

The one thing that's predictable about business is that it's fundamentally unpredictable. It's constantly changing – by chance and by design. And, macro forces bring new challenges every day. This was certainly the case in 2011 – a pivotal year of transformation for our business, and a year when – all said and done – **Xerox people delivered solid financial results, made measured progress, and continued to build our company into the world's leading enterprise for business process and document management.**

Our Business

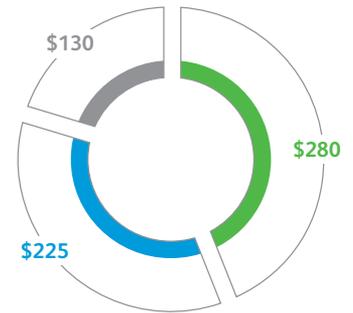
Business Overview

We provide the industry's broadest portfolio of business process and IT outsourcing support, document technology and solutions. Through our business process and IT outsourcing, we offer global services from claims reimbursement and electronic toll transactions to the management of HR benefits and customer care centers to the operation of a company's technology infrastructure. Our document technology offerings serve businesses of all sizes and across industries to deliver solutions for both the workplace and production print environments. We leverage our technology and the expertise of our people to deliver further value for our customers through our document outsourcing solutions, helping customers improve their productivity and reduce costs.

With sales approaching \$23 billion and operations in 160 countries, we are the world's leading enterprise for business process and document management. Our services, technology and expertise enable workplaces – from small businesses to large global enterprises – to simplify the way work gets done so they operate more effectively.

We are a leader in a large, diverse and growing market estimated at over \$600 billion

(in billions)



■ \$280B Information Technology Outsourcing

We specialize in designing, developing and delivering effective IT solutions. Through outsourcing their IT infrastructure, companies are able to streamline and improve their IT functions while reducing costs and improving their competitive position. We apply thought leadership, innovation and operational excellence to deliver the highest level of service delivery to our customers.

■ \$225B Business Process Outsourcing

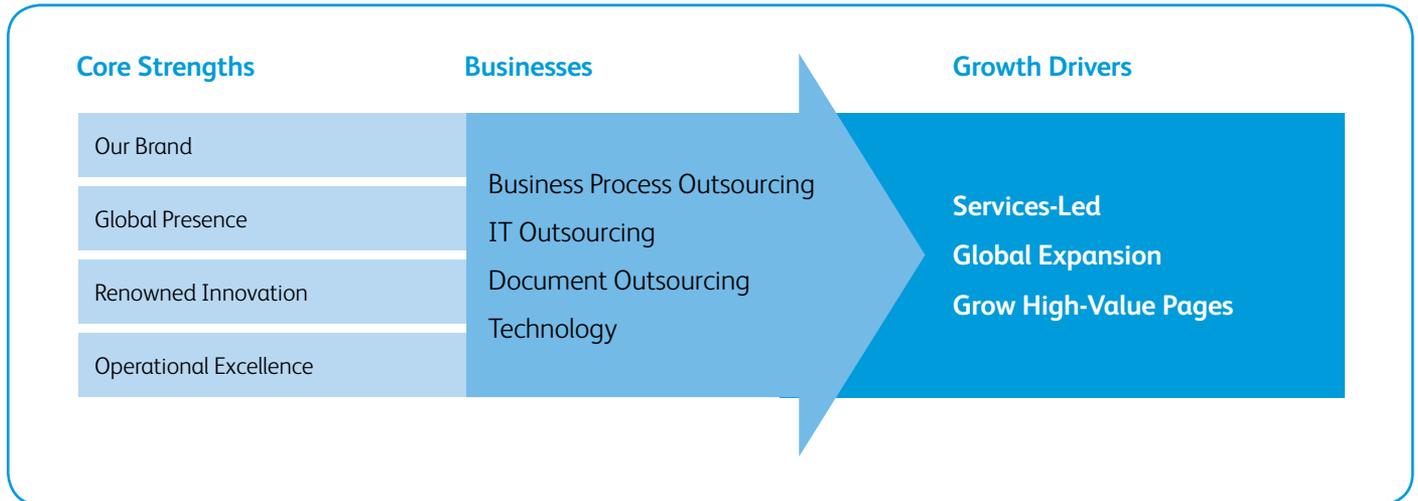
We are the largest worldwide diversified business process outsourcing company in the large and growing BPO market. The BPO market comprises the outsourcing of non-core, mission-critical business processes and functions that clients need to run their day-to-day operations. The market is very broad, encompassing horizontal business processes such as human resource management and finance and accounting, as well as industry-specific business processes.

■ \$130B Document Management

We are well-positioned to lead in this market. The innovation that we bring to document systems, software and integrated solutions is unparalleled in the industry and is built into our broad portfolio of technology and services.

These market estimates are calculated by leveraging third-party forecasts from firms such as Gartner and NelsonHall in conjunction with our assumptions about our markets.

Our Strategy



We are well-positioned to lead in the markets in which we participate. Our strategy takes advantage of our core strengths to drive growth within our segments and lines of businesses.

Our core strengths include:

- **Our Brand** – We have a well-recognized and respected brand that is known by businesses worldwide for delivering industry-leading document technology, services and solutions.
- **Global Presence** – Our geographic footprint spans 160 countries and allows us to serve customers of all sizes to deliver superior technology and services, regardless of complexity or number of customer locations.
- **Renowned Innovation** – We have a history of innovation and, with more than 10,500 active U.S. patents and five global research centers, we continue to lead the document technology industry and to take our technology into new service areas. See the separate “Innovation and RD&E” section for additional information on our renowned innovation.
- **Operational Excellence** – We have an operational excellence model that leverages our global delivery capabilities, production model, incentive-based compensation process, proprietary systems and financial discipline to deliver productivity and lower costs for our customers and for our business.

We organize our business around two segments: Services and Technology.

- Our **Services** segment is comprised of business process outsourcing, information technology outsourcing and document outsourcing. The diversity of our offerings gives us a differentiated solution and delivers greater value to our customers.
- Our **Technology** segment is comprised of our document technology and related supplies, technical service and equipment financing (that which is not related to document outsourcing contracts). Our strategic product groups within this segment include Entry, Mid-range and High-end products.

Our Business

We use our core strengths and market opportunities to grow our businesses by executing on the following growth drivers:

- **Services-Led** – We provide the most diverse set of business service offerings in the industry, delivering value through operational excellence and applying innovation to drive process automation. We are the industry leader in Document Outsourcing and continue to strengthen this leadership by expanding our Managed Print Services (“MPS”) for businesses small to large. In total, our services business represents significant growth opportunity for the company, and our investments align with actively pursuing this growth. In 2011, Services represented the largest portion of our business, at 48 percent of total revenue.
- **Global Expansion** – We continue to use the benefit of our global presence to expand our business process and IT outsourcing offerings beyond the U.S. In addition, the strength of our brand and global footprint position us well to penetrate more of the small and midsize business (“SMB”) opportunity, especially in developing markets.
- **Grow High-Value Pages** – We will maintain our lead in technology and document outsourcing by growing “high-value” pages – those produced in color and/or featuring customized content. We have the broadest portfolio of color printing technology in the industry to help customers realize the communication benefits of printing in color. Cost and quality improvements are driving the transition from black-and-white to color. With only 27 percent of Xerox pages printed on color devices, we believe there remains tremendous opportunity to grow color pages and associated revenue. We continue to create new market opportunities for digital printing through technology that enables personalized promotional and transactional documents, short-run book publishing, cross-media customized campaigns and more.

Acquisitions

Consistent with our strategy to expand our Services offerings through “tuck-in” acquisitions, we acquired the following companies in 2011:

- In April 2011, we acquired **Unamic/HCN**, the largest privately owned customer care provider in the Benelux region in Western Europe. Unamic/HCN’s focus on the Dutch-speaking market expands our customer care capabilities in the Netherlands, Belgium, Turkey and Suriname.
- In May 2011, we acquired **NewField IT**, a U.K.-based print consultancy and software solution provider. This acquisition expanded our market-leading managed print services portfolio. NewField’s consulting and software services help companies implement MPS more quickly. Its software suite creates visual maps of a floor plan to show how printers are used throughout an office. By combining this mapping with a database that tracks usage patterns of document devices, workplaces small to large are better able to monitor and manage the use of the devices and their overall print-related costs.
- In July 2011, we acquired **Education and Sales Marketing, LLC (“ESM”)**, a leading provider of outsourced enrollment management and student loan default solutions. The acquisition of ESM enables us to offer a broader range of financial services to assist post-secondary schools in attracting and retaining the most qualified students, while reducing accreditation risk.
- In November 2011, we acquired **The Breakaway Group**, a cloud-based service provider that helps healthcare professionals accelerate their adoption of Electronic Medical Records (“EMR”). The Denver-based firm’s technology allows caregivers to practice using an EMR without jeopardizing real patient data. This acquisition expands our services for healthcare providers.
- We also completed additional Services acquisitions in the areas of Healthcare Provider, Customer Care and Financial Services in 2011, increasing our presence in the United States and in Europe.

Additionally in 2011, we made acquisitions consistent with our strategy to expand distribution of Xerox technology to under-penetrated markets:

- In February 2011, we acquired **Concept Group, Ltd.** This acquisition broadens our reach into the small and midsize business market in the U.K. Concept Group has nine locations throughout the U.K. and provides document imaging solutions and technical services to more than 3,000 customers.
- In April and May 2011, we acquired **Premier Office Equipment, Inc.** and **Midwest Business Solutions**, both based in Iowa. And, in December 2011, we acquired the **Merizon Group Incorporated**, which operates **MBM**, a Wisconsin-based office products distributor. These acquisitions further our strategy of creating a U.S. nationwide network of locally based providers focused on improving document workflow and office efficiency for small and midsize businesses.
- In addition, throughout 2011, we enhanced our distribution by acquiring office products distributors in New York, Illinois, Virginia and Florida.

Business Model Fundamentals

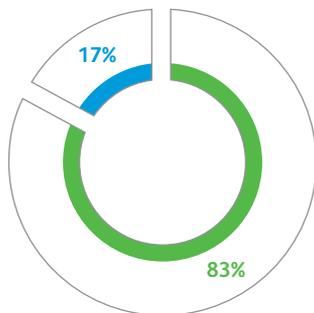
Through our annuity-based business model, we deliver significant cash generation and have a strong foundation upon which we can expand earnings.

Annuity Model

The fundamentals of our business are based on an annuity model that drives significant recurring revenue and cash generation. Approximately 83 percent of our 2011 total revenue was annuity-based revenue that includes contracted services, equipment maintenance, consumable supplies and financing, among other elements. Some of the key indicators of annuity revenue growth include:

- Services signings growth, which reflects the year-over-year increase in estimated future revenues from contracts signed during the period
- Services pipeline growth, which measures the year-over-year increase in new business opportunities
- The number of page-producing machines in the field (“MIF”), which is impacted by the number of equipment installations
- Page volume and the mix of pages printed on color devices, as these pages generate more revenue per page than black-and-white.

Revenue Stream



■ 83% Annuity

Approximately 83% of our revenue, annuity includes revenues from services, maintenance, supplies, rentals and financing.

■ 17% Equipment Sales

The remaining 17% of our revenue comes from equipment sales, from either lease arrangements that qualify as sales for accounting purposes or outright cash sales.

Cash Generation

The combination of consistent strong cash flow from operations and modest capital investments enabled us in 2011 to provide a return to shareholders through:

- Repurchasing a significant number of Xerox shares during the year
- Expanding our Services business and our distribution capabilities through acquisitions – we spent over \$200 million on acquisitions in 2011
- Maintaining our quarterly dividend.

Expanded Earnings per Share

In 2011, we expanded our earnings per share through:

- Modest revenue growth driven by Services
- Driving cost efficiencies throughout the company
- Making accretive acquisitions
- Repurchasing shares.

We expect to use the same model to expand earnings per share in the future.

Innovation and RD&E

Xerox has a rich heritage of innovation, and it continues to be not only a core strength of the company but also a competitive differentiator. Our investments in innovation align with its growth opportunities in areas such as business services, color printing and customized communication. Our overall aim is to create value for our customers, for our shareholders and for our people by influencing the future in key areas. Four innovation themes emerge in our research portfolio:

1) Implementing Agile Business Processes

In today’s fast-paced and rapidly evolving marketplace, flexibility is required to operate efficiently and effectively. Xerox innovation investments are focused on automating business processes through flexible platforms that run on scalable infrastructures, speeding up and simplifying the ways work gets done, anywhere and at any time. By infusing more agility into business processes, clients benefit from our research on image, video and natural language processing coupled with machine learning.

2) Harvesting Knowledge from Information

Information comes in two forms: structured, where the content sits tidily in searchable indices or in limiting databases; or unstructured, where content can be anything from photos, videos, hand-written forms, emails, etc. The unstructured information has endless growth and creates a need for businesses to be more effective in mining context from content. This is a key research area for us – making sense of unstructured information using natural language processing and semantic analysis. We explore how to better analyze information for human use by better understanding contextual detail on how the content has been created and used. We’re also developing proprietary methods for predictive analytics applied to business processes.

Our Business

3) Delivering the Value of Personalization

Our research leads to technologies that improve the efficiency, economics and relevancy of business communications and printing applications. We research methods to create affordable ubiquitous color printing, leveraging our solid ink printing technology. We're also exploring ways to expand the application space of digital printing to cover new applications such as packaging printing and printing directly on mediums that go far beyond paper, like foods and clothing.

4) Enabling the Sustainable Enterprise

Our research also focuses on developing technologies that minimize the environmental impact of document systems and business processes. An example is our solid ink technology, which produces up to 90 percent less waste than comparable color laser devices, as well as our MPS software, which helps our customers reduce energy and paper use.

Xerox Global Research Centers



1 Palo Alto Research Center

PARC is a wholly owned subsidiary of Xerox and is focused on areas of innovation on behalf of Xerox in areas that include content-centric networking, intelligent mobile computing and intelligent automation. PARC also leverages its heritage as the birthplace of modern technologies to provide research and development for non-competitive businesses in areas that include UV-LEDs and ethnography services.

2 Xerox Research Centre of Canada

XRCC is Xerox's materials research center with a focus on imaging and consumable materials, like toner and inks, for our document technology.

3 Xerox Research Center Webster

XRCW focuses on system design, imaging, computing and marking science to contribute to Xerox's ability to solve complex business problems for customers of all of our businesses.

4 Xerox Research Centre Europe

XRCE research differentiates Xerox business process service offerings. The center focuses on image, text and data analytics, business process modeling and the study and understanding of work practices.

5 Xerox Research Centre India

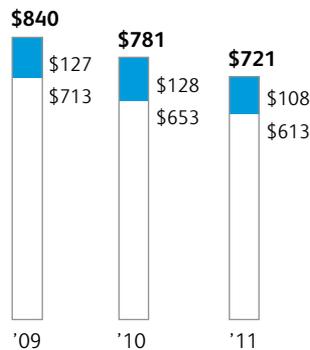
XRCI focuses on unique innovation opportunities that emerge in and best serve developing markets. As Xerox's newest research lab, XRCI has a broad mandate to foster innovation across the company's document technology and business process services offerings.

Investment in R&D is critical for competitiveness in our fast-paced markets. One of the ways that we maintain our market leadership is through strategic coordination of our R&D with Fuji Xerox (an equity investment in which we maintain a 25 percent ownership interest). We have aligned our R&D investment portfolio with our growth initiatives, including accelerating our color transition and enhancing customer value by building on our Services leadership.

Sustaining engineering expenses, which are the hardware engineering and software development costs we incur after we launch a product, are included in our RD&E expenses.

RD&E Expenses

(in millions)



Fuji Xerox invested \$880 million in R&D in 2011, \$821 million in 2010 and \$796 million in 2009.

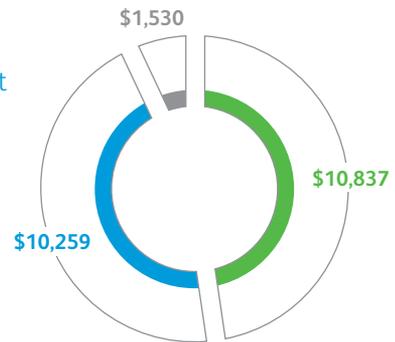
- R&D
- Sustaining Engineering

Segment Information

Our reportable segments are Services, Technology and Other. We present operating segment financial information in Note 2 – Segment Reporting in the Consolidated Financial Statements, which we incorporate by reference here. We have a very broad and diverse base of customers by both geography and industry, ranging from small and midsize businesses (“SMBs”) to graphic communications companies, governmental entities, educational institutions and Fortune 1000 corporate accounts. None of our business segments depends upon a single customer, or a few customers, the loss of which would have a material adverse effect on our business.

Revenues by Business Segment

(in millions)



■ \$10,837 Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”).

■ \$10,259 Technology

Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products.

■ \$1,530 Other

The Other segment primarily includes revenue from paper sales, wide-format systems, and GIS network integration solutions and electronic presentation systems.

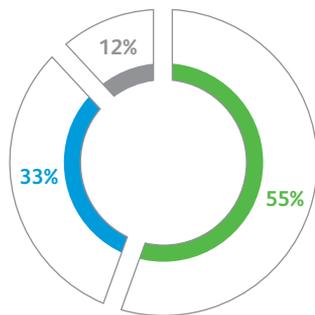
Services

Our Services segment comprises three service offerings: Business Process Outsourcing (“BPO”), Information Technology Outsourcing (“ITO”) and Document Outsourcing (“DO”). We provide non-core, mission-critical services that our clients need to run their day-to-day business. The services help our clients simplify the way work gets done, giving them more time and resources to allocate to their core operations, respond rapidly to changing technologies, and reduce expenses associated with their business processes and information technology support.

The cost and complexities of smoothly and securely running back-office operations can be a distraction from focusing on core business. That’s why enterprises turn to partners who specialize in key business processes.

Our Business

Services Revenue Mix



■ 55% Business Process Outsourcing

BPO, which provides a multitude of services for our customers' non-core processes, is the largest component of the Services segment.

■ 33% Document Outsourcing

Our DO business provides services that help customers optimize their printing infrastructure and streamline their communication and business processes.

■ 12% Information Technology Outsourcing

Our ITO business allows our customers worldwide to focus on their competencies instead of their IT infrastructure.

Business Process Outsourcing

We are the largest worldwide diversified business process outsourcing company, with an expertise in transaction-intensive offerings tailored for several industries. Our services include:

- **Human Resources Services ("HRS"):** From actuarial expertise to the full range of human resources consulting – from employee service centers to learning, retirement, health and welfare services – HRS delivers game-changing, innovative solutions that enable our clients to focus on their business. We differentiate ourselves around two themes of innovation: engagement and enablement. We help HR departments engage employees as individuals by communicating to them with personalized messages and by enabling employees to get smarter about managing their own health, wealth and career outcomes.
- **Financial Services:** We provide finance and accounting services for any industry – from accounting to billing to procurement to accounts payable and receivable to tax management. In addition, we provide outsourcing of financial aid and enrollment office operations for colleges and universities, and back-room functions such as customer services, transaction processing and mailroom operations for the financial services industry. Based on our experience, we have a deep understanding of what drives the customer and we move beyond simply driving out costs.

- **Healthcare Payers and Pharma:** We deliver administrative efficiencies to our healthcare payer clients through our scalable and flexible transactional business solutions, which encompass both our global delivery model and domestic payer service centers. Services include data capture, claims processing, customer care, recovery services and healthcare communications. No competitor has offerings in all the areas where we play.
- **Business Process Solutions ("BPS"):** BPS provides customer management with solutions to solve client issues in areas such as customer care, tech support and services, customer acquisition and retention activities. We also provide innovative services including social media monitoring and customer care analytics. We are the only company in the world that can enhance the customer experience by optimizing all of the customer touch points, like call center support, Web-based help desks and rapid response via social media. By providing these touch points through one supplier, we are able to streamline efficiencies and drive down costs while enabling our clients to maintain fewer supplier relationships.
- **Healthcare Provider Solutions:** We provide consulting solutions, revenue cycle management and application services that are customized to meet the varying and changing needs of healthcare providers. We serve every large health system in the United States, with contracts in all 50 states. We also help our clients improve care through an analytics solution designed to provide clinical staff information.
- **Retail, Travel and Insurance:** We provide technology-based transactional services for retail, travel and non-healthcare insurance companies. We handle their data entry, mailroom, imaging input and hosting, call centers and help desk with targeted industry focus.
- **Government Solutions:** We support our government clients with solutions for child support payment processing, tax and revenue systems, eligibility systems and services, electronic payments transfer, electronic payment cards and unclaimed property services, among others. Our competitive advantage is our depth of local expertise while at the same time having the scale required to deliver and manage multiple programs for federal, state, county and town governments.
- **Transportation Solutions:** We provide revenue-generating solutions in over 30 countries. Our solutions include fare collection, toll and parking solutions, and monitoring of red-light cameras. We differentiate through the breadth of our offerings and innovative technology. For example, we developed dynamic pricing algorithms, which will be used in the new Los Angeles ExpressPark program. This program will create a new pricing system that is designed to relieve traffic congestion, reduce air pollution and improve the efficiency of downtown LA's transit operations.
- **Government Healthcare Solutions ("GHS"):** GHS serves state-funded government healthcare programs. We provide a broad range of solutions, from processing Medicaid claims to pharmacy benefits management, clinical program management, health information exchanges, eligibility and health benefit exchange services, and care and quality management. We've been delivering these systems since 1971 and we apply our deep knowledge of the Medicaid system, along with technological advances, to simplify and automate transactional-intensive processes.

Xerox Smarter Document Technologies Improving BPO Efficiency

We have applied Xerox's "Smarter Document" technologies to help automate 75 paper-intensive business process workflows within our BPO lines of business. In 2011, we processed an average of 30 million images per month using this Xerox proprietary technology, improving imaging accuracy rates, reducing costs and, in some cases, providing new services to our customers.

The largest number of images processed using this technology were within the Healthcare Payer line of business, where the number of images increased 250 percent. Xerox's advanced text and image categorization and data extraction software can convert hard-copy forms into structured data that can be quickly and accurately processed to ensure correct application of insurance benefits and correspondence with patients and doctors. This has resulted in increased accuracy and productivity in the processing of healthcare claims forms for our customers.



Xerox Applying Innovation in Transportation

We are the largest provider of transportation services to governments worldwide and have managed parking systems for more than 30 cities in the U.S. and 88 jurisdictions in the United Kingdom during the past 30 years. Xerox innovation is helping transform parking into an analytics-based business that improves systems for both city transportation managers and the public. Our comprehensive parking management system can track all parking-related transactions and provide real-time parking data analytics to jurisdictions and drivers by combining:

- Electronic sensors that track parking availability
- Dynamic pricing that balances supply and demand
- Real-time parking guidance systems that direct traffic flow to available parking.

Our parking solutions result in less traffic congestion and reduced air pollution from cars idling in traffic or in search of parking spaces.

Information Technology Outsourcing

We specialize in designing, developing and delivering effective IT solutions. Our secure data centers, help desks and managed storage facilities around the world provide a reliable IT infrastructure that minimizes the chance of disruption to our clients' daily operations.

Our ITO services include:

- **Mainframe Server Outsourcing:** We support our clients' needs for adaptable computing environments and their potential growth. We provide comprehensive systems support services. We provide a 24/7 support organization that maintains a unified set of tools and processes to support our clients' IT environments, including systems administration, database administration, systems monitoring, batch processing, data backup and capacity planning.
- **Network Outsourcing:** We provide telecommunications management services for voice and data networks. We are able to leverage our enterprise agreements, proprietary tools, procedures and skilled personnel to provide our clients with a scalable and automated processing environment.
- **Desktop Outsourcing:** Our desktop services provide our clients with a comprehensive approach to managing their end-user platforms and devices. We design and execute desktop management strategies that address and resolve issues such as enterprise bandwidth constraints, unstable computing environments, areas of insecurity and unavailable network resources.

In addition, we provide Remote Infrastructure Management, Help Desk/Service Desk Management, Managed Storage, Utility Computing, Disaster Recovery and Security Services.

Our Enterprise Cloud offering includes the application management platform (known as AMP core).

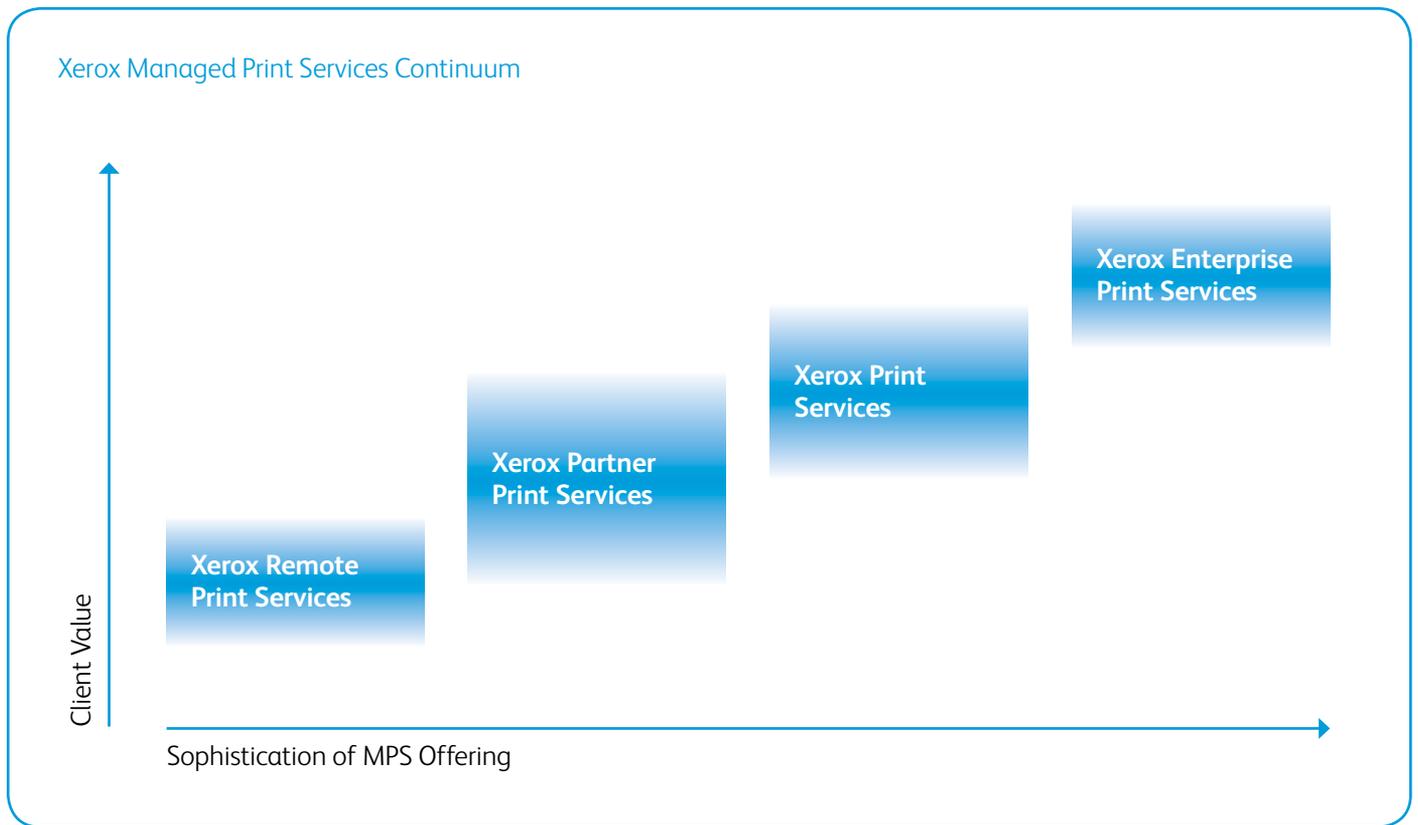
AMP core is an integrated dashboard of our services and provides us with the power and flexibility to automate IT processes. It provides our clients with the ability to easily control services to determine the timing of provisioning, including installs, moves, adds and changes.

In addition, we have expanded our cloud services for small and midsize businesses. The services include:

Xerox Cloud Infrastructure as a Service (IaaS) for Mid-range and Intel systems, which:

- Meets the conflicting demands of various operating models
- Delivers secure cloud services via five global data centers
- Is quickly installed and ready to use
- Ensures complete tracking, auditing and reporting capabilities.

Our Business



Document Outsourcing

We are an industry leader in document outsourcing services, with more than 20 years of experience and 15,000 business professionals across 160 countries. We help companies optimize their printing infrastructure and simplify their communication and business processes to grow revenue, reduce costs and operate more efficiently. Our two primary offerings within Document Outsourcing are Managed Print Services and Communication and Marketing Services.

Managed Print Services

Xerox MPS optimizes, rationalizes and manages the operations of Xerox and non-Xerox print devices, driving efficiencies that can save clients up to 30 percent on their document-related costs. Our MPS continuum provides the most comprehensive portfolio of MPS services in the industry, supporting small and midsize businesses up through large global enterprises.

The key factors that differentiate us include our commitment to innovation and technology, including our cloud-based connectivity and integrated suite of software tools solutions, as well as our global direct and channel partner coverage and certification programs. In addition, the industry's broadest portfolio of printing products sets us apart from our competition. We are recognized as an industry leader by several major analyst companies, including Gartner, IDC and Quocirca.

The Xerox MPS continuum complements and provides opportunities to expand existing BPO and ITO services. Within BPO accounts, Xerox MPS helps to improve workflow and enhance employee productivity. In ITO accounts, MPS complements the client IT services that we are currently managing and positions Xerox as a complete IT services provider.

Communication & Marketing Services (“CMS”)

CMS delivers end-to-end outsourcing for design, communications, marketing, logistics and distribution services that help clients communicate with their customers and employees more effectively. We deliver communications through traditional routes, such as print, but also through a growing number of multimedia channels including SMS, Web, email and mobile media.

We help our clients identify how their customers want to be engaged, tailor their content, translate it, personalize their communication, decide on the appropriate channel, execute on campaigns and measure the resulting success.

Our advantage comes through the breadth of our capabilities and our service-oriented approach to provide a single, seamless service for all communication and marketing logistics.

XMPie software expands marketing reach, brings marketing relevance and delivers measurable results.

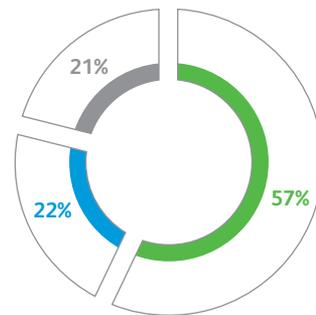
By bridging the gap between digital print and new media, XMPie, a Xerox company, is revolutionizing the way marketers create, implement, measure and refine one-to-one campaigns. XMPie's exclusive technology makes it possible to track an entire cross-media campaign from a single database. With each contact – across print, email, Web and other new media – information is collected and instantly updated. This powerful capability provides new opportunities to continue the dialogue and provide meaningful follow-up within moments of a customer or prospect interaction. Updates made in a Web form can be used to create dynamic Web content, prompt a phone call from a sales or customer service representative, or be immediately available for the next wave of a print campaign.

Technology

Technology includes the sale of products and supplies, as well as the associated technical service and financing of those products (that which is not related to document outsourcing contracts). Our Technology business is centered around strategic product groups that share common technology, manufacturing and product platforms.

The innovation that we bring to document systems, software and integrated solutions is unparalleled in the industry and is built into our broad portfolio of technology, for businesses of any size, in any industry, around the world.

Technology Revenue Mix



■ 57% Mid-range

The Mid-range business comprises a wide range of multifunction printers, copiers, digital printing presses, and light production printers and copiers sold to enterprises of all sizes.

■ 22% Entry

The Entry business comprises products sold principally to small and midsize businesses.

■ 21% High-end

The High-end business provides high-end digital color and monochrome systems designed for customers in the graphic communications industry and for large enterprises.

Our Business

Our strategic product groups are as follows:

Entry

Entry comprises products sold primarily to small and midsize businesses through a worldwide network of independent resellers and online merchants. It includes desktop monochrome and color printers and multifunction printers (“MFPs”) ranging from small personal devices to larger workgroup printers designed to serve the needs of demanding office users. In 2011, we continued to build on our position in the market by:

- Making high-quality desktop color more affordable and easier to use for all businesses
- Expanding our channel reach, partner programs and capacity to support the needs of small to midsize businesses
- Launching products and solutions that help individuals, small work teams, large workgroups or whole departments achieve their business goals.

We continued to build on our portfolio in 2011 with the launches of:

- **Compact Printers and MFPs:** In 2011, Xerox introduced a new line of compact color and monochrome printers and MFPs for small businesses. Xerox innovations with LED print heads and emulsion aggregation (“EA”) toner resulted in a small, low-cost product that maintains the professional appearance of the printed page. The new products introduced were: Phaser® 6000/6010 color printers, WorkCentre® 6015 color MFP, Phaser® 3010/3040 printers and WorkCentre® 3045 MFP.
- **Phaser® 6700:** This high-speed workgroup color printer accelerates productivity for workgroups in midsize to large businesses. With a 47 page per minute (“ppm”) print speed, advanced touch-screen interface and optional stacker/stapler, the Phaser 6700 is ideal for workgroup teams. The Phaser 6700 also has enhanced print quality and reliability with true 2400 x 1200 dpi print resolution and a 120,000-page duty cycle.
- **Phaser® 7800:** This color printer lowers the cost of printing for smaller graphic design firms and in-house marketing departments. Using the Hi-Q LED print system, EA toner and hardware-assisted edge enhancement and trapping, in addition to a 45 ppm tabloid/A3-size print engine and finishing capabilities from the WorkCentre 7500 series, the Phaser 7800 also handles the heaviest paper in common use – up to 350gsm – the most flexible media handling in its class.

Mid-range

Mid-range comprises products sold to enterprises of all sizes, principally through dedicated Xerox-branded partners and our direct sales force. We offer a wide range of multifunction printers, copiers, digital printing presses and light production devices that deliver flexibility and advanced features. In 2011, our Mid-range business continued to build on our position in the market by:

- Making high-quality color more affordable and easier to use for small/midsize businesses and large enterprises alike
- Expanding our channel reach, partner programs and capacity to support the needs of the SMB market
- Offering a complete range of services and solutions in partnership with independent software partners that allow our customers to analyze, streamline, automate, secure and track their document workflows.

The breadth of our Mid-range product portfolio is unmatched. In 2011, we launched:

- **Xerox WorkCentre® 7525, 7530 and 7535:** These new multifunction printers are equipped with features to help small and midsize businesses boost productivity and meet their sustainability goals. They offer speeds up to 25, 30 and 35 ppm in color and black-and-white. The MFPs, which can print, copy, scan, fax and email, include advanced document management and workflow tools to make office work easier, and also offer unparalleled ease of use and security features. In addition, the Hi-Q LED print engine technology consumes less energy and space and produces less noise, while printing resolutions of 1200 x 2400 dpi.
- **Xerox ColorQube® 9301/9302/9303:** The ColorQube 9300 Series combines Xerox’s solid ink innovation with our legacy of advanced multifunction product leadership. This results in a multifunction printer that produces vivid color quality that is affordable and produces less printing waste versus comparable color laser devices. The device copies and prints at speeds up to 55 ppm color and 60 ppm black-and-white, while increasing productivity even further with speeds up to 85 ppm in Fast Color mode for draft or short-life documents.
- **Xerox WorkCentre® 7125:** This multifunction printer combines affordable color with high-productivity workflow tools. It provides value-seeking SMB customers with a low entry price in combination with high-end features. The WorkCentre 7125 helps SMBs maximize office productivity, produce impactful color documents, and seamlessly create and share business-critical information, in full office color.
- **Xerox WorkCentre® 5325/5330/5335:** The highly modular WorkCentre 5300 series black-and-white MFP serves both small and midsize businesses, as well as enterprise office environments. Its customizable workflow solutions help customers in document-intensive industries such as legal, healthcare and financial make the daily tasks they perform more efficient.



Xerox Mobile Solutions empower today's mobile professionals with the freedom to send print jobs from any email-enabled device.

The Xerox Mobile Print Solution removes the last barrier to mobile productivity, enabling printing from any email-enabled device. The solution is:

Simple

There's no software to load on the mobile device, no searching for online printer information, or time wasted looking for the right application.

Convenient

While traveling or working between offices, users can print MS Office documents and PDFs.

Secure

Mobile workers can print and retrieve documents at a Xerox-enabled MFP with a secure PIN code.

High-end

Our High-end digital color and monochrome solutions are designed for customers in the graphic communications industry and for large enterprises. These devices enable digital on-demand printing, digital full-color printing and enterprise printing. Integrated solutions such as automated in-line finishing result in "touch-less" workflows (with little to no manual processing or human intervention) that allow Xerox customers to produce more jobs and grow their business. We provide products and solutions that enable our customers to delight their customers with the highest-quality output available in the market. We are creating new market opportunities in targeted application areas with digital printing as a complement to traditional offset printing.

For more than two decades, Xerox has delivered innovative technologies that have revolutionized the production printing industry, maintaining our position as the industry leader in the number of pages produced on digital production color presses. We continued to build on our award-winning lineup in 2011 with the launches of:

- **Xerox 770:** We launched the 770 late in 2011 to enhance our entry production color offerings. The 770 builds on the very successful 700 product, with productivity enhancements to speed and color management. The 770 produces output at 70 ppm, including heavyweight stocks. An in-line spectrophotometer has been added to the 770, enabling the Xerox Automated Color Quality Suite ("ACQS"). ACQS brings features usually found on higher-end products such as the 8080 and Color Press, and makes the Xerox production color portfolio the broadest in the industry.
- **iGen4 Matte Dry Ink:** We added an additional dry ink offering for the iGen4: matte dry ink ("MDI"). This alternative dry ink provides a flatter or more-offset-like image quality. Ideal for the expanding photo market, matte dry ink, along with the largest sheet size in the market – 26"/660mm – expands iGen4's market-leading applications.

Our Business

CiPress™ 500 Production Inkjet System – continuing innovations in printing with a new waterless inkjet system.

In 2011 Xerox launched the Xerox CiPress 500, the world's only high-speed waterless inkjet printing system. The CiPress prints at 500 feet per minute and efficiently creates personalized marketing, transpromotional and publishing pieces. The device enables customers to use the same plain, low-cost untreated papers they use with their offset presses and cut-sheet digital devices today without the added expense of high-cost treated or specialty papers that aqueous or other inkjet products require.

The CiPress printing system produces vivid full-color images using Xerox's solid ink printing technology, incorporating innovations developed by researchers and scientists inside Xerox labs in Wilsonville, Oregon; Toronto; and Webster, New York. In total, this technology is covered by more than 3,000 solid ink and CiPress-specific patents and patent applications worldwide. Driving the CiPress are robust print heads with more than 49,000 nozzles jetting nearly two billion ink drops per second. This print head design, combined with our patented, granulated, resin-based ink that is unique to Xerox, results in vivid image quality on low-cost papers.

We are enabling print providers in graphic communications, service bureaus and large enterprises to profit and grow by meeting their customers' specific business needs with just-in-time, one-to-one and e-based services – rather than simply manufacturing a printed piece.

FreeFlow Digital Workflow: Our FreeFlow digital workflow is a collection of software technology solutions that our customers can use to improve all aspects of their processes, from content creation and management to production and fulfillment. Our digital technology, combined with total document solutions and services that enable personalization and printing on demand, delivers value that improves our customers' business results.

Through our industry-leading FreeFlow Digital Workflow collection and FreeFlow Print Server, we deliver three primary values to our customers – the ability to Connect, Control and Enable. Our solutions:

- Connect our customers to their customers 24/7, enabling them to be open for business around the clock.
- Control our customers' costs, environmental impacts and security. Automated workflows provide extensive productivity gains and greatly increase document integrity by eliminating manual processes.
- Enable new applications and revenue streams such as photo books, secure event tickets and packaging.

Other

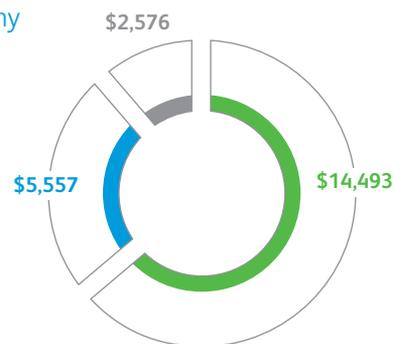
The Other segment primarily includes revenue from paper sales, wide-format systems, and network integration solutions and electronic presentation systems from Global Imaging Systems. Paper comprised approximately 59 percent of the revenues in the Other segment.

Geographic Information

Our global presence is one of our core strengths. Overall, approximately 36 percent of our revenue is generated by customers outside the U.S. We have a significant opportunity to leverage our global presence and customer relationships to expand our Services business in Europe and developing markets.

Revenues by Geography

(in millions)



- \$14,493 U.S.
- \$5,557 Europe
- \$2,576 Other Areas

Revenues by geography are based on the location of the unit reporting the revenue and includes export sales.

Patents, Trademarks and Licenses

Xerox and its subsidiaries were awarded 1,030 U.S. utility patents in 2011. On that basis, we would rank 19th on the list of companies that were awarded the most U.S. patents during the year. Including our research partner Fuji Xerox, we were awarded over 1,600 U.S. utility patents in 2011. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2011, we held more than 10,500 design and utility U.S. patents. These patents expire at various dates up to 20 years or more from their original filing dates. While we believe that our portfolio of patents and applications has value, in general no single patent is essential to our business or any individual segment. In addition, any of our proprietary rights could be challenged, invalidated or circumvented, or may not provide significant competitive advantages.

In the U.S., we are party to numerous patent-licensing agreements and, in a majority of them we license or assign our patents to others in return for revenue and/or access to their patents. Most patent licenses expire concurrently with the expiration of the last patent identified in the license. In 2011, we added 12 new agreements to our portfolio of patent-licensing and sale agreements, and Xerox and its subsidiaries were licensor or seller in nine of the agreements. We are also a party to a number of cross-licensing agreements with companies that hold substantial patent portfolios, including Canon, Microsoft, IBM, Hewlett-Packard, Océ, Sharp, Samsung and Seiko Epson. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own more than 550 U.S. trademarks, either registered or applied for. These trademarks have a perpetual life, subject to renewal every 10 years. We vigorously enforce and protect our trademarks.

Marketing and Distribution

We manage our business based on the principal segments described earlier. We have organized the marketing, selling and distribution of our products and services by geography, channel type, customer or market, and line of business.

Our brand is a valuable resource and continues to be ranked in the top percentile of the most valuable global brands.

We sell our products and services directly to customers through our worldwide sales force and through a network of independent agents, dealers, value-added resellers, systems integrators and the Web.

In large enterprises, we follow a services-led approach that enables us to address two basic challenges facing large enterprise customers:

- How to simplify and streamline their infrastructure to be both cost-effective and globally consistent
- How to improve their value proposition and communication with their customers.

Our go-to-market approach includes the largest direct sales force in the industry, with customers served by Client Managing Directors, Account General Managers and Sales Representatives.

For small and midsize businesses, we continued to expand our distribution in 2011 by acquiring nine companies.

In Europe, Africa, the Middle East and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, and related non-U.S. companies. Xerox Limited enters into distribution agreements with unaffiliated third parties to distribute our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties distributing our products in Iran, Sudan and Syria. Iran, Sudan and Syria, among others, have been designated as state sponsors of terrorism by the U.S. Department of State and are subject to U.S. economic sanctions. We maintain an export and sanctions compliance program and believe that we have been and are in compliance with U.S. laws and government regulations for these countries. We have no assets, liabilities or operations in these countries other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan and Syria in August 2006 and terminated its distribution agreement with the distributor servicing Iran in December 2006. Now, Xerox only has legacy obligations to third parties, such as providing spare parts and supplies to these third parties. In 2011, total Xerox revenues of \$22.6 billion included less than \$0.1 million attributable to Iran, Sudan and Syria.

We operate in over 160 countries worldwide. We provide the industry's broadest portfolio of document technology, services and software, and the most diverse array of business processes and IT outsourcing support through a variety of distribution channels around the world.

Our Business

Competition

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

In the Services business, our larger competitors are Accenture, Aon, Computer Sciences Corporation, Convergys, Dell, Genpact, Hewlett-Packard, IBM and Teletech. In addition, we compete with in-house departments performing the functions that we are seeking to have them outsource to us.

In the Technology business, our larger competitors include Canon, Hewlett-Packard, Kodak, Konica Minolta, Lexmark and Ricoh.

Our brand recognition, positive reputation for business process and document management, innovative technology and service delivery are our key competitive advantages. This, combined with our breadth of product offerings, global distribution channels and customer relationships, positions us as a strong competitor going forward.

Global Employment

Globally, we have approximately 139,650 direct employees, including approximately 7,500 sales professionals, approximately 11,500 technical service employees and approximately 100,000 employees serving our customers through on-site operations or off-site delivery centers.

Customer Financing

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

Because our lease contracts permit customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these lease contracts. We fund our customer financing activity through a combination of cash generated from operations, cash on hand and proceeds from capital market offerings. At December 31, 2011, we had \$6.4 billion of finance receivables and \$0.5 billion of equipment on operating leases, or Total Finance assets of \$6.9 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets, which results in a significant portion of our \$8.6 billion of debt being associated with our financing business.

Manufacturing and Supply

Our manufacturing and distribution facilities are located around the world. The company's largest manufacturing site is in Webster, NY, where we produce fusers, photoreceptors, Xerox iGen and Nuvera® systems, components, consumables and other products. We also have an EA Toner plant located in Webster. Our other primary manufacturing operations are located in: Dundalk, Ireland, for our High-end production products and consumables; and Wilsonville, OR, for solid ink products, consumable supplies and components for our Mid-range and Entry products. We also have a facility in Venray, Netherlands, which handles supplies manufacturing and supply chain management for the Eastern Hemisphere.

Our master supply agreement with Flextronics, a global electronics manufacturing services company, to outsource portions of manufacturing for our Mid-range and Entry businesses, continues through 2014. We also acquire products from various third parties in order to increase the breadth of our product portfolio and meet channel requirements.

We have arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development agreements. In March 2011, we were impacted by the natural disaster in Japan, when demand exceeded availability of certain products and supplies sourced from Fuji Xerox. Additionally, incremental logistics and freight costs were incurred as a result of alternate sourcing for components and materials. Supply and demand dynamics returned to normal by the end of 2011. Refer to Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2011 Annual Report for additional information regarding our relationship with Fuji Xerox.

Services Global Production Model

Our global services production model is one of our key competitive advantages. We have 79 Strategic Delivery Centers located around the world including India, Mexico, the Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland, among others. These are comprised of Customer Care Centers, Mega IT Data Centers, Finance and Accounting Centers, Human Resource Centers and Document Process Centers. Our global production model is enabled by the use of proprietary technology, which allows us to securely distribute client transactions within data privacy limits across a global workforce. This global production model allows us to leverage lower-cost production locations, consistent methodology and processes, and time zone advantages.

Fuji Xerox

Fuji Xerox is an unconsolidated entity in which we currently own a 25 percent interest, and FUJIFILM Holdings Corporation (“FujiFilm”) owns 75 percent. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong, other areas of the Pacific Rim, Australia and New Zealand. We retain significant rights as a minority shareholder. Our technology licensing agreements with Fuji Xerox ensure that the two companies retain uninterrupted access to each other’s portfolio of patents, technology and products.

International Operations

We are incorporating by reference the financial measures by geographical area for 2011, 2010 and 2009 that are included in Note 2 – Segment Reporting in the Consolidated Financial Statements in our 2011 Annual Report. See also the risk factor entitled: “Our business, results of operations and financial condition may be negatively impacted by conditions abroad, including local economies, political environments, fluctuating foreign currencies and shifting regulatory schemes” in Part I, Item 1A of Form 10-K.

Backlog

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

Seasonality

Our technology revenues are affected by such factors as the introduction of new products, the length of sales cycles and the seasonality of technology purchases. These factors have historically resulted in lower revenue in the first quarter and the third quarter.

Other Information

Xerox is a New York corporation, organized in 1906, and our principal executive offices are located at 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856-4505. Our telephone number is 203.968.3000.

In the Investor Information section of our Internet website, you will find our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. We make these documents available as soon as we can after we have filed them with, or furnished them to, the Securities and Exchange Commission.

Our Internet address is www.xerox.com.