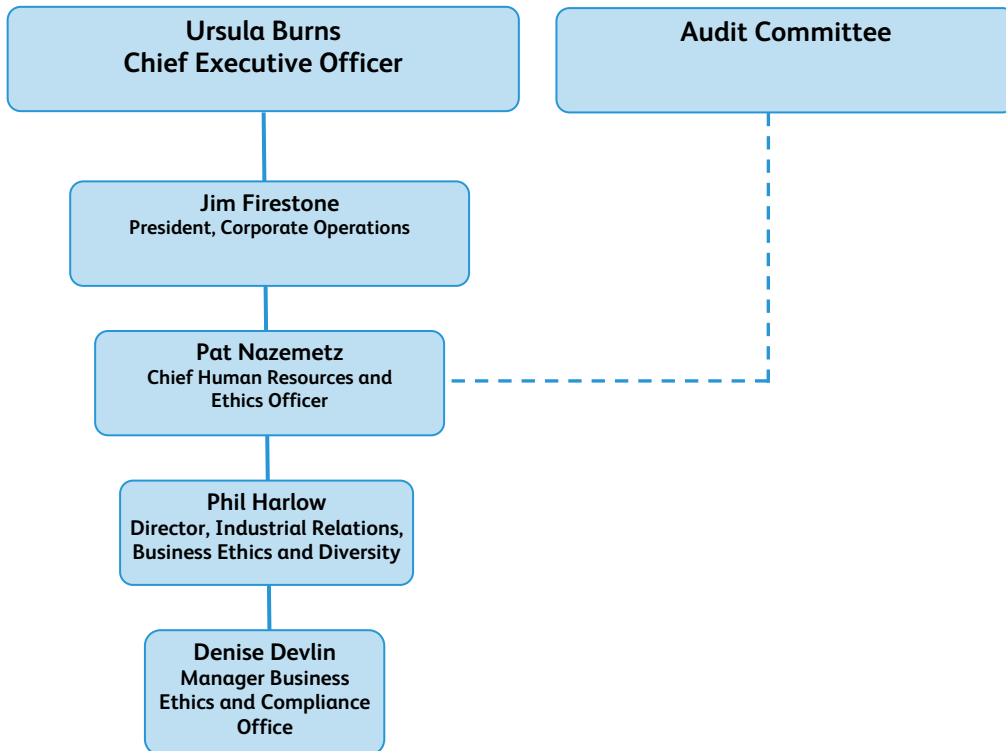


Overview of Xerox Business Ethics & Compliance Office

The Business Ethics & Compliance Office (BE&CO) reports directly to the company president via our Chief Ethics Officer, Patricia Nazemetz. We work closely with the Enterprise Risk Management group to assess and monitor the overall business environment at Xerox, from a risk and compliance perspective. Here is a view of where we fit into the corporate hierarchy.

Xerox Business Ethics and Compliance Hierarchy



The focus of our workgroup is to serve as a competency center for the corporation and its employees relative to ethics and compliance matters. With such a broad range of responsibility, we can only effectively achieve our task by leveraging and relying on other competent resources for investigative support, counsel, research, and operational responsibility. Following is a diagram of how we view the ethics and compliance responsibilities of the company being fulfilled.

Ethics and Compliance Responsibilities



The primary foundation for our ethics and compliance program is based on the Federal Sentencing Guidelines as promulgated by the United States Sentencing Commission. The Sentencing Guidelines for organizations highlight seven factors to be considered as reflective of a good ethics and compliance program.

Factor 1: Establish Standards and Procedures

Xerox has a Code of Business Conduct for all employees that is available in nearly two dozen languages. The Code of Business Conduct specifies what behavior is expected of employees when conducting business and where they can find additional information. There is also a supplemental Code of Business Conduct for Finance Personnel that specifies expectations of all employees involved in accounting and financial reporting activities to ensure that Xerox maintains the highest degree of ethical standards. The Code of Business Conduct works in conjunction with our policies and procedures. BE&CO also has responsibility to maintain the corporate inventory and infrastructure of policies. Our standards, procedures and compliance program elements are designed consciously relative to our perceived risk areas. Risk areas are identified by working closely with the Enterprise Risk Management function and operating management to understand the compliance needs and exposures for the corporation on an ongoing basis.

Factor 2: Assign Oversight to High-Level Personnel

Patricia Nazemetz, our Chief Ethics Officer, is a direct report to Jim Firestone, President, Corporate Operations. The Audit Committee of the Board of Directors provides ongoing oversight to the ethics and compliance activities of the company. We also have a responsibility to demonstrate that we are taking action to promote a culture that embraces ethical conduct.

Factor 3: Delegate only to Reputable Individuals

We have a responsibility to know who is conducting business on behalf of Xerox. In addition to thorough interviews for new employees and ongoing performance assessments for existing employees, we also conduct background checks on most new hires, where allowed by law. We also specify our expectations for ethical behavior and conduct to outside parties when they are conducting business on Xerox's behalf.

Factor 4: Communications and Training

We communicate extensively via ethics posters at Xerox sites around the world, senior management communiqués, a dedicated internal ethics website for employees, and other means. We conduct training on our Code of Business Conduct and/or acknowledgment of the Code of Business Conduct annually. We also have a Foreign Corrupt Practices Act online course available in nearly a dozen languages that is promoted to customer-facing employees in high-risk environments. In line with expectations of the Sentencing Guidelines, we also provide program awareness and training, as appropriate, for the Board of Directors.

Factor 5: Publicize Reporting System

Xerox maintains a full-service reporting system via an external service provider. The Xerox Ethics Helpline can be accessed from anywhere in the world and operators can communicate in virtually any language. The Helpline can be reached toll-free via an international operator system or directly toll-free in North America at 1-866-979-0001. We also maintain local country toll-free direct numbers in eleven other countries. Individuals can also report concerns via a web-based reporting process, available in multiple languages and accessible from www.xerox.com/ethics.

Factor 6: Uniform Disciplinary Action

This factor is intended to ensure that no one gets preferential treatment and that all violations are treated seriously, fairly and consistently. We have developed disciplinary guidelines that specify a minimum and maximum acceptable penalty by type of infraction for both first and second offenses, if applicable. There are no guidelines for third offenses because there are no options at that point.

Factor 7: Take Steps to Prevent Similar Future Offenses

We maintain trend data by type of offense and review the data with an internal review board, the Business Ethics & Compliance Governance Board. That board meets quarterly and is comprised of 20 top managers representing every business unit and corporate function. The board reviews trend data, survey results, case activity, and employee input. Changes to our training, communications, or processes are discussed and reviewed by this board on an ongoing basis. In line with expectations of the Sentencing Guidelines, we also ensure that we have adequate and appropriate resources in place to conduct our program and ongoing improvements effectively.

Summary: We believe our current ethics and compliance program reflects the spirit and intent of the Sentencing Guidelines, but we are constantly looking for opportunities to improve and ensure an ethical culture at Xerox. Our CEO speaks and writes extensively about ethical expectations both inside and outside the company. Ethics discussions are prominently featured at senior management meetings and employee communications meetings. We provide ongoing status and training updates to the Audit Committee of the Board of Directors at every Audit Committee meeting.

Following is a chart that summarizes major activities and areas of focus for BE&CO.

Business Ethics & Compliance Office Major Activities and Focus

What Corporate Business Ethics & Compliance Office (BE&CO) Does in Conjunction with Operations		
Activity	BE&CO Direct Responsibility	Operating Unit
Code of Business Conduct and Training	<ul style="list-style-type: none"> • Create overall Xerox Code of Conduct • Oversee development of worldwide training programs for Code of Business Conduct and Business Ethics • Validates completeness of training via Governance Board and available reporting 	<ul style="list-style-type: none"> • Conducts training • Ensures completion of training at the unit level
Investigations	<ul style="list-style-type: none"> • Assign investigative responsibility • Ensure completeness of investigation • Provide counsel, direction, suggestions as appropriate • Coordinate investigator activities where multiple functions or issue are involved 	<ul style="list-style-type: none"> • Conducts investigations
Discipline	<ul style="list-style-type: none"> • Set guidelines • Monitor for consistency • Push back when discipline seems inappropriate or inconsistent 	<ul style="list-style-type: none"> • Determines discipline • Administers discipline
Case Management	<ul style="list-style-type: none"> • Log and track all worldwide ethics violations • Support audit and legal requirements 	<ul style="list-style-type: none"> • “Owns” cases*
Corporate Policies	<ul style="list-style-type: none"> • Own overall infrastructure • Maintain policy website • Monitor for compliance with policy 	<ul style="list-style-type: none"> • “Owns” all policies • Interprets policies
Specific Compliance Activities	<ul style="list-style-type: none"> • Support Compliance Risk Assessment • Set Expectations, Definitions • Highlight concerns for Senior Management 	<ul style="list-style-type: none"> • Administers compliance activities

* Exceptions for cases involving corporate officers or directors, certain violations, such as, insider trading or some conflicts of interest, or other special circumstances.