



Ursula M. Burns
Chairman and
Chief Executive Officer

Dear Fellow Shareholders,

This report is filled with numbers. In our big data world, numbers speak volumes about results. They influence *your* investment decisions and they influence the way *we* run our business. I'm an engineer by training and lead with a strong passion for our brand and an obsession with the numbers that indicate our progress. We're a company going through considerable change at a time when economies are uncertain, the markets we serve are shifting and our "always on" connected world requires a faster pace and a more competitive edge to win. Numbers keep me grounded. They provide clarity of where we've been and where we're headed. Here's a glimpse of what I mean...

52 percent of our revenue now comes from Services. While our brand is still associated with our heritage in copying and printing, today more than half of our business is linked to a diverse portfolio of outsourcing services, including customer care (likely even for the company who makes your smartphone), healthcare claims reimbursement (likely for your private insurance company) and automated tolling and parking transactions (think EZ Pass and then think how long commutes would be without it).

84 percent of Xerox's revenue is annuity based. That's \$18.9 billion in revenue. A stable, less volatile base.

\$2.6 billion in operating cash flow, which reflects the cash-generating strength of this annuity-based business model.

#1 worldwide revenue market share leadership for our Document Technology. This speaks to the continued power of the Xerox brand in a market that we created and continue to benefit from through healthy margins and established relationships in 160 countries.

1,900. That's the total number of patents garnered by Xerox along with our colleagues at the Palo Alto Research Center and at Fuji Xerox last year alone, bringing to more than 11,500 the number of active

U.S. patents in our portfolio. This year, October 22 to be exact, marks the 75th anniversary of when Chester Carlson made the first xerographic image in his lab in New York City. His humble ways of applying innovation to more easily share information continue to be a source of inspiration for our research community. And, remarkably 75 years later, our innovation focus remains very true to Chester's – finding smarter ways to strip away complexity and simplify how work gets done.

These numbers are a big part of today's Xerox. We're evolving every day from the well-established copier company to the world's leading enterprise for business process and document management.

Our transformation comes with its share of challenges. In 2012, we continued to face them head on – prioritizing where we needed to make improvement and executing with precision to deliver. We made progress. In some areas, the progress isn't fast enough for me.

For example, as we ramp up growth in our Services business, we must also improve our Services operating margin. That means being more disciplined in how we execute large contracts, so we're applying innovation and identifying efficient ways to serve our clients better. We increased margins in the fourth quarter of 2012 – and I expect that the benefits of our operational focus in this area will deliver continued improvement going forward.

Despite the economic headwinds we faced last year, I believe we can improve revenue trends in our Document Technology business. We understand the market dynamics, know the pressure points and can identify where weakness is due to economy and where weakness is due to secular concerns. We are also clear eyed on areas of greatest growth potential – like in color printing and reaching more small and mid-size businesses around the world. Last year, we were conservative in the way we managed our Document Technology business. Due to



Michelin wanted to outsource F&A, so they made tracks to our door.

Our Challenge: Bring efficiency and cost savings to global Finance and Accounting operations.

Bottom-line Results: Michelin was initiating a major transformation program for its Finance function. To improve performance, reduce costs and enhance overall quality, the company chose us to provide global outsourced Finance and Accounting services. We built an F&A solution that today meets company requirements and service level expectations.

the economic uncertainty across most regions, we put our focus on reducing the cost base while expanding distribution through indirect channels. This year, we're ramping up marketing investments and introducing new offerings while broadening our channel partnerships – positioning us better to pursue profitable opportunities.

So, although 2012 presented our business with some obstacles, we moved forward in refining our business model, improving operational efficiency and growing our Services business – all while delivering value to you. Here's a summary of how we performed:

- Net income of \$1.2 billion; adjusted net income of \$1.4 billion.¹
- GAAP earnings per share of 88 cents; adjusted earnings per share of \$1.03.¹
- Total revenue of \$22.4 billion, down 1 percent or flat in constant currency¹ from 2011.
 - Total Services revenue of \$11.5 billion, up 6 percent or up 7 percent in constant currency.¹
 - Total Document Technology revenue of \$9.5 billion, down 8 percent or down 6 percent in constant currency.¹
- Operating margin of 9.3 percent.¹
- Operating cash flow of \$2.6 billion.
- Share repurchase of \$1.05 billion and \$255 million in dividends.

Priorities Drive Performance

We participate in a \$600 billion market. And we continue to tackle it aggressively on four fronts.

First: Managing our Services business for growth. I mentioned earlier that revenue from our Services business is now more than half of our total revenue and is growing at a steady pace. We expect it will grow to two-thirds of our revenue by 2017. My confidence in the long-term success of our Services business stems from the diversity of our offerings and the deep expertise we've established to work closely with clients on their important business processes:

- When a major automobile company selected Xerox to handle their employee benefits program, we were able to build, manage and support their open enrollment process in a matter of months.
- Just as a telecommunications company decided to start selling their new product in Brazil, they tapped us to open, staff and lead their in-country customer care service.
- As soon as the Affordable Care Act in the United States became more of a certainty for state governments, several of our government clients looked to us for help establishing Health Insurance Exchanges and strengthening the administrative backbone of their Medicaid and other health and welfare programs.

I could go on but the bottom line is that our Services business will continue to grow because of the breadth and depth of our offerings and, more important, because of our respected experience, innovation and expertise that wins us trust from our clients. That trust helped us sign new contracts during 2012 worth more than \$2 billion in annual revenue and to win 85 percent of the contracts that were up for renewal during the year. It's trust we never take for granted.



Norwegian State Railways needed dual-mode ticketing, we gave them paper and plastic.

Our Challenge: Launch interoperable e-ticketing and paper-based ticketing systems.

Bottom-line Results: To expand passenger self-service ticketing options and reduce operating costs, the Norwegian State Railway wanted an interoperable e-ticketing system and revenue collection and control system. We deployed national, paper-based and contactless smart card solutions that met the client's high requirements for quality, availability and reliability.

Second: Maintaining our leadership in Document Technology.

Print is changing, but it is far from dead. Where transactional black-and-white documents are in decline, color printing in offices and graphic communications settings is growing – and, not surprising, is an area of strength for our business. We offer the industry's broadest range of color printing technology to serve small offices all the way up to large production houses. You may no longer use inkjet printers in your home. (That's OK with me; it's not the business we're in.) But, in offices and print shops, our color technology is in demand and has resulted in pages on color devices growing 9 percent in 2012. Through an expanded network of channel partners, we're now able to bring the Xerox brand to more establishments around the globe.

Third: Managing our business with a focus on operational

excellence. This is something we're very proficient at today and it's an area where we never rest. It gives us the financial flexibility to help offset certain pressures on the business – whether it's economic uncertainty or necessary investments that drive growth. We continue to invest in what matters to our customers, including high-value scalable products and unrivalled service and delivery that earn customer loyalty.

Fourth: Delivering strong cash flow and returning value to you.

By executing with precision and excellence on the first three priorities, we delivered on the fourth. We generated \$2.6 billion in operating cash flow in 2012 and allocated \$1.05 billion of that cash to buy back a significant number of Xerox shares during the year. In addition, we paid out \$255 million in dividends during the year. You expect and deserve a strong return on your investment in Xerox and we owe you nothing less.

So, that's our story. Solid results in a challenging environment – a robust strategy for an expanding market opportunity – and a clear set of priorities aimed at creating value for all of our constituents. But that's only part of the story... here's the rest.

Creating Customer Value

I spend a lot of my time meeting with customers, learning about their business problems and trying to explain to them that we can help. Just a few years ago, that was a tough sell. The Xerox brand is powerful, but for many it stood for superior document technology. Period.

Talking to our customers about our Services offerings was often met with "Is that what Xerox does?" That has changed – partly because of our marketing efforts and partly because of the pervasiveness of our footprint. Today I can tell customers that we handle \$421 billion in accounts payables annually... answer 1.6 million customer interactions daily... manage benefits for more than 11 million employees... process 900 million insurance claims every year... collect 37 billion transit fares annually... reduce document-related costs for enterprises large and small by up to 30 percent... and a whole lot more.

Sustainable Strategy

I was speaking with students recently at NYU Polytechnic, my undergraduate alma mater, when a student asked me what Xerox might look like five years from now. The world is changing at such a dramatic pace that I imagine a lot of CEOs might have a difficult time answering



InterContinental Hotels Group needed a world-class managed print approach. We checked in with our global leadership and innovation.

Our Challenge: Improve the quality, efficiency and cost of document services at IHG's corporate office that can be scaled to other properties globally.

Bottom-line Results: When IHG wanted to build a foundation to streamline and automate business processes, reduce outside printing expenses and create a reliable in-house print center with color output capabilities, they turned to us. We introduced a more efficient back office that improved productivity through digital documents and automated work processes and saved IHG more than \$1.5 million a year on outside printing.

that question. Frankly, I didn't. That's because our strategy is built to evolve. We continue to invest heavily in innovation and to work with our customers to understand their changing needs. Although I can't tell you how we will be solving their business process problems five years out, I can tell you that we will continue to simplify the way their back-office work gets done while boosting productivity and reducing costs.

We've been at this for a very long time – ever since Chester Carlson set out to make office work a little easier. It's a journey toward a never-ending goal of making things simpler for our customers so they can focus on what matters most. That's what we'll be doing five years from now and likely 50 years from now as well.

To that end, the team at Xerox and I are bullish about the future. We know there'll be hurdles to overcome, we know where we can improve, but we also know we'll stay focused, impatient with the status quo and hungry for greater success. So this is a good time to keep your eye on Xerox. Here's why:

- Services-led growth;
- profitable leadership from Document Technology;
- cash-generating annuity-based business model;
- consistent earnings expansion; and
- financial strength to invest in building value for Xerox... and building value for you.

And, of course, we'll be doing all this with a passion for helping our customers succeed... a thirst for innovation... a respect for our people

and our commitment to help them grow... a deep desire to make our communities and our planet always better than they are... and a responsibility to create value for all our stakeholders. You can count on us to make it happen.

Thank you for your trust in Xerox. We work hard every day to earn it and to keep it. It's that simple.

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Chairman and Chief Executive Officer

¹ We have discussed our results using non-GAAP measures. Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods.

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth on page 11.

Today's Xerox is a company that was built on innovation. It defines and differentiates us. Every year, the Xerox group, which includes our partnership with Fuji Xerox, invests well over a billion dollars to discover new ways to make our customers more successful.

As a global company, we benefit from gathering the unique insights of the most skilled researchers from around the world. Across five research centers in the U.S., Canada, Europe and India, our innovators are working together with partners and customers to explore new ways of turning ideas into differentiated value.

And it's clear that these efforts are working. One measure of how well we're doing is the number of patents our innovators are awarded. Currently, we have more than 11,500 active patents in our portfolio with 1,900 U.S. patents awarded to Xerox last year. As a result, our patent issuance is up

17 percent, ranking the Xerox group in the top 10 for patents granted in 2012.

If you look behind the scenes of our labs, you'll find Xerox exploring the future in unexpected but relevant ways. Sure, you'd see work that's broadening the boundaries of what's possible in digital printing, but you'd also find renowned work on intuitive data analysis and a variety of sustainable technologies and innovations that reflect today's Xerox. Here's a closer look at how innovation can simplify the ways work gets done.



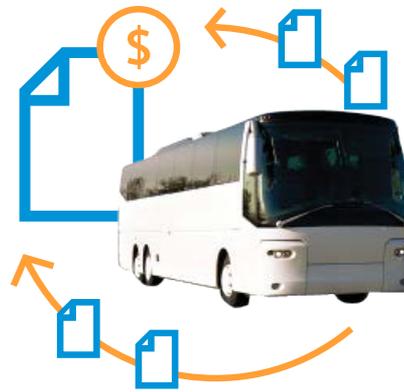
Delivering Better Patient Care

Observation: Nurses spend a tremendous amount of time compiling patient data from multiple sources.

Insight: Consolidating and simplifying processes gives nurses better information so they can spend more time on patient care.

Xerox Innovation: Creation of a digital dashboard that:

- Delivers a real-time view of patient status so they can make better healthcare decisions.
- Automatically aggregates data from electronic medical records, medical testing devices (X-rays, EKGs, MRIs) and more.
- Mobilizes the information (on mobile devices or rolling carts) for access wherever the patient goes.



Driving Public Transit with Data

Observation: In many cities, use of public transportation is declining while roadways are becoming more crowded.

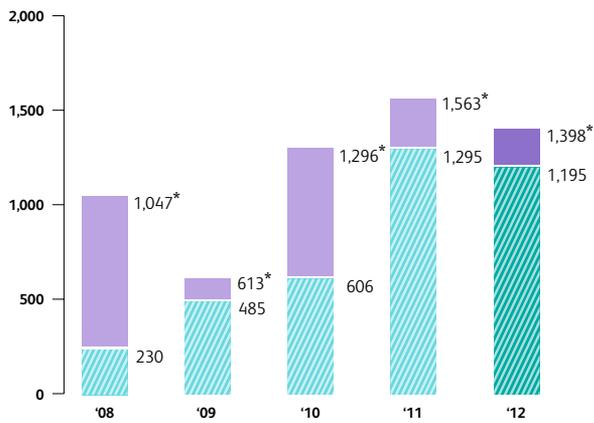
Insight: Analyzing user data could improve the passenger experience and increase overall use of public transportation.

Xerox Innovation: Mining previously unused ticketing data to deliver insights that:

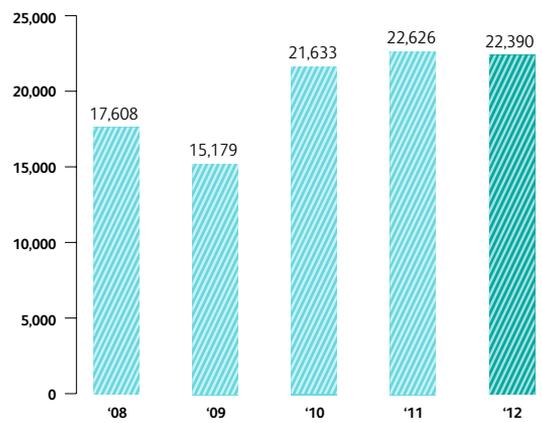
- Improve the overall network and remap the route system (schedules, number of stops and frequencies).
- Reduce travel and wait times for passengers.
- Inform timely decisions on new routes.

Financial Measures

Net Income – Xerox (in millions)

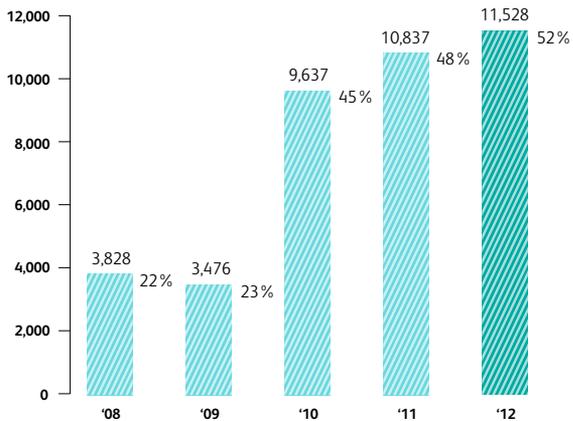


Total Revenue (in millions)



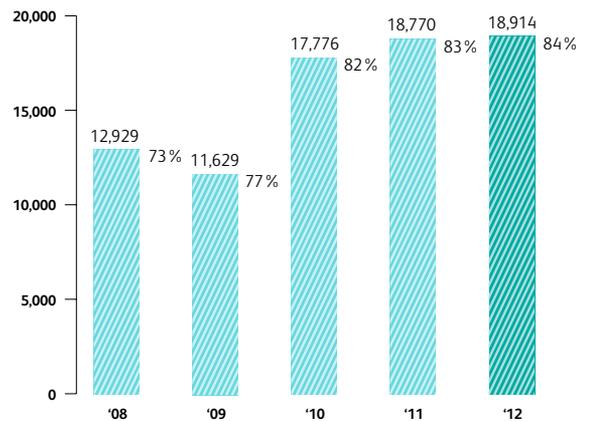
Total Services Segment Revenue

(in millions – percent of total revenue)

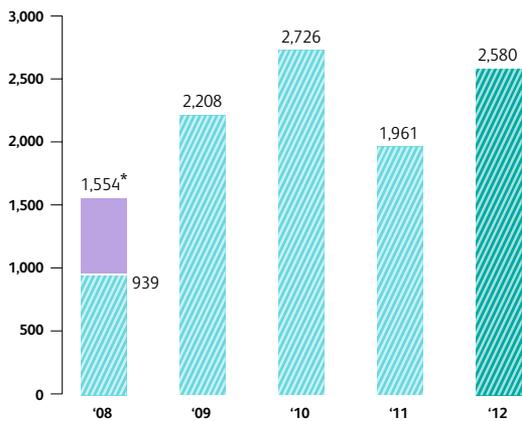


Annuity Revenue

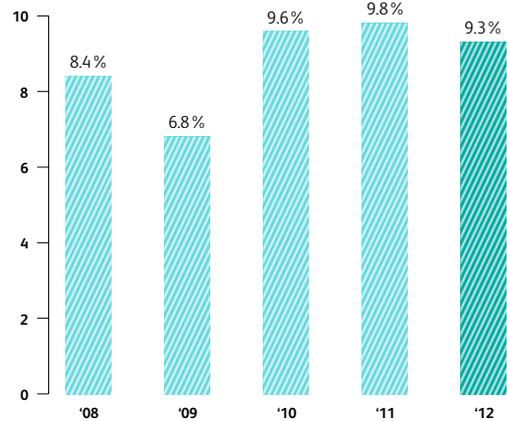
(in millions – percent of total revenue)



Net Cash from Operating Activities (in millions)



Adjusted Operating Margin*



* See non-GAAP measures for the reconciliation of the difference between this financial measure that is not in compliance with Generally Accepted Accounting Principles (GAAP) and the most directly comparable financial measure calculated in accordance with GAAP.

Non-GAAP Measures

Adjusted Earnings Per Share (EPS)

Year Ended December 31,

(in millions; except per-share amounts)	2012		2011		2010	2009	2008
	Net Income	EPS	Net Income	EPS	Net Income	Net Income	Net Income
As Reported	\$ 1,195	\$ 0.88	\$ 1,295	\$ 0.90	\$ 606	\$ 485	\$ 230
Adjustments:							
Amortization of intangible assets	203	0.15	248	0.17	194	38	35
Loss on early extinguishment of debt	-	-	20	0.01	10	-	-
Xerox and Fuji Xerox restructuring charge	-	-	-	-	355	41	308
ACS acquisition-related costs	-	-	-	-	58	49	-
ACS shareholders' litigation settlement	-	-	-	-	36	-	-
Venezuelan devaluation costs	-	-	-	-	21	-	-
Medicare subsidy tax law change	-	-	-	-	16	-	-
Provision for litigation matters	-	-	-	-	-	-	491
Equipment write-off	-	-	-	-	-	-	24
Settlement of unrecognized tax benefits	-	-	-	-	-	-	(41)
	203	0.15	268	0.18	690	128	817
Adjusted	\$ 1,398	\$ 1.03	\$ 1,563	\$ 1.08	\$ 1,296	\$ 613	\$ 1,047
Weighted average shares for reported EPS		1,329		1,444			
Weighted average shares for adjusted EPS		1,356		1,444			

Operating Margin (in millions)

Year Ended December 31,

	2012	2011	2010	2009	2008
	Total Revenues	\$22,390	\$22,626	\$21,633	\$15,179
Pre-tax Income (loss)	\$1,348	\$1,565	\$815	\$627	\$(79)
Adjustments:					
Amortization of intangible assets	328	398	312	60	54
Xerox restructuring charge	153	33	483	(8)	429
Curtailment gain	-	(107)	-	-	-
ACS acquisition-related costs	-	-	77	72	-
Equipment write-off	-	-	-	-	39
Other expenses, net	256	322	389	285	1,033
Adjusted Operating Income	\$2,085	\$2,211	\$2,076	\$1,036	\$1,476
Pre-tax Income Margin	6.0%	6.9%	3.8%	4.1%	(0.4%)
Adjusted Operating Margin	9.3%	9.8%	9.6%	6.8%	8.4%

Adjusted Net Cash from Operating Activities (in millions)

Year Ended December 31, 2008

Operating Cash Flow – As Reported	\$939
Adjustments:	
Payments for securities litigation	615
Operating Cash Flow – As Adjusted	\$1,554

Constant Currency

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted revenue as "constant currency." Currencies for developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe) that we operate in are reported at actual exchange rates for both actual and constant revenue growth rates because (1) these countries historically have had volatile currency and inflationary environments and (2) our subsidiaries in these countries have historically taken pricing actions to mitigate the impact of inflation and devaluation. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.