

Our Commitment to Global Citizenship
The 2008 Report

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Guided by a commitment to corporate citizenship that is deep-seated and long-standing, we believe our actions ensure a just, sustainable future. This report represents those actions and, through the wide lens of citizenship, assesses how we're doing. We invite you to look inside and see for yourself.

Dear Stakeholders:

One of the hallmarks of our citizenship efforts at Xerox is that they are strategic, enduring and substantive. We implement them not for headlines, but to make headway in our continuous journey to create value for all our stakeholders – our customers who trust us to help them be more productive and successful; our shareholders who rely on us to give them a good return on their investment; our employees who count on us to provide a great work environment in which they can contribute and grow; and our communities who expect us to partner with them to leave our world a little better than we found it.

We believe that the expectations of all our stakeholders can be met and that they are, in fact, intertwined. As we like to put it, good citizenship and good business are not only compatible but synergistic. That belief is deeply rooted in our core values and corporate culture. If there is even a whiff in the air that implies our citizenship efforts are done for expediency, image or to gain a transitory advantage, I hear about it from our employees. Xerox people are about substance, not sizzle. They wouldn't have it any other way and neither would I.

Chairman's Letter



Anne M. Mulcahy
Chairman and Chief Executive Officer

Our people take great pride in the culture they have created – a culture that values Xerox both as a profit-making enterprise and as 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:

- 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.

Sustainability is now the rage. We've been at it for a very long time – starting decades ago with remanufacturing, two-sided copying and a whole lot more. This is something we take very seriously – it's become part of our DNA. We've already exceeded our 2012 target for greenhouse gas emission reduction, and we're upping our goal by more than 100 percent. Although we don't seek public accolades, it's good confirmation that we're on the right track when a third-party pats us on the back. This May we became the first technology company to receive the coveted Performance Track Corporate Leader designation from the U.S. Environmental Protection Agency. And just a few months ago we became a founding sponsor of the Golisano Institute for Sustainability at the Rochester Institute of Technology. Our \$2 million investment is aimed at developing talent and fostering new sustainable technologies through research. Two recent honors – our inclusion in the Dow Jones Sustainability North America Index and the FTSE4Good Index – provide more evidence that our performance meets globally recognized standards for corporate responsibility.

You will find that many of our strategies trace back to our roots. As early as 1968, for example, our scientists were encouraged to donate their time to teach elementary school students the wonders of science, motivate them to consider pursuing studies and careers in science and technology, and provide good role models to emulate. Forty years later that program is alive and well in the public schools of Rochester, N.Y., and Wilsonville, Ore. Many of our scientists at those locations teach twice each month and they are armed with 55 individual lesson plans in biology, chemistry, earth science and physics. In 2009, the program will go global – to Delhi, India – at the request of our people there.

In a typical year, some 50 to 75 of our best technical people make 300 individual classroom visits, reach more than 1,400 students and conduct about 15,000 experiments.

As with so many of our programs that have long roots, they have been the catalyst for doing much more. Our early successes with volunteering in schools opened our eyes to how much more needed to be done. In the 1970s we launched partnerships with about a dozen of the best engineering programs in historically black colleges and with the National Action Committee on Minority Engineering to provide scholarship help. By the 1980s we were bringing hundreds of summer interns in science and engineering to work at Xerox technical centers for the summer. More recently, we joined the Gates Foundation and Verizon as founding partners of the National Academy Foundation's Academies of Engineering.

“Good citizenship and good business are not only compatible but synergistic. That belief is deeply rooted in our core values and corporate culture.”

The academies operate as “schools within schools” – typically in large urban school systems. They are aimed at encouraging young people to pursue careers in the sciences and engineering, equipping them with the academic foundation to succeed in college and providing strong role models through summer internships. Thirteen academies opened their doors this September with another 20 to follow in September 2009. In all, more than 100 are planned, graduating 9,000 students annually. As with so many of our strategic initiatives, our financial investment will be augmented by Xerox mentors, field trips, job shadowing and internships.

Thoughtful, multi-pronged strategies like this always end up benefiting all our stakeholders. In this case, our customers benefit because we gain access to the broadest, deepest and most innovative talent pool in our industry, enabling us to continue to create customer value. Our shareholders benefit because this pool of new talent enables us to push the frontiers of what's possible, ensuring that we continue to be a good investment far into the future. Society benefits because we help bring new scientists and engineers into the work force. One very tangible benefit to Xerox is our President, Ursula Burns. She came to Xerox as a summer engineering intern in 1980 and never left. Talk about a return on an investment!

We believe we've been pioneers in the field of corporate citizenship and have established quite a record. We also believe we've done it the old-fashioned way – quietly and without a lot of fanfare. But if you think we're satisfied, think again. Xerox people are keenly aware that for those to whom much has been given, much is expected. We don't shrink from these expectations; we embrace them.

In this report you will see how. I believe you will sense a quiet pride, but no chest-thumping. That would be unseemly to our people. What you will find are the data and accomplishments laid out for all to see – and to judge. We seek neither to embellish our accomplishments nor burnish them with rhetoric. Here is our report for 2008. You decide how we are doing.



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	2006	2007
Conducting Our Business with Integrity Total number of cases investigated by our Ethics Office	506	480
Amount of spend with minority suppliers	<ul style="list-style-type: none"> • \$147 million with minority suppliers • \$179 million with women-owned businesses 	<ul style="list-style-type: none"> • \$131 million dollars with minority suppliers • \$191 million with women-owned businesses
Aligning Resources around Customer Needs Broadened product portfolio: product launches	14	41
Number of patents awarded to Xerox group; includes Fuji Xerox	813	901
Customer service	J.D. Power and Associates certification for excellence	For the third year in a row, Xerox has been certified by the J.D. Power and Associates program for Certified Technology Service and Support
Nurturing a Greener World through Sustainable Innovation and Development Environmental management	<ul style="list-style-type: none"> • All manufacturing facilities certified to ISO 14001 • Three facilities named to U.S. EPA National Environmental Performance Track 	<ul style="list-style-type: none"> • All manufacturing facilities certified to ISO 14001 • Two facilities named members of U.S. EPA National Environmental Performance Track, bringing total to five.
Recycle rate (non-hazardous solid waste)	91%, unchanged from 2005	92%, up 1% from 2006
Water consumption	Down 3% from 2005	Up 2% from 2006
Energy consumption	Down 13% from 2005	Down 2% from 2006
Greenhouse gas emissions	<ul style="list-style-type: none"> • Down 11% from 2005 • Down 18% from 2002 	<ul style="list-style-type: none"> • Down 5% from 2006 • Down 21% from 2002
Products launched achieving the ENERGY STAR® rating (eligible products)	100%, unchanged from 2005	80%, down 20% from 2006 due to new ENERGY STAR specification
Waste diverted from landfills through equipment and supplies return, reuse and recycling programs	2 billion pounds since 1991	2.1 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%	76%
Employee Engagement Survey – favorable response rate to the question: Would you recommend Xerox as a good place to work?	71%	73%
Diversity – percentage of women employees	32.3%	31.5%
Diversity – percentage of minority employees	29.3%	29.5%
Employee injury rates: Total Recordable Incident (TRI) rate	<ul style="list-style-type: none"> • Down 2% from 2005 • Down 53% from 1996 	<ul style="list-style-type: none"> • Down 13% from 2006 • Down 59% from 1996
Employee injury rates: Day Away From Work (DAFW) case rate	<ul style="list-style-type: none"> • Down 2% from 2005 • Down 49% from 1996 	<ul style="list-style-type: none"> • Down 11% from 2006 • Down 54% from 1996
Leveraging Our Resources to Make Our World Better Xerox Foundation giving – total	\$12 million	\$12.5 million
Xerox Community Involvement Program (XCIP) – number of U.S. employees who participated in community activities	U.S. – 9,303	U.S. – 9,075

Highlights

More Details

Xerox Ethics Hotline encourages reports and questions regarding ethical behavior.

Page 14

Total spending with minority- and women-owned businesses represented 31.2% of Xerox's annual qualified purchases. About 1,000 suppliers benefited from these purchases.

Page 15

Xerox offers the industry's broadest portfolio of document technology and services; 26 more products launched through September 2008.

Page 7

Xerox invests about 5–6% of revenue in research, development and engineering and holds more than 15,000 active patents worldwide. In 2007, Xerox was awarded the National Medal of Technology, recognizing our outstanding contributions to the U.S.'s economic, environmental and social well-being through technology products, processes and concepts; technological innovation; and development of the nation's technological manpower.

Page 23

Xerox is the first document management company to receive excellence certification for quality technical support three years in a row.

Page 24

As of 2007, all of Xerox's major U.S. facilities are National Environmental Performance Track sites, validating environmental performance beyond regulatory compliance. Xerox named a National Performance Track Corporate Leader in 2008.

Page 38

Xerox's waste-free initiatives invoke the 3Rs – reduce, reuse, recycle – to avoid or divert millions of pounds of waste from landfills each year.

Page 40

The environmental impacts of water use are monitored and managed throughout our worldwide operations.

Page 40

Energy consumption down 19% from 2002 due to our Energy Challenge 2012 program.

Page 33

Greenhouse gas emissions down 21% from 2002, the result of improved energy efficiency, new technologies and improved energy management practices.

Page 33

Xerox is a charter partner of the U.S. EPA ENERGY STAR program. Products that meet the 2007 ENERGY STAR standard are on average 30% more energy efficient than previous models.

Page 31

Xerox launched its reuse and recycle program in 1994, setting the standard for the industry.

Page 36

82% participation rate in employee engagement survey; managers required to develop action plans to improve workgroup satisfaction.

Page 45

- Xerox Germany named "Top Employer in Germany 2008" by the Corporate Research Foundation (CRF) and the Munich Geva Institut.
- Xerox Spain featured in *Actualidad Económica* magazine, "The Best Companies to Work With" – ranking 89th out of 142 companies.

Page 45

Xerox named Top Companies for Executive Women by National Association For Female Executives (NAFE).

Page 46

- Xerox named in Top Best Companies for Asian Pacific Americans by *Asian Enterprise Magazine*.
- Best Place to Work for GLBT (gay, lesbian, bisexual and transgendered) employees – 100% index score on Human Rights Campaign.
- The American Association for Affirmative Action awarded Xerox the Champion of Diversity Award.

Pages 47, 50

Xerox's Zero Injury program focuses on workplace safety in any Xerox setting and includes ergonomic assessments of offices, labs and manufacturing plants.

Page 48

Page 48

- Xerox committed \$2 million to the Rochester Institute of Technology's Golisano Institute for Sustainability, which will provide programs that embrace the principles of sustainability in product development.
- The Xerox University Affairs Committee made 42 grants to 33 university science programs.

Page 53

In addition to the XCIP, Xerox science consultants volunteer in elementary schools to present real-life science lessons. The program celebrated its 40th anniversary this year and has served more than 20,000 students.

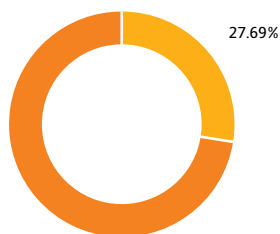
Page 54

Company Profile

Xerox Revenue by Reporting Segment – 2007

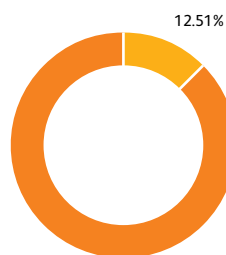
In 2007, we reported our financial results through four segments: Production, Office, Developing Markets Operations (DMO) and Other. Financial information for operating segments is presented in our quarterly and annual reports available at www.xerox.com/investor.

Production



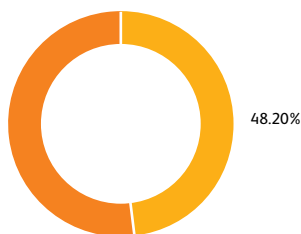
\$4.8 billion
High-end digital monochrome and color systems for large enterprises and for customers in the graphic communications industry.

DMO



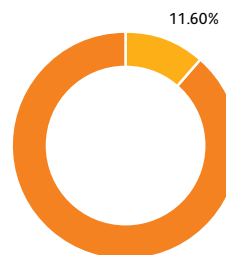
\$2.2 billion
Marketing, direct sales, distributors and service operations for Xerox products, supplies and services in Latin America, the Middle East, India, Eurasia, Central-Eastern Europe and Africa.

Office



\$8.3 billion
Serves global, national and small to medium-size commercial customers as well as government, education and customers in other public sectors.

Other



\$2 billion
Includes revenue from paper sales, value-added services, wide-format systems and Global Imaging Systems network integration solutions and electronic presentation systems.

Xerox Corporation – Who We Are and What We Offer

For more than half a century, Xerox has been in the business of making it easier to get work done. Our job has never been more important than it is today as the world gets even more lost in information, overloading people's ability to make sense of it all. Xerox has kept pace with innovations that help people navigate the sea of printed and online content, cut through the clutter and make information relevant again.

Document Outsourcing and Services

Here's how we help our customers through our consulting and outsourcing services:

- Simplify document-driven processes, like forms processing and records management.
- Provide services that analyze and improve the use of document systems – printers, copiers, fax machines and scanners.
- Manage in-house print operations and special events by handling technology procurement and print/copy centers.
- Make information easier to manage and find through digital imaging, archiving and indexing.
- Improve commercial print operations through document outsourcing and resources to boost sales and profits.

Production Printing

For graphic arts and production environments, we offer these printing systems and services:

- Color and black-and-white digital printers and presses.
- Wide-format and continuous-feed printers and copiers.
- Business development tools to help grow a profitable digital business.
- Publishing solutions for books, on-demand documents, transactional applications, personalized printing and workflow software to simplify how print jobs are created and managed.

Office Solutions

We have the right office printer and services for any business, from small to large, in one city or in thousands:

- Multifunction systems, color and black-and-white, that combine printing, copying, faxing and scanning.
- Color network printers, solid ink and laser.
- Digital copiers and fax systems.
- Software to streamline how information is stored and shared.

Research and Development

Innovation keeps us in the forefront of our industry:

- About 5% of our revenue is dedicated to R&D and engineering.
- Four R&D centers in the U.S., Canada and Europe focus on color science, computing, digital imaging, work practices, electromechanical systems, novel materials and other disciplines.
- More than 8,600 active U.S. patents.

Company Profile

Xerox around the World

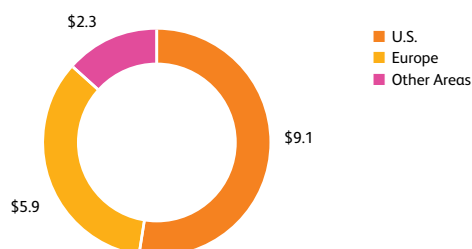
Xerox customers include small and medium-size businesses, graphic communications companies, government entities, education institutions, Fortune 1000 corporate accounts, and firms in document-intensive industries such as healthcare, legal and financial services. Xerox offerings are sold through our global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

We have:

- Over 7,500 sales professionals, 13,400 managed service employees at customer sites and 13,000 technical service employees.
- More than 7,000 agents and concessionaires and about 40,000 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.

Revenues by Geography

(\$ billions)



We operate in more than 160 countries worldwide and serve a \$125 billion market.

In 2007, about one-half of our revenue was generated from customers outside the U.S. Our largest subsidiary outside the U.S. is Xerox Limited, which operates predominantly 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 three companies that contribute to our growth strategy:

- Global Imaging Systems, an office technology distributor for small and medium-size businesses in the U.S.
- Advectis, Inc., a provider of electronic document collaboration tools for the mortgage industry.
- Veenman B.V., an office technology distributor for small and medium-size businesses in the Netherlands.

In addition, Global Imaging Systems continues to acquire distributors in the U.S. to further expand our presence in the SMB market.

2007 Revenue: \$17.2 billion

2007 Income: \$1.1 billion

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. 144

NYSE: XRX

Headquarters: Norwalk, Conn., U.S.A.

800-ASK-XEROX

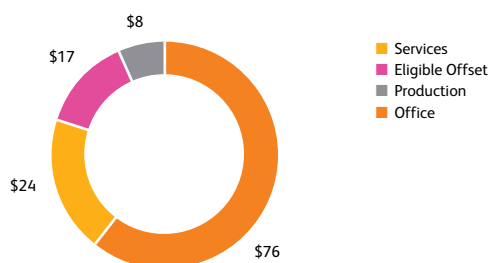
www.xerox.com

Market Opportunity

The document industry is transitioning to digital systems, color, and 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 \$125 billion market we serve.

Xerox Market Opportunity by Segment – 2007

(\$ billions)



Services: \$24 Billion

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

Eligible Offset: \$17 Billion

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

Production: \$8 Billion

We are the only manufacturer that offers a complete family of monochrome and color production systems, business development tools and workflow solutions.

Office: \$76 Billion

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 our employees.
- We behave responsibly as a corporate citizen.

Stakeholder Engagement

Listening, Learning, Responding

The following 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.

About This Report

Our third 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 2007 results. The information in this report 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.

This report was printed on a Xerox iGen4™ Press on uncoated 17.7 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 hydroelectricity to partially power the pulping process, resulting in reduced fossil fuel use and an estimated 69% reduction in greenhouse gas emissions. The cover was printed on 100 lb. Xerox Color Xpressions Planet 20 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.

Focus

Our Customers

Our People

Our Shareholders

Our Suppliers

Our Communities

Our World: Public Policy Makers
and Influencers

How We Engage	Examples
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • In 2007, we launched our Sustainability Forum to create awareness of the importance of sustainability, share best practices and encourage customers to reduce their environmental footprint by finding “Smarter Ways to Green.” Learn more at www.xerox.com/thoughtleadership. • Every day, a company officer is assigned to respond to all customer concerns coming into headquarters that day by following through to resolution. • <i>Exchange</i> is an online interactive site to engage in dialogue with our customers on issues that affect their business. To join the conversation, visit www.xerox-exchange.com.
<ul style="list-style-type: none"> • Employee Engagement Survey conducted regularly • Sentinel employee feedback tool on Intranet • Ethics hotline • Open-door policy • Global Webcasts • Town hall meetings • Employee roundtables 	<ul style="list-style-type: none"> • Senior executives participate in bimonthly interactive Web Chats broadcast live over the company’s Intranet to employees around the world. • CEO Anne Mulcahy hosted 40 employee roundtables or town hall meetings, and President Ursula Burns hosted 17 employee roundtables with employees from around the world. • The Sentinel Customer Satisfaction Assurance System™, a Xerox proprietary Web-based polling/routing/reporting system, links employee inquiries or comments through the Intranet with appropriate Xerox contacts to identify and track any comment, suggestion or unresolved problem for action.
<ul style="list-style-type: none"> • Annual meeting of shareholders • Quarterly teleconferences • One-on-one investor briefings • Annual investor conference 	<ul style="list-style-type: none"> • We hosted 23 small group meetings with potential investors in major markets including Boston, Chicago, New York, San Francisco, Los Angeles, Dallas and Kansas City. • Xerox executives spoke with investors/analysts through more than 150 one-on-one meetings and phone calls.
<ul style="list-style-type: none"> • Quarterly business reviews with key suppliers • Review key suppliers’ compliance with the EICC code of conduct 	<ul style="list-style-type: none"> • Fifty percent of compliance reviews were completed with key suppliers in high-risk regions – the remaining reviews are planned for completion by year-end.
<ul style="list-style-type: none"> • Employees contributed their time and talents in hundreds of community-related projects worldwide. 	<ul style="list-style-type: none"> • More than 70,000 students have participated in the U.S.-based Xerox Science Consultants Program since its start 40 years ago. • In Poland, through the “Xerox – Better Start!” program, students team up with Xerox employees to learn first-hand about working at a large global company. The students, who are orphans and/or physically handicapped, gain on-the-job experience from their Xerox mentors and leave the program with the skills necessary to begin their careers.
<ul style="list-style-type: none"> • Through active memberships 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. 	<ul style="list-style-type: none"> • Xerox is partnering with the Rochester Institute of Technology’s Golisano Institute for Sustainability to provide programs that embrace the principles of sustainability in product development. • Xerox joins Microsoft, Intel, IBM and other high-tech leaders as a founding corporate member of the Information Overload Research Group. IORG is dedicated to boosting workplace productivity by fighting information overload through the development of solutions to sort and categorize the flood of electronic information from cell phones, e-mail, instant messages and billions of printed pages worldwide.



Conducting Our Business with Integrity and Transparency

Some may view corporate “governance” as limiting. We view it as empowering. Our long-term success depends on it. Governing ourselves responsibly makes us the best citizen we can be.

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. Each director stands for re-election every year at the company’s annual shareholder meeting.

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 currently 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.

Director Election

In an uncontested election, each director is elected by the affirmative vote of a majority of the total votes cast for the director. Any nominee for director who receives a greater number of votes against 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. Following the official results of the election, the Board is required to promptly 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.

Interaction with Stakeholders

Board members are expected to attend the company’s annual meeting of shareholders and be 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, N.Y. 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.

Conducting Our Business with Integrity and Transparency

Code of Conduct

We are committed to conducting our business responsibly and in the best interests of our customers, employees, shareholders and the communities in which we work and live. We have had an employee Code of Conduct in place for nearly 40 years and all of our employees acknowledge their comprehensive understanding of it each year. Key topics include:

- Conflicts of interest.
- Legal and financial requirements and controls.
- Employee and customer information privacy, including data protection and security, record retention and proper classifications of information.
- Intellectual property.
- Proper use of information systems and company assets.
- Environment, health and safety.
- Diversity and inclusion.
- Harassment.
- Use of alcohol and controlled substances.
- Violence-free workplace.
- Gifts and entertainment.
- Guidelines for dealing with government customers.
- Community and political activities.
- Supplier guidelines.
- Fair competition, antitrust, international trade and export control.
- Bribery, improper payments, insider trading and money laundering.
- Collusive bidding and kickbacks.

To view the company's Code of Conduct, 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, through the Chief Human Resources and Ethics Officer, 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 acknowledgment by all employees of the Code of Conduct.
- Periodic 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 of employees, conducted in seven 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

	2005	2006	2007
Total Number of Cases	655	506	479
Number of Allegations	260	100	69
Percentage of Total	40 %	20 %	14 %
Number of Substantiations	145	58	42
Percentage of Allegations Substantiated	56 %	58 %	61 %
Number of Dismissals	46	44	14

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	(2005–2007)
Asset Theft	14.0 %
Human Resources Issues	12.4 %
Vendor Issues/External Parties/Gifts	12.4 %
Fraud/Improper Payments/Expense Reports	15.0 %
Conflicts of Interest	9.1 %
Harassment/Workplace Violence	4.2 %
Internal Controls and Reporting Integrity	15.4 %
Employee Privacy	3.3 %
Misuse of Company IT Systems	5.8 %
Confidential Information	4.2 %
Retaliation	1.4 %
Environmental Issues	0.7 %
Other	2.1 %

While the Ethics Office can respond to many cases right away or take action simply after clarification or guidance, about 26% of incoming cases (three-year average) involve an allegation of wrongdoing and require investigation. In 57% 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 some 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.



Ethical Behavior Recognized

For the second year in a row, Xerox has been recognized by the Ethisphere Institute as one of the world's most ethical companies. The listing highlights meaningful ethical business practices that go well beyond legal requirements and include innovative ideas that contribute to the public well-being. According to Ethisphere, "By their actions, Xerox is forcing their competitors to follow suit, or fall behind. Xerox truly embodies the notion that ethical business practices are more profitable in the long run."

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.

To further our commitment, Xerox is a member of the Electronic Industry Citizenship Coalition (EICC), a standards-based approach for monitoring suppliers' compliance across several areas of social responsibility, including labor, health, safety and environmental activity (see page 16 for more information). We also support our position on human rights through a corporate-wide global policy letter on human rights, which is available at www.xerox.com/governance.

Conducting Our Business with Integrity and Transparency

Supplier Relations

Performance and Reviews

Xerox's Global Purchasing organization routinely tracks and reports on current and potential suppliers for adherence to our requirements. On-site reviews are held regularly with our key 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 includes about 1,500 active suppliers. Our vendors use the Xerox Multinational Supplier Assessment, which is equivalent to the ISO 9000, but was implemented 10 years earlier.

Before potential 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 reviews every one to three years, depending on the scope of our relationship with them. About 90% of our spending for the manufacturing of Xerox products comes from 50 global suppliers. These suppliers are assessed regularly to measure compliance with Xerox standards. As of 2007, more than 90% of these suppliers have been assessed for compliance to Xerox standards.

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 developed a stronger Xerox purchasing presence in this region, enabling more direct interaction between Xerox buyers and suppliers. Over the last two years, Xerox has transferred the vast majority of its production purchasing operation to the Asia-Pacific area, and now has Xerox Global Purchasing representatives in Hong Kong, China, Malaysia, Singapore, Korea, Japan and India. These purchasing professionals conduct 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. Through the Web site, www.xerox.com/suppliers, vendors and potential vendors can learn about the latest procurement initiatives and find information on supplier diversity, procurement policies, supplier quality assurance and supplier ethics.

Consistent with our comprehensive environmental sustainability initiatives, Xerox has specific guidelines for our paper suppliers and for the use of chemicals in our equipment and supplies. These practices are outlined on page 34 of this report.

EICC Membership

As a coalition member since October 2006, Xerox has continued its rollout of the Electronic Industry Citizenship Coalition's (EICC's) Code of Conduct, 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 EICC guidelines and is working to ensure compliance by our key vendors that contribute to the manufacturing of Xerox products and systems. We continue to actively participate in EICC quarterly conferences, where members share industry best practices for managing and monitoring the supply chain.

We have also developed a process that measures suppliers' compliance and incorporates EICC activities into our internal management reviews. We have prioritized EICC compliance reviews for our non-EICC or U.N. Global Compact member vendors located in "high-risk" regions, or 12% of our key suppliers. We have completed assessments for 50% of these suppliers. We expect the remainder will be completed by year-end 2008. Any identified gaps are addressed through a rigorous corrective action process, which is monitored regularly. In addition to EICC compliance reviews, Xerox requires all its vendors to commit to complying with the principles of the EICC standards. All new supplier contracts will include social responsibility language that reinforces this commitment.

Supply Chain Security

Xerox is committed to implementing security controls within its supply chain to enable the uninterrupted flow of products from the point of manufacture to the customer. Xerox is U.S. Customs and Border Protection certified under the Customs-Trade Partnership Against Terrorism (C-TPAT) program that audits specific security measures protecting our supply chain. We have cascaded the security requirements of the program to our suppliers and require certification indicating they are in compliance.

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.info/code.html.

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 \$7 billion in goods and services from certified and qualified diverse suppliers owned by minorities, women and veterans/service-disabled veterans. In 2007, Xerox purchased approximately \$400 million in goods and services from certified and qualified diverse suppliers. Total spending with certified and qualified diverse suppliers represents 32% of Xerox's annual qualified purchases, one percentage point above original targets.

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

Xerox Supplier Diversity Program External Recognition

- *DiversityInc. Magazine* – #1 ranking – best performing Supplier Diversity Program.
- *Veteran Business Journal* – Top 10 list for Most Veteran Friendly Corporate Supplier Diversity Programs.
- DiversityBusiness.com – #15 in the Top 50 Organizations for Multicultural Business Opportunities for Supplier Diversity Programs.

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.

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 of the Board of Directors has active oversight of risk management and is responsible for discussion with management:

- Major financial risk exposures and steps taken to monitor and control these exposures.
- Policies with respect to risk management, risk assessment and affiliate transactions.

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 annually to ensure rapid and effective response.

The Xerox Business Continuity Program Office 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.

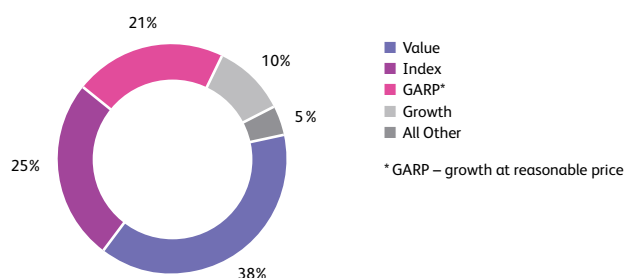
Conducting Our Business with Integrity and Transparency

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 2007, our engagement with investors included these and other activities:

- More than 100 institutional investors, analysts and investment bankers participated in the company's annual investor conference in New York City.
- Xerox executives participated in five brokerage conferences.
- Investors and analysts met with Xerox leaders at the AIIM/On Demand, PMA and GraphExpo trade shows.
- The company hosted 23 small group meetings with potential investors in major markets including Boston, Chicago, New York, San Francisco, Los Angeles, Dallas and Kansas City.
- Xerox executives spoke with investors/analysts through more than 150 one-on-one meetings and phone calls.

2007 Investment Styles



Institutional investors hold more than 85% of Xerox's common shares, with the top 10 investors holding about 50% of those shares. 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 also shared 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 policy makers, both directly and indirectly through various coalitions and trade associations. Xerox, primarily through the Office of External Affairs, has 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.

Trade associations around the world often play an important role in assisting our company with business development opportunities and citizenship activities as well as helping Xerox meet certain public policy objectives. Xerox is a member of a wide array of trade associations. Any contributions that are not deductible for tax purposes are reported in Xerox's lobbying disclosure reports. Xerox senior managers play a leadership role in various organizations, such as the Business Roundtable, the U.S. Chamber of Commerce and the U.S. Climate Action Partnership. These organizations develop and promote public policies that are considered important to Xerox's public policy interests and operations.

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 the risks of climate change. 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.

Retirement Policy

We believe policy makers 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.

Healthcare Reform

Comprehensive healthcare reform is essential for the long-term vitality of the U.S. economy. While the U.S. healthcare system has yielded impressive benefits and innovation, there is growing consensus among all stakeholders that significant reform is needed to create a sustainable, high-quality system that is more accessible, less costly and more patient centered. We support:

- Every citizen having access to quality and affordable health coverage, which is why any reform solution must address the core issues of the growing cost of healthcare by:
 - Promoting healthcare systems that are comprehensive, integrated and technologically connected
 - Adhering to principles of medical necessity, patient safety, efficacy and efficiency and patient-centeredness
 - Empowering individuals with accurate, transparent data on quality, value and prices of providers in order to make individuals more informed and responsible consumers
- Maintaining ERISA, which provides nationwide employers with the ability to provide consistent benefits to employees.

As a board member of the following professional organizations and coalitions, Xerox has taken a leadership role in the employer community on efforts to reform the U.S. healthcare system.

American Benefits Counsel (ABC): ABC represents more than 275 for-profit and nonprofit businesses that sponsor directly, administer or service retirement, health and stock compensation plans covering more than 100 million Americans and is a leading advocate of employer-sponsored benefit programs in Washington, D.C. ABC initiates and champions legislation and regulations favorable to member needs and interests, and influences policy development within Congress and executive branch agencies.

Corporate Health Care Coalition (CHCC): CHCC is a public policy coalition of large, multi-state, self-insured companies that operate health benefit plans for employees and their families as well as retirees. The CHCC is distinguished by its focus on the legislative and regulatory issues that are critical for employers who sponsor health benefit plans nationwide.

ERISA Industry Committee (ERIC): ERIC is a trade association representing the employee benefits and compensation interests of America's major employers.

National Coalition on Benefits (NCB): NCB is a coalition of 175 companies and trade associations. NCB is dedicated to working with Congress to maintain employers' ability to provide uniform health and retirement benefits to employees and retirees across state and local lines and to ensure that federal health reform initiatives preserve Employee Retirement Income Security Act (ERISA) benefits.

Xerox also is involved with several other professional organizations and associations, including:

AeA: Xerox chairs AeA's Health Information Technology Working group whose mission is to help advance legislation that provides funding, standards and privacy protections for a modern healthcare information technology system in the U.S.

Business Roundtable: The Business Roundtable is a founding member of the "Divided We Fail" Coalition that includes the AARP and the Service Employees International Union (SEIU), which is pushing for comprehensive healthcare reform. Xerox has actively participated in the development of the Business Roundtable's healthcare policy plan.

Consumer Purchaser Disclosure Project (Disclosure Project): The Disclosure Project membership is made up of many consumer and purchaser groups whose goal is to bring together the voices of consumers and purchasers to improve healthcare for all.

National Business Group on Health (Business Group): The Business Group members are primarily Fortune 500 companies and large public sector employers, including the nation's most innovative healthcare purchasers, who provide health coverage for more than 50 million U.S. workers, retirees, and their families. The Business Group fosters the development of a safe, high quality healthcare delivery system and treatments based on scientific evidence of effectiveness.

National Quality Forum (NQF): The NQF is a not-for-profit membership organization created to develop and implement a national strategy for healthcare quality measurement and reporting.

Conducting Our Business with Integrity and Transparency

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 multinational 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. 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.

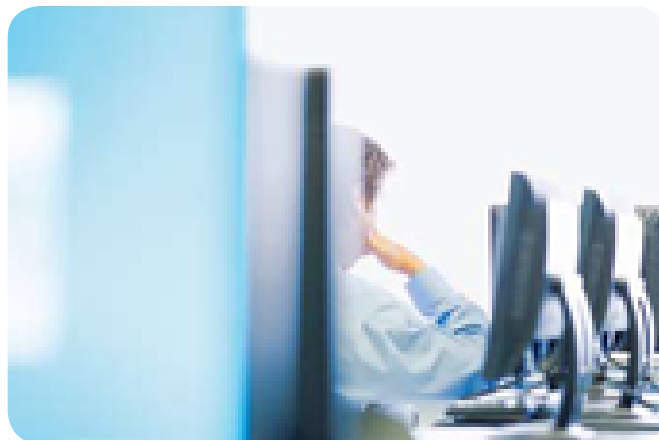
Through our support of the American Competitive Initiative, which directs more resources to math and science education, we are focused on improving the nation’s ability to compete on the global stage.

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

Xerox Public Policy Engagement and Political Contributions Policy

Xerox and its employees have a long-standing tradition of active engagement in the communities in which we live and work. Our participation in the political process and public policy debate reflects our traditions and core values.

At the same time, Xerox believes our political involvement should set a clear standard of how both our company and our employees should responsibly engage in the political process. For nearly a decade Xerox has had a long-standing policy that nothing of value may be given, paid, promised or offered – directly or indirectly – to any political party, committee and/or candidate for any federal, state or local government office anywhere around the world. Therefore, “soft” money contributions are not and have not been allowed at Xerox, even long before recent lobbying disclosure laws. In addition, Xerox does not allow any employee or consultant to provide anything of value to any government employee. This policy too was in place long before Congress put the standard into law for all corporations and organizations. There are no exceptions to this policy, even for gifts of a modest value.



Good Behavior Means Good Business

- Xerox is listed on the FTSE4Good Index Series that measures the performance of companies that meet globally recognized standards for corporate responsibility. The FTSE4Good Index Series is a series of benchmark and tradable indices for socially responsible investors. Xerox meets the FTSE4Good criteria for corporate responsibility, human rights, environmental actions, social and stakeholder engagement, and countering bribery.
- Xerox is on the Dow Jones Sustainability North America Index (DJSI North America), recognizing our economic, environmental and social performance. The index identifies companies that exemplify leadership in sustainability among the largest 600 North American companies of the Dow Jones Global Index and is based on criteria including climate change strategies, energy consumption, human resources development, knowledge management, stakeholder relations and corporate governance.
- Most Respected Company – Xerox has been named as having one of the top 10 best corporate reputations in the U.S., according to a survey conducted by the Reputation Institute and reported by Forbes magazine. Xerox earned the #8 spot on the U.S. listing and #33 on the global list. Rankings are based on high marks from consumers who rated the company’s products and services, innovation, workplace, citizenship, governance, leadership and performance. The Reputation Institute says the most influential dimensions are products and services and citizenship. This marks the first time Xerox has been included on this list of the world’s 600 largest companies. View lists at www.Forbes.com.

Xerox discloses any contributions to 527s, tax-exempt organizations that raise money for political activities including issue advocacy, and contributions used for political purposes to 501c(4) organizations. From our trade associations that receive from us dues or payments of \$25,000 or more, Xerox has requested they disclose to us details about their political expenses. We also ask these same organizations to report to us the portion of Xerox dues or payments used for such expenses or contributions that, if they had been made directly by Xerox, would not be deductible under 162(e)(1)(B) of the Internal Revenue Code. This information is reported and disclosed at www.xerox.com/citizenship.

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 the management of Xerox and/or our business. A Board of Directors leads the XPAC with representatives from each major business unit who determine which candidates and political committees receive contributions. To learn more about how the XPAC operates, visit www.xerox.com/citizenship.

Xerox Trade Association Memberships

Trade association memberships with dues exceeding \$25,000 in 2008:

- The Business Roundtable
- Information Technology Association of America
- National Minority Supplier Development Council, Inc.
- Business-Higher Education Forum
- U.S. Chamber of Commerce
- AeA
- Business Council of New York

Xerox Contributions to 527s and 501c(4)s in 2007

- Xerox made no contributions to 527 organizations.
- U.S. Climate Action Partnership (\$50,000) is the only 501c(4) contribution.

Xerox is a Clear Leader When It Comes to Transparency

Our corporate governance practices have received the highest possible score of 10.0 from Governance Metrics International (GMI), a corporate governance monitor for shareholders.

GMI rates public companies on their corporate governance practices each year. They highlight companies that have strong “governance policies and disclosure levels that often go unrecognized.” Our rating is based on items such as our public information, the make-up of our board of directors and its committees, our governance policies and procedures, executive compensation, and our position on environmental sustainability. The shareholder watchdog reported on 4,200 companies; of those, only 42 received an overall global rating of 10.0.



Aligning Our Resources around Customer Need

Responding to our customers' needs isn't enough. We anticipate them – with forward-looking programs that protect privacy, ensure product safety and security and provide better access to our products, services and people.

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 7 or 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

At Xerox, we believe the right to privacy includes the right of individuals to have a voice in the use and dissemination of their personal information. Each 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 complies 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. To read more about our privacy policies, visit www.xerox.com and click on "Privacy" at the bottom of the page.

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 predetermined global contracts. For more information, visit www.xerox.com and click on "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.

Aligning Our Resources around Customer Need

Our Product Safety Data Sheets provide environment, health and safety information for specific Xerox devices. We also produce Material Safety Data Sheets, which identify hazards associated with a specific material and describe how materials can be safely handled, used and stored. Customers can gain access to these reports at www.xerox.com/environment, where they can search by product name 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 ISO 15408 Common Criteria certification for more than 40 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.

Drowning in Information? Xerox Can Help

Building on decades of helping companies and people more easily and quickly share information, Xerox has signed on as a founding corporate member of the Information Overload Research Group, which is dedicated to boosting workplace productivity by fighting information overload.

Xerox joins Microsoft, Intel, IBM and other high-tech leaders who are committed to developing solutions to sort and categorize the flood of electronic information that gushes every day from cell phones, e-mail, instant messages and billions of printed pages worldwide. According to Basex, a knowledge economy research firm, unnecessary interruptions and the time required to return to a task cost the U.S. economy \$650 billion per year. This represents 28% of the knowledge worker's day alongside productive content creation (25%), searching (15%), meetings (20%), and thought and reflection (a mere 12%).

Our role at Xerox has always been to make it easier to get work done. Today that means helping to clear the path between paper and digital content, cutting through the clutter with color and personalization and making our document technologies and methodologies do more for less money and in less time. To find out more, visit www.infooverload.com.

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 under "About Xerox." Click on "Product Accessibility: Section 508."

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. 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 29 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. In 2008, we are implementing two additional surveys to determine customers' satisfaction with inquiry and problem resolution and invoicing that will result in positive actions to resolve any customer issues.

Xerox Receives National Medal of Technology

Xerox was awarded the U.S. National Medal of Technology, "recognizing over fifty years of innovation in marking, materials, electronics, communications and software that created the modern reprographics, electronic printing, and print on demand industries." The National Medal of Technology is the highest honor awarded by the President of the United States to America's leading innovators.

It recognizes those who have made lasting contributions to America's competitiveness, standard of living and quality of life through technological innovation, as well as those who have made substantial contributions to strengthening the nation's technological workforce. Xerox joins an illustrious group of past individuals and corporations including IBM, Bell Labs, DuPont and Dow Chemical.

Xerox's investment in innovation generates a steady stream of advanced technology. The company holds more than 8,000 active patents and invests about 5–6% of its revenue in research, development and engineering activities.

Aligning Our Resources around Customer Need

For the third year in a row, Xerox has been certified by the J.D. Power and Associates program for Certified Technology Service and Support, one of the customer service industry's highest recognitions. Together, the trio of highly respected awards from 2006, 2007 and 2008 solidify Xerox as a leader in superior service and technical support for providing an outstanding customer experience. Recognition from J.D. Power and Associates is available only after certification from the Service and Support Professionals Association for Excellence in Service Operations, which Xerox received earlier this year. The data collection included a six-day on-site audit, evaluation of 3,000 pieces of evidence across 332 criteria and an in-depth satisfaction survey of 1,000 customers conducted both online and by phone.

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

To better link customer feedback with business results, in 2008 we are moving from overall satisfaction to a new metric – Net Promoter Score – that indicates whether a customer is willing to recommend Xerox to a friend or colleague based on their total experience with Xerox across the value chain. Net Promoter Score is gaining wide acceptance as a strong indicator of business growth.

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

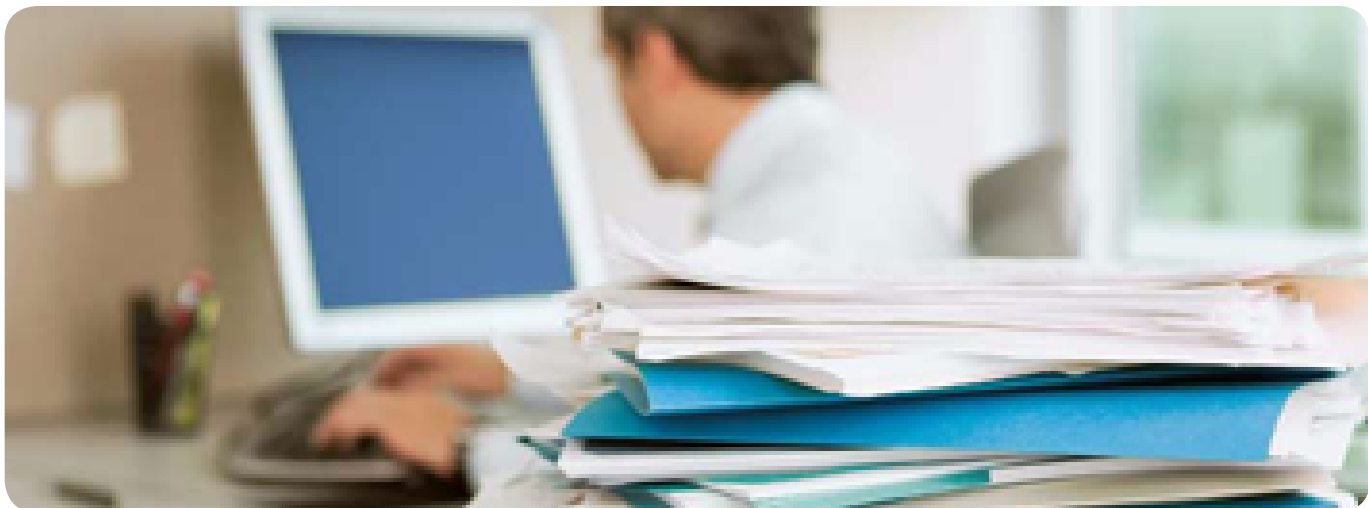
The company's 32 officers rotate responsibility to be Customer Care Officer of the Day. On the assigned day, the officer assumes personal responsibility for dealing with any and all customer concerns that come into headquarters that day. The Xerox "Officer of the Day" has three responsibilities: listening to customers, resolving their problems, and assuming responsibility for fixing the underlying causes.

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 2007, more than 1,000 trained Black Belts and Master Black Belts, along with almost 8,000 trained 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 streamline operations and capitalize on limited resources, Xerox Black Belts and Green Belts provide volunteer leadership and coaching in community projects. By deepening their leadership and technical skills while giving back to their communities, both our people and the organizations they serve benefit. To learn more about Xerox and Lean Six Sigma, go to www.xerox.com/citizenship and click on "Lean Six Sigma at Xerox."



Seven Tips to Create a More Eco-Friendly Office

Recycling newspapers, bringing reusable bags to the grocery store and turning the furnace up or down a few degrees are just a few of the steps that eco-conscious consumers are taking to live a more environmentally sustainable lifestyle. Here are seven simple steps to bring that “green” spirit into your office:

1. Cut paper use. Print on both sides of the page – what we call “duplexing.” Print multiple images per page and print only the quantity you need at the time you need it. Saving paper also saves energy: the U.S. Environmental Protection Agency estimates that it takes 10 times more energy to manufacture a piece of paper than to create a print or copy.

2. Reach for the right paper, and recycle the paper you use. Use environmentally preferable paper – like Xerox’s High Yield Business Paper that is produced using half of the number of trees of conventional paper. Print on paper certified to sustainable forestry standards from global organizations such as the Forest Stewardship Council and Programme for the Endorsement of Forest Certification, or use paper with recycled content. Place bins in several office locations to make it easy to collect paper for recycling or for reuse as notepaper.

3. Reach for the ENERGY STAR®. Upgrade old products with new, more-efficient systems, and the savings add up. For example, the Xerox WorkCentre® 5645 uses 14 kWh per week of electricity, about 30% less than a comparable multifunction system of three years ago.

4. Replace copiers or printers with products that do it all. An office copier, four laser printers and a fax machine can consume 1,110 kWh of energy each year. But if one multifunction system can handle your document needs, it uses only 600 kWh annually. Xerox’s Sustainability Calculator can help pinpoint opportunities to reduce the overall environmental footprint of your office equipment. Visit www.xerox.com/environment to learn more.

5. Don’t throw away empty toner cartridges. Xerox provides customers with prepaid postage to return cartridges for reuse and recycling. Remanufactured cartridges are built and tested to the same performance specifications as new-build products. Or, consider using Xerox solid ink printers, which eliminate cartridges altogether and generate about 90% less waste during use than a comparable color laser printer.

6. Seek office equipment designed for remanufacturing or recycling. Xerox devices are designed with recycling and reuse in mind. Xerox’s recycling and remanufacturing programs have diverted more than 2 billion pounds of waste from landfills since 1991.

7. Use software to simplify the way you use documents. Cut back the time and energy spent on manual paper-based processes with workflow management systems and collaboration tools. For paper-intensive processes like legal discovery or mortgage loan document management, Xerox DocuShare®, combined with scan-enabled multifunction devices, can help reduce errors and improve version control – and ultimately eliminate the costs of producing, storing and shipping paper documents.



Nurturing a Greener World through Sustainable Innovation and Development

We view sustainability not as a cost of doing business, but as a way of doing business. For us, it's an integral part of developing products, serving customers and posting profits.

Environmental Goals and Priorities

Xerox aligns its environmental sustainability goals around four commitment areas where we can make a significant impact across our entire value chain of products and services:

Climate Protection: We invest in technologies that reduce the carbon footprint of our operations and the document-management solutions we offer to our customers. Our aim is to be carbon-neutral.

Preserving Biodiversity and the World's Forests: We work with our customers, suppliers and other stakeholders to support the development of a sustainable paper cycle through paper-sourcing guidelines and environmentally sound paper offerings, as well as products and services that decrease offices' dependency on paper.

Preserving Clean Air and Water: We strive to eliminate the use of persistent, bioaccumulative and toxic materials throughout the supply chain.

Preventing and Managing Waste: Our goal is to produce waste-free products in waste-free facilities that promote waste-free customer workplaces.

Our policy is to integrate these global environmental commitments into our core business strategy and practices. Our approach 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 the table on page 28, we are reporting our progress on these commitments.

Environmental, Health and Safety Governance

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

Our EH&S governance and policy, adopted in 1991, forms the foundation of our environmental leadership program. For a review of this policy, visit www.xerox.com/environment.

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, design for environment, 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.

Supplier Environmental, Health and Safety Management

Xerox extends environment, health and safety requirements across its supply chain. Since 1998, Xerox has asked its materials and components suppliers to meet specific environment, health and safety requirements. These requirements were broadened in 2004 to better manage the chemical content of our products. By adopting the Electronic Industry Citizenship Coalition's Code of Conduct (see page 16 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 requirements to companies that provide paper to Xerox for resale. More information on these standards can be found at www.xerox.com/environment.

Nurturing a Greener World through Sustainable Innovation and Development

Commitment	Strategic Goal	Objective
Protect Our Climate	Carbon-neutral	<ul style="list-style-type: none"> • Reduce total 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.
Preserve Biodiversity and the World's Forests	Sustainable paper cycle	<ul style="list-style-type: none"> • Certify Xerox-branded paper to standards for sustainable forest management. • Improve forest management among Xerox suppliers through our partnership with The Nature Conservancy.
Preserve Clean Air and Water through Reducing Use of Toxics and Heavy Metals	Zero persistent, bioaccumulative, toxic (PBT) footprint	<ul style="list-style-type: none"> • Reduce PBT footprint throughout the supply chain.
Waste Prevention and Management	Waste-free facilities and products	<ul style="list-style-type: none"> • Reduce material footprint of Xerox equipment and supplies.

Audit Program

To maintain and achieve regulatory compliance, a well-established internal audit program measures our success in implementing corporate standards and guidelines. To identify environment, health and safety risks and potential areas of non-compliance, Xerox audits research, manufacturing and service operations on an average of once every three to five years. The duration is based on the type of operations and the inherent risks associated with the operations. 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

Metric/Target	2007 Progress
<ul style="list-style-type: none"> • Reduce total GHGs 25% from 2002 to 2012. • Obtain the 2007 ENERGY STAR® for 90% or more of new product launches by 2010. • Develop decision tools for customers to “green” their offices. 	<ul style="list-style-type: none"> • Boosted target from 10% to 25%. Down 21% from 2002 to 2007. • 80% of new products launched met the 2007 ENERGY STAR standard. • Launched the Xerox Sustainability Calculator in 2008.
<ul style="list-style-type: none"> • Supplier adherence to Xerox requirements for sustainable forest management. Goal is 100% by volume. • Obtain Forest Stewardship Council (FSC) and Pan European Forest Certification Chain of Custody (PEFC) 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. 	<ul style="list-style-type: none"> • More than 90% of Xerox paper by volume met our requirements. • Achieved chain of custody certification as planned enabling growing portfolio of FSC and PEFC certified papers. • Conducted supplier workshop in 2008 to share results of work supported by The Nature Conservancy partnership.
<ul style="list-style-type: none"> • Xerox’s five National Environmental Performance Track facilities achieve goals to reduce energy, waste and hazardous materials. • Life Cycle Analysis (LCA) to prioritize areas for future technology development. • Reduce use of PBTs in Xerox supply chain through adherence to Xerox and EICC requirements for our 50 key global suppliers, representing 90% of spend, by 2012. 	<ul style="list-style-type: none"> • On track to achieve goals 2008–2010. Xerox achieved U.S. E.P.A. National Performance Track Corporate Leaders distinction in 2008. • Xerox is using LCA and life-cycle thinking to better understand impacts of printing technology and inform future direction of research and development. • By year-end 2008, on track to complete audits of all key suppliers in high-risk regions. Any identified gaps are addressed through a corrective action process.
<ul style="list-style-type: none"> • Continued investment in “cartridge-free” solid ink technology that produces up to 90% less waste than conventional office color printers. • Maintain >90% reuse or recycling of recovered Xerox equipment and supplies offerings. • Expand ISO 14001-conforming environmental management system to Xerox U.S. supplies warehouses in 2008 and additional operations and geographies in 2009–2011. 	<ul style="list-style-type: none"> • The latest generation of solid ink products cut energy consumption by 14%, made double-sided printing a standard feature and bundled GreenPrint software to reduce unnecessary printing. • Xerox achieved 98% reuse/recycling of equipment and supplies (117 million lbs), bringing the total landfill avoidance to 2.1 billion pounds since 1991. • The largest warehouses have adopted environmental management systems and set a goal to reduce the solid waste sent to landfills 25% by 2012.

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 environment, 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.

Nurturing a Greener World through Sustainable Innovation and Development

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. Xerox tracks inquiries 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. Through Xerox’s Thought Leadership program, Xerox is conducting some 40 sustainability forums with customers in 2008 alone, generating awareness of the importance of sustainability, sharing company best practices and encouraging customers to reduce their environmental footprint by finding “Smarter Ways to Green.”

Learn more at www.xerox.com/thoughtleadership.

To advance global efforts to improve our environment, Xerox partners with these private and public organizations:

- Advisory Board of the Center for Sustainable Systems at the University of Michigan
- Advisory Board of Golisano Sustainability Institute at the Rochester Institute of Technology
- Business Roundtable Climate RESOLVE
- Business Roundtable S.E.E. (Society, Environment, Economy) Change
- Business for Social Responsibility
- California’s Climate Action Registry
- International Leadership Council of The Nature Conservancy
- Sustainable Energy Ireland
- U.S. Climate Action Partnership
- U.S. EPA Climate Leaders
- U.S. EPA ENERGY STAR®
- U.S. EPA National Environmental Performance Track
- U.S. EPA WasteWise

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 ISO 14001 approach beyond manufacturing. Our largest U.S. supplies warehouse operations have adopted ISO 14001-conforming environmental management systems and have set a goal to reduce solid waste sent to landfills 25% by 2012.

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, packaging, 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 for conformance with EH&S standards. This is a requirement for the introduction of any new product.

Climate Protection

We believe that Xerox, as a global business, must do its part to reduce the risks of climate change. While our ultimate goal is to become climate-neutral as a company, our immediate focus is reducing energy consumption in our own operations and providing sustainable document management technology and solutions to our customers to reduce the energy and environmental impacts of their business. We are making investments in several initiatives to support this goal.

Reducing Energy Consumption through Xerox Products and Solutions

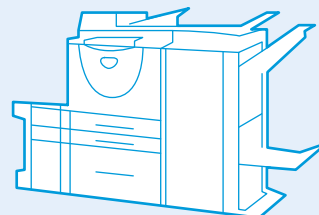
ENERGY STAR® Savings

More than 10 years before the inception of the U.S. Environmental Protection Agency's ENERGY STAR Office Equipment program, Xerox introduced the first imaging product with an automatic power-down mode. Since joining with the EPA as a Charter Partner in 1993, we have introduced over 500 copier, printer, fax and multifunction products that have earned ENERGY STAR status. This continued success in cutting the power consumption of our laser-based printing products has been achieved by adjustments in the fuser design, changes to the properties of the toner, more-efficient electronic controls and the workings of the xerographic system as a whole.

A new, more exacting 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 power-saver modes such as 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 EPA's tough new requirements for a product to achieve ENERGY STAR status. The EPA'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, 80% of 2007 new product introductions passed this tough test. 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 kWh hours per week of electricity, about 30% less than a comparable multifunction system of three years ago.

The ENERGY STAR program continues to raise the standard over time, and our goal is to have 90% of new product introductions achieve this ecolabel in 2010.

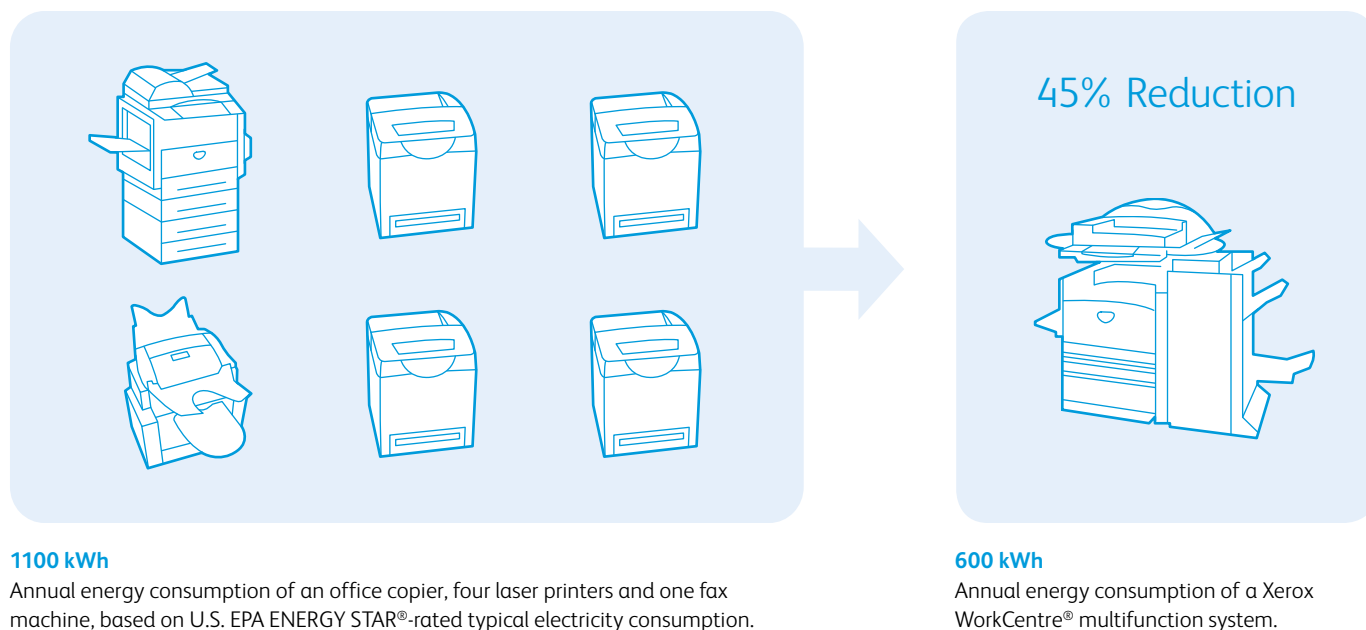
Xerox WorkCentre 5645 30% less energy consumption than previous model



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 with the previous model.

Nurturing a Greener World through Sustainable Innovation and Development

Xerox Multifunction Systems: Inherent Environmental Benefits



“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 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 would be substantially higher if a multifunction system replaces individual products that have not earned the ENERGY STAR rating.

“Right-Sizing” Office Printing Further Reduces Energy Use

Xerox also works with customers to improve the efficiency of their office document management by assessing their actual printing needs and developing solutions that meet that need – often by dramatically reducing the number of stand-alone and networked office equipment devices, saving energy and associated greenhouse gas emissions and reducing solid waste.

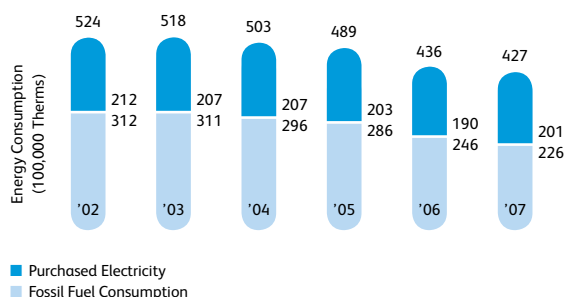
In March 2008, Xerox unveiled the industry’s first Sustainability Calculator, designed to help customers understand the benefits of Xerox solutions and pinpoint opportunities to reduce their environmental impact while reducing costs. The software tool estimates the overall impact a company’s document technologies have on the environment and allows customers to see how that can be reduced by “right-sizing” their print environment. It evaluates the current office environment of printers, copiers and multifunction devices and then estimates environmental benefits that could be achieved in terms of energy and paper use, solid waste, water, air and greenhouse gas emissions. The tool includes an evaluation of impacts that span raw material extraction, manufacturing, use and disposal. This broad view extends the evaluation to life-cycle impacts, providing customers a more complete and fact-based estimate of their environmental footprint and an understanding of the kind of actions that will reduce their footprint. Learn more at www.xerox.com/thoughtleadership.

Reducing Our Company-wide Carbon Footprint

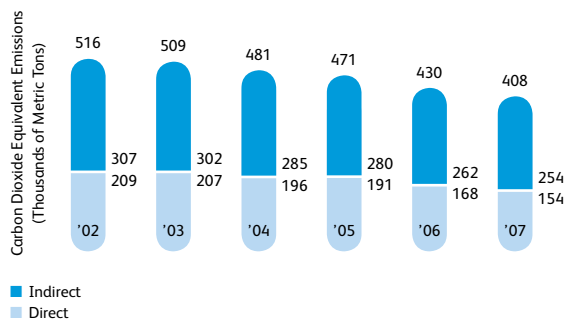
Energy Challenge 2012

In 2003, Xerox made a public commitment to reduce greenhouse gas emissions – our carbon footprint – by joining the U.S. EPA Climate Leaders program and launching an internal program known as Energy Challenge 2012. 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. Recognizing our obligation to do even more, in 2007 Xerox set a new and challenging goal to reduce our greenhouse gas emissions 25% by 2012 from a 2002 baseline. Through 2007, we have cut emissions by 21%, or 108,000 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 2007, energy consumption decreased 2% compared with 2006 and by 19% compared with 2002. With energy and fuel costs rising, additional benefits have included avoiding certain energy-related costs.

Energy Consumption



Greenhouse Gas Emissions

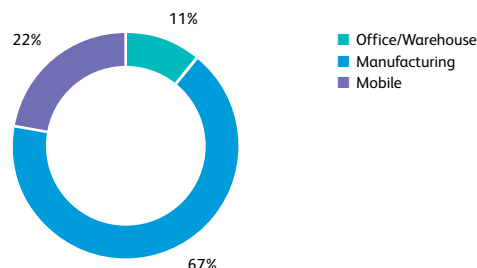


Greenhouse Gas Inventory

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 tracks the six major greenhouse gases: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulfur hexafluoride (SF₆). We express our carbon footprint in terms of carbon dioxide equivalents (CO₂e). In fact, carbon dioxide accounts for more than 99% of our 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.

Sources of Greenhouse Gas Emissions



In 2007, Xerox greenhouse gas emissions totaled 408,000 metric tons of CO₂e. 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.

To learn more about how we're meeting our greenhouse gas emission goals, visit www.xerox.com/environment.

Nurturing a Greener World through Sustainable Innovation and Development

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. Through our participation in the U.S. Climate Action Partnership, we are actively involved in calling for a rational approach to climate legislation in the United States. 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 2007, 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%. More information on paper sourcing guidelines is available at www.xerox.com/environment.

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 Centre linking Boreal Forest data and information to diverse users to improve resource management, monitoring and conservation planning. In its second year, the partnership is supporting areas such as strengthening of sustainable forest management standards managed by the Forest Stewardship Council (FSC) and the Sustainable Forestry Initiative (SFI), deployment of the Canadian Boreal Data Centre and conservation work in Brazil's Atlantic Forest.

Sustainable Forest Management-Certified Papers

Xerox has introduced papers that comply with Sustainable Forest Management (SFM) standards such as those of the Forest Stewardship Council (FSC), the world's strongest system for guiding sustainable forest management. FSC-certified 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 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 offers PEFC-labeled papers.

Recycled Paper

Recycled content is another way Xerox reduces the environmental impact of its papers, offering papers with 20% to 100% post-consumer recycled content. 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 Recycled products are required to meet the same strict performance specifications as virgin products and are designed for optimal performance in Xerox equipment.

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

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®, SMARTsend® 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.

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

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.

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 (RoHS) directive 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 meet these requirements. Starting in 2007 and beyond, Xerox's newly launched products are 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 that continue to have usable life.

In 2007, the first phase of the European Union's new regulatory plan for chemical control went into effect. The regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) aims to establish a 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 expects to be fully compliant with all aspects of the REACH regulation as its provisions become effective and applicable.

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.

Nurturing a Greener World through Sustainable Innovation and Development

Waste Prevention and Management

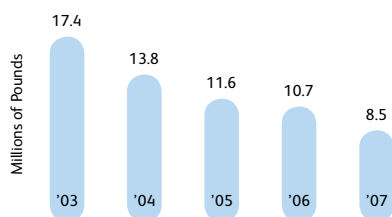
Our waste-free commitment is to produce waste-free products in waste-free facilities that promote waste-free customer workplaces. Our aim is to design products, packaging and supplies that make efficient use of resources, minimize waste, reuse material where feasible and recycle what can't be reused. 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 38.
- Xerox is investing in waste-free technologies. Our solid ink imaging process utilizes compact, "cartridge-free" solid ink sticks with no plastic housings or casings, thereby reducing office waste by up to 90% compared with comparable color 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 1.9 million cartridges and toner containers being returned in 2007. Xerox processed 1.2 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 change 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 from Cartridges, Waste Toner and Toner



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

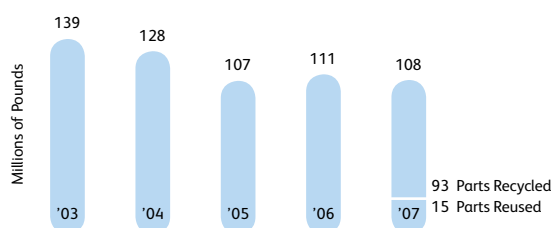
Begun in the early 1990s, Xerox has pioneered the practice of converting end-of-life electronic equipment into products and parts that contain reused parts while meeting new product specifications for quality and performance. We have developed a comprehensive process for taking back end-of-life products, 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 – 108 million pounds (49,000 metric tons) in 2007 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 landfills since 2003 is due in part to changes in product mix, design of lighter-weight machines and the growth of regulatory-driven local recycling schemes. For example, the transition to digital equipment and lighter-weight parts has reduced the weight of both office and production equipment by as much as 50% over the last 10 years. The decline also represents a decrease in the number of office machines returned for remanufacturing in Europe.

Waste Diverted from Landfills through Parts Reuse/Recycle



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.

A Xerox product whose designs are based on previous models may have 60% of its parts by weight 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, in addition to energy savings.

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. 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. Focusing on the quality and performance of products, regardless of recycled content, eliminates barriers to reuse.

Nurturing a Greener World through Sustainable Innovation and Development

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 nine countries. Energy consumption and greenhouse gas emissions are reported across all our operations. With the exception of solid waste figures that reflect management of recovered post-consumer electronic waste, the data 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.

Environmental Protection Agency Recognizes Xerox for Decades of Environmental Stewardship

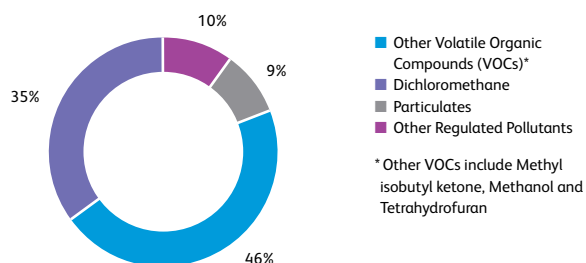
Xerox became the first technology company to be named a Performance Track Corporate Leader by the U.S. Environmental Protection Agency. One of only five companies named an EPA Corporate Leader, the appointment acknowledges Xerox for decades of environmental achievement, a sustained compliance record and excellent facilities management in all five of its U.S. manufacturing facilities, and a superior level of commitment to reducing its environmental footprint. Xerox was also awarded the EPA's Climate Protection Award for significantly reducing energy use and greenhouse gas emissions.

To continue its commitment to environmental sustainability and the Corporate Leaders distinction, Xerox has pledged to further minimize its environmental footprint by reducing greenhouse gas emissions by 25% by 2012 from a 2002 baseline; reducing solid waste and ultimately achieving waste-free manufacturing facilities; evaluating all strategic

Air Emissions

Xerox facilities released 42 metric tons of regulated chemicals and particulates into the air in 2007, a 9% decrease from 2006. The decrease came primarily from decommissioning operations as a result of outsourcing.

2007 Air Emissions: Distribution by Type



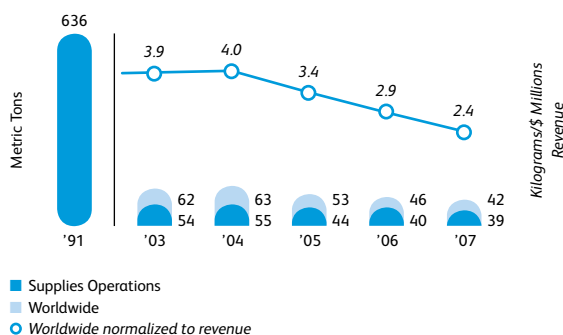
production suppliers according to the Electronic Industry Citizenship Coalition (EICC) standards and helping suppliers with less than optimal performance reach higher compliance levels; and greening the paper supply chain by strengthening environmental requirements for suppliers that provide paper to Xerox for resale.

Climate Protection Award

The EPA also awarded Xerox a 2008 Climate Protection Award for its achievements in reducing energy use and greenhouse gas emissions. Xerox reduced its total global greenhouse gas emissions by 18% from 2002 to 2006, surpassing several years early its original goal of a 10% reduction by 2012. Xerox achieved its goal ahead of schedule by developing a clear framework for greenhouse gas management, involving the entire company by establishing clear roles and accountability, engaging the full value chain, integrating climate protection into core business strategies and practices, allocating appropriate funding and rewarding success.

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, continuous improvements in our processes and changing technologies 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

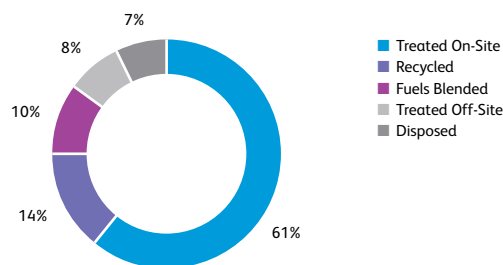


Ozone Depleting Substances

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 (2 lbs.) of R-11.

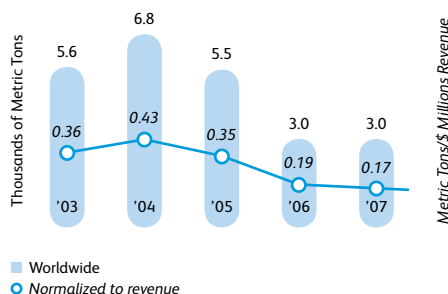
Hazardous Waste

2007 Hazardous Waste Management



Worldwide hazardous waste volumes remained unchanged between 2006 and 2007. Xerox strives to deploy effective waste disposal and to minimize hazardous waste generation. Through treatment, recycling, energy recovery or fuels blending, 93% of hazardous waste generated in 2007 was beneficially managed. The remaining 7% was incinerated or disposed in landfills permitted to accept hazardous waste. The largest reported hazardous waste stream in 2007 was wastewater from an electroplating process. The rinse waters from this process are treated in a neutralization process for pH adjustment prior to discharge to the sanitary sewer under our wastewater discharge permit. The second-largest waste stream is related to 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



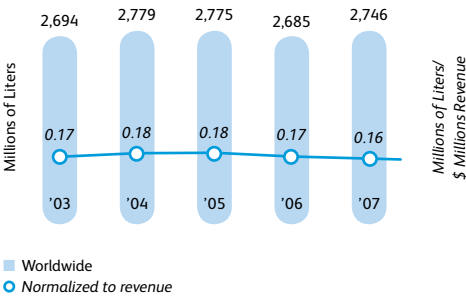
Nurturing a Greener World through Sustainable Innovation and Development

Water Consumption and Treatment

As part of our commitment to conserve resources, Xerox monitors water consumption at its facilities worldwide. Water consumption grew 2% in 2007 compared with 2006 due to increased production, warmer weather, which increased use of water in air conditioning, and one-time operational demands.

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.

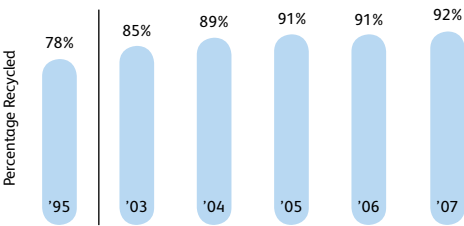
Water Consumption



Non-hazardous Solid Waste

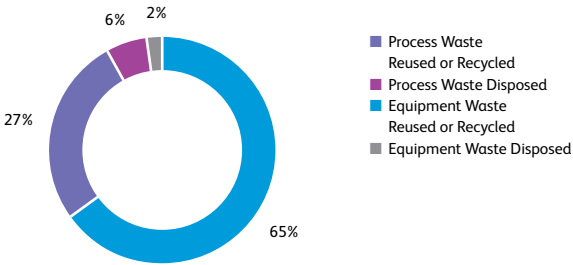
Xerox recycled 92% of its non-hazardous solid waste in 2007 – up 1% from 2006.

Non-hazardous Solid Waste Recycling Rate: All Facilities



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.

2007 Non-hazardous Solid Waste Management: Distribution by Type



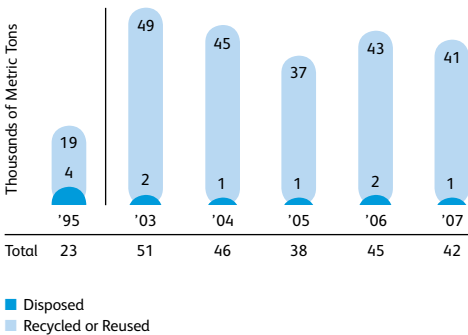
Equipment that reaches the end of its useful life is returned to Xerox equipment recovery/recycle facilities. To maximize environmental and financial benefits, Xerox first evaluates returned equipment for its reuse potential. Products suitable for reuse undergo the rigorous equipment remanufacture processes described on pages 36 and 37 of this report.

E-Waste

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 42,000 metric tons collected in 2007, Xerox was able to reuse or recycle 98%.

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. Where appropriate, 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

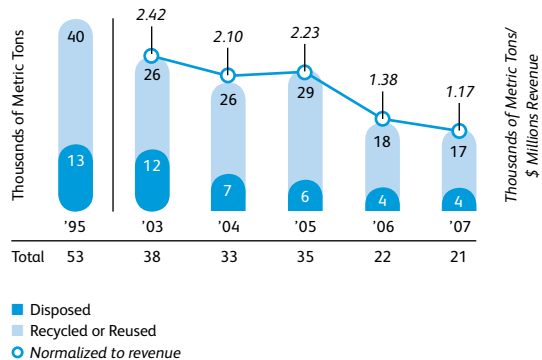


Process Waste

Xerox manufacturing operations generated 21,000 metric tons of non-hazardous solid waste in 2007, compared with 22,000 metric tons in 2006. 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 2007, 81% of this waste was reused or recycled, compared with 82% in 2006.

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



Nurturing a Greener World through Sustainable Innovation and Development

Environmental Remediation and Compliance Penalties

Environmental Remediation

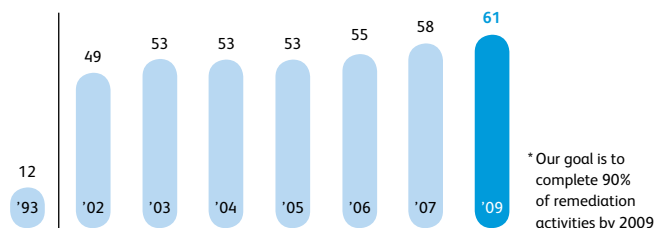
For more than 20 years, Xerox has conducted a proactive program to identify and clean up contaminated sites around the world. These efforts include a voluntary program, begun in 1985, that resulted in identifying 68 facilities and operations sites that have required remediation. As the sites were identified, 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. In most instances, source area remedial measures have been very successful in achieving their source reduction goals. Many of these sites may now be managed with control techniques that limit potential migration and exposure. Today, only 10 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 10 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 those data in its annual progress reports. Starting with the 2006 report, Xerox began providing 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 2007 Xerox’s North American and European operations identified two reportable accidental spills/releases compared to zero releases in 2006. Corrective action was taken in both cases. Preventing further contamination is our goal.

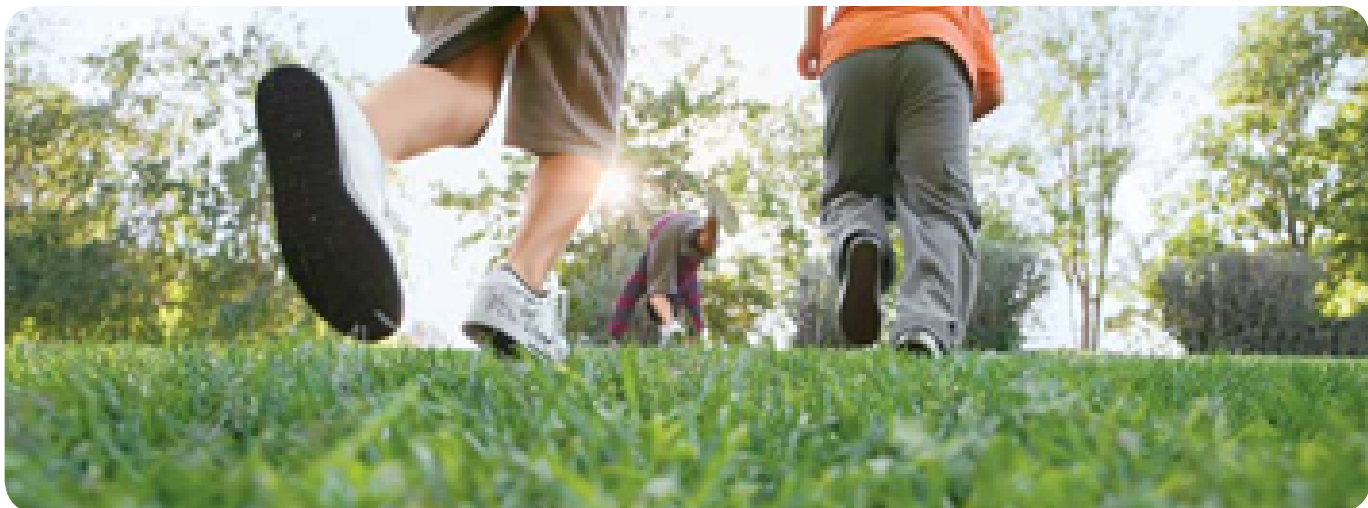
Cumulative Number of Sites Remediated*



Compliance Penalties

Xerox requires its various operations and subsidiary organizations to report allegations of regulatory violations to Xerox’s corporate Environmental, Health and Safety group for tracking, evaluation and corrective action, where appropriate. Based upon this reporting system, Xerox identified one instance where it was subject to a compliance penalty in 2007 for an alleged safety violation in one of its workplaces.

Specifically, the Netherlands’ Ministry of Social Affairs and Employment assessed Xerox’s Venray manufacturing operation a penalty of \$18,250 in connection with a hand injury sustained by maintenance personnel while working on an exhaust device. Corrective actions were promptly implemented to address problem areas. Coupled with regular reviews of proper operating procedures and routine auditing of various operations, these actions enable Xerox to minimize the possibility of future incidents.



At Odds over Climate Change: Students Challenge Today's Leaders

Who takes the lead on tackling climate change reform? That depends on who you ask, according to a survey conducted by Xerox and Forum for the Future in the U.K. The 2008 survey reveals that 82% of today's leaders believe business will play a key role in spearheading a climate change solution. In marked contrast, only 45% of students born between 1981 and 2000 believe that business could, or even should, lead climate change reform. Students believe government, charities and individuals will be far more effective in addressing climate change reform.

Those surveyed expressed concern about limited water supplies, the rising cost of food and finding alternative energy sources. Xerox shares in these concerns. In fact, concern for the environment is embedded in our corporate culture and has directed our development of sustainable innovations. Xerox was the first company in the document management industry to remanufacture and reuse parts. As a result, we diverted over 111 million pounds of waste from landfills last year alone

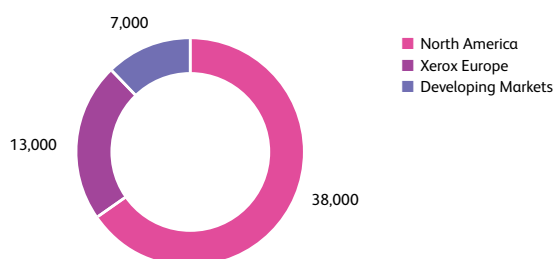


Strengthening Our Competitiveness
by Creating a Great Workplace
for Our People

Our people are Xerox, and we celebrate all of them. We value their diversity, reward their good performance, offer them excellent opportunities for improvement, and help them achieve the right work/life balance.

Xerox Employs Approximately 58,000 People Around the World

Employees by Geography



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, see page 14 or visit www.xerox.com/governance.

Xerox Recognized as a Great Place to Work

- Xerox was named one of the top 10 best corporate reputations in the United States, according to a survey conducted by the Reputation Institute and reported by *Forbes* magazine.
- *Fortune* magazine's 2007 lists of "America's Most Admired Companies" places Xerox at #4 in the "computers" category, and #2 in the "social responsibility" category among its peers.
- Xerox was named for the first time to the FTSE4Good Index Series – an index that measures the performance of companies that meet globally recognized standards for corporate responsibility.

Employee Engagement

Xerox administers an employee survey on a regular basis that is designed to help the company understand our employees' views of the work environment and areas of opportunity. Our last survey was administered in April 2007. Here are some key facts about the most recent survey:

- It was made available worldwide – 41 countries, 16 languages.
- It was administered online by a third-party vendor to ensure anonymity.
- 68 questions covered 15 categories.
- It produced more than 25,000 write-in comments.
- Results were shared with managers for action planning and were 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.

Strengthening Our Competitiveness by Creating a Great Workplace for Our People

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.

Job security remains a concern (52%, 15th percentile – up three points but low compared with peer companies). And our employees believe we can improve on total pay (50%, 26th percentile – up two points but low compared with 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

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 diversity.

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. Six caucus groups currently exist to address the concerns and meet the needs of employees who are African-American, Hispanic, Asian, women, African-American women, gay, lesbian, transgender and bisexual.

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.

Non-discrimination Policy

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

U.S. Employee Race and Ethnicity Representation

	Black		Hispanic		Asian		Native American		Women		Total Minorities	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Executives	10.2 %	10.6 %	5.5 %	5.6 %	5.2 %	5.4 %	0.7 %	0.8 %	31.2 %	32.4 %	21.6 %	22.4 %
Professionals	7.5 %	7.3 %	5.2 %	5.0 %	9.6 %	10.2 %	0.6 %	0.6 %	32.6 %	31.9 %	22.9 %	23.2 %
All Others	17.9 %	18.0 %	10.3 %	10.5 %	4.3 %	4.9 %	0.8 %	0.8 %	32.4 %	31.9 %	33.3 %	34.3 %
Total	14.4 %	14.4 %	8.4 %	8.2 %	5.7 %	6.1 %	0.8 %	0.8 %	32.3 %	31.5 %	29.3 %	29.5 %

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 122 scholarships each year through our Technical Minority Scholarship Program, and we are 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 53 for more information on these initiatives.

We introduced Xerox career opportunities to the Hispanic student population at 45 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.

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.

Strengthening Our Competitiveness by Creating a Great Workplace for Our People

The health and wellness of our people are paramount to boosting their productivity and reducing overall healthcare costs. To learn more about U.S. programs, visit: www.xerox.com/citizenship.

Workplace Safety

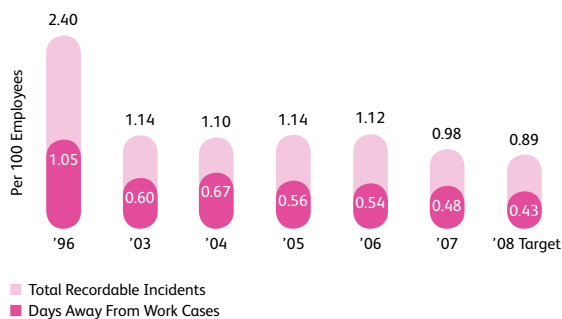
Zero Injury Program

Over 10 years ago, Xerox ramped up its safety programs in order to reduce workplace injuries to the optimum level: zero. In 2007, the Total Recordable Incident (TRI) rate declined 13% and Days Away From Work (DAFW) case rate declined 11% from 2006. Since 1996, the TRI rate has decreased 59% and the DAFW case rate has dropped 54%. These improvements exceeded our corporate goal of 10% improvement year-over-year.

At the heart of this program is the overwhelming commitment to make safety a core value of each operation. A focus on proactive methods such as the utilization of an effective health and safety management system, an ever-renewed commitment to management leadership and an aggressive hazard recognition and prevention program using employee involvement work together to allow us to reach our goals.

For 2008, our objective remains to achieve a 10% year-over-year reduction – again, with the primary goal of zero injuries. We are piloting a formal safety management process using the U.S. Occupational Health & Safety Administration's Voluntary Protection Program (VPP) framework with a goal to roll out this program to U.S. facilities in 2009. This effort builds on the experience of our Oklahoma City, Okla. facility that has achieved VPP "Star" status, indicating exemplary performance in safety management, and our three European manufacturing facilities that are certified to OHSAS 18001.

Xerox Workplace Injury Rates



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. Additionally, all new service vehicles come with hands-free Bluetooth cell phone capability.

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. After a 43% decline in rates from 1992 to 2006, rates increased 15% in 2007 from the previous year. Xerox has put in place a new ergonomic training program that specifically addresses our aging workforce to reverse this trend. The training is designed to provide simple ergonomic strategies, as well as awareness of the normal aging process to reduce personal risk to employees.

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. Mandatory 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 16.)

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 2007, 97% 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.

Strengthening Our Competitiveness by Creating a Great Workplace for Our People



Xerox Recognized as a Great Place to Work for Minorities

- National Association For Female Executives (NAFE) – Top Companies for Executive Women.
- Best Place to Work for GLBT (gay, lesbian, bisexual and transgendered) employees – 100% index score on Human Rights Campaign.
- American Association for Affirmative Action – Champion of Diversity Award.
- *Asian Enterprise Magazine* – Top Best Companies for Asian Pacific Americans.
- DiversityBusiness.com – one of America's Top Organizations for Multicultural Business Opportunities.
- Xerox recognized on "top" lists for diversity by *Black Enterprise*, *Asian Enterprise Magazine* and *LATINA Style Magazine*.

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 and Referenceware that help our people perform their best work. In 2007, this resulted in employees accessing over 275,000 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, 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 2,400 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 2,340 employees. In 2005, Xerox and its unions successfully negotiated new four-year contracts at all locations.

Outside of our North America Operation and particularly 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.



Leveraging Our Resources to Make Our World Better

Our investments in philanthropy and volunteerism are among the most important we make. Through them, we're touching people one at a time and building momentum for change that is positive and lasting.

Xerox Foundation

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 2007, the Xerox Foundation, the arm of the corporation that manages our philanthropic efforts, invested more than \$12.5 million in 555 organizations. That was up 4% over 2006.

Education and Workforce Preparedness

Xerox invested 20.2% of our grants in education and workforce preparedness. We announced a major new effort in this focus area in 2006 – a \$1 million grant payable over four years to the National Academy Foundation (NAF). Along with the Gates Foundation and Verizon, Xerox has become a charter founder of an effort to establish pre-engineering programs in more than 100 high schools in 22 urban cities. The goal is to encourage and enable underrepresented minorities to pursue university engineering degrees. Ten pilot Academies of Engineering were opened in 2007, and the initial feedback has been very positive.

At the other end of the education spectrum, we launched the Xerox Fellowship Program at the Massachusetts Institute of Technology. Over a three-year period, \$1 million is being invested to provide fellowships to exceptional doctoral students in engineering.

We also continued to manage three programs with a common theme – providing educational access to underrepresented minorities:

- Our Black College Engineering Liaison Program provided 13 grants during 2007 to schools such as North Carolina A&T, Howard University and Spelman College.
- Our Hispanic College Liaison Program provided 23 grants during 2007 to schools such as California Polytech, the University of Texas and the University of Puerto Rico.
- Our Xerox Technical Minority Scholarship Program provided 122 scholarships to help deserving minority students complete degrees in engineering.

All these programs are part of a larger Xerox Foundation effort to help minorities pursue technical degrees and help the United States address its shortage of scientists and engineers. The programs, in the strategic interest of the company, provide excellent opportunities for Xerox people to be involved on campus and enable us to recruit from a highly motivated and talented pool of technical people. We invested some \$800,000 in these three programs in 2007.

Other 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, Monroe Community College, United Negro College Fund, Posse Foundation, Hispanic Scholarship Fund and INROADS. The Xerox Foundation also awarded 21 National Merit Scholarships.

Science and Technology

Xerox invested 20.6% of our grants in the area of science and technology. Organizations supported by the Foundation included The Cleveland Clinic, FIRST, Connecticut Science Center, 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 – which consists of about a dozen Xerox scientists from around the world – made 42 grants to 33 university science programs. The Foundation provided approximately \$800,000 to this effort.

Each grant is championed by a Xerox scientist from the United States, Canada, Ireland, the United Kingdom or Spain. Universities outside the United States received 13 grants. All 33 universities are conducting research aligned with the long-term strategic interests of Xerox. In 2007, Xerox hired three graduate students as a result of the program and hosted 11 interns. In addition, Xerox scientists, and the professors we funded, co-authored and published 36 research papers in leading academic journals.

Leveraging Our Resources to Make Our World Better

Environmental Affairs

Xerox made 3.5% of our investments in the new category of environmental affairs, which is anchored by a \$1 million grant payable over three years to The Nature Conservancy. The grant is aimed at efforts to advance sustainable forest management. The Nature Conservancy is working to identify and incorporate biodiversity components into the forestry standards by which our paper suppliers are certified, and provide data and tools to enable paper suppliers to simultaneously meet their business objectives and do the right thing.

Other investments in this focus area include: Outward Bound which teaches respect for the environment to young people, the Mill River Collaborative in Stamford, Conn., The Maritime Aquarium in Norwalk, Conn., SUNY College of Environment and Forestry, SoundWaters, and many other organizations and institutions that work toward the goal of a sustainable world.

Employee and Community Affairs

An additional 14% of our grants went to the areas of employee and community affairs which include organizations such as the Inner City Foundation for Charity, Volunteer Legal Services (located in Rochester, N.Y., Chicago, Ill., and New York, N.Y.), Junior Achievement and Habitat for Humanity.

Under the umbrella of employee and community affairs, the Foundation manages two employee volunteer programs:

Social Service Leave enables a select group of employees to volunteer full-time and at full pay. In 2007, six employees participated in the leave program. The projects they supported included helping improve the administrative processes at an adoption agency, creating an online database for an agency that helps mentally ill people become self-sufficient, and helping a cancer support organization to improve its financial resources through fundraising. Over \$500,000 was spent on the Social Service Leave Program in 2007.

The **Xerox Community Involvement Program** marries the voluntary spirit of our people with Xerox funding to participate in the betterment of the communities where we work and live. In 2007, the Foundation invested approximately \$900,000 in the program, and 9,075 Xerox people participated in 575 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 through the Xerox Science Consultants Program. The company also sponsors an invention competition for elementary school students that celebrates the ingenuity of children’s innovative spirit. More than 2,000 students are touched by this effort each year.

Xerox volunteers worked with Gerhardt Ministry Center to rebuild a dilapidated building in Rochester, N.Y. After volunteering hours of personal weekend and evening time, workers transformed the inner-city building into a vocational center for youth offering counseling and career training programs.

Xerox Canada supports Imagine Canada as a Caring Company, and through its commitment, gave back 5% of its pre-tax profits to support charitable organizations. Xerox Canada encourages employees to participate in their community by granting a day off from work annually to volunteer with local non-profit organizations.

In Poland, through the “Xerox – Better Start!” program, students from 18 to 23 years of age team up with Xerox employees to learn first-hand about working at a large global company. The students, who are orphans and/or physically handicapped, gain on-the-job experience from their Xerox mentors and leave the program with the skills necessary to begin their professional careers. In return, Xerox is able to identify talented, future employees.

Xerox Ireland worked with the “Supporting Immigrants Seeking Employment Initiative” to provide 26 weeks of work experience for Nigerian immigrants. The immigrants worked in the print production office and walked away from the experience having gained a full salary, subsidized both by the Irish government and Xerox, and valuable work experience necessary to secure residency status.

United Way

Some 137 United Ways in the United States received 19.2% of our investments – including \$1 million to the United Way of Rochester, N.Y., home to the largest population of Xerox employees. In addition to the Foundation grants, Xerox employees donated an additional \$1.4 million of their own money. With Xerox Foundation and Xerox employees, United Way donations totaled \$3.7 million.

National and Cultural Affairs

Xerox made 11.2% of our investments in the areas of national and cultural affairs. Xerox provided support to arts and cultural organizations such as the Martin Luther King Memorial in Washington, D.C., Dance Theater of Harlem, International Civil Rights Museum, Boston and Connecticut Ballet, Library of Congress, Connecticut Grand Opera, Kennedy Center, Lincoln Center, Ballet Hispanico, 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, National Child Labor Committee, Catalyst, American Foundation for AIDS Research, Lawyers’ Committee for Civil Rights Under Law, NAACP, Partnership for a Drug-Free America, Association for Hole in the Wall Gang Camps, Center for Advancement of Women, Paralyzed Veterans of America, Internet Keep Safe Coalition, National Center for Addiction and Substance Abuse, Anti-Defamation League and Institute for Student Achievement.

Matching Gifts

We invested 4.2% of our budget in matching gifts to colleges and universities. More than 500 institutions received matching gift funds. The top five beneficiaries of this program for 2007 were the University of Rochester, Rochester Institute of Technology, University of Notre Dame, Rensselaer Polytechnic Institute and Cornell University.

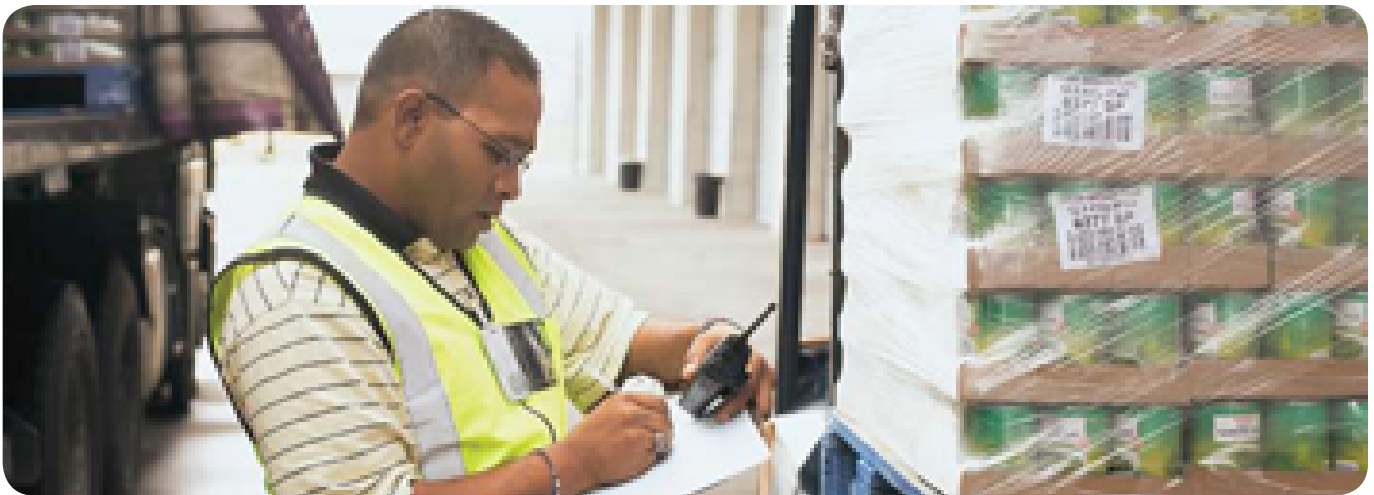
Memberships

Membership payments accounted for 7.1% of our total allocation. Non-profit organizations in which Xerox is a member include the Business Roundtable, the Council on Foreign Relations, the Information

Technology Association of America, the Conference Board, the American Electronics Association, the United Nations Association and the National Minority Supplier Development Council.

Staying Current

Because we are aware that the state of corporate philanthropy continues to evolve and mature, and staying current with the latest thinking and practices is important to us, Xerox people are active participants in groups such as the Committee Encouraging Corporate Philanthropy, the 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.



Time Well Spent:

Xerox Employees Fulfill Their Passions Away from the Office

Monica Milstead may have never adopted her son had it not been for the Xerox Foundation's Social Service Leave program. The program, believed to be the oldest of its kind in American business, has given over 500 employees permission to pursue their lives' passions without sacrificing their income since its inception in 1971.

Fifteen years ago, Milstead took a pause in her fast-track sales career to spend one year working with ARK Services for Abused Children in Orange, Calif. where she helped raise \$70,000 for the organization. So moved was Milstead by the 3,000 foster children in her community needing basic support, guidance and love that she became a foster parent at the end of her year's service and adopted her son two years later.

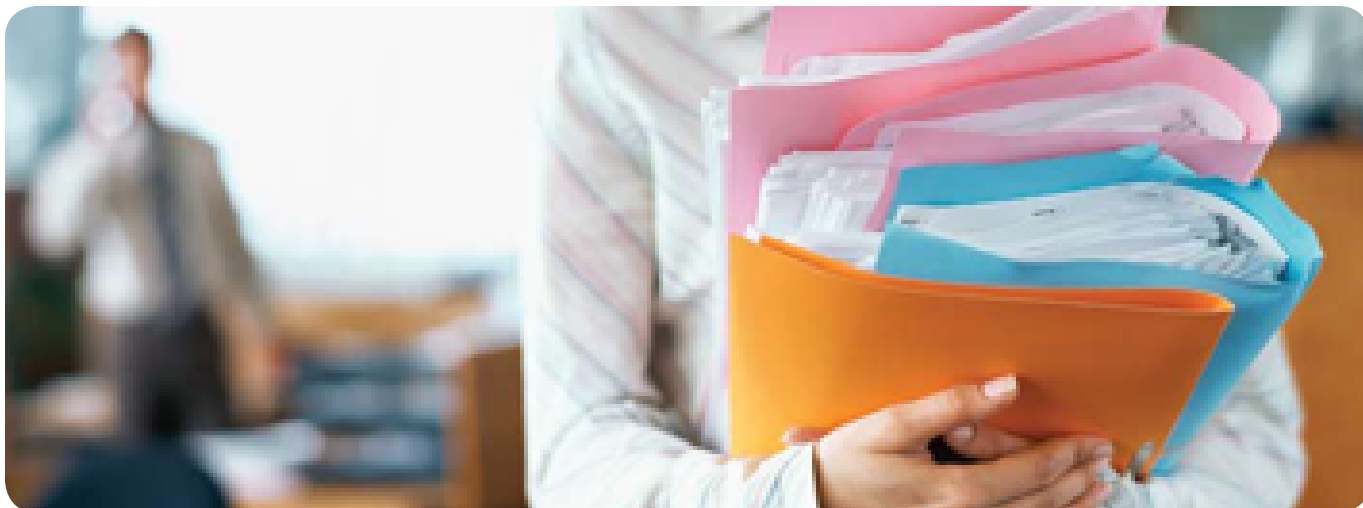
Today employees continue to take advantage of the Social Leave program which offers a fully-paid leave of absence to employees

to work full time on social action projects of their own design and choosing. Underwritten by the Xerox Foundation, the sabbaticals put the expertise and experience of our employees to work in communities all around the country.

In 2008, Rod Forte is one of six employees continuing the tradition to work with Foodlink, a Rochester, N.Y. food bank. Rod will use his management expertise to re-engineer Foodlink's sorting and distribution process to reduce costs and improve the functionality of its warehouse.

Some 30 years ago, the sentiment expressed by former Xerox CEO C. Peter McColough in a letter announcing the program still rings true today, "Each year we contribute several million dollars to worthwhile institutions and projects. Yet we don't think that's enough... so we decided to offer what we can least afford to give – the full-time service of Xerox people."

Green Grief! Are You the Office Environmental Offender?



Do you consider yourself environmentally aware? Are you the Chief Recycling Officer of your household? What about at work?

Results of a North American survey conducted by Harris Interactive to measure environmental consciousness in the workplace found that work colleagues may have some strong objections to those who don't walk-the-green-talk at the office.

Almost 40% of U.S. respondents said their number-one office environmental pet peeve was mindless printing resulting in abandoned pages at the printer, followed closely by leaving the lights on in unused offices (37%).

The Full List

The top ten environmental pet peeves among U.S. office workers:

1. Mindless printing resulting in increased waste (40%)
2. Leaving lights on (37%)
3. Lack of recycling bins (33%)
4. Excessive air conditioning in summer and heat in winter (29%)
5. Excessive use of paper products, like cups, plates, etc. (27%)
6. Coworkers not recycling (27%)
7. Coworkers not printing double-sided when they can (24%)
8. Too many cover sheets when faxing or printing (24%)
9. Having to store paper copies of existing electronic files (24%)
10. Leaving computer on and not powering down when going home (23%)

For smarter ways to "green" an office of any size, visit [**www.xerox.com/environment**](http://www.xerox.com/environment).

How to Reach Us

Xerox Corporation
45 Glover Avenue
P.O. Box 4505
Norwalk, CT 06856-4505
203.968.3000

Products and Service

www.xerox.com or by phone:
800.ASK.XEROX (800.275.9376)

Additional Information

The Xerox Foundation:
203.849.2478
e-mail: evelyn.shockley@xerox.com

Diversity programs and EEO-1 reports:
585.423.6157
www.xerox.com/diversity

Minority and Women-Owned Business
Suppliers: 585.422.2295
www.xerox.com/supplierdiversity

Ethics Helpline: 866.XRX.0001
(North America; International numbers
on www.xerox.com)
e-mail: ethics@xerox.com

Environmental, Health and Safety
800.828.6571 prompts 1, 3
www.xerox.com/environment

Governance: www.xerox.com/governance

Questions from Students and Educators:
e-mail: nancy.dempsey@xerox.com

Xerox Innovation: www.xerox.com/innovation

Shareholder Services: 800.828.6396

To comment on this report:
e-mail: citizenship@xerox.com

Xerox Corporation
45 Glover Avenue
P.O. Box 4505
Norwalk, CT 06856-4505
United States
203-968-3000
www.xerox.com



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This report was printed on a Xerox iGen4™ Press on uncoated 17.7 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 hydroelectricity 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 Color Xpressions Planet 20 containing 20% PCW.

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