

# First-Quarter 2008 Earnings Presentation

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# Forward-Looking Statements

*This release contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. These factors include but are not limited to the risk that we will not realize all of the anticipated benefits from our 2007 acquisition of Global Imaging Systems (GIS); the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including actions with respect to the anticipated \$0.05 per share restructuring charge in the second quarter 2008; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Results of Operations and Financial Condition" section and other sections of our 2007 Form 10-K filed with the Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.*

# Anne Mulcahy

## First-Quarter Overview

\$(0.27) per share, includes \$(0.54) from litigation

- Adjusted EPS of \$0.27\*, within guidance of \$0.25 to \$0.28

Total revenue up 13%, 9% CC\*

- Strong activity across all product segments

Gross margin decline offset by lower tax rate

- Q2 restructuring accelerates cost actions

Cash flow on track

Delivering shareholder value

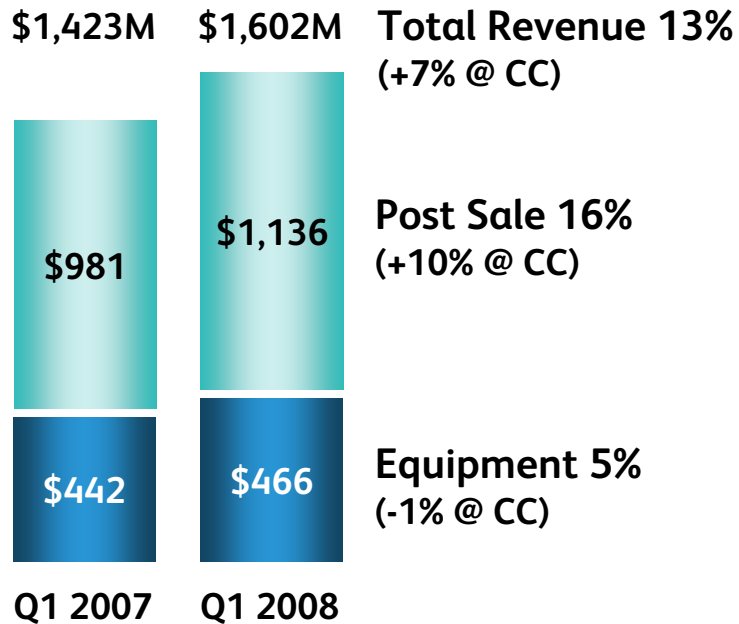
- \$334M in share repurchases
- \$40M in dividends

# Revenue

(in millions)	2007	2008	Adjusted <sup>1</sup>
	Q1	Q1	
<b>Total Revenue</b>	<b>\$ 3,836</b>	<b>\$ 4,335</b>	
<b>Growth</b>	<b>4%</b>	<b>13%</b>	<b>5%</b>
<b>CC* Growth</b>	<b>1%</b>	<b>9%</b>	<b>1%</b>
<b>Post Sale</b>	<b>\$ 2,905</b>	<b>\$ 3,237</b>	
<b>Growth</b>	<b>6%</b>	<b>11%</b>	<b>6%</b>
<b>CC* Growth</b>	<b>3%</b>	<b>7%</b>	<b>2%</b>
<b>Equipment</b>	<b>\$ 931</b>	<b>\$ 1,098</b>	
<b>Growth</b>	<b>(2%)</b>	<b>18%</b>	<b>2%</b>
<b>CC* Growth</b>	<b>(4%)</b>	<b>13%</b>	<b>(2%)</b>

# Color Performance

## Total Color Revenue



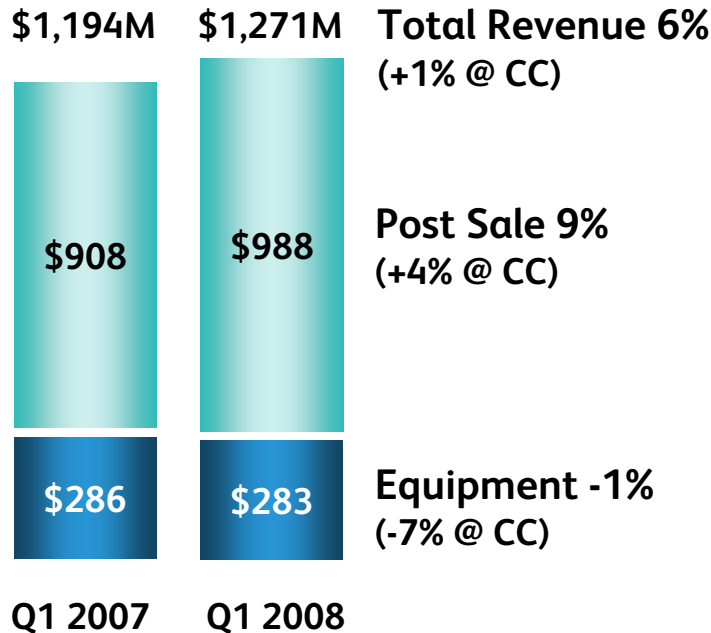
## Color Trends

	Q1 2006	Q1 2007	Q1 2008
<b>Color Revenue:</b>			
% of Post Sale	29%	34%	37%
% of Equipment	43%	48%	48%
% of Total Revenue	33%	37%	40%
<b>Color Pages:</b>			
Growth	41%	29%	32%
% of Total Pages	8%	11%	14%

- Color 40 % of total revenue, 14 % of pages
- Page growth of 32 % continues to fuel annuity growth
- Equipment revenue impacted by mix and price investments

# Production Segment

## Production Revenue



## Install Growth<sup>1</sup>

Q1 2008

Production Monochrome	8%
Production Color	5%

## Production Overview

Steady post sale growth

Strong demand for new products

- Xerox Nuvera<sup>®</sup> EA, Xerox Nuvera 288
- DocuColor<sup>®</sup> 7000AP, 8000AP, 260
- Xerox 4112/4127 and 4595
- Xerox 650/1300 b&w continuous feed

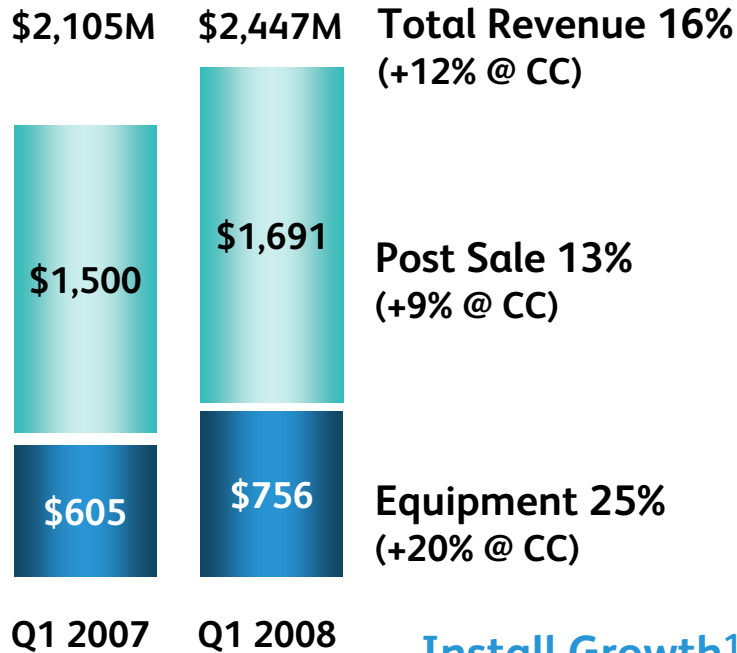
Greater proportion of operating leases / rentals

Production equipment sales revenue from developing markets up 26 % and total revenue up 28 %

drupa to showcase Xerox leadership: technology and applications

# Office Segment

## Office Revenue



## Install Growth<sup>1</sup>

	Q1 2008
Office B&W Copiers/MFDs	35%
Segments 1-2 (11-30) ppm	43%
Segments 3-5 (31-90) ppm <sup>2</sup>	13%
Office Color MFDs	40%
Color Printers	35%

## Office Overview

Expanded distribution drives growth

Strong activity across the board

Color acceleration

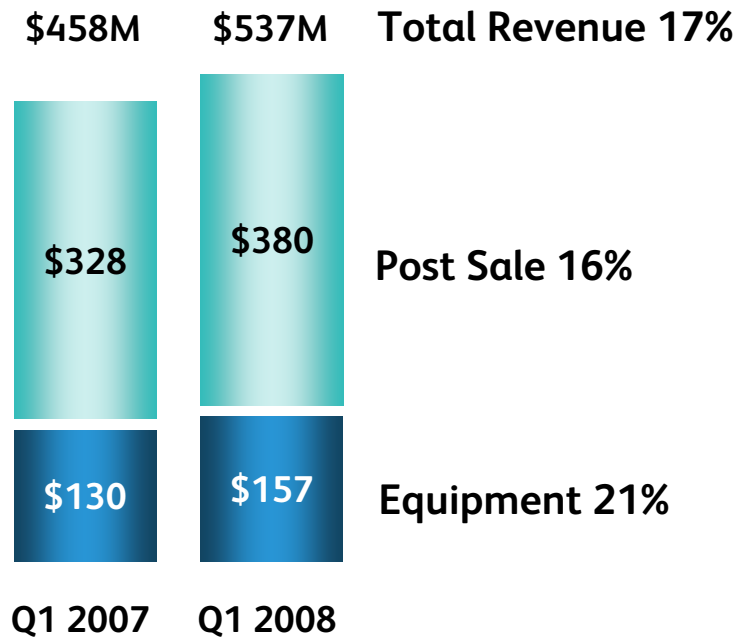
- WorkCentre<sup>®</sup> 7200, 7300 and 7600
- DocuColor<sup>®</sup> 260
- WorkCentre and Phaser<sup>®</sup> solid ink systems
- Xerox-branded and OEM color printers

Office equipment sales revenue from developing markets up 21 % and total revenue up 12 %

Q2 product launches strengthen competitive position

# Developing Markets Operations

## DMO Revenue



## DMO Overview

Post sale growth driven by managed services and supplies

Equipment sales increasing in both Production and Office

Strong performance across all regions

# Larry Zimmerman

# Earnings

(in millions, except per share data)

	<u>Q1 2008</u>	<u>Q1 2007</u>	
Revenue	\$ 4,335	\$ 3,836	Modest growth continues
Gross Margin	39.3 %	40.6 %	Below our FY model, sales margin down 2pts driven by mix, price and currency
R,D&E	\$ 221	\$ 218	Continued investments
SAG	\$ 1,124	\$ 954	GIS and currency responsible for \$128M of increase - \$21M marketing and coverage investments
<i>SAG % of Revenue</i>	25.9%	24.9%	
Other, Net	\$ 80	\$ 57	\$16M loss on currency – Yen
<b>Adjusted Net Income</b>	<b>\$ 247*</b>	<b>\$ 233</b>	Excludes 2008 \$491M litigation charge
Equity Income	\$ 28	\$ 6	FX restructuring in 1Q07
Adjusted Tax Rate	21 %*	31 %	Excludes '08 litigation charge
<b>Adjusted Diluted EPS</b>	<b>\$ 0.27*</b>	<b>\$ 0.24</b>	Excludes '08 litigation charge
After Tax Adjustments:			
Provision for Litigation, Net	\$ (0.54)		
<b>GAAP EPS</b>	<b>\$ (0.27)</b>	<b>\$ 0.24</b>	

# Cash Flow

(in millions)	<u>Q1 2008</u>
Net (loss) income	\$ (244)
Depreciation and amortization	145
Provisions for receivables and inventory	49
Cash payments for restructurings	(37)
Provisions for litigation, net	795
Net change in income tax assets and liabilities	(300)
Net change in inventories	(129)
Decrease in accounts payable and accrued compensation	(183)
Net change in A/R and billed portion of F/R	(28)
Other, net	(63)
<b>Cash from Core Operations*</b>	<b>\$ 5</b>
Increase in equipment on operating leases	(77)
Change in finance receivables (F/R)	124
<b>Cash from Operations</b>	<b>\$ 52</b>
CAPEX (incl. internal use software)	(71)
Acquisitions, net of cash acquired	(4)
Other cash from investing	10
<b>Cash from Investing</b>	<b>\$ (65)</b>
Debt payments on secured financings	(95)
Net cash (payments) proceeds on other debt	246
Payments to acquire treasury stock, including fees	(335)
Dividends on common stock	(40)
Other, net	(26)
<b>Cash from Financing</b>	<b>\$ (250)</b>
Change in cash and cash equivalents	(257)
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 842</b>

# Annuity Scorecard

## 2008 YTD Post Sale Leading Indicators

Digital Revenue	↑ 8%	Color Revenue	↑ 16%	B&W Digital Rev	↑ 2%
Digital MIF	↑ 7%	Color MIF	↑ 39%	B&W Digital MIF	↑ 1%
Digital Pages	Flat	Color Pages	↑ 32%	B&W Digital Pages	↓ 4%

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>YTD 2008</u>
Color % Revenue	27%	31%	35%	37%
Color % of MIF	10%	13%	17%	20%
Color % of Pages	7%	9%	12%	14%
Services* Annuity Growth	↑ 1%	↑ 6%	↑ 8%	↑ 8%
Light Lens % of Revenue	5%	3%	2%	1%

Anne Mulcahy

# Earnings Expectations

	Actual	Guidance	
	Q1 08	Q2 08	FY 08
GAAP EPS	\$ (0.27)	\$ 0.23 – 0.25*	\$ 0.72 – 0.76
Litigation	0.54		0.54
Adjusted Diluted EPS <sup>1</sup>	<u><u>\$ 0.27</u></u>	<u><u>\$ 0.23 – 0.25</u></u>	<u><u>\$ 1.26 – 1.30</u></u>

*\*Includes \$0.05 restructuring charge*

# Summary

## Growth strategy yielding positive results

- Activity
- Color
- Services

## Accelerating cost improvements through restructuring

- Drives increased margins

## Continue share repurchase and acquisitions

- Share repurchase \$354M year-to-date
  - Program to date: repurchased \$2.5B, 161 million shares
- Expanding distribution through regional dealer acquisitions

# Appendix

# Non-GAAP Financial Measures

**“Adjusted Revenue”:** We discussed the revenue growth for the first quarter 2008 using non-GAAP financial measures. To understand trends in the business, we believe that it is helpful to adjust the revenue growth rates to illustrate the impact of the acquisition of Global Imaging Systems (GIS) by including their estimated revenue for the comparable 2007 period. Management believes these measures give investors an additional perspective of revenue trends, as well as the impact of the acquisition of GIS to the Company. A reconciliation of these non-GAAP financial measures and the most directly comparable financial measures calculated and presented in accordance with GAAP is set forth on slide 19.

**“Adjusted Net Income, Tax Rate and Diluted EPS”:** Net income, tax rate and diluted earnings per share for the 2008 first quarter are discussed in this presentation using non-GAAP financial measures that exclude the effect of charges associated with our securities-related litigation matters. Management believes that it is helpful to exclude these effects to better understand and analyze the current period’s results given the nature and size of the charge as well as its relation to prior year events. A reconciliation of these non-GAAP financial measures and the most directly comparable financial measures calculated and presented in accordance with GAAP is set forth on slide 20.

**“Constant Currency”:** To understand trends in the 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 growth as “constant currency”. Currencies for our developing market countries (Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe) are reflected at actual exchange rates for both actual and constant revenue growth rates, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. Management believes the constant currency measure gives investors an additional perspective of revenue trends. The currency impact can be determined as the difference between actual growth rates and constant currency growth rates as reported on the applicable slides.

**“Cash from core operations; Core cash flow”:** This measure of cash flows excludes the effect of investments made in finance receivables and on-lease equipment, which are the basis for growth in our leasing operation. These investments are viewed as income-producing assets and are important to the growth of our business. Management believes this measure gives investors an additional perspective of cash flow from operating activities. See reconciliation of cash from core operations to cash flow from operations on slide 12.

In addition, Management believes that these non-GAAP financial measures can 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.

# Q1 2008 Non-GAAP Reconciliation

(in millions)	Three Months Ended March 31,		% Change	Currency	% Change at Constant Currency*
	2008	2007			
<b>Equipment Sales Revenue:</b>					
As Reported	\$ 1,098	\$ 931	18 %	(5 %)	13 %
As Adjusted	\$ 1,098	\$ 1,078	2 %	(4 %)	(2 %)
<b>Post Sale Revenue:</b>					
As Reported	\$ 3,237	\$ 2,905	11 %	(4 %)	7 %
As Adjusted	\$ 3,237	\$ 3,052	6 %	(4 %)	2 %
<b>Total Revenues:</b>					
As Reported	\$ 4,335	\$ 3,836	13 %	(4 %)	9 %
As Adjusted	\$ 4,335	\$ 4,130	5 %	(4 %)	1 %

Revenue "As Adjusted" adds GIS' results for Q1 2007 to our 2007 reported revenue.

# Q1 2008 Adjusted Earnings Reconciliation

(in millions, except per-share data)

	<u>As Reported</u>	<u>Litigation</u>	<u>Adjusted Earnings</u>
Revenue	\$ 4,335		\$ 4,335
Gross Margin	39.3 %		39.3 %
R,D&E % of Revenue	5.1 %		5.1 %
SAG % of Revenue	25.9 %		25.9 %
Provision for Litigation, Net	795	(795)	-
Other, Net	80		80
(Loss) Income before taxes and equity income	<u>\$ (518)</u>	<u>\$ 795</u>	<u>\$ 277</u>
Income Taxes	\$ (246)	\$ 304	\$ 58
Tax Rate	47.5 %		20.9 %
Equity in Unconsolidated Affiliates	<u>28</u>		<u>28</u>
Net (Loss) Income	<u><u>\$ (244)</u></u>	<u><u>\$ 491</u></u>	<u><u>\$ 247</u></u>
<b>Diluted EPS</b>	<b>\$ (0.27)</b>	<b>\$ 0.54</b>	<b>\$ 0.27</b>