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February 24, 2011

Dear Fellow Shareholders:

I am pleased to report that 2010 was a year of both steady progress and historic transformation for Xerox. Our results speak to the strength of our business model, the expanding value we bring to our customers, our growing distribution capability and the determination of our people to do what it takes to give you a good return on the trust you place in us. Here is a summary of how we performed in 2010:

- We delivered adjusted earnings per share of 94 cents¹ for the year - - well ahead of our expectations as we entered 2010.
- Total revenue was \$21.6 billion - - up 3 percent¹ on a pro-forma basis.
- We generated a very substantial \$2.7 billion in cash from operations.
- From the time we acquired Affiliated Computer Services (ACS) in February, we reduced debt by \$1.9 billion.
- Our operating margin for the year was 9.6 percent¹ - - an improvement of 1 percentage point¹ over the previous year on a pro-forma basis.

These are the basic facts, but they don't begin to tell the whole story. When the history of Xerox for this decade is written, I have no doubt that 2010 will be viewed as a pivotal time. Many businesses talk about transformation. We're actually doing it. Through last year's acquisition of Affiliated Computer Services; our significant expansion into services; and our expanding distribution capacity, Xerox is now the world's leading enterprise for business process and document management.

The New Xerox

Most of you know us best for our world leadership in document technology and services - - printers, multifunction devices, copiers, production publishing systems, managed print services and related software and solutions. We're proud of that heritage and we continue to build on it today. And now we are also a leader in business process and IT outsourcing. We offer our customers a wide variety of global services that may surprise you - - from claims reimbursement and electronic toll transactions to the management of HR benefits and customer care centers.

Think of the modern-day enterprise as a multi-story office building with IT occupying one floor, customer care on another, HR on top of that and then finance and accounting on another. You might just find the new Xerox on any one or all of these floors using our expertise in business process and IT outsourcing to work behind the scenes to make it all operate more efficiently and more effectively. And if you think of a vertical column running the height of the building, that would be our document management capability, supporting every facet of the enterprise.

Many of these functions and operations require expertise most companies don't have and time most companies don't want to invest. It's not their real business. By outsourcing it to Xerox, our clients have more freedom to focus on what counts: their core business, their *real* business. And we do it in such a way that our customers save money and improve productivity by taking advantage of the scale, speed and simplification that comes from our advantaged technology and expertise in managing basic and complex business functions. As a result, Xerox is now in places you may not expect to see us and still in places that are a natural fit with our technology – all indicative of our transforming business and our exciting future. Here are a few examples of what I mean:

- 3 Italia, the Italian global media company, turned to Xerox to provide superior customer care services for 9 million customers. 3 Italia joins a long list of customers who use our services in industries ranging from high-tech to aviation. With more than 34,000 customer care agents in 142 customer care centers around the world, we handle more than a million customer transactions every day - - and we do it in 20 different languages.
- The State of Wisconsin signed an eight-year, \$30 million contract to have Xerox continue handling the state's child-support payment processing operations - - including processing and disbursing payments, performing bank reconciliation and managing a customer service call center. All 50 states have contracts with us for a variety of business processing and other services that include child support, food stamps, Medicaid, disability, health and welfare.
- Fiat Group signed a five-year contract for Xerox to manage its print infrastructure company-wide. Expected results include a 30 percent reduction in print-related cost and a 50 percent reduction in energy use. Fiat joins other Xerox customers for managed print services like the Dow Chemical Company, Ingersoll Rand and hundreds more.
- Transit riders in Denver will notice a faster, more efficient and greener experience as the city implements an advanced fare collection system managed by Xerox. As part of a four-year, \$15 million contract, public transportation users will receive smart cards, load them with a pre-paid amount and simply wave the smart card in front of a scanner to gain access to the transit system. We do this and similar applications - - like E-ZPass™ - - for scores of municipalities.
- More than 20,000 Procter & Gamble employees will soon be able to print emails, presentations and other business documents directly from their smart phones. It's all part of a much broader Enterprise Print Services strategy managed by Xerox for P&G around the world. It's credited with driving cost down and productivity up while helping the company meet its aggressive sustainability goals.
- Aspen Marketing, the largest privately-held marketing services company in the United States, uses our digital technology - - including Xerox iGen4® presses, DocuTech® Highlight Color Systems, Xerox Free Flow® Web Services and XMPie's Personal Effect Cross-Media solution - - to help auto dealerships increase floor traffic and grow revenue from maintenance

services. They're promoting client loyalty through personalized direct-marketing materials such as postcards, letters and invitations.

- The Scotts Miracle-Gro Company, the industry-leading lawn and garden care company, turned to Xerox for help on upgrading its IT infrastructure across Europe. The 10-country overhaul was accomplished in four months while reducing costs, improving performance and embedding better innovation.
- To maximize ROI on its 401(k) plan, a global defense and technology giant asked Xerox to design and implement a communication campaign to educate employees about the importance of saving for retirement. The results: increased employee participation rates, increased contribution rates and improved asset allocation.
- And, of course, we're using ACS ourselves to run some of our own back-office operations such as HR benefits processing and accounts payable.

Multiply those examples by thousands more and you begin to see the scope and scale of our company -- and the extraordinary opportunities for growth.

Growth Opportunities

With the building of our services business alongside our technology business, the size of the market we address has grown exponentially. Our traditional technology-driven market is valued at about \$130 billion and is relatively flat. But we now participate in two additional markets:

- Business Process Outsourcing, which is currently valued at over \$150 billion and is growing at over 5 percent per year.
- Information Technology Outsourcing, which is currently valued at \$250 billion a year and is growing at over 3 percent per year.

In total, that's a more than \$500 billion market - - more than three times our traditional opportunity. We're attacking it aggressively on four fronts.

First, we're accelerating the transition to color. Until recently, the barrier to "color everywhere" has been cost. That barrier was broken first in the home with the advent of affordable color ink-jet printers. Now we're breaking the cost barrier in office and production environments with our advantaged solid ink technology. For some applications, a color page is already priced the same as a black-and-white one.

We have our eyes wide open to the trends in the marketplace around a declining use of paper for transactional black-and-white documents. A good example is all those bill statements that used to be mailed hardcopy every month and are now distributed by email. If you looked around most offices these days, you'd be convinced that paper is never really going away. That may be true, but the way we use paper is changing and our dependency on it is declining.

The higher value print communications are those produced in color – photo books, marketing collaterals, direct mailers and packaging. And those printed in color with messages customized for the individual cut through clutter in ways that no

electronic communication ever can. That's why our investments in printing are focused entirely on breaking the cost barriers in color and advancing digital technology for the creation of real time, relevant, personalized communications. To that end, here's another unexpected place you'll find Xerox today: Mediaware Digital is a leading provider of digitally printed packaging. They depend on Xerox's Automated Packaging Solution to produce the packaging for Microsoft's Windows 7. It's a good example of how our printing business has expanded way beyond putting marks on a sheet of paper -- and why our technology is needed and remains relevant well into the future.

Second, we're expanding our distribution. We already have the industry's broadest distribution to large enterprises and we continue to increase our distribution capacity to small and mid-size businesses. We understand that in today's world people buy and engage in a variety of ways. We've moved aggressively in recent years to both strengthen the distribution channels we have and acquire the new channels we need.

One great move by Xerox was the acquisition of Global Imaging Systems a few years ago. The GIS network of 29 core companies gave us an additional 1,400 feet on the street. We've since expanded our distribution even more with acquisitions in key U.S. markets and in the Netherlands. You can expect to see us do more of the same -- growing our network of channels so more people are on more streets selling more Xerox technology and services.

Third, we're extending our lead in document outsourcing. We're the acknowledged leader and intend to keep it that way. Our value proposition is simple: we can do your document management more efficiently and at less cost than you can do it yourself. In today's world, that's a powerful statement. And it removes one more distraction from our clients' desire to focus on their core business.

Although it may seem counter-intuitive coming from Xerox, we almost always help our customers print less, thereby saving them money and helping them minimize their impact on the environment. One example: At Procter & Gamble, we consolidated all the devices they used for printing, copying, scanning and faxing into a more manageable and cost-efficient network of multifunction systems. The managed print services we provide to P&G has enabled them to print 8 million fewer pages and reduce print-related energy by 30 percent.

Fourth, we're expanding our business process and IT outsourcing businesses globally. Our acquisition of ACS was largely based on our confidence in the significant services growth opportunity. Over 90 percent of the ACS business is currently in the United States. Our global strength and brand awareness give ACS the capability and permission to expand into markets around the world -- often growing our business with existing Xerox clients. Our innovation in areas like advanced imaging and data analysis gives us an advantage in how we serve our clients -- more ways of automating typically manual processes and more ways to simplify often complex document and data-intensive transactions, like claims reimbursement and invoice processing. Our expertise in creating cloud-based platforms for these services and our extensive experience in labor management for delivering quality support become key differentiators for Xerox and position us incredibly well for long-term growth.

One very positive sign: last year, we developed a services pipeline of more than \$5 billion in business that neither Xerox nor ACS could have signed without the value the other brought to the table.

So we do not want for opportunity. I have great confidence in our value proposition and in the technology and talent we have to deliver it. And that's a very good place to be.

Renowned Innovation

This company was built on innovation, which remains central to our strategy today. If you could look under the hood of our R&D labs around the world, you would probably be surprised at what you would find. You would see work that is stretching the boundaries of what is possible in digital printing of course, but you would also find in at least equal measure work on intuitive data analysis and a variety of green technologies to make business processes more sustainable. In other words, you would see innovation that reflects the new Xerox.

One measure of how well we are doing is the number of patents our innovators are awarded. Last year, that number was 1,031 - - up 46 percent from 2009. That would rank us in the top 20 companies. Last year's patents included innovations to improve inventory management, e-mail overload and personalized packaging. Other patents help manage documents and make sense out of large collections of information.

Our Real Business: Sound Strategy and Effective Execution

We now have two distinct yet synergistic business segments - - technology and services. This gives us a steady mix of annuity revenue. In technology, it comes from service and supplies. In services, it comes from multi-year outsourcing contracts. Together, they account for more than 80 percent of our total revenue - - a very attractive feature of our business model. By the way, annuity revenue in 2010 on a pro-forma basis was up 2 percent without the impact of currency¹.

In technology, our annuity stream is fueled by the sales of Xerox equipment. Last year, equipment sales were up a significant 10 percent without the impact of currency¹. That growth reflected both strong demand for new products and expanded distribution coverage around the world. The combination positioned us extraordinarily well to take advantage of an improving economy and the willingness for customers to begin investing in technology.

Just as our annuity revenue is fueled by equipment sales, our equipment sales are fueled by a steady stream of new products. During 2010, we launched 21 products with an emphasis on maintaining our leadership in both the production and office markets. Big contributors to equipment sales growth in 2010 were the Xerox® Color 800 and 1000 series as well as the ColorQube® family of multifunction systems, which uses our proprietary solid ink technology. Total color revenue for the year was up 8 percent without the impact of currency¹ and color pages were up 9 percent - - strong signs that our color strategy is on track.

While our services business received a major power surge with the acquisition of ACS, this part of our business has been evolving for a very long time. By the time we

acquired ACS a year ago, we already had over a \$3.5 billion services business - - some of it through organic growth and some of it through smaller acquisitions. The ACS deal was a logical - - albeit bold - - leap forward. Overnight, we became a \$10 billion services business.

Year-over-year our revenue from services was up 3 percent¹ on a pro-forma basis and indicators for future revenues remain strong. Business signings were up about 13 percent on a trailing 12-month basis.

So positive results in both technology and services, good opportunities going forward and a team that is focused on excellent execution.

Delivering Shareholder Value

In 2010, we grew adjusted earnings, increased revenue, improved operating margin and generated \$2.7 billion in cash. We delivered on our commitments across the board. And by doing so, we created greater value for our shareholders. That was then; this is now.

We enter 2011 with building momentum and heightened confidence. I don't know that anyone has the hubris to predict with any certainty what the post-recession business climate will be like. But I do know this - - businesses and governments, large and small, will continue to struggle to contain costs, operate more efficiently, grow revenue and build better client relationships. In other words, they will want to go about their real business and Xerox is ready to help them.

We're confident, but not complacent. We're differentiated in the marketplace through our world-class innovation and renowned service. We operate in some 160 countries and that's becoming more and more important to our larger customers who are looking for global solutions. Our world-class brand gives us a high degree of trust that helps us open doors and build relationships. We're relevant to our customers who rely on us to make them better. Our business model has been tested under the most trying conditions the past few years and proven to be both resilient and flexible. We are focused on the basics - - containing cost, generating cash, growing revenue and providing you with good returns.

Our 2011 priorities and plans keep us on track to grow revenue, generate significant cash and expand earnings. We won't compromise our leadership position or give an inch in document technology. By continuing to expand distribution, we'll increase install activity and equipment sales - - with an emphasis on driving color pages that help boost our annuity stream.

We'll continue to grow our services business by leveraging our brand, global scale, innovation and delivery platforms to win multi-million deals in business process, IT and document outsourcing.

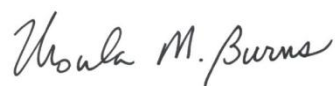
We'll remain diligent on cost and expense management, capturing key cost synergies from the ACS acquisition and driving efficiencies and productivity across the enterprise.

We'll continue to focus on generating free cash flow¹ - - about \$2 billion of it - - all the while reducing debt, delivering dividends, closing on "tuck-in" acquisitions and allotting a significant portion of available cash to repurchasing stock.

We are now 136,000 people strong doing business in 160 countries and all with an overreaching mission of delivering value to our customers and our shareholders.

I'm confident we have the right strategy, a sound business model, the competitive strength, a seasoned leadership team, talented people and the discipline and focus to put it all together for you in 2011.

This is our real business, and we're ready.



Ursula M. Burns
Chairman and Chief Executive Officer

Note: estimates regarding market size and growth are based on a combination of third party and internal information

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 below.

Adjusted earnings per share (EPS):

(in millions; except per share amounts)	Year Ended December 31, 2010	
	Net Income	EPS
As Reported	\$ 606	\$ 0.43
Adjustments:		
Xerox and Fuji Xerox restructuring charge	355	0.26
Acquisition-related costs	58	0.04
Amortization of intangible assets	194	0.14
ACS shareholders litigation settlement	36	0.03
Venezuela devaluation costs	21	0.02
Medicare subsidy tax law change	16	0.01
Loss on early extinguishment of debt	10	0.01
	<u>690</u>	<u>0.51</u>
Adjusted	\$ 1,296	\$ 0.94
Weighted average shares for reported EPS		1,351
Weighted average shares for adjusted EPS		1,378

Revenue growth - pro-forma / without currency:

(in millions)	Year Ended December 31,				% Change (Ex. Curr.)	Pro-forma Change	Pro-forma Change (Ex. Curr.)
	As Reported 2010	As Reported 2009	Pro-forma 2009 ⁽¹⁾	% Change			
Revenue Category							
Equipment sales	\$ 3,857	\$ 3,550	\$ 3,550	9%	10%	9%	10%
Supplies, paper and other	3,377	3,096	3,234	9%	10%	4%	5%
Sales	7,234	6,646	6,784	9%	10%	7%	8%
Service, outsourcing and rentals	13,739	7,820	13,585	76%	76%	1%	1%
Finance income	660	713	713	(7%)	(7%)	(7%)	(7%)
Total Revenues	\$ 21,633	\$ 15,179	\$ 21,082	43%	43%	3%	3%
Segment							
Technology	\$ 10,349	\$ 10,067	\$ 10,067	3%	3%	3%	3%
Services	9,637	3,476	9,379	*	*	3%	3%
Other	1,647	1,636	1,636	1%	1%	1%	1%
Total Revenues	\$ 21,633	\$ 15,179	\$ 21,082	43%	43%	3%	3%
Memo:							
Annuity Revenue	\$ 17,776	\$ 11,629	\$ 17,532	53%	53%	1%	2%
Color	\$ 6,397	\$ 5,972	\$ 5,972	7%	8%	7%	8%

* Percent change not meaningful.

⁽¹⁾ Pro-forma includes ACS's 2009 estimated results from February 6 through December 31 adjusted for deferred revenue, exited businesses and certain non-recurring product sales.

(Ex. Curr.) = change without the effects of currency

Operating Margin:

(in millions)	Year Ended December 31,				Change	Pro-forma Change
	As Reported 2010	As Reported 2009	Pro-forma 2009 ⁽¹⁾	% Change		
Pre-tax income (loss)	\$ 815	\$ 627	\$ 1,267	30%	(36%)	
Adjustments:						
Xerox restructuring charge	483	(8)	(8)			
Acquisition related costs	77	72	104			
Amortization of intangible assets	312	60	60			
Other expenses, net	389	285	382			
Adjusted Operating Income	\$ 2,076	\$ 1,036	\$ 1,805	100%	15%	
Pre-tax Income Margin	3.8%	4.1%	6.0%	(0.3)	(2.2)	
Adjusted Operating Margin	9.6%	6.8%	8.6%	2.8	1.0	

⁽¹⁾ Pro-forma reflects ACS's 2009 estimated results from February 6 through December 31 adjusted to reflect fair value adjustments related to property, equipment and computer software as well as customer contract costs. In addition, adjustments were made for deferred revenue, exited businesses, certain non-recurring product sales and other material non-recurring costs associated with the acquisition.

2010 Free Cash Flow

(in millions)	Year Ended December 31, 2010
Cash from Operations - Reported	\$ 2,726
Adjustments:	
Cost of additions to land, buildings and equipment	(355)
Cost of additions to internal use software	(164)
Free Cash Flow	\$ 2,207