

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A  
(AMENDMENT NO. 1)

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2001

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from: to

1-4471 (Commission File Number)  
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XEROX CORPORATION  
(Exact name of registrant as specified in its charter)

New York  
(State of incorporation)

16-0468020  
(I.R.S. Employer Identification No.)

P.O. Box 1600, Stamford, Connecticut  
(Address of principal executive offices)

06904  
(Zip Code)

Registrant's telephone number, including area code: (203) 968-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class -----	Name of Each Exchange on Which Registered -----
------------------------------	---

Common Stock, \$1 par value	New York Stock Exchange Chicago Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes:  No:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock of the registrant held by non-affiliates as of May 31, 2002 was: \$6,525,261,445

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class -----	Outstanding at May 31, 2002 -----
Common Stock, \$1 par value.....	727,048,629 Shares

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference:

Document ----- Incorporated -----	Part of 10-K in Which -----
Xerox Corporation 2001 Annual Report to Shareholders	I & II

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8 K

(a) (1) Index to Financial Statements and financial statement schedules, filed as part of this report:

Financial Statements

Report of Independent Accountants

Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2001.

Consolidated Balance Sheets as of December 31, 2001 and 2000.

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2001.

Consolidated Statements of Common Shareholders' Equity for each of the years in the three-year period ended December 31, 2001.

Notes to Consolidated Financial Statements.

Financial Statement Schedules

I -- Financial Statements of Fuji Xerox Co., Ltd, (financial statements required by Regulation S-X which are excluded from the annual report to shareholders by Rule 14a-3(b))

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income for each of the years in the two-year period ended December 31, 2000 and 1999

Consolidated Statements of Comprehensive Income for each of the years in the two-year period ended December 31, 2000 and 1999

Consolidated Statements of Stockholders' Equity for each of the years in the two-year period ended December 31, 2000 and 1999

Consolidated Statements of Cash Flows for each of the years in the two-year period ended December 31, 2000 and 1999

Notes to Consolidated Financial Statements

II--Valuation and qualifying accounts.

All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.

(2) Supplementary Data:

Quarterly Results of Operations.

Five Years in Review

Commercial and Industrial (Article 5) Schedule

(3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.

- (b) Current Reports on Form 8-K dated October 2, 2001, October 3, 2001, October 12, 2001, November 16, 2001, November 19, 2001, November 20, 2001, November 27, 2001, December 20, 2001 and December 27, 2001 reporting Item 5 "Other Events" and a Current Report on Form 8-K dated September 28, 2001 (filed October 5, 2001) reporting Item 4 "Changes in Registrant's Certifying Accountant" and Item 5 "Other Events" were filed during the last quarter of the period covered by this Report.
- (c) The management contracts or compensatory plans or arrangements listed in the Index of Exhibits that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2002 Proxy Statement are preceded by an asterisk (\*).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

XEROX CORPORATION

By: /S/ Gary R. Kabureck

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Assistant Controller and Chief  
Accounting Officer

July 1, 2002

SCHEDULE I

Financial Statements of Fuji Xerox Co., Ltd.

(Financial statements required by Regulation S-X which are excluded  
from the annual report to shareholders by Rule 14a-3(b))

FUJI XEROX CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

[LETTERHEAD OF KPMG]

Independent Auditors' Report

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The Board of Directors  
Fuji Xerox Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Fuji Xerox Co., Ltd. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fuji Xerox Co., Ltd. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with United States generally accepted accounting principles.

/s/ KPMG

February 27, 2001

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Consolidated Balance Sheets

December 31, 2000 and 1999

(Yen in millions, except share data)

	2000	1999
	----	----
Assets		
- - - - -		
Current assets:		
Cash and cash equivalents	(Yen) 38,566	72,586
Marketable securities (note 3)	73	82
Receivables (notes 4 and 17)	196,176	177,661
Finance receivables (note 5)	23,791	16,117
Inventories (notes 6 and 17)	83,275	75,102
Prepaid expenses and other current assets (notes 7 and 12)	19,843	17,984
	-----	-----
Total current assets	361,724	359,532
	-----	-----
Finance receivables (note 5)	49,722	32,602
Investments (notes 3 and 8)	49,818	57,640
Net property, plant and equipment (note 9)	190,550	184,335
Deferred income tax charges (note 12)	23,652	22,075
Goodwill, less accumulated amortization (note 21)	85,204	27,018
Other assets, at cost, less applicable amortization (note 14)	41,730	35,909
	-----	-----
	(Yen) 802,400	719,111
	=====	=====
Liabilities and Stockholders' Equity		
- - - - -		
Current liabilities:		
Short-term debt (note 10)	(Yen) 162,512	111,287
Payables (notes 11 and 17)	138,140	132,277
Income taxes (note 12)	8,728	6,526
Accrued expenses and other current liabilities (note 13)	50,981	51,227
	-----	-----
Total current liabilities	360,361	301,317
	-----	-----
Long-term debt, excluding current installments (note 10)	50,911	30,304
Retirement and severance benefits (note 14)	74,264	77,699
	-----	-----
Total liabilities	485,536	409,320
	-----	-----
Minority interests	23,252	19,412
Stockholders' equity:		
Common stock, (Yen)500 par value. Authorized		
80,000,000 shares; issued 40,000,000 shares	20,000	20,000
Legal reserve (note 15)	5,773	5,610
Retained earnings (note 15)	285,148	278,188
Accumulated other comprehensive loss (note 16)	(17,309)	(13,419)
	-----	-----
Total stockholders' equity	293,612	290,379
Commitments and contingencies (note 20)	-----	-----
	(Yen) 802,400	719,111
	=====	=====

See accompanying notes to consolidated financial statements.

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Income

Years ended December 31, 2000 and 1999

(Yen in millions)

	2000	1999
	----	----
Operating revenues (note 17):		
Sales	(Yen) 316,156	308,095
Service and rentals	339,947	338,483
Other	249,530	230,144
	-----	-----
Total operating revenues	905,633	876,722
	-----	-----
Costs and expenses (note 17):		
Cost of sales	229,476	233,760
Cost of service and rentals	124,852	118,025
Other	160,366	153,267
	-----	-----
Research and development expenses	514,694	505,052
Selling, general and administrative expenses	66,322	66,470
	-----	-----
Total costs and expenses	872,865	839,475
	-----	-----
Operating income	32,768	37,247
Other income (deductions):		
Interest income	6,590	6,579
Interest expenses	(5,041)	(5,223)
Exchange gains (losses)	(1,330)	189
Other, net	1,769	(182)
	-----	-----
Income before income taxes and minority interests	34,756	38,610
Income taxes (note 12):		
Current	12,656	15,180
Deferred	3,074	7,623
	-----	-----
Income before minority interests	19,026	15,807
Minority interests	3,903	3,377
	-----	-----
Net income	(Yen) 15,123	12,430
	=====	=====

See accompanying notes to consolidated financial statements.



FUJI XEROX CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Income  
 Years ended December 31, 2000 and 1999  
 (Yen in millions)

	2000	1999	
	-----	-----	
Net income	(Yen) 15,123	12,430	
Other comprehensive income (loss), net of tax (note 16):			
Change in net unrealized gains (losses) on securities	(3,075)	4,112	
Foreign currency translation adjustments	5,354	(7,857)	
Minimum pension liability adjustment	(6,169)	5,066	
	-----	-----	
Other comprehensive income (loss)	(3,890)	1,321	
	-----	-----	
Comprehensive income	(Yen) 11,233	13,751	
	=====	=====	

See accompanying notes to consolidated financial statements.

FUJI XEROX CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity  
Years ended December 31, 2000 and 1999  
(Yen in millions)

	Common stock -----	Legal reserve -----	Retained earnings -----	Accumulated other comprehensive income (loss) -----	Total stockholders' equity -----
Balance at December 31, 1998	20,000	5,475	275,393	(14,740)	286,128 -----
Comprehensive income:					
Net income	--	--	12,430	--	12,430
Other comprehensive income	--	--	--	1,321	1,321 -----
Comprehensive income					13,751 -----
Cash dividends (note 15)	-- -----	135 -----	(9,635) -----	-- -----	(9,500) -----
Balance at December 31, 1999	20,000	5,610	278,188	(13,419)	290,379 -----
Comprehensive income (loss):					
Net income	--	--	15,123	--	15,123
Other comprehensive loss	--	--	--	(3,890)	(3,890) -----
Comprehensive income					11,233 -----
Cash dividends (note 15)	-- -----	163 -----	(8,163) -----	-- -----	(8,000) -----
Balance at December 31, 2000	(Yen) 20,000 =====	5,773 =====	285,148 =====	(17,309) =====	293,612 =====

See accompanying notes to consolidated financial statements.

FUJI XEROX CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended December 31, 2000 and 1999  
(Yen in millions)

	2000 ----	1999 ----
Cash flows from operating activities:		
Net income	(Yen) 15,123	12,430
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,386	62,039
Loss on disposal of inventories	2,534	2,441
Deferred income taxes	3,074	7,623
Loss on disposal of property, plant and equipment	8,388	6,980
Equity in earnings of affiliates	(1,091)	(2,209)
Minority interests in earnings of subsidiaries	3,903	3,377
Increase in receivables	(11,639)	(22,409)
Increase in finance receivables	(1,774)	(7,204)
Increase in inventories	(5,913)	(4,610)
Increase (decrease) in payables	2,869	(1,497)
Decrease in retirement and severance benefits	(20,771)	(5,594)
Increase (decrease) in income taxes	2,022	(14,353)
Increase (decrease) in accrued expenses	(5,662)	1,433
Other, net	(11,073)	(11,485)
	-----	-----
Net cash provided by operating activities	43,376	26,962
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	2,143	2,083
Capital expenditures	(65,270)	(58,132)
Decrease in marketable securities and investments	3,241	18,667
Payment for acquisition of Xerox (Hong Kong) Limited and Xerox China Investments (Bermuda) Limited, net of cash acquired	(59,232)	-
Payment for acquisition of printer business	(6,957)	-
Other, net	3,954	2,098
	-----	-----
Net cash used in investing activities	(122,121)	(35,284)
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term debt	54,461	59,587
Repayment of long-term debt	(33,990)	(40,164)
Increase in short-term debt, net	31,981	27,436
Dividends paid	(8,000)	(9,500)
	-----	-----
Net cash provided by financing activities	44,452	37,359
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	273	(499)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(34,020)	28,538
Cash and cash equivalents at beginning of period	72,586	44,048
	-----	-----
Cash and cash equivalents at end of period	(Yen) 38,566	72,586
	=====	=====

See accompanying notes to consolidated financial statements.

FUJI XEROX CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2000 and 1999

(All amounts in millions)

(1) Summary of Significant Accounting Policies

-----  
(a) Description of Business  
-----

Fuji Xerox Co., Ltd. (Fuji Xerox Group or the Company) is a joint venture owned by Fuji Photo Film Co., Ltd. and Xerox Limited of the United Kingdom.

The Fuji Xerox Group's territory, as established by Xerox Corporation extends to the Asia Pacific and Oceania regions and the Company has four factories in Japan, one in Shenzhen, China, and one in Korea.

The Company's principal business as a member of the worldwide Xerox Group is the manufacturing and selling of office automation equipment such as copiers and low-end laser printers, collectively referred to as the Document Services Business. Other businesses include logistics and educational services.

The consolidated revenues of (Yen)905,633 for the year ended December 31, 2000 include the Document Service Business (96%) and other businesses (4%). Domestic revenues and overseas revenues from Southeast Asia, Oceania and other regions represented 90% and 10% of total revenues, respectively.

(b) Consolidation Policy  
-----

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

Investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

(c) Cash and Cash Equivalents  
-----

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(d) Marketable Securities and Investment Securities  
-----

The Company has classified its marketable and investment securities as available-for-sale which are reported at fair value with unrealized gains and losses, net of related taxes, excluded from the statement of income and included in other comprehensive income (loss) to be reported as a separate component of stockholders' equity. The Company did not hold any trading securities or held-to-maturity securities at December 31, 2000 and 1999. Realized gains and losses on the sale of available-for-sale securities are determined by the moving-average method.

(e) Inventories  
-----

Inventories are stated at the lower of cost or market value, cost generally being determined by the average method.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (f) Revenue Recognition

Revenues from sales-type leases of xerographic machines to customers are recognized at the inception of the lease. Associated interest income is recognized using the actuarial method with the allocation based on the net investment in outstanding leases. Revenue from xerographic machines under other leases is accounted for as operating leases; the rentals under such leases are included in revenue as earned over the terms of the respective leases.

## (g) Depreciation

Depreciation of property, plant and equipment other than the rental machines acquired after January 1, 1999 is computed principally by the declining balance method based on estimated useful lives. The rental machines acquired after January 1, 1999 are depreciated using the straight-line method over the estimated useful lives.

## (h) Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is being amortized on a straight-line basis over periods of between 20 to 40 years. The Company reviews the carrying value for impairment whenever events in circumstances indicate that the carrying amount may not be recoverable.

## (i) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

## (j) Foreign Currency Translation

Foreign currency financial statements have been translated into Japanese yen at the rates of exchange in effect at the balance sheet date for assets and liabilities and the average exchange rates prevailing during the period for revenue and expense items. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are excluded from the statements of income and are included in other comprehensive income (loss) to be accumulated in the balance sheet.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (k) Derivative Financial Instruments

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The Company and certain of its subsidiaries have entered into foreign exchange contracts and interest rate agreements for hedging currency and interest rate exposures. These instruments include foreign currency forward contracts, currency swap agreements and interest rate swap agreements. Gains and losses on foreign exchange instruments are recognized in the same period in which gains and losses from the transaction being hedged are recognized. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.

In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. In June 2000, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133", was also issued. Both standards establish accounting and reporting standards for derivative instruments, hedging activities, and exposure definition. Both standards require an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in fair value will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. SFAS No. 133, as amended, and No. 138 are effective for fiscal years beginning after June 15, 2000. The Company will adopt SFAS No. 133 and No. 138 as of January 1, 2001. The cumulative effect of adjustments upon the adoption of SFAS No. 133 and No. 138, net of the related income tax effect, resulted in an increase in net income of approximately (Yen)197 and an increase in other comprehensive income of approximately (Yen)376. Management does not believe that adoption of SFAS No. 133 and No. 138 will significantly alter the Company's hedging strategies.

## (1) Use of Estimates

-----  
Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

## (2) Basis of Financial Statement Presentation

-----  
The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile. However, the consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are necessary in order for them to conform with United States generally accepted accounting principles.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (3) Marketable Securities and Investment Securities

-----  
 Marketable securities and investment securities consist of available-for-sale securities. The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for such securities by major security type at December 31, 2000 and 1999 are summarized as follows:

	Amortized cost ----	Gross unrealized holding gains -----	Gross unrealized holding losses -----	Fair value -----
2000				
----				
Current:				
Bank debt securities	73 -----	-- -----	-- -----	73 -----
	(Yen) 73 =====	-- =====	-- =====	73 =====
Non-current:				
Japanese and foreign government bond securities	(Yen) 100	14	--	114
Corporate debt securities	191	1	1	191
Bank debt securities	5	--	--	5
Equity securities	2,432 -----	697 -----	445 -----	2,684 -----
	(Yen) 2,278 =====	712 =====	446 =====	2,994 =====
	Amortized Cost ----	Gross unrealized holding gains -----	Gross unrealized holding losses -----	Fair Value -----
1999				
----				
Current:				
Japanese and foreign government bond securities	(Yen) 28	--	--	28
Bank debt securities	53	--	--	53
Equity securities	1 -----	-- -----	-- -----	1 -----
	(Yen) 82 =====	-- =====	-- =====	82 =====
Non-current:				
Japanese and foreign government bond securities	(Yen) 101	16	--	117
Corporate debt securities	186	4	1	189
Bank debt securities	5	--	--	5
Equity securities	4,517 -----	8,026 -----	2,477 -----	10,066 -----
	(Yen) 4,809 =====	8,046 =====	2,478 =====	10,377 =====

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

Maturities of marketable securities and investment securities classified as available-for-sale at December 31, 2000 are summarized as follows:

	Amortized Cost	Fair Value
	----	-----
Due within one year	(Yen) 73	13
Due after one year through five years	295	309
Due after five years	1	1
Equity securities	2,432	2,684
	-----	-----
	(Yen) 2,801	3,067
	=====	=====

Proceeds from the sale of available-for-sale securities for the years ended December 31, 2000 and 1999 were (Yen)3,954 and (Yen)2,098, respectively. On those sales, gross realized gains from the sale of available-for-sale securities for the years ended December 31, 2000 and 1999 were (Yen)2,475 and (Yen)1,297, respectively.

## (4) Receivables

-----

Receivables at December 31, 2000 and 1999 are summarized as follows:

	2000	1999
	----	----
Trade:		
Notes	(Yen) 15,251	16,583
Accounts	168,905	147,296
Other	13,776	15,170
	-----	-----
	197,932	179,049
Less allowance for doubtful receivables	(1,756)	(1,388)
	-----	-----
	(Yen) 196,176	177,661
	=====	=====

## (5) Finance Receivables

-----

Finance receivables represent sales-type leases resulting from the marketing of the Company's business machines. The components of finance receivables at December 31, 2000 and 1999 are as follows:

	2000	1999
	----	----
Gross receivables	(Yen) 89,884	60,133
Unearned income	(14,306)	(10,139)
Less allowance for doubtful receivables	(2,065)	(1,275)
	-----	-----
	73,513	48,719
Less current portion	(23,791)	(16,117)
	-----	-----
	(Yen) 49,722	32,602
	=====	=====

(Continued)



## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (6) Inventories

-----  
 Inventories at December 31, 2000 and 1999 are summarized  
 as follows:

		2000	1999
		----	----
Merchandise	(Yen)	51,602	48,892
Parts		5,826	5,766
Raw materials		10,049	7,585
Work in process		11,021	8,410
Supplies		4,777	4,449
		-----	-----
	(Yen)	83,275	75,102
		=====	=====

## (7) Prepaid Expenses and Other Current Assets

-----  
 Prepaid expenses and other current assets at December  
 31, 2000 and 1999 comprise the following:

		2000	1999
		----	----
Advance payments	(Yen)	873	939
Deferred income tax charges-current		11,172	11,089
Other		7,798	5,956
		-----	-----
	(Yen)	19,843	17,984
		=====	=====

## (8) Investments

-----  
 Investments at December 31, 2000 and 1999 are summarized  
 as follows:

		2000	1999
		----	----
Investments in affiliates	(Yen)	13,567	12,087
Investment securities		5,244	12,550
Lease and other deposits		31,007	33,003
		-----	-----
	(Yen)	49,818	57,640
		=====	=====

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (9) Property, Plant and Equipment

Property, plant and equipment at December 31, 2000 and 1999 are summarized as follows:

	Cost	Accumulated depreciation	Net book Value
	----	-----	-----
2000			
----			
Rental machines	(Yen) 85,945	49,308	36,637
Land	20,369	-	20,369
Buildings and structures	144,296	78,806	65,490
Machinery and equipment	52,294	35,689	16,605
Vehicles	4,596	3,128	1,468
Tools, furniture and fixtures	167,103	120,823	46,280
Construction in progress	3,701	-	3,701
	-----	-----	-----
	(Yen) 478,304	287,754	190,550
	=====	=====	=====
	Cost	Accumulated depreciation	Net book Value
	----	-----	-----
1999			
----			
Rental machines	(Yen) 74,083	43,915	30,168
Land	20,114	-	20,114
Buildings and structures	143,331	75,298	68,033
Machinery and equipment	53,406	37,223	16,183
Vehicles	4,287	2,870	1,417
Tools, furniture and fixtures	157,076	114,297	42,779
Construction in progress	5,641	-	5,641
	-----	-----	-----
	(Yen) 457,938	273,603	184,335
	=====	=====	=====

## (10) Short-term Debt and Long-term Debt

Short-term debt at December 31, 2000 and 1999 are summarized as follows:

	2000	1999
	----	----
Short-term debt, mainly to banks	(Yen) 99,231	27,297
Commercial paper	25,000	50,000
Current installments of long-term debt	38,281	33,990
	-----	-----
	(Yen) 162,512	111,287
	=====	=====

The weighted average interest rate on short-term debt, mainly to banks, at December 31, 2000 was 2.6%.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

Long-term debt at December 31, 2000 and 1999 consists of the following:

	2000	1999
	----	----
Unsecured yen medium term notes maturing from 2002 through 2006 bearing interest from 0.8% to 2.0%	(Yen) 13,000	13,000
Unsecured yen medium term notes maturing from 2001 through 2003 bearing interest from 5.5% to 7.1%	10,863	7,901
Unsecured yen bonds maturing from 2007 through 2010 bearing interest from 1.6% to 2.0%	15,000	-
Unsecured loans from banks and insurance companies, interest ranging from 0.7% to 12.8% per annum	50,329	43,393
	-----	-----
	89,192	64,294
Less current installments	(38,281)	(33,990)
	-----	-----
Long-term debt, excluding current installments	(Yen) 50,911	30,304
	=====	=====

The aggregate annual maturities of long-term debt outstanding at December 31, 2000 are as follows:

2001	(Yen) 38,281
2002	11,879
2003	6,574
2004	6,814
2005	1,462
2006 and thereafter	24,182
	-----
	(Yen) 89,192
	=====

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank.

## (11) Payables

-----

Payables at December 31, 2000 and 1999 are summarized as follows:

	2000	1999
	----	----
Notes	(Yen) 25,130	26,383
Accounts	113,010	105,894
	-----	-----
	(Yen) 138,140	132,277
	=====	=====

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (12) Income Taxes

-----  
 Total income tax expenses for the years ended December 31, 2000 and 1999 are allocated as follows:

	2000	1999
	----	----
Income	(Yen) 15,730	22,803
Stockholders' equity-accumulated other comprehensive loss	(6,575)	7,489
	-----	-----
	(Yen) 9,155	30,292
	=====	=====

Due to a change in Japanese income tax regulations, the normal statutory tax rate in Japan was reduced to approximately 42% effective for the business year beginning from April 1, 1999. Current income taxes were calculated at the rate of 47% in effect for the year ended December 31, 1999. Deferred tax assets and liabilities were principally calculated at the rate of 42%. Reconciliation from the Japanese tax rate to the actual income tax rate for the years ended December 31, 2000 and 1999 is as follows:

	Percent of	
	-----	
	pretax earnings	
	-----	
	2000	1999
	----	----
Japanese statutory tax rate	42.0	47.0
Expenses not deductible for tax purposes	4.1	3.5
Adjustment to deferred tax assets and liabilities		
for enacted changes in tax laws and rates in Japan	0.8	8.7
Other	(1.6)	(0.1)
	-----	-----
Actual income tax rate	45.3	59.1
	=====	=====

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below.

	2000	1999
	----	----
Deferred tax assets:		
Retirement and severance benefits	(Yen) 13,562	20,526
Minimum pension liability adjustment	4,467	--
Property, plant and equipment due to difference in depreciation rates	2,681	2,409
Inventories due mainly to accrual for obsolescence	4,776	4,175
Compensated absences	1,985	2,375
Net operating loss carry forwards	306	619
Investments and other assets	1,839	1,639
Other	13,873	10,144
	-----	-----
Total gross deferred tax assets	43,489	41,887
Less valuation allowance	(646)	(1,274)
	-----	-----
Deferred tax assets	42,843	40,613
	-----	-----
Deferred tax liabilities:		
Net unrealized gains on marketable securities and investment securities	(112)	(2,339)
Reserve for tax purposes	(1,802)	(932)
Other	(6,105)	(4,178)
	-----	-----
Total gross deferred tax liabilities	(8,019)	(7,449)
	-----	-----
Net deferred tax assets	(Yen) 34,824	33,164
	=====	=====

Net deferred income tax assets at December 31, 2000 and 1999 are reflected in the accompanying consolidated balance sheets under the following captions:

	2000	1999
	----	----
Prepaid expenses and other current assets	(Yen) 11,172	11,089
Deferred income tax charges	23,652	22,075
	-----	-----
	(Yen) 34,824	33,164
	=====	=====

The net change in the total valuation allowance for the years ended December 31, 2000 and 1999 was a decrease of (Yen)628 and (Yen)258, respectively.

At December 31, 2000, certain of the Company and its subsidiaries have net operating loss carryforwards for income tax purposes of (Yen)1,317, which are available to offset against future taxable income, if any. Of the above, (Yen)83 will expire within 5 years.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

The Company has not recognized a deferred tax liability of approximately (Yen)4,469 for the undistributed earnings of its foreign subsidiaries that arose in December 31, 2000 and prior years because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of December 31, 2000 the undistributed earnings of these subsidiaries were approximately (Yen)24,927. Deferred income taxes have also not been provided on undistributed earnings of domestic companies as such earnings, if distributed in the form of dividends, are not taxable under present tax laws.

The Company's tax returns have been examined by the tax authorities through the year ended December 31, 1999.

## (13) Accrued Expenses and Other Current Liabilities

-----  
Accrued expenses and other current liabilities at December 31, 2000 and 1999 comprise the following:

	2000	1999
	----	----
Accrued expenses	(Yen) 32,777	34,810
Accrued royalty	3,281	3,448
Advances from customers	4,534	3,593
Other	10,389	9,376
	-----	-----
	(Yen) 50,981	51,227
	=====	=====

## (14) Retirement and Severance Benefits

-----  
Upon retirement or termination of employment for reasons other than dismissal for cause, employees of the Company and its domestic subsidiaries are entitled to lump-sum payments, or lump-sum and pension annuity payments, based on their current rate of pay and length of service.

The Company and domestic subsidiaries have adopted a policy of partially funding the liability through payments to a trusted pension fund. Such payments constitute the funding of the current costs of a portion of the liability under the plan and the funding of the related past service costs over an approximately 7-year period.

In addition to the aforementioned retirement plans, the Company also has an employee welfare pension plan, under which contributions based on salaries and wages are made equally by the employees and the Company to a trust pension fund.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

Certain information required under Statement of Financial Accounting Standards No. 132 has been provided primarily by the trust company as follows:

	2000 ----	1999 ----
Benefit obligation at balance sheet dates	(Yen) 361,553	331,610
Fair value of plan assets at balance sheet dates	(232,992) -----	(218,302) -----
Funded status	(Yen) 128,561 =====	113,308 =====
Amounts recognized under defined benefit pension plans	(Yen) 49,932 =====	69,333 =====

Net periodic benefit cost, employer contribution, plan participants' contributions and benefits paid for the years ended December 31, 2000 and 1999 are as follows:

	2000 ----	1999 ----
Net periodic benefit cost	(Yen) 18,687	21,604
Employer contribution	31,506	16,981
Plan participants' contributions	1,498	1,511
Benefits paid	8,640	4,963

The main assumptions used in computing the information above are as follows:

	2000 ----	1999 ----
Weighted-average discount rate	3.0%	3.5%
Rate of future compensation increase	2.5%	3.0%
Expected long-term rate of return	4.00%	4.35%

At December 31, 2000, the Company recognized an additional minimum pension liability of (Yen)17,282 and intangible assets of (Yen)6,646 in accordance with Statement Financial Accounting Standards No. 87. The net effect of such recognition resulted in a (Yen)6,169 charge to other comprehensive loss and reduction to stockholders' equity, net of applicable deferred income taxes, during the year ended December 31, 2000.

Payments to directors and statutory auditors, corporate officers and part-time employees are based on separate plans. Amounts of (Yen)4,628 and (Yen)4,263 have been accrued as of December 31, 2000 and 1999, respectively, and are included in the liability for retirement and severance benefits in the accompanying consolidated balance sheets.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

The Company introduced a "New Flex Retirement Program"(NFR Program) in 1994 and another flex retirement program ("Third Flex Retirement Program"(FR3 Program)) in 1998 which give older employees the opportunity to attain early retirement. Amounts of (Yen)1,583 representing the unpaid retirement benefits for applicants to the NFR Program as of December 31, 1999, respectively, are included in the liability for retirement and severance benefits. The amount of (Yen)2,422 and (Yen)2,520 representing the unpaid retirement benefits for applicants to the FR3 Program as of December 31, 2000 and 1999, respectively, are included in the liability for retirement and severance benefits.

Total charges to income for these benefits for the years ended December 31, 2000 and 1999 amounted to (Yen)18,543 and (Yen)22,113, respectively.

## (15) Legal Reserve and Cash Dividends

-----  
The Japanese Commercial Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended December 31, 2000 and 1999 represent dividends paid out during the period and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for cash dividends in the amount of (Yen)8,000 proposed by the Company for the year ended December 31, 2000.

## (16) Other Comprehensive Income (Loss)

-----  
The accumulated other comprehensive loss on the consolidated balance sheets at December 31, 2000 and 1999 are summarized as follows:

	2000	1999
	----	----
Net unrealized gains on securities	(Yen) 260	3,335
Foreign currency translation adjustments	(11,400)	(16,754)
Minimum pension liability adjustment	(6,169)	-
	-----	-----
	(Yen) (17,309)	(13,419)
	=====	=====

(Continued)



## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

Related tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31, 2000 and 1999 are as follows:

		Before-tax amount -----	Tax (expense) or benefit -----	Net-of-tax amount -----
2000				
-----				
Unrealized losses on securities:				
Unrealized losses during the year	(Yen)	(2,827)	1,188	(1,639)
Less: Reclassification adjustment		(2,475)	1,039	(1,436)
		-----	-----	-----
Net unrealized losses on securities		(5,302)	2,227	(3,075)
		-----	-----	-----
Foreign currency translation adjustments		5,473	(119)	5,354
Minimum pension liability adjustment		(10,636)	4,467	(6,169)
		-----	-----	-----
Other comprehensive loss	(Yen)	(10,465)	6,575	(3,890)
		=====	=====	=====
		Before-tax amount -----	Tax (expense) or benefit -----	Net-of-tax amount -----
1999				
-----				
Unrealized gains on securities:				
Unrealized gains during the year	(Yen)	8,450	(3,971)	4,479
Less: Reclassification adjustment		(1,297)	930	(367)
		-----	-----	-----
Net unrealized gains on securities		7,153	(3,041)	4,112
		-----	-----	-----
Foreign currency translation adjustments		(7,901)	44	(7,857)
Minimum pension liability adjustment		9,558	(4,492)	5,066
		-----	-----	-----
Other comprehensive income	(Yen)	8,810	(7,489)	1,321
		=====	=====	=====

## (17) Accounts and Transactions with Stockholder Companies

-----  
The outstanding capital stock of the Company is owned in equal amounts by Fuji Photo Film Co., Ltd. and Xerox Limited.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

Accounts and transactions with stockholder companies and their affiliates for the years ended December 31, 2000 and 1999 and inventories purchased from such companies and on hand at December 31, 2000 and 1999 are summarized as follows:

Accounts	Receivables		Payables		
-----	-----		-----		
2000					
-----					
Fuji Photo Film Co., Ltd. and affiliates (Yen)	2,673		1,616		
Xerox Limited and affiliates	4,924		369		
Xerox Corporation and affiliates	16,919		6,545		
1999					
-----					
Fuji Photo Film Co., Ltd. and affiliates (Yen)	1,261		1,544		
Xerox Limited and affiliates	3,328		424		
Xerox Corporation and affiliates	9,563		5,716		
			Royalties and other expenses paid	Expenses recovered	Inven- tories on hand
Transactions	Sales	Purchases	-----	-----	-----
-----	-----	-----	-----	-----	-----
2000					
-----					
Fuji Photo Film Co., Ltd. and affiliates (Yen)	7,479	5,463	-	-	423
Xerox Limited and affiliates	12,083	5,897	159	164	1,994
Xerox Corporation and affiliates	50,820	9,626	14,527	3,399	1,471
1999					
-----					
Fuji Photo Film Co., Ltd. and affiliates (Yen)	5,849	5,169	-	-	92
Xerox Limited and affiliates	11,907	4,683	1,760	501	3,110
Xerox Corporation and affiliates	41,847	8,762	12,575	1,013	1,680

## (18) Financial Instruments

The Company and its subsidiaries have various financial instruments, including derivative financial instruments, which are exposed to credit-related losses in the event of non-performance by the counterparties. The companies utilize numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties. The companies' policies prescribe monitoring of creditworthiness and exposure on a counterparty by counterparty basis.

The Company and certain subsidiaries operate internationally, giving rise to exposure to market risks from changes in foreign exchange rates and interest rates. Certain derivative financial instruments have been entered into by the companies to manage those exposures. These instruments are held for hedging purposes and include foreign exchange contracts, currency swap agreement, interest rate swap agreements and interest rate and currency swap agreements.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

Foreign exchange contracts and currency swap agreements are agreements to exchange different currencies at a specified exchange rate on a specific future date. Interest rate swap agreements have the effect of changing floating rate debt into fixed rate or fixed rate debt into floating rate. Certain agreements are combinations of interest rate and foreign currency swap transactions. The floating rates are mainly based on the three-month or six-month LIBOR (London Interbank Offered Rate).

## The Contracts/Notional Principal Amounts of Derivative Financial Instruments

The contracts or notional principal amounts of derivative financial instruments held for purposes other than trading at December 31, 2000 and 1999 are summarized as follows:

		2000	1999
		----	----
Foreign exchange contracts:			
To sell foreign currencies	(Yen)	14,413	12,753
To buy foreign currencies		18,312	16,018
Currency swap agreement		3,195	-
Interest rate swap agreements		49,090	16,015

## The Fair Values of Financial Instruments

The estimated fair values of financial instruments at December 31, 2000 and 1999 are summarized as follows:

		2000		1999	
		----	----	----	----
		Carrying	Estimated	Carrying	Estimated
		amount	fair value	amount	fair value
		-----	-----	-----	-----
Marketable securities	(Yen)	73	73	82	82
Investments		5,244	5,244	12,550	12,550
Long-term debt		(89,192)	(89,276)	(64,294)	(64,649)
Foreign currency contracts		-	211	-	260
Currency swap agreement		-	(123)	-	-
Interest rate swap agreements		-	610	-	(4)

Cash and cash equivalents, receivables, short-term debt, payables and accrued expenses and other current liabilities:

The carrying amounts at December 31, 2000 and 1999 approximated fair values because of the short maturity of these instruments.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## Marketable securities and investments:

The fair values of the marketable securities and investments are based on quoted market prices. The fair values of other securities are based on the present value of future cash flows discounted using current market rates.

## Long-term debt:

The fair values of long-term debt instruments are based on the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar debt instruments of comparable maturity.

## Derivative financial instruments:

The fair values of foreign currency forward contracts and interest rate swap agreements are estimated based on quotes from brokers and reflect the estimated amounts that the Company would receive or (pay) to terminate the contracts at the reporting date.

Fair value estimates are made at a specific point in time, based on relevant market information and appropriate valuation methodologies. However, these estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The effect of using different assumptions and/or estimation methodologies may be material to the estimated fair value amounts.

## (19) Supplemental Disclosures of Cash Flow Information

-----  
Cash paid during the period for:

		2000	1999
		----	----
Interest	(Yen)	4,894	5,070
		=====	=====
Income taxes	(Yen)	10,634	29,533
		=====	=====

## (20) Commitments and Contingencies

-----  
At December 31, 2000, commitments outstanding for the purchase of property, plant and equipment approximated (Yen)2,773. Contingent liabilities for loans guaranteed by the Company, mainly on behalf of employees, amounted to approximately (Yen)39,812.

The Company and its subsidiaries occupy certain offices and other facilities and use certain equipment under cancelable lease arrangements. Rental expenses for the years ended December 31, 2000 and 1999 totaled (Yen)30,744 and (Yen)30,980, respectively.

(Continued)

## FUJI XEROX CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(All amounts in millions)

## (21) Acquisitions

-----  
In January 2000, the Company acquired the color printer business in Asia Pacific area for (Yen)6,957 in cash. This acquisition was accounted for by the purchase method. The excess of costs over the fair value of net assets acquired of (Yen)6,257 resulting from this acquisition is being amortized on a straight-line basis over 20 years.

In December 2000, the Company acquired 100 percent of the outstanding capital stock of Xerox (Hong Kong) Limited and Xerox China Investments (Bermuda) Limited for (Yen)61,586 in cash. This acquisition was accounted for by the purchase method. The excess of costs over the fair value of net assets acquired of (Yen)50,244 resulting from this acquisition is being amortized on a straight-line basis over 20 years.

The effect of the acquisitions on the consolidated operating results of the Company for the year ended December 31, 2000 was not material.

## (22) Reclassifications

-----  
Where appropriate, certain items relating to the prior periods have been reclassified to conform to the presentation in the current year.