elder care resources, adoption assistance, education assistance and tuition aid. Our international benefits programs include private healthcare plans, pension programs based on applicable local laws, career breaks or sabbaticals, as well as a number of work/life balance programs.

We also offer flexible work arrangements and telecommuting options. More than 6,500 employees in the U.S. alone have transitioned to "virtual offices," giving them more flexibility in where and how they manage their work.

Creating a Healthy Work Environment

A critical component of our benefits strategy is managing active healthcare. It is based on the idea that the key to managing healthcare costs is for employees to take an active role in decisions about their health and the healthcare services they receive. These include assessing their healthcare needs throughout the year, staying well, following a healthy lifestyle and getting care when they need it.

The health and wellness of our people is paramount to boosting their productivity and reducing overall healthcare costs. U.S. programs that encourage and foster healthy lifestyles and safety at work include:

- On-site fitness centers in six Xerox locations.
- Health screenings such as blood pressure and cholesterol, as well as flu shots.
- Lunchtime seminars on health and wellness.
- Self-directed health promotion programs such as the annual Eat Well Live Well program (organized teams of employees wear pedometers to monitor and increase the number of steps they take each day).
- On-site massage therapy.
- Recreation leagues and group fitness classes.
- Smoking cessation programs.
- On-site weight management programs.
- Office ergonomic screenings.

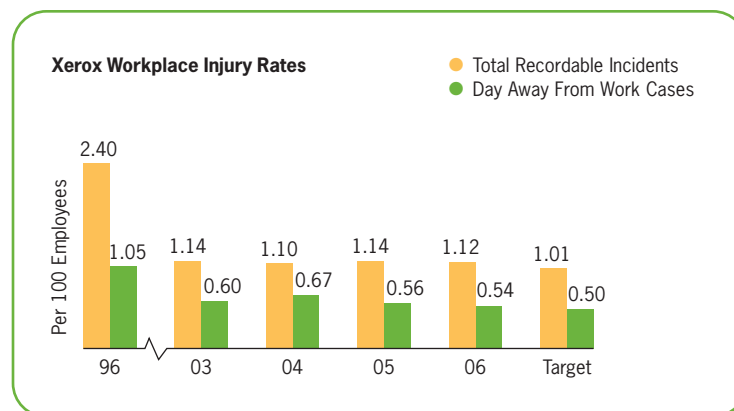 Global programs include some of the activities above and:

- Self-directed health promotion programs.
- Health Risk Assessment and subsequent free health coaching if needed.
- Online self-directed behavior-change programs.
- Monthly electronic health tips and a health and wellness Web site.
- Monthly health education bulletin board materials.
- New and expectant mother support and resources.

Workplace Safety

Zero Injury Program

Ten years ago, Xerox ramped up its safety programs in order to reduce workplace injuries to the optimum level: zero. Since then, the Total Recordable Incident (TRI) rate has decreased 53% and the Day Away From Work (DAFW) case rate has dropped 49%. Last year, both TRI and DAFW case rates declined 2% from 2005.

While not in keeping with our 10% year-over-year reduction target, the reductions showed us where to focus our energies. To give us insight on trends and root causes, we have tapped into our Lean Six Sigma expertise. This has led to implementation of measurable strategies aimed at consistent improvement in our injury rates. For 2007, our objective remains to achieve a 10% year-over-year reduction – again, with the primary goal of zero injuries.

Xerox Workplace Injury Rates

● Total Recordable Incidents
● Day Away From Work Cases

Per 100 Employees

	96	03	04	05	06	Target
Total Recordable Incidents	2.40	1.14	1.10	1.14	1.12	1.01
Day Away From Work Cases	1.05	0.60	0.67	0.56	0.54	0.50

Motor Vehicle Safety

With our service technicians and sales representatives depending on their vehicles to get their jobs done, motor vehicle safety is a key component of our safety initiatives. Xerox provides employees with comprehensive driver training and annual reviews of their driving records. Company vehicles have safety features such as daytime running lights and safety barriers between the driver's seat and storage areas.

Ergonomics

Musculoskeletal disorders represent about half of our work-related injuries and illnesses. That's why Xerox has taken significant steps to reduce workers' compensation claims attributable to musculoskeletal disorders. Musculo-skeletal injuries within U.S. operations dropped 43% in 2006 from their peak in 1992.

The company's health and safety organization develops and promotes these ergonomic assessments and tools:

- **Office**
  Self-evaluation program; design requirements that include adjustable chairs and keyboard trays.
- **Manufacturing**
  Nearly every workstation in Xerox facilities worldwide has been evaluated for ergonomic hazards. Ergonomically designed tools such as tilt tables, lifts and hoists make it easier for employees to maneuver parts and equipment during assembly.
- **Service**
  Periodic reviews of service technicians' tools ensure they are designed with ergonomics in mind. Tools posing an unacceptable safety risk are replaced.
- **Product Design**
  To identify and eliminate potential safety hazards, ergonomics are integrated into the design of new products.

Emergency Preparedness

Xerox's emergency preparedness and response program helps protect the safety of Xerox employees, their surrounding communities and the environment. It requires all Xerox operations worldwide to develop documented plans for responding to fires, chemical releases, natural disasters and other potential incidents.

Management reviews, scheduled routinely, as well as drills and corporate audits, verify that plans will be effective in protecting our people and our business during emergencies. (See Risk Management and Business Continuity on page 18.)

Monitoring Workplace Exposures

To protect employees from unsafe exposures to chemicals, noise and radiation, Xerox defines strict exposure limits for worldwide manufacturing, research and service operations. They reflect the most stringent regulatory requirements or industry standards. For some materials – including toners, solvents and certain metals – Xerox has established limits well below the strictest regulations and standards.

Of the chemical exposures monitored in 2006, more than 99% were within Xerox limits. Where exposures were above Xerox action limits – defined as 50% of the exposure limit – we immediately took steps to reduce unsafe overexposure through the use of personal protective equipment, engineering controls or compliance with safe job procedures.

Health Studies: Establishing the Safety of Toner

As one of the world's largest manufacturers and distributors of toner – a fine powder composed of plastics, colorants and small quantities of functional additives, Xerox recognizes the need to help ensure its safe development, production and use by employees and customers. We carefully review the safety of all materials used to make our toners and have invested in studies to examine the potential for any long-term health effects from exposure to toner.

The first of these studies, a comprehensive laboratory analysis completed in 1989, indicated some health effects at very high levels of dust exposure – levels that workers would likely not be exposed to in Xerox plants. Nonetheless, Xerox has lowered toner dust levels in our factories and established strict controls on dust emissions from Xerox products.

Other studies focus on Xerox employees who manufacture toner and service our equipment. One study evaluated more than 32,000 employees who worked at Xerox between 1960 and 1982. To determine if there are work-related mortality patterns, the study used standardized techniques to compare employee causes of death to causes of death for the overall U.S. population.

Another study is evaluating the potential respiratory and cardiovascular effects of toner on current Xerox manufacturing and service employees exposed to toner. To date, these studies have shown no evidence of chronic health effects due to toner exposure.

With the burgeoning growth of color printing and Xerox's market leadership in color production printing, the company is now expanding its health assessment studies to employees exposed to color toners.

Training, Development and Leadership

Training and development is key to maintaining our competitiveness and developing our talent base. Our recruiting and development strategies help to bring some of the best and brightest employees into challenging roles and experiences at Xerox. We offer training for employees worldwide through traditional classroom delivery and online training. We encourage employee participation in advance degree programs and, in the U.S., support this with tuition assistance.

Our online training is delivered through the Learning@Xerox Web site. More than 3,300 e-learning courses are offered in areas such as sales, technical, professional development and compliance training. In addition, we offer 10,000 on-demand learning aids that help our people perform their best work. In 2006, this resulted in employees accessing over 250,000 virtual learning offerings worldwide to assist them in their personal development and quest for excellence. Currently, Xerox delivers about 60% of its training online and 40% in the classroom.

The company's talent management strategy, pervasive across all levels of the organization, is designed to foster rewarding careers for Xerox employees and to develop the next generation of leaders. Managers identify "emerging leaders" on their team and work with these individuals to create development plans that address training, education and future job opportunities. All employees have access to training and development programs focused on improving functional and professional skills and preparedness for management.

At least once a year, Xerox CEO Anne Mulcahy and her senior team conduct detailed reviews of a diverse group of leaders who are poised to assume key management roles. The sessions assess individual performance and attributes of leadership and, to prepare these leaders for much broader responsibilities, they identify appropriate career opportunities.

In addition, the company's Human Resource Development Councils provide a forum for senior management to review the future needs of the organization, noting strengths and gaps and strategies to build the best and brightest teams for generations to come.

Employee and Labor Relations

Throughout our global operations, there are Xerox employees who are represented by labor unions, trade unions or work councils. Relationships with these employee groups are based on applicable laws in each country. In all cases, we respect our employees' right to freedom of association and, where applicable and within the requirements of local law, to engage in collective bargaining.

In the U.S. and Canada, for example, Xerox maintains a cooperative and effective relationship with three unions covering 2,550 employees in 17 locations: UNITE HERE, IUOE (International Union of Operating Engineers) and the IAM (International Association of Machinist and Aerospace Workers). UNITE HERE, the primary union, represents 2,325 employees. In 2005, Xerox and its unions successfully negotiated new four-year contracts at all locations. The relationship fostered by Xerox and union leadership continues to be noted as a model in American industry and is a source of great pride for Xerox and our people.

In Europe, Xerox recognizes a variety of work councils and trade unions, as established under European labor laws, to meet requirements for information and consultation for the protection of employee rights. Work councils are aligned with the legal structure in each country.

"With Xerox as a founding sponsor, the FIRST (For Inspiration and Recognition of Science and Technology) robotics competition has captured the creative imagination of young people and Xerox employees all over the world.

At first, I signed up to meet new people, and I quickly witnessed the camaraderie and positive impact between mentors and student competitors. The experience has helped me refresh my engineering skills by practicing a full design cycle – requirements, brainstorming, CAD prototyping, machining, integration, final assembly and marketing. Since you're involved with every aspect, it's the best time-to-market and lean-design experience you can get.

The high-school-aged competitors receive a standard kit of parts from which to design and build a robot in six weeks – with a description of what the robot should be able to do but without any directions. That means competitors have to choose one solution from the thousands of possibilities.

And, it means the students get a real-life look at how to deal with constraints on time, performance, cost, materials and more. They learn how to deal with trade-offs.

Xerox employees volunteer their time to work side-by-side with the FIRST student teams and the company fully sponsors FIRST teams in Rochester and Webster, N.Y., and Wilsonville, Ore.

FIRST is 'the hardest fun you'll ever have.' It emphasizes commitment, personal development, community service and corporate responsibility. And it's the epitome of youthful exuberance."

Ellery Wong
Systems Engineer,
Xerox Corporation

"In the FIRST robotics competition, machines compete, but everybody wins."

Leverage:

Leveraging Our Resources to Make Our World Better

OUR WORD.

Philanthropy and volunteerism are what make us a citizen, not just an enterprise. Our efforts and contributions are not based simply on altruism. They are an investment – among the most important we make.

OUR WORK.

Our time, money, talent and emotion are invested in five areas: education and workforce preparedness, science and technology, sustainability and environmental affairs, national and cultural affairs, and matching gifts and memberships.

OUR WORLD.

Our investments are about people reaching out to people – educating, motivating, volunteering, entertaining, assisting. We seek to convert each momentary interaction into lasting behaviors that build momentum for positive change.

Since our earliest days, philanthropy has been part of the fabric of the Xerox culture. We invest our money, time and talent in our areas of focus: education and workforce preparedness, science and technology, employee and community affairs, sustainability and environmental affairs, national and cultural affairs, and matching gifts and memberships. In 2006, the Xerox Foundation, the arm of the corporation that manages our philanthropic efforts, invested more than $12 million in more than 500 organizations. Our annual giving declined 10% from 2005 when we chose to allocate additional funding for disaster relief for Hurricane Katrina and the Southeast Asian tsunami.

Education and Workforce Preparedness

In 2006, 23% of our investment went to education and workforce prepared-ness. We announced a $1 million grant payable over four years to the National Academy Foundation (NAF), which was launched in 1982 to build curricula and programs in public schools to motivate students to pursue careers in specific industries. Starting with financial services, these programs have spread to hotel management and information technology. Operating as "schools within schools," the academies are graduating tens of thousands of students each year – 70% of them minorities – in 22 urban centers. Attest-ing to NAF's clear success, graduation rates are 23 points higher than the norm.

Turning its attention to engineering, NAF now has aggressive plans to launch more than a hundred Academies of Engineering starting in September. Xerox will join the Bill and Melinda Gates Foundation as a charter member of the new initiative.

We also continued to manage three programs that provide educational access to underrepresented minorities:

- The Black College Engineering Liaison Program dispersed 14 grants in 2006 to schools like North Carolina A&T, Howard University and Spelman College.
- The Hispanic College Liaison Program dispersed 23 grants in 2006 to schools like California Polytechnic, the University of Texas and the University of Puerto Rico.
- The Xerox Technical Minority Scholarship Program provided 120 scholarships to help deserving minority students complete degrees in engineering.

These programs, in which we invested $800,000 in 2006, are part of a larger Xerox Foundation effort to help minorities pursue technical degrees and help the U.S. address its shortage of scientists and engineers. The pro-grams provide excellent opportunities for Xerox people to be involved on campus, they are in the strategic interest of the company, and they enable us to recruit from a highly motivated and talented pool of technical people.

Other 2006 investments in the focus area of education and workforce preparedness included Teach for America, Prep for Prep, the National Action Council for Minorities in Engineering, Reading Is Fundamental, Bank Street College and INROADS. The Xerox Foundation also awarded 14 National Merit Scholarships.

Science and Technology

We made 17.9% of our grants in the area of science and technology. Organizations included the American Chemical Society, The Cleveland Clinic, Connecticut Science Center, Infotonics Technology Center, Monroe Community College, New York Hall of Science and Rochester Institute of Technology.

Included in the science and technology program area is funding of the Xerox University Affairs Committee. The committee comprises about a dozen Xerox scientists from around the world,

and in 2006 made 42 grants to 31 university science programs. The Foundation's share was approximately $800,000. A Xerox scientist in each of five countries – the United States, Canada, Ireland, the United Kingdom and Spain – champion each grant, nine of which went to universities outside the United States. All 31 universities are doing research that is aligned with our long-term strategic interests.
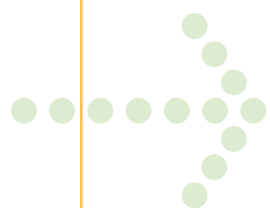
Environmental Affairs

Anchored by a $1 million grant payable over three years to The Nature Conservancy to help protect the Northern Boreal Forests in Canada, 5.8% of our investments were in the new category of environmental affairs. The Nature Conservancy will work with paper companies and governments to:

- Help identify and incorporate biodiversity conservation plans into their business processes.
- Improve forestry standards by which our paper suppliers are certified.
- Provide data and tools to enable paper suppliers to do the right thing as they meet their business objectives.
- Disseminate learning and best practices to the world's other large forests.

Other investments in this focus area include:

- Outward Bound, which teaches young people respect for the environment.
- The New York Botanical Gardens, whose scientists work around the world to help preserve forests.
- The Central Park Conservancy, SoundWaters, and other organizations and institutions that work toward the goal of a sustainable world.

Leveraging Our Resources to Make Our World Better

Saying "Thanks" to Troops

" I have never received a gift with this much love packed into one little place from someone that I've never known."

Soldier, U.S. Army

A soldier receives a package adorned with a bright, colorful image. It's a postcard, with a reproduced picture drawn by a child back home. The inside contains a personalized message: *Thank you for your service and dedication to our country.*

It's a simple gesture from one stranger to another. But for U.S. soldiers, sailors, airmen and marines deployed overseas, it's a reminder of the outpouring of support from home.

More than 11 million messages of support have been sent through Xerox's *Let's Say Thanks* drive. We're now pursuing opportunities to expand the program to support troops from other countries.

A Soldier's Reaction

Specialist Tommy Brooks from the 2-130 Illinois Infantry Battalion says a letter is considered warmer and more personal than an e-mail.

One of the pieces of mail Brooks held close to his heart while serving was from his 12-year-old cousin. She drew a picture of two children sitting on the floor in front of a fireplace during the holidays. Their mother sits in a chair beside them; a second chair is empty.

Employee and Community Affairs

We invested 30.8% of our grants in employee and community affairs to organizations like the Inner City Foundation for Charity, the Cincinnati Youth Collaborative and the Greater Rochester Enterprise. Two-thirds of our investments in this category were directed to 137 United Ways around the country, including $1 million to the United Way of Rochester, to which Xerox people donated an additional $1.4 million of their own money and 1,400 Xerox people volunteered for the United Way's annual Day of Caring.

Anyone Can Participate. Here's How:

1. Go to www.LetsSayThanks.com.

2. Select your favorite postcard design from many drawn by children across the country.

3. Enter your personal message.

4. Click "submit."

From there, the postcards are printed on the Xerox iGen3® Digital Production Press and placed in packages sent by the military support group Give2TheTroops.

Day of Caring 2007

Under the umbrella of employee and community affairs, the Foundation manages two employee volunteer programs: Social Service Leave and the Xerox Community Involvement Program.

Social Service Leave enables a select group of employees – eight in 2006 – to volunteer full-time while receiving full pay. Their assignments included: updating a fire department's training records system, encouraging minorities to pursue careers in engineering and design, providing training and technical assistance for Indian legal services, advocating for abused and neglected children, and working with the deaf and hard of hearing. Xerox invested more than $500,000 in the Social Service Leave Program in 2006.

The Xerox Community Involvement Program combines the voluntary spirit of our people with the company's financial support to help improve the communities where we live and work. In 2006, the Foundation invested approximately $900,000 in the program, and 9,303 Xerox people participated in 602 projects.

In addition, Xerox people give their time and talent to encourage the next generation of scientists and engineers by mentoring teams of students who compete in the FIRST robotics program. For 40 years, Xerox people have volunteered at elementary schools to teach classes that show the "gee whiz" creativity of science and technology.

The company also sponsors an invention competition for elementary students that celebrates the ingenuity of children's innovative spirit. More that 20,000 students are touched by this effort each year. This year, Xerox is expanding its participation in FIRST to sponsor an all-girls engineering team in Rochester, N.Y., and a team of students from Wilsonville, Ore., home to the second-largest population of Xerox people.

In Switzerland, a project called "Ithaka" matches foreign adolescents with a mentor to assist them in their first job search.

In Egypt more than 100 of our people joined 100 orphans from Al Amal (Hope) Village for a day of entertainment, lunch, gifts and free tickets to a theme park.

In Canada, each employee is encouraged to spend at least one work day each year volunteering at a local non-profit organization.

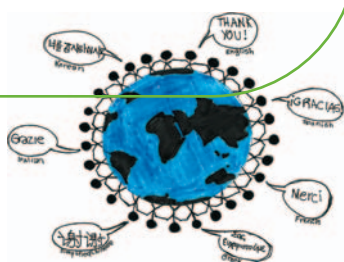## U.S. and Cultural Affairs

National and cultural affairs received 10.7% of our investment and included grants to the Martin Luther King Memorial in Washington, D.C., Dance Theater of Harlem, Dallas Symphony Association, National Underground Railroad Freedom Center, Connecticut Grand Opera, Ballet Hispanico, the Performing Arts Center of Los Angeles, Rochester Philharmonic Orchestra, Garth Fagan Dance and many more arts institutions in communities where our people work and live.

Institutions addressing a variety of national issues also are part of our investment portfolio. These included the National Urban League, the National Child Labor Committee, Catalyst, Big Brothers and Big Sisters of America, American Foundation for AIDS Research, Lawyers Committee for Civil Rights

Under Law, NAACP and NAACP Legal Defense Fund, Partnership for a Drug-Free America, Association for Hole in the Wall Gang Camps and Building With Books.

Matching Gifts and Memberships

The remaining 9.6% of our budget was divided between matching gifts to colleges and universities (4.2%) and membership payments (5.4%) to a variety of non-profit organizations such as the Business Roundtable, the Council 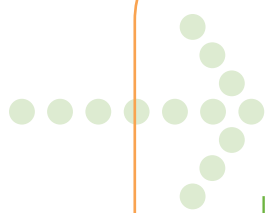on Foreign Relations, the Information Technology Association of America, the Conference Board, the American Electronics Association, the Inter-American Dialogue and the United Nations Association.

Disaster Relief

The relatively quiet year in terms of natural disasters required only modest investments (2.2% of our total spending) and enabled us to begin new strategic initiatives, including a $1 million gift to the National Academy Foundation's engineering program.

Staying Current

Aware that the state of corporate philanthropy continues to evolve and mature, and to stay current with the latest thinking and practices, we are active participants in groups such as the Committee Encouraging Corporate Philanthropy, Business Roundtable, The Conference Board's Council of Corporate Foundation Executives, Business for Social Responsibility and the U.S. Chamber of Commerce's Center for Corporate Citizenship.

Leadership in Innovation

Invention and discovery have always differentiated Xerox in the marketplace. Through our research labs and engineering centers and in collaboration with customers, partners and universities, we continue to develop the next generation of technology and services that simplify the way work gets done in organizations of any size. Three recent achievements illustrate:

1 This year, we received the National Medal of Technology, which is the highest honor to America's leading innovators and is awarded by the President of the United States. The award acknowledges Xerox's rich heritage of innovation and market-making technology that contributes to economic growth.

2 Through a $1 million annual grant program, we support research projects at 11 leading universities in the U.S., Canada and Europe. While Xerox labs focus on nearer-term innovation, our university research grants fund an open innovation program for research that offers long-term significance.

3 We granted $1 million to Massachusetts Institute of Technology's School of Engineering for a fellowship program that will support student research in green technologies, personalized imaging, smart document technology, nanotechnology and microelectromechanical systems (MEMS).

Green at Work

Making Your Workplace More Efficient and Environmentally Friendly

For decades Xerox has provided technology that helps people get office work done faster and easier. That includes helping reduce their dependency on paper by encouraging more digital systems and document management services.

Xerox encourages offices to think "Green at Work," by following these simple steps:

	In Fact	What You Can Do
Cut Energy Consumption	On April 1, the U.S. E.P.A. introduced new ENERGY STAR® certification criteria increasing the efficiency of certified products by at least 30%. To put into context, Xerox ENERGY STAR equipment in customer locations around the world save 1 million megawatt hours per year – enough to light nearly one million U.S. homes for a year. That saves energy and reduces the amount of greenhouse gases we put into the air.	• Choose products that meet the newest ENERGY STAR certification criteria. • Since equipment is generally turned on 24 hours a day, you can reduce air pollution by making sure to use power-saver features built into systems. • Replace old and less-efficient equipment and individual machines with a single system that prints, copies, scans, e-mails and faxes. A single system uses half as much energy as several single-function devices. For a workgroup of 100 people, it can also reduce energy costs by as much as $2,000 per year.
Reduce Paper Use	The U.S. E.P.A. estimates that it takes 10 times more energy to create a sheet of paper than to run it through an office product.	• Set your printer to the duplex mode as a default, which will automatically tell the printer to print on both sides of a sheet of paper. • Preview printouts to eliminate unnecessary waste. • Format and condense text to save paper. • Use e-mail and scan-to-file options instead of relying on the printed word. • Recycle the paper you use and use recycled paper.
Support Recycling and Manufacturing	By recycling copy and print cartridges, toner containers and waste toner and remanufacturing equipment, the Xerox Green World Alliance program prevents millions of pounds of waste from entering landfills each year – 122 million pounds in 2006 alone.	• Choose equipment and supplies that are designed to be remanufactured and recycled. • Return supplies such as print and copy cartridges for recycling. • Recycle used equipment.

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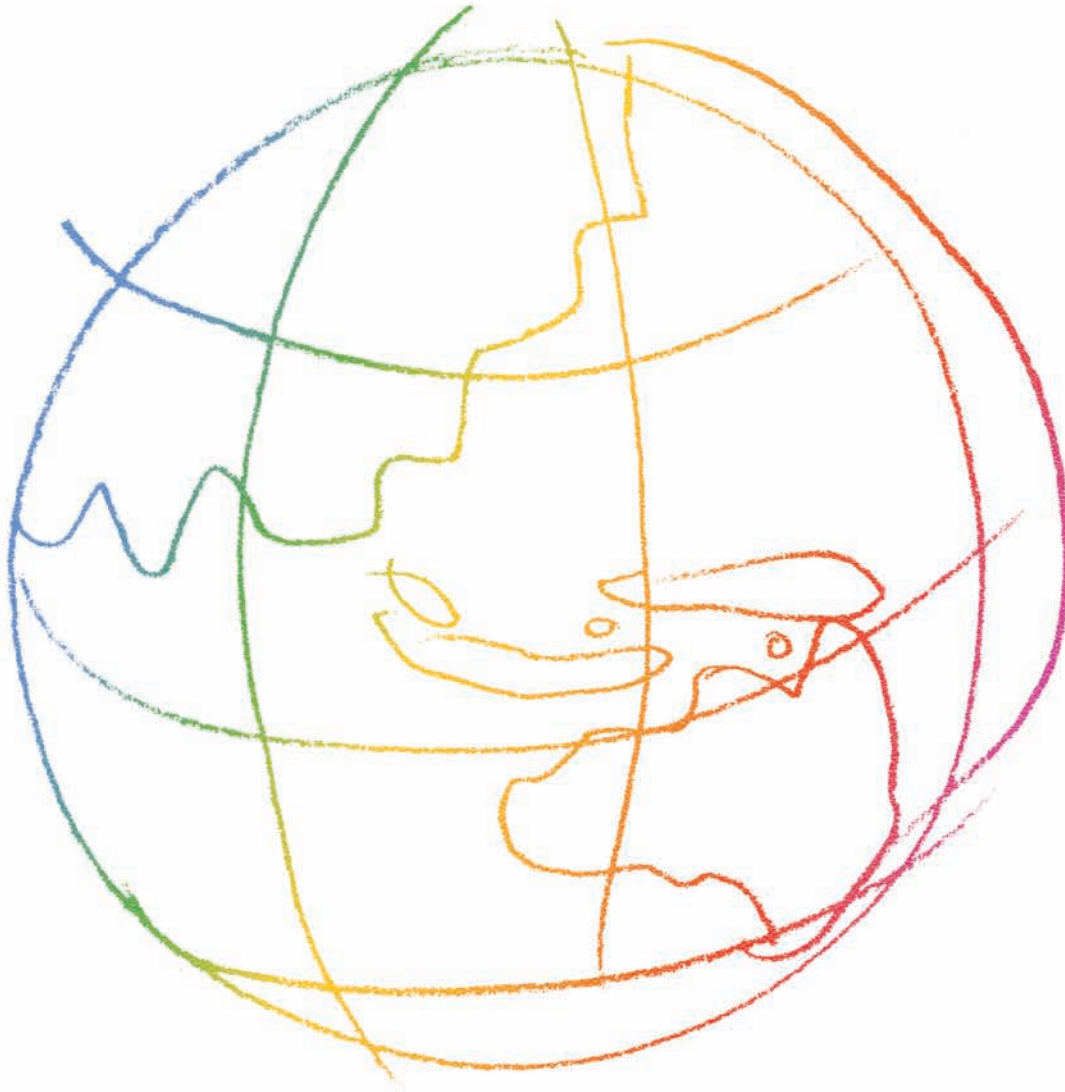800 828-6571 prompts 1, 3
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