**Ursula M. Burns**
*Chairman and Chief Executive Officer*

Xerox Corporation
45 Glover Avenue
6th Floor
Norwalk, CT 06856-4505

February 23, 2012

Dear Fellow Shareholders:

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. Here is a brief summary of how we performed:

- We delivered adjusted earnings per share of $1.08[1] - - up 15 percent[1] over the previous year.
- Total revenue for the full year was $22.6 billion - - up 2 percent pro forma[1].
- We generated $2 billion in cash from operations.
- Adjusted net income of $1.6 billion[1] was up 21 percent[1].
- We resumed our share repurchase program in 2011 and made a sizable investment in it, as well as paying $265 million in dividends - - tangible signs of our commitment to return value to our shareholders.

**Delivering On Commitments**

Throughout the year, our business faced challenges stemming from global economic uncertainty as well as the impact on our supply chain from the earthquake in Japan. Despite these pressures, I'm pleased with our 2011 results, but far from satisfied. I'm impatient by nature, and, therefore, very focused on speeding up our progress. As a company, we're doing this through the following strategies. While the statements themselves seem relatively simple, the complexity is in the detail and our priorities are clearly centered on the implementation.

First: Accelerating our services business. We set out to grow services faster by diversifying our offerings and expanding globally. More of our total revenue now comes from services than technology. In 2011, revenue from services grew 6 percent pro forma[1]. And, through expanded sales activities, we won a considerable amount of new business – increasing our new business signings by 14 percent.

Second: Maintaining our leadership in document technology. We not only continued to hold our number-one equipment revenue market share position, but we also grew share in 2011. We did this by offering a more extensive and affordable portfolio of color products and by expanding our distribution to serve more small and mid-size businesses around the world.

Third: Managing our business with a disciplined focus on operational excellence. This gives us the financial flexibility to help offset certain pressures on the business – whether it's economic uncertainty or necessary investments that drive growth. Either way - - and despite challenges thrown our way - - our focus is on delivering strong bottom-line results. We're justifiably proud that we do this very well.

Fourth: The bottom line for Xerox shareholders – expanding earnings and returning value to all of you. By executing well on the first three priorities, we delivered on the fourth. Full-year 2011 adjusted earnings per share grew 15 percent[1]. We generated $2

billion in operating cash flow and repurchased a significant amount of Xerox shares during the year.

So, good results. And, they're evidence of a company that is financially sound, delivering consistent double-digit earnings growth and applying operational excellence to navigate that unpredictability most companies face. But, as I mentioned previously, I'm not satisfied - - and I won't be until we grow revenue faster. In 2011, revenue was hampered by macro conditions. But, we didn't let the headwinds that pressured our top-line performance disrupt our ability to deliver strong bottom-line results. That said, ratcheting revenue is a necessity for the sustainable strength of our business. I have great confidence in our growth potential, and, I can assure you, the Xerox team is taking a targeted approach to capture the rich opportunity in front of us.

**Transformation of Xerox**

Changes are taking place in our heartland industry of document technology. We won't see a paperless office any time soon, but we are seeing less reliance on paper in our daily lives, both at work and at home. One example I often use because everybody gets it is bank statements, credit card bills and things of that sort. Most of you likely now receive your bill statements online instead of paper statements in the mail. And you're probably paying for those bills online too. Somewhere in that transactional process, Xerox is very likely behind the scenes making it happen.

That's because we didn't resist what's been taking place in our industry and we didn't stick our heads in the sand to avoid seeing the changes. We have had our eyes wide open, embraced the changes and in many cases led them. In fact, we started to transform our company more than a decade ago.

Once synonymous with copying and then printing, some of you might recall we began referring to ourselves as the Document Company - - a signal that we had expertise in paper and digital documents and a sweet spot in helping customers navigate seamlessly between both worlds. We started to make niche acquisitions that enabled us to handle digital discovery for lawyers, electronic mortgage applications for banks and others. The more we did, the more our customers wanted. That's a great place to be - - a window of opportunity that doesn't come often.

As you know, we leapt at the opportunity. Two years ago, we acquired Affiliated Computer Services (ACS), a major player in the business process and IT outsourcing market. Overnight, our $3.5 billion services business became a $10 billion business. And, through our growth in this area, revenue from services now represents the largest portion of our business. As I like to point out: lots of companies talk about transformation, we're doing it.

Since acquiring ACS, I've done a lot of reflecting on how it has changed our company. Two paradoxical thoughts keep coming back to me. One is that *the more things change, the more they stay the same*. From our earliest days, our purpose was never about making copies. It was about making it easier for people to share information. Chester Carlson, the inventor of xerography, said as much when he described his goal as "making office work a little simpler, a little less tedious and a little more productive." Making things simpler has always been in our DNA. When you walk up to a Xerox device, then as now, you select your features, push a button and a lot of very complex technology takes over - - technology the customer doesn't care too much about or need to know about.

By the way, much the same is true of the ACS tradition - - a company that was built over time on the premise that being exceptionally good at back-office work gave their clients one less thing to worry about.

As Xerox and ACS became one, I believe our founders would be pleased that, at the core, our purpose has not shifted far from our legacies - - doing things behind the curtain to simplify the ways work gets done. That's what I mean when I say that the more things change, the more they stay the same in some fundamental ways.

**Relevant Value Proposition**

The other thought I keep coming back to is how relevant the new Xerox has become. With our value proposition as the world's leading enterprise for business process and document management, we free companies to be the best at what they do. When I meet with my peers in business and governments around the world, a handful of concerns keep repeating themselves.

First, everything about their operations is in a state of flux. Change, even chaos, is the norm. Back office operations are seen as necessary but not a core competency. Enterprises know they are essential, but don't want to expend energy and resources on them that can be better used elsewhere. That's why more and more organizations - - business and government, big and small - - are turning to partners who know how to run big complex business processes flawlessly and efficiently.

In other words, *they want business partners like Xerox*. We have the deep knowledge, the innovative approach and the operational excellence that drive down cost and take the worry off the shoulders of our customers. I think you would be amazed at both the breadth and depth of the business processes we design and operate - - customer call centers, accounts payable and receivable, HR benefits programs, IT infrastructure and networks, health information exchanges, "red-light cameras" for traffic violations and so much more. We're the company you encounter every day and never see. For example, KLM Royal Dutch Airlines and other airlines asked us to convert their paper tickets to an electronic format, streamlining the process and delivering a 75 percent reduction in turnaround time.

A second concern that customers keep bringing up is one everyone can relate to - - information overload. We all deal with mountains of information. Some of it's on paper, some is digital and it's all coming at us at dizzying speed and greater volume than ever. Clients can't be bothered with thinking about the problem, let alone addressing it. They want partners who can speed up and simplify access to information and data and make it all affordable.

In other words, *they want partners like Xerox*. We have unmatched capabilities, expertise, technology and services to manage the flow of information and bridge the divide between paper and digital - - simply and affordably. In most cases, we even save customers money, make their lives simpler and make the earth greener. For example, at Medco, we're developing and managing a multi-channel platform that lets Medco's 65 million members personalize how they receive information from the company - - via hard-copy statements, secure website, email, text messages or a combination of all these channels.

A related issue is the difficulty clients have in finding and using data. As one of my friends is fond of saying: "I save everything and can find nothing." She voices a common issue. Information is everywhere - - on paper, online, in photos, on servers, on the desktop, in file drawers, in smart phones and now in the cloud. There are all

sorts of issues that come with the volume of information - - privacy, access, retrieval and storage, to name a few.
The customers I meet know they have both a problem and a lost opportunity. Whoever said information is power had it right. Customers yearn for partners who can take those streams of data and mountains of information and harness them to create value. Customers want someone to make sure they're making the right investments to help them find what they want when they want. They want to turn information from a liability into an asset.

In other words, *they want partners like Xerox*. We are expert at protecting client privacy, mining data for competitive advantage and improved customer service, and getting just the right piece of information or insight to just the right person just when they need it. In the world of information, we're the "just-in-time" people. For example we're using data from traffic and parking patterns to help the city of Los Angeles turn parking into a smart, analytics-based business. Electronic street signs and smart phone apps direct drivers to available spaces in real time. Fees for parking vary by demand as a way of directing more people to mass transit during peak rush hours. It's a smart way to use information that results in a simpler way for people to get around. And, it's Xerox innovation - - much of which was developed at our research center in France - - at its very best.

And the last question that is on the minds of business leaders - - but, interestingly is never directly asked - - is this: "Is this a company I want to do business with?" There are a lot of important questions behind that basic one. Customers want to know you'll be fair and honest, that you're reliable and won't let them down, that you'll continue to innovate and bring them best practices, that the values of the company speak to things that are important to them.

In other words, *they want partners like Xerox*. Customers have choices on who gets their business. Trusting some of your most critical operational processes to a business partner is a high-stakes game. We're staffing call centers on behalf of our customers. Paying bills and transacting payments on their behalf. Managing IT infrastructures on their behalf. Creating sophisticated electronic medical records on their behalf. Processing insurance claims on their behalf. Creating and distributing client communication on their behalf. Considering these responsibilities, I'm proud to look our customers in the eye and tell them that we're as close to a sure-bet as they will ever find. And if there is a problem we will work with them for as long as it takes to make it right. There are a lot of proof points that we're the company that a customer wants:

- Our brand is known and respected around the world. Its multi-billion dollar value is the sum total of millions upon millions of decisions made, actions taken and values lived by our people for several decades.

- We operate our business through a value system that was espoused by our founders over 60 years ago. These values include a deep commitment to corporate citizenship that is a point of pride for our business and for our people. And it's rewarding to be recognized for our actions: last year the Dow Jones Sustainability Index named Xerox a leader in environmental stewardship and social responsibility.

- Innovation is in our DNA and defines our future. By applying the breakthroughs that emerge from our five global research labs into our products and services, we continue to differentiate ourselves with clients and competitors. The Xerox group, which includes our partnership with Fuji Xerox, garnered 1,618 U.S. patents last year, placing us eighth on the IFI patent intelligence list worldwide - - and assuring

our customers that we will continue to bring them a steady stream of innovation and value.

**Enabling Customers To Be Their Best**

No, we don't make the sexiest new product on the market or run a hospital that saves lives or get you to work safely and on time or manufacture the most luxurious and safest aircraft on the planet or design a space craft that will explore the stars. But we do something every bit as important. We're behind the scenes, managing the "must do" work that enables every one of those things to happen. It's a noble mission. To take some very complex business processes and make them appear simple to those who need them.

We've become a critical enabler for business and government. When you speak with leaders in the public and private sector, they don't tell you that they pay their Medicare clients in a cost-effective way or that their marketing brochures are personalized and printed with the highest quality. They tell you that they provide a safety net for people who need health care or that they have the best smartphones in the world.

We allow all these great people to do what they do really well. And, that's a great place to be. Now I must tell you that it tries my patience. Every place I look, I see a process we should be improving. If I see an accounting operation or a document technology center or an IT hub or a call center, I want to grab someone and tell them they shouldn't be worried about it. You should make your cars or provide a service to your clients and let us worry about this "stuff" for you.

As I hope you can tell, this work excites me. We create value on so many levels. We are just hitting our stride. And, I'm confident a world of opportunity is ours for the taking.

**Opportunities Abound**

We operate in a $600 billion market. We have a sound strategy to aggressively pursue growth. We have an enviable value proposition that helps our clients improve their business results. We have a business model that is proven, flexible and robust. And we have a unique blend of innovative technology, operational excellence and a remarkable reservoir of expertise that resides in the minds of our people.

Our priorities remain the same in 2012. They're straightforward and align with every business decision we make:

- Accelerate growth in our services business.
- Maintain our leadership in technology.
- Continue our focus on operational excellence.
- Expand earnings and give you a good return on your investment.

To that end, in 2012 we expect to continue increasing earnings per share. We'll grow revenue and generate strong cash flow. By doing so, we'll provide further value to you through dividends and share repurchase.

We are keenly aware that the world's economies are still in recovery. We are humbled by the strength of our competitors. And we know that as good as we are today, we

must be even better tomorrow. That challenge galvanizes us. We wouldn't have it any other way.

**David T. Kearns (1930 – 2011)**

I would be remiss if I did not mention the passing of former Xerox chairman and CEO David Kearns this past year. David led Xerox through a turbulent time - - the decade of the 1980s - - when we were buffeted by foreign competition that threatened our survival. He overhauled our product line, focused on the customer and insisted on quality in all we did. He turned the company around and did it without sacrificing our values. As he used to say: "I'm not interested in building a big company but a great company."

That is David's legacy and it permeates Xerox still. We can think of no better way to honor his memory than to persevere in his tradition - - to create value for our customers and shareholders; to uphold the values he held dear such as diversity; sustainability and community engagement; and to leave our company - - and our world - - better than we found them.

We're excited about the extraordinary opportunity that stretches out before us. Xerox people - - now 140,000 strong - - are ready to pursue it aggressively on your behalf. We don't take the trust you place in us for granted. We're ready for real business.

Sincerely,

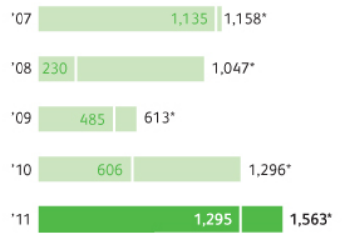
Ursula M. Burns
Chairman and Chief Executive Officer

[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 in the "non-GAAP measures" section.

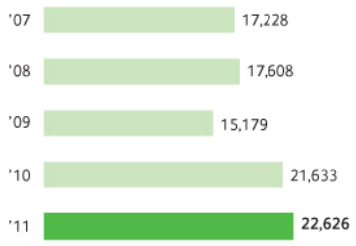
## Net Income – Xerox

(millions)



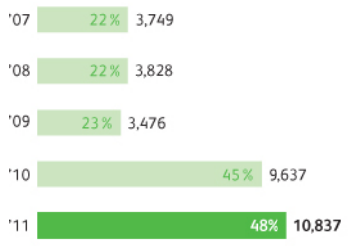

## Total Revenue

(millions)




## Total Services Segment Revenue

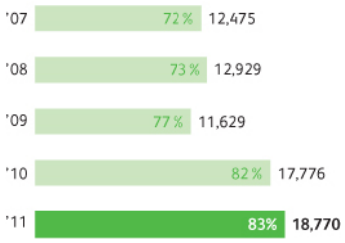
(millions – percent of total revenue)




The Services segment now represents the largest portion of our business.

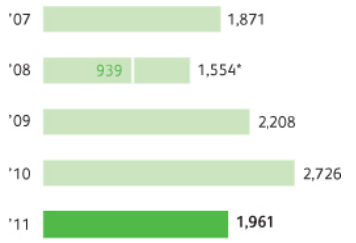
## Annuity Revenue

(millions – percent of total revenue)

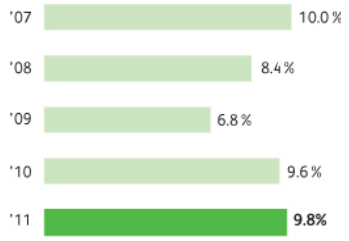



## Net Cash from Operating Activities

(millions)




## Adjusted Operating Margin*




*See "non-GAAP measures" section 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):**

| (in millions; except per share amounts) | 2011 Net Income | 2011 EPS | 2010 Net Income | 2010 EPS | 2009 Net Income | 2008 Net Income | 2007 Net Income |
|---|---|---|---|---|---|---|---|
| **As Reported** | **$ 1,295** | **$ 0.90** | **$ 606** | **$ 0.43** | **$ 485** | **$ 230** | **$ 1,135** |
| **Adjustments:** | | | | | | | |
| Amortization of intangible assets | 248 | 0.17 | 194 | 0.14 | 38 | 35 | 28 |
| Loss on early extinguishment of debt | 20 | 0.01 | 10 | 0.01 | - | - | - |
| Xerox and Fuji Xerox restructuring charge | | | 355 | 0.26 | 41 | 308 | (5) |
| ACS acquisition-related costs | | | 58 | 0.04 | 49 | - | - |
| ACS shareholders litigation settlement | | | 36 | 0.03 | - | - | - |
| Venezuela devaluation costs | | | 21 | 0.02 | - | - | - |
| Medicare subsidy tax law change | | | 16 | 0.01 | - | - | - |
| Provision for litigation matters | | | - | - | - | 491 | - |
| Equipment write-off | | | - | - | - | 24 | - |
| Settlement of unrecognized tax benefits | | | - | - | - | (41) | - |
| | 268 | 0.18 | 690 | 0.51 | 128 | 817 | 23 |
| **Adjusted** | **$ 1,563** | **$ 1.08** | **$ 1,296** | **$ 0.94** | **$ 613** | **$ 1,047** | **$ 1,158** |
| Weighted average shares for reported EPS | | 1,444 | | 1,351 | | | |
| Weighted average shares for adjusted EPS | | 1,444 | | 1,378 | | | |

**Revenue growth - pro-forma / without currency:**

| (in millions) | As Reported 2011 | As Reported 2010 | Pro-forma 2010 (1) | % Change | Pro-forma % Change |
|---|---|---|---|---|---|
| **Revenue Category** | | | | | |
| Equipment sales | $ 3,856 | $ 3,857 | $ 3,857 | (0%) | (0%) |
| Supplies, paper and other | 3,270 | 3,377 | 3,402 | (3%) | (4%) |
| Sales | 7,126 | 7,234 | 7,259 | (1%) | (2%) |
| Service, outsourcing and rentals | 14,868 | 13,739 | 14,333 | 8% | 4% |
| Finance income | 632 | 660 | 660 | (4%) | (4%) |
| **Total Revenues** | **$ 22,626** | **$ 21,633** | **$ 22,252** | **5%** | **2%** |
| **Segment** | | | | | |
| Services | $ 10,837 | $ 9,637 | $ 10,256 | 12% | 6% |
| Technology | 10,259 | 10,349 | 10,349 | (1%) | (1%) |
| Other | 1,530 | 1,647 | 1,647 | (7%) | (7%) |
| **Total Revenues** | **$ 22,626** | **$ 21,633** | **$ 22,252** | **5%** | **2%** |

(1) Pro-forma 2010 includes ACS's 2010 estimated results from January 1 through February 5 in our reported 2010 results adjusted for deferred revenue, exited businesses and certain non-recurring product sales.

**Operating Margin:**

| (in millions) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Total Revenues | $ 22,626 | $ 21,633 | $ 15,179 | $17,608 | $17,228 |
| **Pre-tax income (loss)** | **$ 1,565** | **$ 815** | **$ 627** | **$ (79)** | **$ 1,468** |
| **Adjustments:** | | | | | |
| Amortization of intangible assets | 398 | 312 | 60 | 54 | 42 |
| Xerox restructuring charge | 33 | 483 | (8) | 429 | (6) |
| Curtailment gain | (107) | - | - | - | - |
| ACS acquisition related costs | - | 77 | 72 | - | - |
| Equipment write-off | - | - | - | 39 | - |
| Other expenses, net | 322 | 389 | 285 | 1,033 | 223 |
| **Adjusted Operating Income** | **$ 2,211** | **$ 2,076** | **$ 1,036** | **$ 1,476** | **$ 1,727** |
| **Pre-tax Income Margin** | **6.9%** | **3.8%** | **4.1%** | **(0.4%)** | **8.5%** |
| **Adjusted Operating Margin** | **9.8%** | **9.6%** | **6.8%** | **8.4%** | **10.0%** |

**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** |