FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
(X) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended: December 31, 1997

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from: ______ to ______

XEROX CORPORATION
(Exact name of registrant as specified in its charter)

1-4471
(Commission file number)

New York	16-0468020
(State of incorporation)	(I.R.S. Employer Identification No.)
P.O. Box 1600, Stamford, Connecticut	06904
(Address of principal executive offices)	(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

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: (X) 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 February 27, 1998 was: $31,263,825,255.

(Cover Page Continued)

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 February 27, 1998
Common Stock, $1 Par Value	327,031,139 Shares

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference:

Document	Part of 10-K in Which Incorporated
Xerox Corporation 1997 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 1998 Annual Meeting of Shareholders and Proxy Statement (to be filed not later than 120 days after the close of the fiscal year covered by this report on Form 10-K).	III & IV

Forward-Looking Statements

From time to time Xerox Corporation (the Registrant or the Company) and its representatives may provide information, whether orally or in writing, including certain statements in this Form 10-K under Part I, Item 1 "Business," Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Part II, Item 8 "Financial Statements and Supplementary Data," which are deemed to be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Litigation Reform Act"). These forward-looking statements and other information relating to the Company are based on the beliefs of management as well as assumptions made by and information currently available to management.

The words "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Registrant with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Registrant does not intend to update these forward-looking statements.

In accordance with the provisions of the Litigation Reform Act we are making investors aware that such "forward-looking" statements, because they relate to future events, are by their very nature subject to many important factors which could cause actual results to differ materially from those contained in the "forward-looking" statements. Such factors include but are not limited to the following:

Competition - the Registrant operates in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. There are a number of companies worldwide with significant financial resources which compete with the Registrant to provide document processing products and services in each of the markets served by the Registrant, some of whom operate on a global basis. The Registrant's success in its future performance is largely dependent upon its ability to compete successfully in its currently-served markets and to expand into additional market segments.

Transition to Digital - presently black and white light-lens copiers represent over half the Registrant's revenues. This segment of the general office is mature with anticipated declining industry revenues as the market transitions to digital technology. Some of the Registrant's new digital products replace or compete with the Registrant's current light-lens equipment. Changes in the mix of products from light-lens to digital, and the pace of that change as well as competitive developments could cause actual results to vary from those expected.

Pricing - the Registrant's ability to succeed is dependent upon its ability to obtain adequate pricing for its products and services which provide a reasonable return to shareholders. Depending on competitive market factors, future prices the Registrant can obtain for its products and services may vary from historical levels.

Financing Business - a significant portion of the Registrant's profits arise from the financing of its customers' purchase of the Registrant's equipment. On average, 75 to 80 percent of equipment sales are financed through the Registrant. The Registrant's ability to provide such financing at competitive rates and realize profitable spreads is highly dependent upon its own costs of borrowing which, in turn, depend upon its credit ratings. Significant changes in such ratings could reduce the profitability of such financing business and/or make the Registrant's financing less attractive to customers thus reducing the volume of financing business done. The Registrant's present credit ratings permit ready access to the credit markets. There is no assurance that these credit ratings can be maintained and/or ready access to the credit markets can be assured.

Productivity - the Registrant's ability to sustain and improve its profit margins is largely dependent on its ability to maintain an efficient, cost-effective operation. Productivity improvements through process reengineering, design efficiency and supplier cost improvements are required to offset labor and materials cost inflation and competitive price pressures.

International Operations - the Registrant derives approximately half its revenue from operations outside of the United States. In addition, the Registrant manufactures many of its products and/or their components outside the United States. The Registrant's future revenue, cost and profit results could be adversely affected by a number of factors, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements and local tax issues.

New Products/Research and Development - the process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. The Registrant must then make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and revenues required to provide anticipated returns from these investments.

Disengagement from Insurance Business - during the process of disengaging from the insurance business, the Registrant will continue to be subject to all the business risks and rewards of the remaining unit, Crum & Forster Holdings, Inc. (CFI). Until CFI is actually sold, no assurances can be given as to the ultimate impact on the Registrant's total results from operations or whether the proceeds from CFI's sale will equal its carrying value. The insurance business is subject to cyclical competitive conditions, judicial decisions affecting insurers' liabilities, and by volatile and unpredictable developments, including changes in the propensity of courts to grant large awards, fluctuations in interest rates, inflationary pressures that may tend to affect the size of losses and changes in the investment environment that affect market prices of insurance companies' investments. CFI's operating results have historically been influenced by these industry trends, as well as by its exposure to uncollectible reinsurance, which had been greater than for most other insurers.

PART I

Item 1. Business

Overview

Xerox Corporation (Xerox or the Company) is The Document Company and a leader in the global document market, providing document solutions that enhance business productivity. References herein to "us" or "our" refer to Xerox and consolidated subsidiaries unless the context specifically requires otherwise. We distribute our products in the Western Hemisphere through divisions and wholly-owned subsidiaries. In Europe, Africa, the Middle East and parts of

Asia including Hong Kong, India and China, we distribute through Xerox Limited (formerly Rank Xerox) and related companies (collectively Xerox Limited). In June 1997, we completed the acquisition of The Rank Group's remaining 20 percent financial interest in Rank Xerox Limited and related companies for 940 million pounds sterling, or approximately $1.5 billion. Fuji Xerox Co., Limited, an unconsolidated entity jointly owned by Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan and the Pacific Rim. Japan represents approximately 90 percent of Fuji Xerox revenues, and Australia, New Zealand, Singapore and Malaysia represent the remaining 10 percent. Fuji Xerox conducts business in other Pacific Rim countries through joint ventures and distributors.

Beginning in 1995, the results of our Insurance operations were accounted for as discontinued operations. Since that time the Document Processing business has been the only component of continuing operations.

Our Document Processing activities encompass developing, manufacturing, marketing, servicing and financing a complete range of document processing products and services designed to make offices around the world more productive. We believe that the document is a tool for productivity, and that documents - both electronic and paper - are at the heart of most business processes. Documents are the means for storing, managing, and sharing business knowledge. Document technology is key to improving productivity through information and knowledge management and we believe no one knows the document - paper to digital, digital to paper - better than we do. The financing of Xerox equipment is generally carried out by Xerox Credit Corporation (XCC) in the United States and internationally by foreign financing subsidiaries and divisions in most countries in which we operate. Document Processing operations had 91,400 Xerox employees worldwide at year-end 1997.

Continuing Operations

The Document Processing Strategy

We believe that documents represent the knowledge base of an organization and play a dynamic and central role in business, government, education and other organizations:

- - Increasingly, documents are being created and stored in digital electronic form.

- - The use of electronically created paper documents will continue to increase.

As The Document Company, we believe that by helping our customers navigate and manage the world of documents, we can help them improve their productivity and grow their businesses. We help customers make documents better, make better documents, and work better with documents.

We create customer value by providing innovative document technologies, products, systems, services and solutions that allow our customers to:

- - Move easily within and between the electronic and paper forms of documents.

- - Scan, store, retrieve, view, revise and distribute documents electronically anywhere in the world.

- - Print or publish documents on demand, at the point closest to the need, including those locations of our customers' customers.

- - Integrate the currently separate modes of producing documents, such as the data center, production publishing and office environments into a seamless, user-friendly enterprise-wide document systems network - with technology acting as an enabler.

We have formed alliances to bring together the diverse infrastructures that currently exist and to nurture the development of an open document services environment to support complementary products from our partners and customers. We are working with more than 50 industry organizations to make office, production and electronic printing an integrated, seamless part of today's digital work place.

Market Overview

We estimate that the global document market that we serve, excluding Japan and the Pacific Rim countries served by Fuji Xerox, was approximately $118 billion in 1997 and is estimated to grow at a 14 percent annual rate to about $175 billion in 2000. With our many new product introductions during this decade, and in particular, during 1997, our participation in the global document market has been considerably broadened from the slower growing segments of the market to the faster growing segments of the market. This growth will be driven by the transition to digital copying and printing in the office, the transfer of document production from offset printing to digital publishing, the increase in customer requirements for network and distributed printing, the accelerating demand for color documents, and increasingly, our participation in the small office / home office / personal document processing market.

We have traditionally had a strong position in the general office document market, the largest segment, which is projected to reach approximately $64 billion in 2000. Growth in this market is driven by the transition to the use of digital and color documents. The production market, which includes production publishing and production printing, is expected to grow at an annual rate of 10 percent, reaching $24 billion in 2000. The small office / home office / personal document processing market is growing at an annual rate of more than 25 percent due to increases in the number of home offices and small businesses. This market segment acquires product primarily through indirect distribution channels. Finally, document outsourcing, the fastest growing served market segment, is projected to grow 35 to 40 percent annually, reaching $11 billion by 2000, as customers' increasingly focus on their core competencies and outsource their document processing requirements.

Xerox Focus

We believe that our competitive advantages lie in our ability to continually improve the features and performance of our document processing products, services and solutions based on demonstrated customer needs; competitive pricing; our excellent reputation for performance and service; our substantial on-going investment in research and development; expanded sales coverage through our direct sales force, agents, retail chains, value added resellers and systems integrators; our leadership position in the rapidly growing document outsourcing business; maintenance of our strong market position in emerging markets; and an expanded presence in the burgeoning small office / home office / personal document processing market. As a result, we believe we are well positioned to participate in the anticipated growth in the market segments in which we compete.

Digital Products

Our digital products consist of four categories: black-and-white production publishing, black-and-white production printing, color laser copying and printing, and black-and-white digital copiers. During 1997, digital product revenues grew 25 percent on a pre-currency basis, driven by the annualized impact of new products introduced in 1996 as well as new products introduced during 1997. Digital products contributed 36 percent of total revenues in 1997, 30 percent in 1996, and 25 percent in 1995.

Production Publishing

The era of production publishing was launched in 1990 when we announced the DocuTech Production Publishing family which was a major step beyond our traditional reprographics market into the publishing industry. Having installed to date more than 16,000 DocuTech systems around the world, our production publishing revenues in 1997 were $2.1 billion.

Digital production publishing technology is increasingly replacing older, traditional short-run offset printing as customers seek improved productivity and cost savings, faster turnaround of document preparation, and the ability to print documents "on demand." We offer the widest range of solutions available in the marketplace - from dial-up lines through the Internet to state-of-the-art networks - and we are committed to expanding these print-on-demand solutions as new technology and applications are developed.

The DocuTech family of digital production publishers scans hard copy and converts it into digital documents, or accepts digital documents directly from networked personal computers or workstations. A user-friendly electronic cut-and-paste workstation allows the manipulation of images or the creation of new documents. For example, in only a few minutes, a page of word-processed text, received over a network, can be combined with a photograph scanned from hard copy and enhanced electronically: cropped, positioned precisely, rotated, brightened or sharpened. Digital masters can be prepared in a fraction of the time necessary to prepare offset plates, thereby allowing fast turnaround time. Further time can be saved, and frequently significant inventory and shipping costs, by transmitting electronically and printing where the documents are required.

DocuTech prints high-resolution (600 dots per inch) pages at up to 180 impressions per minute. The in-line finisher staples completed sets or finishes booklets with covers and thermal-adhesive bindings. Because the finished document can be stored as a digital document, hard copy documents can be printed on demand, or only as required, thus avoiding the long production runs and high storage and obsolescence costs associated with offset printing. The concept of print-on-demand took another major step in 1995 when we introduced the DocuTech 6135. It makes print-for-one publishing practical; personalized publishing runs can now be as short as one or two prints. Another significant step forward was taken in 1997 when the DocuTech 6180 was introduced, increasing output speed to 180 cut-sheet pages per minute.

Production Printing

Our revenues from production black-and-white computer printers grew 9 percent pre-currency in 1997 to $2.3 billion.

This market has largely consisted of high-end host-connected printers and low-end desktop printers. We expect significant future growth for robust, fully featured printers serving multiple users on networks. This growth will be driven by the increase in personal computers and workstations on networks, client-server processing, accelerating growth in the demand for enterprise-wide distributed printing, and declining electronics costs. These faster, more reliable printers print collated multiple sets on both sides of the paper, insert covers and tabs, and staple or bind, but without the labor-intensive steps of printing an original and manually preparing the documents on copiers. In addition, documents can be printed on these printers from remote data center computers, enabling the efficiencies of distributing electronically and then printing, rather than printing paper documents and then distributing them.

We have had a strong position in the production, high-volume computer printing market segment since 1977. We are well positioned to capitalize on the growth in the computer printing market because of our innovative technologies and our understanding of customer requirements for distributed printing from desktop and host computers. Our goal is to integrate office, production and data-center computer printing into a single, seamless, user-friendly network.

Xerox pioneered and continues to be a worldwide leader in computer laser printing, which combines computer, laser, communications and xerographic technologies. We market a broad line of robust printers with speeds that range from five pages per minute to the industry's fastest cut-sheet printer at 180 pages per minute, and continuous-feed production printers at speeds up to 420 pages per minute. Many of these printers have simultaneous interfaces that can be connected to multiple host computers as well as local area networks.

Breakthrough technology in our highlight color printers allows printing, in a single pass, black-and-white plus one customer-changeable color (as well as shades, tints, textures and mixtures of each) at production speeds up to 184 pages per minute. Other manufacturers' highlight color printers require additional passes to add variable color, which increase cost, reduce speed and reliability and introduce the possibility of color misalignment.

Productivity-enhancing features include printing collated multiple sets on both sides of the paper, inserting covers and tabs, printing checks with magnetic ink character recognition (MICR), and stapling; all on cut sheet plain paper, with sizes up to 11 by 17 inches.

In 1995, we significantly expanded our opportunities with the introduction of two major new printer series that redefine our role in the electronic production printing industry. With the DocuPrint CF Series family, we entered the market for very high-volume, continuous-feed printers at speeds up to 420 pages per minute. The DocuPrint IPS Series makes the IBM Advanced Function Presentation (AFP) architecture directly available to our production printing customers.

In 1997, we introduced the DocuPrint 180 which prints on one or both sides of a page, on a wide variety of paper sizes and weights, and at 180 pages per minute. We also introduced the DocuPrint 184 hc (highlight color) which pairs two 92 page-per-minute Xerox highlight color laser printers with one print server for cut-sheet, highlight color production speeds up to 184 pages per minute.

Color Laser Copying and Printing

Our revenues from color laser copiers and printers grew 46 percent pre-currency in 1997 to $1.5 billion.

The use of color originals in the office is accelerating. Independent studies have concluded that color documents are more effective at communicating information and that decision-making performance improves with the use of color documents. The vast majority of industry shipments of workstations and personal computers have color monitors, creating the need for economical, convenient and reliable, high-quality color copying and printing.

The color market has largely consisted of ink-jet and laser copiers and printers. Laser copiers and printers offer near-offset image quality, excellent printing speeds, and the accessories necessary to produce finished sets.

We entered the color laser market in 1991 with the introduction of the Xerox 5775 color copier/printer and the 4700 printer, both of which print full-color at 7.5 pages per minute. We have since expanded the product line with the 4900 color laser printer, which prints full color at three pages per minute; the MajestiK color copier/printer series, which print full color at 6 pages per minute; the XPrint family of networked desktop color laser printers, which print at resolutions up to 600 x 600 dots per inch; and the Regal color copier/printer, which prints full color at 9 pages per minute.

The DocuColor 40, which was introduced in early 1996, copies and prints at 40 full-color pages per minute and is the industry's fastest and most affordable digital color document production system. It has a market share of more than 50 percent.

During 1997, we introduced the DocuColor 70, a continuous feed full-color digital press, based on a print engine from Xeikon with Xerox-exclusive digital front-ends, that produces 70 high-quality, full-color impressions per minute. We also introduced the DocuColor 5750 Empress copier/printer which produces 6 full color copies per minute and the DocuColor 5799 which operates at 9 full color copies per minute. Finally, for networked workgroups, we introduced the DocuPrint C55, a full-featured, compact color laser printer that prints three full color pages per minute and includes automatic image enhancement and an embedded web server, and is the lowest-cost product of its kind.

Black and White Digital Copiers

The volume of paper documents used in the office continues to grow. Pages per worker per day in the U.S. have doubled in the last decade and productivity has been impaired by the need to manage documents on computer monitors and as hard-copy originals.

We intend to help customers improve productivity by controlling their documents from a common interface; managing from the desktop; eliminating gaps, steps and devices in the work process; and moving smoothly from digital to paper and back.

Our strategy is, first, to build from our current strength, the copier. We know how to design and build copiers with superior marking, paper handling and finishing technology. We know our customers, their requirements and how to sell sophisticated, fully featured copiers. In April 1997, we introduced the Document Centre family of four new stand-alone black and white digital copiers at speeds of 20, 30, 40, and 65 pages per minute, that are better quality, more reliable, and more feature rich than light-lens copiers and are priced at a modest premium over comparable light-lens copiers. A fax option is also available.

Second, beginning in 1998, as customers are ready, we will connect the digital copiers to their networks so that their digital copiers can also be used as robust, high-speed network printers to gain incremental volume from computer printing and ultimately to replace desktop printers and single-purpose copiers and faxes. The fax option and network upgrades have compelling economics versus the alternative of purchasing comparable printers and faxes since the print engine, output mechanics and most of the software required are part of the base digital copier.

Orders and installations of the available Document Centre digital black and white copier models exceeded our expectations during 1997 and, as a result, we more than doubled production. 1997 revenues from the 20 and 30 page-per-minute Document Centre 220 and 230 and the limited fourth quarter availability of the 65 page-per-minute Document Centre 265 were $300 million.

Light-lens Copying

Our revenues from light-lens copiers declined 2 percent pre-currency in 1997 to $9.6 billion. The decline in light-lens copier revenues reflects several important factors, including customer transition to our new digital black-and-white products and continued price pressures. We believe the trend over the past few years will continue whereby digital products' revenues represent an increasing share of total revenues and light-lens copier revenues will represent a declining share of total revenues. Revenues from light-lens copying represented 51 percent of total revenues in 1997, 56 percent in 1996 and 59 percent in 1995.

We market the broadest line of light-lens copiers and duplicators in the industry, ranging from a three copies-per-minute personal copier to a 135 copies-per-minute fully-featured duplicator to special copiers designed for large engineering and architectural drawings up to 3 feet by 4 feet in size. Many of our state-of-the-art products have improved ease of use, reliability, copy quality, job recovery and ergonomics as well as productivity-enhancing features, including zoom enlargement and reduction, highlight color, copying on both sides of the paper, and collating and stapling which allow the preparation of completed document sets.

We have a strong position with major accounts who demand a consistently high level of service worldwide. Our competitive advantages include a focus on customer call response times, diagnostic equipment that is state-of-the-art and availability of 24-hour-a-day, seven-day-a-week service.

We also are increasing our leadership position in small commercial accounts, the most competitive copier market segment, through marketing programs such as telemarketing, sales through independent agents, retail outlets and trade associations.

We expect that light-lens copiers will increasingly be replaced by digital copiers. However, some portions of the market will continue to be serviced by light-lens copiers for many years, such as customers who care principally about price or whose work processes do not require digital products. Therefore, we intend to continually upgrade our light-lens products to maintain a leadership position in the industry.

Other Products

We also offer a wide range of other document processing products including ink-jet and electrostatic printers, multi-function products, facsimile products, scanners, personal computer and workstation software, and integrated systems solutions.

We also sell cut-sheet paper to our customers for use in their document processing products.

Summary of Revenues by Product Category

The following table summarizes our revenues by major product category. The revenues for light-lens copiers and digital products include equipment and supplies sales, service, rental and document outsourcing revenues, and finance income. These revenues exclude the impact of foreign currency exchange rate fluctuations which are shown combined with the revenues from paper and other products.

Year ended December 31 (in billions)	1997	1996	1995
Light-lens copiers	$ 9.6	$ 9.7	$ 9.8
Digital products	6.7	5.4	4.3
Paper, other products, currency	1.9	2.3	2.5
Total revenues	$18.2	$17.4	$16.6

Xerox Competitive Advantages

Customer Satisfaction

Our highest priority is customer satisfaction. Our research shows that satisfied customers are far more likely to repurchase products and that the cost of selling a replacement product to a satisfied customer is far less than selling to a "new" customer. We regularly survey customers on their satisfaction, measure the results, analyze the root causes of dissatisfaction, and take steps to correct any problems.

Because of our emphasis on customer satisfaction, we offer a Total Satisfaction Guarantee, one of the simplest and most comprehensive offered in any industry: "If you are not satisfied with our equipment, we will replace it without charge with an identical model or a machine with comparable features and capabilities." This guarantee applies for at least three years to equipment acquired from and continuously maintained by Xerox or its authorized agents.

Quality

We were an early pioneer in total quality management and are the only company to have won all three of the following prestigious quality awards: the

Malcolm Baldrige National Quality Award in the United States in 1989 and Xerox Business Services, our outsourcing division, won the award in the services category in 1997, the European Quality Award in 1992 and the Deming Prize in Japan, won by Fuji Xerox in 1980. In addition, we have won top quality awards in Argentina, Australia, Belgium, Brazil, Canada, China (Shanghai), Colombia, France, Germany, Hong Kong, India, Ireland, Mexico, the Netherlands, Norway, Portugal, the United Kingdom, and Uruguay. Our "Leadership Through Quality" program has enabled us to improve productivity, accelerate the introduction of new products, improve customer satisfaction and increase market share. Xerox products have been consistently rated among the world's best by independent testing organizations.

Research and Development

Xerox research and development (R&D) is directed toward the development of new products and capabilities in support of our document processing strategy. Our research scientists are deeply involved in the formulation of corporate strategy and key business decisions. They regularly meet with customers and have dialogues with our business divisions to ensure they understand customer requirements and are focused on products that can be commercialized.

In 1997, R&D expense was $1,079 million compared with $1,044 million in 1996 and $949 million in 1995. We expect to increase our investment in technological development in 1998 and over the longer term to maintain our premier position in the rapidly changing document processing market. Our R&D spending is strategically coordinated with Fuji Xerox. The R&D investment by Fuji Xerox was $612 million in 1997, for a combined increase of 7 percent to $1.7 billion.

Marketing

Xerox document processing products are principally sold directly to customers by our worldwide sales force of approximately 13,500 employees and through a network of independent agents, dealers, retail chains, value-added resellers and systems integrators. To market low-end copiers, laser printers, and multi-function devices, we are significantly expanding our indirect distribution channels. We currently have arrangements with U.S. retail marketing channels including CompUSA, Office Depot, OfficeMax, and Staples, and office channels that include distributors and value added resellers like MicroAge, Ingram Micro, Tech Data, and Computer 2000. Our strategy is to target high-growth markets through high-volume distribution of laser and ink-jet printers, multi-function products, personal copiers, fax machines, and supplies with a goal to be the fastest growing source of personal and networked document solutions in retail and reseller channels worldwide. Consistent with this strategy, in September 1997, we announced our new DocuPrint N32 Network Laser Printer, starting at $2,900, the fastest, most advanced, least expensive model of its kind, offering "copier-like" features such as multiple-set printing, stapling and collating.

In 1991, Xerox International Partners (XIP), a 51 percent-owned partnership, was formed between Xerox and Fuji Xerox to supply printer engines to original equipment manufacturers. XIP has also contracted to supply printer engines to resellers.

Service

We have a worldwide service force of approximately 24,000 employees. In our opinion, this direct service force represents a significant competitive advantage: the service force is continually trained on our new products and its diagnostic equipment is state-of-the-art. 24-hour-a-day, seven-day-a-week service is available in most metropolitan areas in the United States. We are able to guarantee a consistent level of service nationwide and worldwide because our service force is not focused exclusively on metropolitan areas and it does not rely on independent local dealers for service.

Revenues

Our total document processing revenues were $18.2 billion in 1997, of which 49 percent were generated in the United States, 30 percent in Europe, and 21 percent in the remainder of the world, principally Brazil, the rest of Latin America, Canada, and China (excluding the unconsolidated $7.4 billion of Fuji Xerox revenues in Japan and much of the Pacific Rim).

Revenues from supplies, paper, service, rentals, document outsourcing and other revenues, and income from customer financing represented 62 percent of total revenues in 1997, 66 percent in 1996, and 67 percent in 1995. Because these revenues are derived from the installed base of equipment and are therefore less volatile than equipment sales revenues, they provide significant stability to overall revenues. Growth in these revenues is primarily a function of the growth in our installed population of equipment, usage and pricing. The balance of our revenues is derived from equipment sales. These sales, which drive the non-equipment revenues, depend on the flow of new products and are more affected by economic cycles.

Most of our customers have their equipment serviced by and use supplies sold by us. The market for cut-sheet paper is highly competitive and revenue growth is significantly affected by pricing. Our strategy is to charge a spread over mill wholesale prices. Rental revenues declined in 1997 and were flat in 1996 and 1995, due primarily to customers' preference for document outsourcing and the continuing trend of increased equipment sales.

Our document outsourcing business provides printing, publishing, duplicating and related services at more than 5,000 customer locations in 40 countries, including legal and accounting firms, financial institutions, insurance agencies and manufacturing companies. Revenues from our document outsourcing business increased 58 percent pre-currency to $2.0 billion in 1997. Document outsourcing revenues are split between equipment sales and document outsourcing. Where document outsourcing contracts include revenue accounted for as equipment sales, this revenue is included in equipment sales. All other document outsourcing revenue, including service, equipment rental, supplies, paper and labor are included in document outsourcing. This has the effect of diverting some revenues from supplies, paper, service, rental, and finance income.

We offer our document processing customers financing of their purchases of Xerox equipment primarily through XCC in the United States, largely by wholly-owned financing subsidiaries in Europe, and through divisions in Canada and Latin America. While competition for this business from banks and other finance companies remains extensive, we actively market our equipment financing services on the basis of customer service, convenience and competitive rates. On average, 75 to 80 percent of equipment sales are financed through Xerox.

International Operations

Our international operations account for 51 percent of Document Processing revenues. Our largest interest outside the United States is Xerox Limited. Marketing and manufacturing operations are also conducted through joint ventures in India and China. Marketing and manufacturing in Latin America are conducted through subsidiaries or distributors in over 35 countries. Fuji Xerox develops, manufactures and distributes document processing products in Japan and other areas of the Pacific Rim, Australia and New Zealand.

Our financial results by geographical area for 1997, 1996 and 1995, which are presented on pages 32, 33, 49, and 50 of the Company's 1997 Annual Report to Shareholders, are hereby incorporated by reference in this document in partial answer to this item.

Acquisition of XLConnect Solutions, Inc.

Accelerating our strategy to achieve high growth through networked document solutions, we announced on March 5, 1998 an agreement to acquire XLConnect Solutions, Inc. (XLConnect), an information technology services company, and its parent company, Intelligent Electronics, Inc. (Intelligent Electronics), for $415 million in cash. The transaction must be approved by the stockholders of both Intelligent Electronics and XLConnect. Closing is subject to customary closing conditions, including regulatory approval.

We believes that this acquisition will strengthen our worldwide services capabilities to design, build and support networks that implement enterprise-wide document solutions for our customers. In addition, we believe that XLConnect's expertise will complement and extend our highly profitable document services outsourcing business, which grew 58 percent in 1997, to $2 billion.

XLConnect, with 1,500 employees, 27 locations throughout the United States and 1997 revenue of $135 million, provides network management, consulting, design, and integration services for medium and large companies.

The growth in network computing has led to a tremendous increase in both the volume of digital documents and the convergence of document management and communication with other technologies, including imaging, voice and data. We believe that this acquisition will infuse us with hundreds of talented and trained network specialists who will design and build publishing, workflow and other document solutions, including Internet-based solutions, for our customers. We believe the experts at XLConnect will help us develop and deliver our document solutions for virtually any networked environment.

Our digital printers, copiers and other document products, operating in conjunction with a suite of document management, workflow and imaging software, create networked business solutions that improve productivity in the office, print shop and production-printing environments. The purchase of XLConnect provides us strategic access to a nationwide information technology services capability, including applications developed by XLConnect, that position us at the forefront of the networked enterprise. XLConnect's senior management team will remain with the company.

We anticipate that the earnings impact from this acquisition will be about neutral in 1998 and positive in 1999 and thereafter.

Discontinued Operations - Insurance and Other Financial Services

The discussion under the caption "Discontinued Operations - Insurance and Other Financial Services" on pages 43 through 45 set forth under the caption "Financial Review" and the information set forth under Note 8 "Discontinued Operations" on pages 50 through 53 in the Company's 1997 Annual Report to Shareholders are hereby incorporated by reference in this document in partial answer to this item.

As discussed in the incorporated sections referenced in the preceding paragraph, as of January 2, 1998, the last remaining insurance company was Crum & Forster Holdings, Inc. (CFI). However, on March 11, 1998, we announced an agreement to sell CFI to Fairfax Financial Holdings Limited (Fairfax) of Toronto. Upon closing, the transaction will effectively complete the sale of the Talegen Holdings, Inc. insurance properties.

Under terms of the agreement, Fairfax will acquire the stock of CFI for total consideration of $680 million, including the repayment of $115 million of debt. We will incur approximately $75 million in transaction-related costs. The transaction, expected to close by the third quarter, is subject to customary closing conditions and regulatory approval.

Upon completion of this transaction, we will have effectively completed our exit from insurance and financial services. A final write-off of less than $200 million after-tax will be taken in the first quarter of 1998.

A discussion of CFI's property and casualty reserves follows.

Property and Casualty Reserves

Overview

Losses from claims and related claims handling and legal expense comprise the majority of costs from providing insurance products. Therefore, unpaid losses and loss expenses are generally the largest liabilities on a property and casualty insurer's balance sheet. However, because insurance coverage is provided for situations in which the certainty of loss cannot be predicted, ultimate losses which will be paid on policies issued are difficult to estimate and are subject to constant reevaluation as new information becomes available and as new techniques are developed to analyze available data. CFI, like most insurance companies, utilizes a variety of loss trending and analysis techniques to estimate anticipated ultimate losses and the time frames in which claims are likely to be reported and paid. Loss development patterns vary significantly by type of insurance coverage and are affected by the economic, social, judicial, weather-related and geological conditions in different geographic areas.

In order to moderate the potential impact of unusually severe or frequent losses, CFI cedes a portion of its gross policy premiums to reinsurers in exchange for the reinsurers' agreements to share a portion of the covered losses. Although the ceding of insurance does not discharge the original insurer from its primary liability to its policyholder, the reinsurer that accepts the risk assumes an obligation to the original insurer. The ceding insurer retains a contingent liability with respect to reinsurance ceded to the extent that the reinsurer might not be able to meet its obligations.

Reserves are established by CFI to provide for the estimated level of claim payments that will be made under the policies they write. Over the policy period, as premiums are earned, a portion of the premiums is set aside as gross loss and loss expense reserves for incurred but not reported (IBNR) losses in anticipation of claims that have not yet been reported. IBNR reserves also include amounts to supplement case reserves, when established, to provide for potential further loss development. In addition, gross reserves are established for internal and external loss expenses associated with handling the claims inventory. These expenses are characterized as allocated loss expenses when they are attributable to a specific claim or series of claims and unallocated loss expenses when not similarly attributable. When a claim is reported, case reserves are established on the basis of all pertinent information available at the time. Legal defense cost that can be assigned to a related claim file and can be included as part of the loss under the contract is generally established as part of the gross case reserve. Reinsurance recoverables on gross reserves are recorded for amounts that are anticipated to be recovered from reinsurers and are determined in a manner consistent with the liabilities associated with the reinsured policies. Net reserves are gross reserves less anticipated reinsurance recoverables (net of uncollectible reinsurance) and salvage and subrogation on those reserves.

The effect of inflation on gross reserves is implicitly considered when estimating the liability for unpaid losses and loss expenses. The effect of inflation on individual case basis reserves reflects the direction of economic price levels as they affect the individual claims being reserved. Estimates of the ultimate value of unpaid claims are based in part on historical data that reflect past inflation, as well as management's assessment of severity and frequency, industry trends and related costs.

Monitoring of Insurance Reserves

CFI monitors its liabilities arising from business written and adjusts carried reserves as conditions change and new information emerges. An oversight committee at Talegen Holdings, Inc. (Talegen) has also reviewed and approved all reserve funding increases. CFI employs an actuarial staff, some members of which, as Fellows of the Casualty Actuarial Society and members of the American Academy of Actuaries, are qualified loss reserve specialists who perform regular actuarial reviews of claim development and resulting reserve requirements. On a semi-annual or more frequent basis, detailed actuarial studies of gross reserves and reserves net of reinsurance are conducted by line of business and accident year. Actual claims activity is monitored monthly and compared to expected levels to detect variances or trends indicating changes in liabilities.

Estimates of loss and loss expense liabilities are affected primarily by the types of and amounts of insurance coverage currently being written and the trends developing from newly reported claims and claims which have been paid and closed. Adjustments are made to reserves in the period they can be reasonably estimated to reflect evolving changes in loss development patterns and various other factors. Such factors can include increased damage awards by the courts, known changes in judicial interpretations of legal liability for asbestos, environmental and other latent exposure claims and changes in judicial interpretation of the scope of coverage provided by general liability and umbrella policies. Many of these judicial interpretations are still evolving. Generally, the greater the projected time to settlement, the greater the complexity of estimating ultimate claim costs and the more likely that such estimates will change as new information becomes available.

Use of Reinsurance and Management of Reinsurance Collection

CFI made significant use of reinsurance during the 1970's and early 1980's. Since that time, CFI generally has increased the portion of business they retain while reducing the number of reinsurers used for their reinsurance contracts. During 1997 and 1996, excluding the reinsurance ceded to pools, associations and similar organizations, 90% and 89%, respectively, of total written premiums ceded by CFI to reinsurers were placed with up to 38 reinsurers.

Talegen has a reinsurance security committee which currently approves those reinsurers with whom CFI will do business. The approval process utilizes credit analyses prepared by The Resolution Reinsurance Services Company (RRSC), a subsidiary of The Resolution Group, Inc. These credit analyses are reviewed by the committee to assess the creditworthiness of each reinsurer. The credit criteria under which such approvals are granted have become increasingly restrictive over the past several years as CFI has intentionally placed business with what is believed to be financially secure reinsurers.

The potential uncollectibility of ceded reinsurance has been an industry-wide issue. With respect to the management of recoveries due from reinsurers, CFI operates under guidelines for the early identification of potential collection problems and utilizes the services of RRSC, which employs a specialized group of work-out experts to aid in the more complicated cases. Based upon the review of financial condition and assessment of other available information, CFI maintains a provision for uncollectible amounts due from reinsurers.

Statutory and GAAP Reporting of Net Unpaid Losses and Loss Expenses

The liability for unpaid losses and loss expenses required by generally accepted accounting principles (GAAP) differs from the liability reported in accordance with statutory accounting practices (SAP). Because certain GAAP adjustments to the recorded SAP liability can not be associated with subsequent developments of the liabilities on other than an arbitrary basis, developments on the loss and loss expense reserve development table are prepared in accordance with SAP.

Loss Development Data

CFI's reserves were increased in 1995, 1996 and 1997 primarily to make provision for latent liabilities, uncollectible reinsurance associated with latent liabilities, and construction defects exposure. CFI's net reserves, exclusive of Ridge Reinsurance Limited (Ridge Re), a wholly owned subsidiary of Xerox Financial Services, Inc., benefits, for prior accident years were increased by $16 million in 1997, by $173 million in 1996 and $326 million during 1995. The net reserve strengthening for the three-year period ended December 31, 1997 totaling $515 million included increases of $335 million for latent liabilities, $125 million for construction defects exposures and $85 million for uncollectible reinsurance, while experience in other reserve categories during this period resulted in a reduction to net reserves of $30 million. The strengthening made by CFI in 1996 and 1997 was charged to discontinued operations reserves established for this purpose and, therefore, did not impact our earnings. Each of these exposures and the increases recorded are more fully discussed in the paragraphs below.

Latent liabilities include reserves for environmental, asbestos and other types of latent exposures, such as those associated with breast implants, chemical exposure, tobacco products and other exposures which can result in insurance claims that were not contemplated when policies were originally written. Prior to 1995, CFI established case and IBNR reserves for latent exposure claims that had been reported. The IBNR reserves were established primarily to cover adverse development on known claims. Case reserves were and continue to be determined by a specialized claim and legal staff. Building on methodologies first published by the Casualty Actuarial Society in the third quarter of 1994, Talegen completed the first phase of a project to develop and implement methods to provide estimates of ultimate losses for asbestos and environmental exposures. This resulted in a model that, in turn, was the basis for increasing CFI's reserves in 1995 for latent liabilities by $186 million on a net basis. During 1996, the model was further refined and tested, and the amount and quality of data used in modeling was significantly enhanced. These improvements led to a 1996 reserve increase for latent exposures of $145 million on a net basis. In 1997, CFI increased its reserves for latent exposures by $4 million on a net basis.

Construction defect (CD) is a term used by the industry to refer to any third party claim where property damage occurs or is alleged to have occurred as a result of the insured's work, work performed on the insured's behalf or product failure in condominiums, townhouses, single family homes or commercial buildings involving one or more policy periods, excluding environmental exposures. Although claims involving CD have been experienced by the insurance industry and CFI historically, beginning in the late 1980's insurers who had written general contractors or subcontractors policies in California began to receive a growing number of CD cases, with claims spread over several accident years. With increased emphasis on evaluating and understanding CD exposure, substantial effort was undertaken to segregate data and develop methodology to provide better estimates of ultimate losses associated with the exposure. The efforts led to a net reserve increase for CFI during 1995 of $12 million. Refinement of costing methods and estimation of the impact of recent court decisions and legislation resulted in CFI increasing its net reserves for California CD exposure during 1996 by $101 million. In 1997, CFI increased its reserves for California CD exposure by $12 million on a net basis.

Uncollectible reinsurance reserves are established by CFI to the extent that its evaluation of the ability or willingness of reinsurers to indemnify ceded exposure pursuant to reinsurance agreements indicates that they will not receive full recovery of ceded balances. In general, latent liability claims present a need to establish this reserve both because of their inherent complexity and attendant issues and because these exposures arise under insurance policies that, in many cases, were written during the 1950's, 1960's and 1970's, when CFI used a large number of reinsurers, and applicable reinsurance programs included reinsurers which subsequently encountered financial difficulties. As reserves for latent liability exposure were increased, CFI also increased reserves for uncollectible reinsurance. Reserves for uncollectible reinsurance were increased by $32 million and $53 million in 1996 and 1995, respectively. There were no uncollectible reinsurance reserve increases for prior periods in 1997.

The loss and loss expense reserve development table illustrates the development of statutory balance sheet liabilities for 1987 through 1997 for CFI before cessions to Ridge Re. The first line of the table is the estimated GAAP liability for unpaid losses and loss expenses, net of reinsurance recoverable, recorded at the balance sheet date for each year. The second line on the table reconciles the estimated GAAP liability for net unpaid losses and loss expenses to the estimated SAP liability for unpaid losses and loss expenses. The lower section of the table shows the updated amount of the previously recorded SAP liability based on experience as of the close of each succeeding year.

The estimate for unpaid losses and loss expenses is increased or decreased as more information becomes known about the claims until all claims are settled. Deficiencies or redundancies represent aggregate changes in estimates, as calculated on a statutory basis, for all prior calendar years. These changes in estimates have been reflected in CFI's calendar year operating results. Because CFI recognizes adjustments to reserves for changes in loss development patterns and various other factors, such as social and economic trends and known changes in judicial interpretation of legal liability in the period in which they become known, it is not appropriate to extrapolate future deficiencies or redundancies based solely on this table.

This page intentionally left blank.

Loss and Loss Expense Reserve Development

Year ended December 31 (in millions)	1987	1988	1989	1990
Liability for unpaid losses and loss expenses - GAAP (net of reinsurance)	$ 2,153	$ 2,185	$ 2,330	$ 2,424
GAAP to SAP differences	(4)	(6)	(9)	(26)
Liability for unpaid losses and loss expenses - SAP (net of reinsurance)	2,149	2,179	2,321	2,398
Paid (cumulative) as of:				
End of year	-	-	-	-
One year later	635	647	659	734
Two years later	1,096	1,092	1,190	1,280
Three years later	1,427	1,484	1,628	1,562
Four years later	1,711	1,819	1,828	1,843
Five years later	1,980	1,960	2,041	2,037
Six years later	2,080	2,118	2,196	2,148
Seven years later	2,200	2,250	2,290	2,267
Eight years later	2,319	2,330	2,396	
Nine years later	2,385	2,423		
Ten years later	2,470			
Liability estimated as of:				
End of year	2,149	2,179	2,321	2,398
One year later	2,125	2,312	2,472	2,390
Two years later	2,325	2,465	2,395	2,929
Three years later	2,497	2,345	2,903	2,809
Four years later	2,370	2,794	2,819	2,825
Five years later	2,781	2,739	2,855	3,006
Six years later	2,727	2,805	3,039	3,136
Seven years later	2,804	2,992	3,181	3,139
Eight years later	3,005	3,131	3,201	
Nine years later	3,128	3,161		
Ten years later	3,151			
Deficiency	$(1,002)	$ (982)	$ (880)	$ (741)
End of Year:				
Gross liability (1)				
Reinsurance recoverable				
Net liability				
One Year Later:				
Gross re-estimated liability				
Re-estimated recoverable				
Net re-estimated liability				
Two Years Later:				
Gross re-estimated liability				
Re-estimated recoverable				
Net re-estimated liability				
Three Years Later:				
Gross re-estimated liability				
Re-estimated recoverable				
Net re-estimated liability				
Four Years Later:				
Gross re-estimated liability				
Re-estimated recoverable				
Net re-estimated liability				
Gross cumulative deficiency				

(1) Gross liability information for CFI is not available for periods prior to 1993.

1991	1992	1993	1994	1995	1996	1997
$ 2,174	$ 2,357	$ 2,292	$ 2,173	$ 2,418	$ 2,619	$ 2,616
(16)	17	6	6	(11)	(19)	(22)
2,158	2,374	2,298	2,179	2,407	2,600	2,594
-	-	-	-	-	-	-
722	500	565	522	470	564	
1,100	938	932	860	846		
1,461	1,243	1,182	1,147			
1,706	1,421	1,390				
1,847	1,587					
1,983						
2,158	2,374	2,298	2,179	2,407	2,600	2,594
2,737	2,378	2,311	2,461	2,539	2,602	
2,648	2,412	2,543	2,550	2,509		
2,670	2,618	2,610	2,518			
2,872	2,673	2,571				
2,967	2,641					
2,950						
$ (792)	$ (267)	$ (273)	$ (339)	$ (102)	$ (2)	$ -
		$ 3,102	$ 2,829	$ 3,128	$ 3,289	$ 3,407
		804	650	721	689	813
		2,298	2,179	2,407	2,600	2,594
		3,112	3,274	3,290	3,445	
		801	813	751	843	
		2,311	2,461	2,539	2,602	
		3,513	3,388	3,368		
		970	838	859		
		2,543	2,550	2,509		
		3,603	3,460			
		993	942			
		2,610	2,518			
		3,655				
		1,084				
		2,571				
		$ (553)	$ (631)	$ (240)	$ (156)	$ -

Item 2. Properties

The Company owns a total of eleven principal manufacturing and engineering facilities and leases an additional such facility. The domestic facilities are located in California, New York and Oklahoma, while the international facilities are located in Brazil, Canada, England, France, Holland and Mexico. The Company also has four principal research facilities; two are owned facilities in New York and Canada, and two are leased facilities in California and France.

In addition, within the Company, there are numerous facilities which encompass general offices, sales offices, service locations and distribution centers. The principal owned facilities are located in the United States, England, and Mexico. The principal leased facilities are located in the United States, Brazil, Canada, England, Mexico, France, Germany and Italy.

The Company's Corporate Headquarters facility, located in Connecticut, is leased. A training facility, located in Virginia, is owned by the Company. In the opinion of Xerox management, its properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform the Company's functions.

Item 3. Legal Proceedings

The information set forth under Note 13 "Litigation" on page 61 of the Company's 1997 Annual Report to Shareholders is incorporated by reference in this document in answer to this item. On March 2, 1998, the court removed the case from the trial calendar and the parties submitted a joint motion for the appointment of a mediator to attempt to mediate the damage counterclaim.

On April 11, 1996, an action was commenced by Accuscan Corp. (Accuscan), in the United States District Court for the Southern District of New York, against Registrant seeking unspecified damages for infringement of a patent of Accuscan which expired in 1993. The original suit was directed to facsimile products and sought damages for sales between 1990 and 1993. In late January 1998, Accuscan provided to Registrant its expert report on the issue of damages seeking $225,000,000 for infringement not only of facsimile machines but other Registrant hardware. Registrant's expert report states that it is believed that the appropriate amount of damages, if liability should be established, is $150,000. Registrant (i) denies any liability to plaintiff, (ii) denies that the patent in suit is valid or infringed, and (iii) asserts that the damage calculations used by plaintiff are inconsistent with the facts in numerous respects. Registrant intends to vigorously defend the action. Trial is scheduled for March 23, 1998.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Market Information, Holders and Dividends

The information set forth under the following captions on the indicated pages of the Company's 1997 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item:

Caption	Page No.
Stock Listed and Traded	69
Xerox Common Stock Prices and Dividends	69
Eleven Years in Review - Common Shareholders of Record at Year-End	68 and 69

Recent Sales of Unregistered Securities

During the quarter ended December 31, 1997, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended ("Act"):

(a) Securities Sold: On October 1, 1997 Registrant issued 1,306 shares of Common Stock, par value $1 per share.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: A. A. Johnson, B. R. Inman, V. E. Jordan, Jr., Y. Kobayashi, H. Kopper, R. S. Larsen, J. D. Macomber, G. J. Mitchell, N. J. Nicholas, Jr., J. E. Pepper, M. R. Seger and T. C. Theobald.

(c) The shares were issued at a deemed purchase price of $84.1875 per share (aggregate price of $109,949), based upon the market value on the date of issuance, in payment of the quarterly Directors' fees pursuant to Registrant's Restricted Stock Plan For Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Item 6. Selected Financial Data

The following information, as of and for the five years ended December 31, 1997, as set forth and included under the caption "Eleven Years in Review" on pages 68 and 69 of the Company's 1997 Annual Report to Shareholders, is hereby incorporated by reference in this document in answer to this Item:

Revenues
Income (loss) from continuing operations
Per-Share Data - Earnings (loss) from continuing operations
Total assets
Long-term debt
Preferred stock
Per-Share Data - Dividends declared

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information set forth under the caption "Our Results of Operations and Financial Condition" under the caption "Financial Review" on pages 31-37, 39-41, and 43-45 of the Company's 1997 Annual Report to Shareholders other than the pictures and captions to the pictures is hereby incorporated by reference in this document in answer to this Item.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of Xerox Corporation and subsidiaries and the notes thereto and the report thereon of KPMG Peat Marwick LLP, independent auditors, which appear on pages 30, 38, 42, 46-65, and 67 of the Company's 1997 Annual Report to Shareholders, are hereby incorporated by reference in this document in answer to this Item. In addition, also included is the quarterly financial data included under the caption "Quarterly Results of Operations (Unaudited)" on page 66 of the Company's 1997 Annual Report to Shareholders.

The financial statement schedule required herein is filed as "Financial Statement Schedules" pursuant to Item 14 of this Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

The information set forth in "Proposal 1--Election of Directors" in the Company's Notice of the 1998 Annual Meeting of Shareholders and Proxy

Statement, to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year covered by this report on Form 10-K, is hereby incorporated by reference in this document in answer to this Part III.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. There are no family relationships between any of the executive officers named.

Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

Name	Age	Present Position	Year Appointed to Present Position	Officer Since_
Paul A. Allaire*	59	Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee	1991	1983
G. Richard Thoman*	53	President and Chief Operating Officer	1997	1997
William F. Buehler	58	Executive Vice President, Business Operations	1997	1991
A. Barry Rand	53	Executive Vice President, Customer Operations	1992	1986
Barry D. Romeril	54	Executive Vice President and Chief Financial Officer	1993	1993
Stuart B. Ross	60	Executive Vice President; Chairman and Chief Executive Officer, Xerox Financial Services, Inc.	1990	1979
Allan E. Dugan	57	Senior Vice President, Corporate Strategic Services	1992	1990
John A. Lopiano	59	Senior Vice President; President, Production Systems Group	1995	1993
Mark B. Myers	59	Senior Vice President, Corporate Research and Technology	1992	1989
David R. Myerscough	57	Senior Vice President; Corporate Business Strategy	1996	1989

* Member of Xerox Board of Directors.

Executive Officers of Xerox, Continued

Name	Age	Present Position	Year Appointed to Present Position	Officer Since_
Carlos Pascual	52	Senior Vice President; President, U.S. Customer Operations	1997	1994
Richard S. Paul	56	Senior Vice President and General Counsel	1992	1989
Brian E. Stern	50	Senior Vice President; President, Office Document Products Group	1996	1993
Eunice M. Filter	57	Vice President, Treasurer and Secretary	1990	1984
Philip D. Fishbach	56	Vice President and Controller	1995	1990

Each officer named above, with the exception of G. Richard Thoman and Barry D. Romeril, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 1997, Mr. Thoman had been with International Business Machines Corporation (IBM) where he was Senior Vice President and Chief Financial Officer from 1995 to 1997, and Group Executive for the Personal Systems Group from 1994 to 1995. He was President and CEO of Nabisco International from 1992 to 1994. He was Chairman and Co-CEO of Travel Related Services for American Express from 1989 to 1992.

Prior to joining Xerox in 1993, Mr. Romeril had been Group Finance Director at British Telecommunications Plc since 1988. From 1987 to 1988 he was Finance Director at BTR, Plc.

PART IV

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

(a) (1) and (2) The financial statements, independent auditors' reports and Item 8 financial statement schedules being filed herewith or incorporated herein by reference are set forth in the Index to Financial Statements and Schedule included herein.

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

(b) A Current Report on Form 8-K dated October 9, 1997 reporting Item 7 "Financial Statements, Pro-Forma Financial Information and Exhibits" was 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 1998 Proxy Statement are preceded by an asterisk (*).

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

XEROX CORPORATION

By: /s/ Barry D. Romeril_________
Executive Vice President and
Chief Financial Officer

March 23, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

March 23, 1998

Signature	Title
Principal Executive Officer:	
Paul A. Allaire	/s/ Paul A. Allaire______________
	Chairman, Chief Executive Officer and Director
Principal Financial Officer:	
Barry D. Romeril	/s/ Barry D. Romeril_____________
	Executive Vice President and Chief Financial Officer
Principal Accounting Officer:	
Philip D. Fishbach	/s/ Philip D. Fishbach___________
	Vice President and Controller

Directors:

/s/ B. R. Inman	Director
/s/ Antonia Ax:son Johnson	Director
/s/ Yotaro Kobayashi	Director
/s/ Ralph S. Larsen	Director
/s/ John D. Macomber	Director
/s/ George J. Mitchell	Director
/s/ N. J. Nicholas, Jr.	Director
/s/ John E. Pepper	Director
/s/ Patricia F. Russo	Director
/s/ Martha R. Seger	Director
/s/ Thomas C. Theobald	Director
/s/ G. Richard Thoman	Director

Report of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

Under date of January 23, 1998, we reported on the consolidated balance sheets of Xerox Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1997, as contained in the Xerox Corporation 1997 Annual Report to Shareholders on pages 30, 38, 42, and 46-65. These consolidated financial statements and our report thereon are incorporated by reference in the 1997 Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Stamford, Connecticut
January 23, 1998

Index to Financial Statements and Schedule

Financial Statements:

The above consolidated financial statements, related notes, report thereon and the quarterly results of operations which appear on pages 30, 38, 42, 46-65, 67, and 66 of the Company's 1997 Annual Report to Shareholders are hereby incorporated by reference in this document.

Commercial and Industrial (Article 5) Schedule:

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

SCHEDULE II

Valuation and Qualifying Accounts
Year ended December 31, 1997, 1996 and 1995

(in millions)	Balance at beginning of period	Additions charged to costs and expenses	Deductions, net of recoveries	Balance at end of period
1997				
Allowance for Losses on:				
Accounts Receivable	$ 92	$ 84	$ 84	$ 92
Finance Receivables	347	181	139	389
Deferred Tax Valuation Allowance	-	-	-	-
	$439	$265	$223	$481
1996				
Allowance for Losses on:				
Accounts Receivable	$ 90	$ 73	$ 71	$ 92
Finance Receivables	322	186	161	347
Deferred Tax Valuation Allowance	20	-	20	-
	$432	$259	$252	$439
1995				
Allowance for Losses on:				

Accounts Receivable	$ 79	$ 81	$ 70	$ 90
Finance Receivables	320	154	152	322
Deferred Tax Valuation Allowance	34	-	14	20
	$433	$235	$236	$432

Index of Exhibits

Document and Location

(3) (a) Restated Certificate of Incorporation of Registrant filed by the Department of State of New York on October 29, 1996.

Incorporated by reference to Exhibit 3(a)(1) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1996.

(b) By-Laws of Registrant, as amended through February 2, 1998.

(4) (a) Indenture dated as of January 15, 1990 between Registrant and BankAmerica National Trust Company (as successor in interest to Security Pacific National Trust Company (New York)) relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration No. 33-33150.

(b) Indenture dated as of December 1, 1991 between Registrant and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration No. 33-44597.

(c) Indenture dated as of September 20, 1996 between Registrant and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration Statement No. 333-13179.

(d) Indenture dated as of October 1, 1997 among Registrant, Xerox Overseas Holding PLC, Xerox Capital (Europe) plc (as successor to Rank Xerox Capital (Europe) plc) and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant and unlimited amounts of guaranteed debt securities which may be issued from time to time by the other issuers when and as authorized by or pursuant to a resolution or resolutions of the Board of Directors of Registrant or the other issuers, as applicable.

Incorporated by reference to Exhibit 4(b) to Registration Statement Nos. 333-34333, 333-34333-01 and 333-34333-02.

(e) Indenture dated as of March 1, 1988, as supplemented by the First Supplemental Indenture dated as of July 1, 1988, between Xerox Credit Corporation (XCC) and The First National Bank of Chicago relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or the Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-20640 and to Exhibit 4(a)(2) to XCC's Current Report on Form 8-K dated July 13, 1988.

(f) Indenture dated as of March 1, 1989, as supplemented by the First Supplemental Indenture dated as of October 1, 1989, between XCC and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-27525 and to Exhibit 4(a)(2) to XCC's Registration Statement No. 33-31367.

(g) Indenture dated as of May 1, 1994, between XCC and State Street Bank and Trust Company (formerly, The First National Bank of Boston) relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-53533 and to Exhibits 4(a)(1) and 4(a)(2) to XCC's Registration Statement No. 33-43470.

(h) Indenture dated as of October 2, 1995, between XCC and State

Street Bank and Trust Company relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-61481.

(i) Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis have not been filed. The Registrant agrees to furnish to the Commission a copy of each such instrument upon request.

(10) The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 1998 Proxy Statement are preceded by an asterisk (*).

*(a) Registrant's 1976 Executive Long-Term Incentive Plan, as amended through February 4, 1991.

Incorporated by reference to Exhibit (10)(a) to the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 1991.

*(b) Registrant's 1991 Long-Term Incentive Plan, as amended through May 15, 1997.

Incorporated by reference to Registrant's Notice of the 1997 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

(c) Registrant's 1996 Non-Employee Director Stock Option Plan.

Incorporated by reference to Registrant's Notice of the 1996 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

*(d) Description of Registrant's Annual Performance Incentive Plan.

*(e) Registrant's 1997 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan.

Incorporated by reference to Exhibit 10(e) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

*(f) 1997 Restatement of Registrant's Unfunded Supplemental Retirement Plan.

Incorporated by reference to Exhibit 10(f) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

(g) Registrant's 1981 Deferred Compensation Plan, 1985 Restatement, as amended through April 2, 1990.

Incorporated by reference to Exhibit 10(h) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1990.

(h) 1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors.

Incorporated by reference to Registrant's Notice of the 1996 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

*(i) Form of severance agreement entered into with various executive officers.

Incorporated by reference to Exhibit 10(j) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1989.

*(j) Registrant's Contributory Life Insurance Program, as amended as of January 30, 1998.

(k) Registrant's Deferred Compensation Plan for Directors, 1997 Amendment and Restatement.

Incorporated by reference to Exhibit 10(k) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

*(l) Registrant's Deferred Compensation Plan for Executives, 1997 Amendment and Restatement.

Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

*(m) Executive Performance Incentive Plan.

Incorporated by reference to Registrant's Notice of the 1995 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

(11) Statement re computation of per share earnings.

(12) Computation of Ratio of Earnings to Fixed charges.

(13) Pages 30 through 69 of Registrant's 1997 Annual Report to Shareholders.

(21) Subsidiaries of the Registrant.

(23) Consent of KPMG Peat Marwick LLP.

(27) Financial Data Schedule (in electronic form only).

EXHIBIT 3(b)

BY-LAWS

of

XEROX CORPORATION

February 2, 1998

ARTICLE I

MEETINGS OF STOCKHOLDERS

SECTION 1. Annual Meetings: A meeting of shareholders entitled to vote shall be held for the election of Directors and the transaction of other business in May of each year on any day (except a Saturday, Sunday, or holiday) in that month as determined by the Board of Directors.

SECTION 2. Special Meetings: Special Meetings of the shareholders may be called at any time by the Chairman of the Board, the President or the Board of Directors.

SECTION 3. Place of Meetings: Meetings of shareholders shall be held at the principal office of the Company or at such other place, within or without the State of New York, as may be fixed by the Board of Directors.

SECTION 4. Notice of Meetings:

(a) Notice of each meeting of shareholders shall be in writing and shall state the place, date and hour of the meeting. Notice of a Special Meeting shall state the purpose or purposes for which it is being called and shall also indicate that it is being issued by or at the direction of the person or persons calling the meeting. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders, fulfilling the requirements of Section 623 of the Business Corporation Law to receive payment for their shares, the notice of such meeting shall include a statement of that purpose and to that effect.

(b) A copy of the notice of any meeting shall be given, personally or by mail, not less than ten nor more than sixty days before the date of the meeting, to each shareholder entitled to vote at such meeting. If mailed, such notice is given when deposited in the United States mail, with postage thereon prepaid, directed to the shareholder at his address as it appears on the record of shareholders, or, if he shall have filed with the Secretary a written request that notices to him be mailed to some other address, then directed to him at such other address.

(c) Notice of meeting need not be given to any shareholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a waiver of notice by him.

SECTION 5. Quorum and Adjourned Meetings:

(a) At any Annual or Special Meeting the holders of a majority of the votes of shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series, voting as a class, the holders of a majority of the votes of shares of such class or series shall constitute a quorum for the transaction of such specified item of business. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders.

(b) Despite the absence of a quorum, the shareholders present may adjourn the meeting to another time and place, and it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. If after the adjournment, however, the Board of Directors fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder on the new record date entitled to notice under Section 4 of this Article I of the By-Laws.

SECTION 6. Nominations and Business at Meetings

At any annual meeting of shareholders, only persons who are nominated or business which is proposed in accordance with the procedures set forth in this Section 6 shall be eligible for election as Directors or considered for action by shareholders. Nominations of persons for election to the Board of Directors of the Company may be made or business proposed at a meeting of shareholders (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the Company entitled to vote at the meeting who complies with the notice and other procedures set forth in this Section 6. Such nominations or business proposals, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Company and such business proposals must, under applicable law, be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Company not less than 120 days nor more than 150 days in advance of the date which is the anniversary of the date the Company's proxy statement was released to security holders in connection with the previous year's annual meeting or if the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 90 days before the date of the applicable annual meeting.

Such shareholder's notice shall set forth (a) as to each person whom such shareholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of such person on whose behalf such proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such shareholder, as they appear on the Company's books and (ii) the class and number of shares of the Company which are beneficially owned by such shareholder. No person shall be eligible for election as a Director of the Company and no business shall be conducted at the annual meeting of shareholders unless nominated or proposed in accordance with the procedures set forth in this Section 6. The Chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination or proposal was not made in accordance with the provisions of this Section 6 and, if he should so determine, he shall so declare to the meeting and the defective nomination or proposal shall be disregarded. /(1)

SECTION 7. Organization: At every meeting of the shareholders, the Chairman of the Board, or in his absence, the President, or in his absence, an Executive Vice President designated by the Chairman of the Board, or in the absence of such officers, a person selected by the meeting, shall act as chairman of the meeting. The Secretary or, in his absence, an Assistant Secretary shall act as secretary of the meeting, and in the absence of both the Secretary and an Assistant Secretary, a person selected by the meeting shall act as secretary of the meeting.

SECTION 8. Voting:

(a) Whenever any corporate action, other than the election of Directors, is to be taken by vote of the shareholders, it shall, except as otherwise required by law or by the Certificate of Incorporation be authorized by a majority of the votes cast in favor of or against such action at a meeting of shareholders by the holders of shares entitled to vote thereon. An abstention shall not constitute a vote cast.

(b) Directors shall, except as otherwise required by law, be elected by a plurality of the votes cast at a meeting of shareholders by holders of shares entitled to vote in the election. [; provided, however, a nomination shall be accepted, and votes cast for a nominee shall be counted by the inspectors of election, only if the Secretary of the Company has received at least twenty-four hours prior to the meeting a statement over the signature of the nominee that he consents to being a nominee and, if elected, intends to serve as a Director.] /(2)

SECTION 9. Qualification of Voters:

(a) Every shareholder of record of Common Stock and Series B Convertible Preferred Stock of the Company shall be entitled at every meeting of such shareholders to one vote for every share of Common Stock and Series B Convertible Preferred Stock, respectively, standing in his name on the record of shareholders.

(b) Shares of stock belonging to the Company and shares held by another domestic or foreign corporation of any type or kind, if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the Company, shall not be shares entitled to vote or to be counted in determining the total number of outstanding shares.

- ----------------------------
/(1) Effective for the annual meeting to be held in 1999 and for all subsequent annual meetings.
/(2) Bracketed material deleted for the annual meeting to be held in 1999 and for all subsequent annual meetings.

(c) Shares held by an administrator, executor, guardian, conservator, committee, or other fiduciary, except a trustee, may be voted by him, either in person or by proxy, without transfer of such shares into his name. Shares held by a trustee may be voted by him, either in person or by proxy, only after the shares have been transferred into his name as trustee or into the name of his nominee.

(d) Shares standing in the name of another domestic or foreign corporation of any type or kind may be voted by such officer, agent or proxy as the By-Laws of such corporation may provide, or in the absence of such provision, as the Board of Directors of such corporation may provide.

SECTION 10. Proxies:

(a) Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy.

(b) No proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided by law.

(c) The authority of the holder of a proxy to act shall not be revoked by the incompetence or death of the shareholder who executed the proxy unless, before the authority is exercised, written notice of an adjudication of such incompetence or of such death is received by the Secretary or an Assistant Secretary.

(d) Without limiting the manner in which a shareholder may authorize another person or persons to act for him as proxy pursuant to paragraph (a) of this Section, the following shall constitute a valid means by which a shareholder may grant such authority:

(1) A shareholder may execute a writing authorizing another person or persons to act for him as proxy. Execution may be accomplished by the shareholder or the shareholder's authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A shareholder may authorize another person or persons to act for the shareholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be reasonably determined that the telegram, cablegram or other electronic transmission was authorized by the shareholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors shall specify the nature of the information upon which they relied.

(e) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to paragraph (d) of this Section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile, telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

SECTION 11. Inspectors of Election:

(a) The Board of Directors, in advance of any shareholders' meeting, shall appoint one or more inspectors to act at the meeting or any adjournment thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed, or if such persons are unable to act at a meeting of shareholders, the person presiding at a shareholders' meeting shall appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability.

(b) The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

SECTION 12. List of Shareholders at Meetings: A list of share-holders as of the record date, certified by the Secretary or by the transfer agent, shall be produced at any meeting of shareholders upon the request thereat or prior thereto of any shareholder. If the right to vote at any meeting is challenged, the inspectors of election, or person presiding thereat shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. Power of Board and Qualification of Directors: The business of the Company shall be managed under the direction of the Board of Directors, each of whom shall be at least eighteen years of age.

SECTION 2. Number, Term of Office and Classification:

(a) The Board of Directors shall consist of not less than five nor more than twenty-one members. The number of Directors shall be determined from time to time by resolution of a majority of the entire Board of Directors then in office, provided that no decrease in the number of Directors shall shorten the term of any incumbent Director. At each Annual Meeting of shareholders Directors shall be elected to hold office until the next annual meeting.

(b) If and whenever six full quarter-yearly dividends (whether or not consecutive) payable on the Cumulative Preferred Stock of any series shall be in arrears, in whole or in part, the number of Directors then constituting the Board of Directors shall be increased by two and the holders of the Cumulative Preferred Stock, voting separately as a class, regardless of series, shall be entitled to elect the two additional Directors at any annual meeting of shareholders or special meeting held in place thereof, or at a special meeting of the holders of the Cumulative Preferred Stock called as hereinafter provided. Whenever all arrears in dividends on the Cumulative Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarter-yearly dividend period shall have been paid or declared and set apart for payment, then the right of the holders of the Cumulative Preferred Stock to elect such additional two Directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends), and the terms of office of all persons elected as Directors by the holders of the Cumulative Preferred Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly. At any time after such voting power shall have been so vested in the Cumulative Preferred Stock, the Secretary of the Company may, and upon the written request of any holder of the Cumulative Preferred Stock (addressed to the Secretary at the principal office of the Company) shall, call a special meeting of the holders of the Cumulative Preferred Stock for the election of the two Directors to be elected by them as herein provided, such call to be made by notice similar to that provided in the By-Laws for a special meeting of the shareholders or as required by law. If any such special meeting required to be called as above provided shall not be called by the Secretary within twenty days after receipt of any such request, then any holder of Cumulative Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books of the Company. The Directors elected at any such special meeting shall hold office until the next annual meeting of the shareholders or special meeting held in place thereof. In case any vacancy shall occur among the Directors elected by the holders of the Cumulative Preferred Stock, a successor shall be elected to serve until the next annual meeting of the shareholders or special meeting held in place thereof by the then remaining Director elected by the holders of the Cumulative Preferred Stock or the successor of such remaining Director.

(c) All Directors shall have equal voting power.

SECTION 3. Organization: At each meeting of the Board of Directors, the Chairman of the Board, or in his absence, the President, or in his absence, a chairman chosen by a majority of the Directors present shall preside. The Secretary shall act as secretary of the Board of Directors. In the event the Secretary shall be absent from any meeting of the Board of Directors, the meeting shall select its secretary.

SECTION 4. Resignations: Any Director of the Company may resign at any time by giving written notice to the Chairman of the Board, the President or to the Secretary of the Company. Such resignation shall take effect at the time specified therein or, if no time be specified, then on delivery.

SECTION 5. Vacancies: Newly created directorships resulting from an increase in the number of Directors and vacancies occurring in the Board of Directors for any reason except the removal of Directors without cause may be filled by a vote of a majority of the Directors then in office, although less than a quorum exists. A Director elected to fill a vacancy shall hold office until the next annual meeting.

SECTION 6. Place of Meeting: The Board of Directors may hold its meetings at such place or places within or without the State of New York as the Board of Directors may from time to time by resolution determine.

SECTION 7. First Meeting: On the day of each annual election of Directors, the Board of Directors shall meet for the purpose of organization and the transaction of other business. Notice of such meeting need not be given. Such first meeting may be held at any other time which shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors.

SECTION 8. Regular Meetings: Regular meetings of the Board of Directors may be held at such times as may be fixed from time to time by resolution of the Board of Directors without notice.

SECTION 9. Special Meetings: Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, the President, or by any two of the Directors. Oral, telegraphic or written notice shall be given, sent or mailed not less than one day before the meeting and shall state, in addition to the purposes, the date, place and hour of such meeting.

SECTION 10. Waivers of Notice: Notice of a meeting need not be given to any Director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

SECTION 11. Quorum and Manner of Acting:

(a) If the number of Directors is twelve or more, seven Directors shall constitute a quorum for the transaction of business or any specified item of business. If the number of Directors is less than twelve, a majority of the entire Board of Directors shall constitute a quorum.

(b) A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting to another time and place without notice to any Director.

SECTION 12. Written Consents: Any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or the committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board or committee shall be filed with the minutes of the proceedings of the Board or committee.

SECTION 13. Participation At Meetings By Telephone: Any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

SECTION 14. Compensation: The Board of Directors shall have authority to fix the compensation of Directors for services in any capacity.

SECTION 15. Interested Directors:

(a) No contract or other transaction between the Company and one or more of its Directors, or between the Company and any other corporation, firm, association or other entity in which one or more of its Directors are directors or officers, or are financially interested, shall be either void or voidable for this reason alone or by reason alone that such Director or Directors are present at the meeting of the Board of Directors, or of a committee thereof, which approves such contract or transaction, or that his or their votes are counted for such purpose, provided that the parties to the contract or transaction establish affirmatively that it was fair and reasonable as to the Company at the time it was approved by the Board, a committee, or the shareholders.

(b) Any such contract or transaction may not be avoided by the Company for the reasons set forth in (a) if

(1) the material facts as to such Director's interest in such contract or transaction and as to any such common directorship, officership or financial interest are disclosed in good faith or known to the Board or committee, and the Board or committee approves such contract or transaction by a vote sufficient for such purpose without counting the vote of such interested Director or, if the votes of the disinterested Directors are insufficient for such purpose, by unanimous vote of the disinterested Directors (although common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which approves such contract or transactions), or

(2) the material facts as to such Director's interest in such contract or transaction and as to any such common directorship, officership or financial interest are disclosed in good faith or known to the shareholders entitled to vote thereon, and such contract or transaction is approved by vote of such shareholders.

SECTION 16. Loans to Directors: The Company may not lend money to or guarantee the obligation of a Director of the Company unless the particular loan or guarantee is approved by the shareholders, with the holders of a majority of the shares entitled to vote thereon constituting a quorum, but shares held of record or beneficially by Directors who are benefited by such loan or guarantee shall not be entitled to vote or to be included in the determination of a quorum.

ARTICLE III

EXECUTIVE COMMITTEE

SECTION 1. How Constituted and Powers: There shall be an Executive Committee, consisting of not less than three nor more than nine Directors, including the Chairman of the Board and the Chairman of the Executive Committee, elected by a majority of the entire Board of Directors, who shall serve at the pleasure of the Board. The Executive Committee shall have all the authority of the Board, except it shall have no authority as to the following matters:

(a) The submission to shareholders of any action that needs shareholders' authorization.

(b) The filling of vacancies in the Board or in any committee.

(c) The fixing of compensation of the Directors for serving on the Board or on any committee.

(d) The amendment or repeal of the By-Laws, or the adoption of new By-Laws.

(e) The amendment or repeal of any resolution of the Board which, by its terms, shall not be so amendable or repealable.

(f) The declaration of dividends.

SECTION 2. Meetings: Meetings of the Executive Committee, of which no notice shall be necessary, shall be held on such days and at such place as shall be fixed, either by the Chairman of the Board, the Chairman of the Executive Committee, or by a vote of the majority of the whole Committee.

SECTION 3. Quorum and Manner of Acting: Unless otherwise provided by resolution of the Board of Directors, a majority of the Executive Committee shall constitute a quorum for the transaction of business and the act of a majority of all of the members of the Committee, whether present or not, shall be the act of the Executive Committee. The members of the Executive Committee shall act only as a Committee. The procedure of the Committee and its manner of acting shall be subject at all times to the directions of the Board of Directors.

SECTION 4. Additional Committees: The Board of Directors by resolution adopted by a majority of the entire Board may designate from among its members additional committees, each of which shall consist of one or more Directors and shall have such authority as provided in the resolution designating the committee, except such authority shall not exceed the authority conferred on the Executive Committee by Section 1 of this Article.

SECTION 5. Alternate Members: The Board of Directors may designate one or more eligible Directors as alternate members of the Executive Committee, or of any other committee of the Board, who may replace any absent or disqualified member or members at any meeting of any such committee.

ARTICLE IV

OFFICERS

SECTION 1. Number: The officers of the Company shall be a Chairman of the Board, a President, a Chairman of the Executive Committee, one or more Vice Presidents, a Treasurer, a Secretary, a Controller, and such other officers as the Board of Directors may in its discretion elect. Any two or more offices may be held by the same person.

SECTION 2. Term of Offices and Qualifications: Those officers whose titles are specifically mentioned in Section 1 of this Article IV shall be chosen by the Board of Directors on the day of the Annual Meeting. Unless a shorter term is provided in the resolution of the Board electing such officer, the term of office of such officer shall extend to and expire at the meeting of the Board held on the day of the next Annual Meeting. The Chairman of the Board, the President and the Chairman of the Executive Committee shall be chosen from among the Directors.

SECTION 3. Additional Officers: Additional officers other than those whose titles are specifically mentioned in Section 1 of this Article IV shall be elected for such period, have such authority and perform such duties, either in an administrative or subordinate capacity, as the Board of Directors may from time to time determine.

SECTION 4. Removal of Officers: Any officer may be removed by the Board of Directors with or without cause, at any time. Removal of an officer without cause shall be without prejudice to his contract rights, if any, but his election as an officer shall not of itself create contract rights.

SECTION 5. Resignation: Any officer may resign at any time by giving written notice to the Board of Directors, or to the Chairman of the Board, or to the Secretary. Any such resignation shall take effect at the time specified therein, or if no time be specified, then upon delivery.

SECTION 6. Vacancies: A vacancy in any office shall be filled by the Board of Directors.

SECTION 7. Chairman of the Board: The Chairman of the Board shall preside at all meetings of the shareholders at which he is present, unless at such meetings the shareholders shall appoint a chairman other than the Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Directors at which he is present. The Chairman of the Board shall act as the Chief Executive Officer of the Company and it shall be his duty to supervise generally the management of the business of the Company with responsibility direct to the Board and subject to the control of the Board. The Chairman of the Board shall have such powers and perform such other duties as may be assigned to him by the Board.

SECTION 8. President: The President shall have such powers and perform such duties as may be assigned to him by the Board and the Chairman of the Board. The President shall, in the absence of the Chairman of the Board, preside at all meetings of the shareholders and Directors at which he is present. In the absence or inability to act of the Chairman of the Board, or if the Office of Chairman of the Board be vacant, the President, subject to the right of the Board from time to time to extend or confine such powers and duties or to assign them to others, shall perform all the duties and may exercise all the powers of the Chairman of the Board.

SECTION 9. Chairman of the Executive Committee: The Chairman of the Executive Committee shall have such powers and perform such duties as may be assigned to him by the Board. The Chairman of the Executive Committee shall preside at meetings of the Executive Committee of the Board of Directors.

SECTION 10. The Vice Presidents: Each Vice President shall have such powers and shall perform such duties as may be assigned to him by the Board of Directors, the Chairman of the Board or the President.

SECTION 11. The Treasurer: The Treasurer shall, if required by the Board of Directors, give a bond for the faithful discharge of his duties, in such sum and with such sureties as the Board of Directors shall require. He shall have charge and custody of, and be responsible for, all funds and securities of the Company, and deposit all such funds in the name of and to the credit of the Company in such banks, trust companies, or other depositories as shall be selected by the Board of Directors. The Treasurer may sign certificates for stock of the Company authorized by the Board of Directors. He shall also perform all other duties customarily incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 12. The Controller: The Controller shall keep and maintain the books of account for internal and external reporting purposes. He shall also perform all other duties customarily incident to the office of Controller and such other duties as may be assigned to him from time to time by the Board of Directors.

SECTION 13. The Secretary: It shall be the duty of the Secretary to act as secretary of all meetings of the Board of Directors, and of the shareholders, and to keep the minutes of all such meetings at which he shall so act in a proper book or books to be provided for that purpose; he shall see that all notices required to be given by the Company are duly given and served; he may sign and execute in the name of the Company certificates for the stock of the Company, deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors; he shall prepare, or cause to be prepared, for use at meetings of shareholders the list of shareholders as of the record date referred to in Article I, Section 12 of these By-Laws and shall certify, or cause the transfer agent to certify, such list; he shall keep a current list of the Company's Directors and officers and their residence addresses; he shall be custodian of the seal of the Company and shall affix the seal, or cause it to be affixed, to all agreements, documents and other papers requiring the same. The Secretary shall have custody of the Minute Book containing the minutes of all meetings of shareholders, Directors, the Executive Committee, and any other committees which may keep minutes, and of all other contracts and documents which are not in the custody of the Treasurer or the Controller of the Company, or in the custody of some other person authorized by the Board of Directors to have such custody.

SECTION 14. Appointed Officers: The Board of Directors may delegate to any officer or committee the power to appoint and to remove any subordinate officer, agent or employee.

SECTION 15. Assignment and Transfer of Stocks, Bonds, and Other Securities: The Chairman of the Board, the Treasurer, the Secretary, any Assistant Secretary, any Assistant Treasurer, and each of them, shall have power to assign, or to endorse for transfer, under the corporate seal, and to deliver, any stock, bonds, subscription rights, or other securities, or any beneficial interest therein, held or owned by the Company.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS AND BANK ACCOUNTS

SECTION 1. Execution of Contracts: The Board of Directors, except as in these By-Laws otherwise provided, may authorize any officer or officers, agent, or agents, in the name of and on behalf of the Company to enter into any contract or execute and deliver any instrument, and such authority may be general or confined to specific instances; but, unless so authorized by the Board of Directors, or expressly authorized by these By-Laws, no officer, agent or employee shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable pecuniarily in any amount for any purpose.

SECTION 2. Loans: No loans shall be contracted on behalf of the Company, and no negotiable paper shall be issued in its name unless specifically authorized by the Board of Directors.

SECTION 3. Checks, Drafts, etc.: All checks, drafts, and other orders for the payment of money out of the funds of the Company, and all notes or other evidences of indebtedness of the Company, shall be signed on behalf of the Company in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. Deposits: All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VI

STOCKS AND DIVIDENDS

SECTION 1. Certificates of Stock: Certificates for stock of the Company shall be in such form as shall be approved by the Board of Directors. The certificates of stock shall be numbered in order of their issue, shall be signed by the Chairman of the Board, the President or a Vice President, and the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer. The signature of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Company itself or its employee. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were an officer at the date of issue.

SECTION 2. Transfer of Stock: Transfers of stock of the Company shall be made only on the books of the Company by the holder thereof, or by his duly authorized attorney, on surrender of the certificate or certificates for such stock, properly endorsed. Every certificate surrendered to the Company shall be marked "Canceled", with the date of cancellation, and no new certificate shall be issued in exchange therefor until the old certificate has been surrendered and canceled. A person in whose name stock of the Company stands on the books of the Company shall be deemed the owner thereof as regards the Company; provided that, whenever any transfer of stock shall be made for collateral security, and not absolutely, such fact, if known to the Secretary of the Company, or to its transfer agent shall be so expressed in the entry of the transfer. No transfer of stock shall be valid as against the Company, or its shareholders for any purpose, until it shall have been entered in the stock records of the Company as specified in these By-Laws by an entry showing from and to whom transferred.

SECTION 3. Transfer and Registry Agents: The Company may, from time to time, maintain one or more transfer offices or agencies and/or registry offices at such place or places as may be determined from time to time by the Board of Directors; and the Board of Directors may, from time to time, define the duties of such transfer agents and registrars and make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for stock of the Company.

SECTION 4. Lost, Destroyed and Mutilated Certificates: The holder of any stock of the Company shall immediately notify the Company of any loss, destruction or mutilation of the certificate therefor. The Company may issue a new certificate in place of the lost or destroyed certificate, but as a condition to such issue, the holder of such certificate must make satisfactory proof of the loss or destruction thereof, and must give to the Company a bond of indemnity in form and amount and with one or more sureties satisfactory to the Treasurer, the Secretary or any Assistant Treasurer or Assistant Secretary. Such bond of indemnity shall also name as obligee each of the transfer agents and registrars for the stock the certificate for which has been lost or destroyed.

SECTION 5. Record Dates for Certain Purposes: The Board of Directors of the Company shall fix a day and hour not more than fifty days preceding the date of any meeting of shareholders, or the date for payment of any cash or stock dividend, or the date for the allotment of any rights of subscription, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend, or entitled to receive any such allotment of rights of subscription, or entitled to exercise rights in respect of any such change, conversion or exchange of capital stock, and in such case, such shareholders and only such shareholders as shall be shareholders of record on the day and hour so fixed shall be entitled to such notice of, and to vote at, such meeting or any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights of subscription, or to exercise rights in connection with such change or conversion or exchange of capital stock, as the case may be, notwithstanding any transfer of any stock on the books of the Company after such day and hour fixed as aforesaid.

SECTION 6. Dividends and Surplus: Subject to the limitations prescribed by law, the Board of Directors (1) may declare dividends on the stock of the Company whenever and in such amounts as, in its opinion, the condition of the affairs of the Company shall render it advisable, (2) may use and apply, in its discretion, any part or all of the surplus of the Company in purchasing or acquiring any of the shares of stock of the Company, and (3) may set aside from time to time out of such surplus or net profits such sum or sums as it in its absolute discretion, may think proper as a reserve fund to meet contingencies or for equalizing dividends, or for the purpose of maintaining or increasing the property or business of the Company, or for any other purpose it may think conducive to the best interest of the Company.

ARTICLE VII

OFFICES AND BOOKS

SECTION 1. Offices: The Company shall maintain an office at such place in the County of Monroe, State of New York, as the Board of Directors may determine. The Board of Directors may from time to time and at any time establish other offices of the Company or branches of its business at whatever place or places seem to it expedient.

SECTION 2. Books and Records:

(a) There shall be kept at one or more offices of the Company (1) correct and complete books and records of account, (2) minutes of the proceedings of the shareholders, Board of Directors and the Executive Committee, (3) a current list of the Directors and officers of the Company and their residence addresses, and (4) a copy of these By-Laws.

(b) The stock records may be kept either at the office of the Company or at the office of its transfer agent or registrar in the State of New York, if any, and shall contain the names and addresses of all shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.

ARTICLE VIII

GENERAL

SECTION 1. Seal: The corporate seal shall be in the form of a circle and shall bear the full name of the Company and the words and figures "Incorporated 1906, Rochester, N. Y.".

SECTION 2. Indemnification of Directors and Officers: Except to the extent expressly prohibited by law, the Company shall indemnify any person, made or threatened to be made, a party in any civil or criminal action or proceeding, including an action or proceeding by or in the right of the Company to procure a judgment in its favor or by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any Director or officer of the Company served in any capacity at the request of the Company, by reason of the fact that he, his testator or intestate is or was a Director or officer of the Company or serves or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in any capacity, against judgments, fines, penalties, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with such action or proceeding, or any appeal therein, provided that no such indemnification shall be required with respect to any settlement unless the Company shall have given its prior approval thereto. Such indemnification shall include the right to be paid advances of any expenses incurred by such person in connection with such action, suit or proceeding, consistent with the provisions of applicable law. In addition to the foregoing, the Company is authorized to extend rights to indemnification and advancement of expenses to such persons by i) resolution of the shareholders, ii) resolution of the Directors or iii) an agreement, to the extent not expressly prohibited by law.

ARTICLE IX

FISCAL YEAR

SECTION 1. Fiscal Year: The fiscal year of the Company shall end on the 31st day of December in each year.

ARTICLE X

AMENDMENTS

SECTION 1. Amendments: By-Laws of the Company may be amended, repealed or adopted by a majority of the votes of the shares at the time entitled to vote in the election of any Directors. If, at any meeting of shareholders, action is proposed to be taken to amend, repeal or adopt By-Laws, the notice of such meeting shall include a brief statement or summary of the proposed action. The By-Laws may also be amended, repealed or adopted by the Board of Directors, but any By-Law adopted by the Board may be amended or repealed by shareholders entitled to vote thereon as hereinabove provided. If any By-Law regulating an impending election of Directors is adopted, amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of shareholders for the election of Directors the By-Law so adopted, amended or repealed, together with a concise statement of the changes made.

EXHIBIT 10(d)

Annual Performance Incentive Plan

Under the Annual Performance Incentive Plan, executive officers of the Company may be entitled to receive performance related cash payments provided that annual, Committee-established performance objectives are met. At the beginning of the year, the Executive Compensation and Benefits Committee approves for each officer not participating in the Executive Performance Incentive Plan, an annual incentive target and maximum opportunity expressed as a percentage of annual base salary. The Committee also establishes overall Document Processing threshold, target and maximum measures of performance and associated payment schedules. For 1997, the performance measures were profit before tax (35%), revenue growth (20%), cash generation (15%), customer satisfaction (10%), customer loyalty (10%) and employee satisfaction (10%). Additional goals are also established for each officer that include business unit specific and/or individual performance goals and objectives. The weights associated with each business unit specific or individual performance goal and objective used vary and range from 10 percent to 55 percent of the total. Actual performance payments are subject to approval by the Committee following the end of the year.

EXHIBIT 10(j)

XEROX CORPORATION

CONTRIBUTORY LIFE INSURANCE PROGRAM

AS AMENDED
AS OF JANUARY 30, 1998

The purpose of the Plan is to provide life insurance benefits to a select group of management employees who contribute materially to the continued growth, development, and future business of Xerox Corporation.

Article I

Definitions

For the purposes hereof, unless otherwise required by the context, the following phrases or terms shall have the following meanings:

1.0 "Administrator" shall mean the Vice President of the Company having responsibility for personnel matters or his designee. The Administrator will manage and administer the Plan in accordance with the provisions of Article IX of this Plan.

1.1 "Beneficiary" shall mean the person(s), trust(s), or the estate of a Participant, entitled to receive any benefits under this Plan upon the death of a Participant.

1.2 "Beneficiary Designation" shall mean the form approved by the Insurer which shall be utilized by a Participant to designate a Beneficiary under the Insurance Policy.

1.3 "Change of Beneficiary" shall mean the form adopted from time to time by the Administrator for use under this Plan, acceptable to the Insurer, which shall be utilized by a Participant to change his or her Beneficiary.

1.4 "Company" shall mean Xerox Corporation.

1.5 "Employee" shall mean any person who is in the regular full time employment of the Company as determined by the personnel policies of the Company.

1.6 "Insurer" shall mean the insurance company selected by the Administrator to which both the Participant and the Company will apply for insurance on the Participant's life.

1.7 "Insurance Policy" shall mean a life insurance contract issued by the Insurer on the life of the Participant.

1.8 "Participant" shall mean an Employee who is eligible to participate and elects to participate in this Plan as provided in Article II hereof.

1.9 "Plan" shall mean the Contributory Life Insurance Program of Xerox Corporation, which shall be evidenced by this instrument and by each Plan Agreement.

1.10 "Plan Agreement" shall mean the form of written agreement, adopted from time to time by the Administrator for use under this Plan, which is entered into by and between the Company and a Participant.

1.11 "Termination Date" shall mean:

(a) for Participants in the Plan prior to July 1, 1997, the later of when the Participant attains age 65 or ten years of participation in the Plan

(b) for Participants joining the Plan on or after July 1, 1997, the later of when the Participant attains age 65 or 15 years of participation in the Plan.

Article II
Eligibility and Membership

2.0 The following Employees in executive pay groups of the Company shall be eligible to participate if:

(a) They are actively employed by the Company on or after July 1, 1989; or
(b) They were actively employed by the Company on January 1, 1989 and retired on or before July 1, 1989;
(c) They were actively employed by the Company on January 1, 1989, are receiving salary continuance as of July 1, 1989, and became eligible for retirement under the terms of the Company's Retirement Income Guarantee Plan between January 1, 1989 and July 1, 1989.

Eligible individuals may elect to participate in this Plan but are not required to do so.

2.1 Inpatriates and foreign nationals are not eligible for participation under the Plan.

2.2 Participants who met the requirements for eligibility at the time they elected to participate and who subsequently remain as active employees but do not remain in executive pay groups are still eligible to participate in the Plan.

2.3 As a condition of participation, each eligible individual shall complete, execute, and return to the Administrator a Plan Agreement in the form approved by the Administrator and will comply with such further conditions as may be established by and in the sole discretion of the Administrator.

2.4 Once a Participant has terminated participation in the Plan, he or she may not again become eligible to participate in the Plan.

Article III
Procurement of Insurance Policy

3.0 The Company and the Participant shall apply to the Insurer for an insurance policy on such Participant's life in the amount approved by the Administrator and specified in the Participant's Plan Agreement. The Participant shall:

(A) furnish such information as the Insurer may require,

(B) take such physical examinations as may be requested, and

(C) do any other act which may reasonably be requested by the Insurer.

3.1 If a Participant does not cooperate in the securing of such insurance, or if he or she is for any reason unable to obtain insurance in the specified amount on his or her life, the Company shall have no further obligation to Participant under the Plan and such Participant's Plan Agreement shall terminate.

3.2 The Company and the Participant shall be the owners of any Insurance Policy acquired on Participant's life. Their respective interests in the Insurance Policy shall be as they are set forth in this Plan, the Participant's Plan Agreement and the Insurance Policy.

3.3 The Company shall have no obligation of any nature whatsoever to a Participant under this Plan or Plan Agreement, if the circumstances of the Participant's death preclude payment of death proceeds under the Insurance Policy.

3.4 The amount of premium due annually from the Participant hereunder, shall be an amount equal to the Insurer's current published premium rate for annually renewable term insurance for standard risks. Participants then currently actively employed by the Company shall pay such required contribution to the Company through equal after-tax payroll contributions withheld from each Participant's compensation during the applicable tax year. On or before the due date of each Insurance Policy premium, or within the grace period provided therein, the Company shall forward to the Insurer the Participant's contribution as well as the balance of the premium then due. Participants not actively employed by the Company at the date a premium payment is due but who have elected under Section 5.0 hereof to continue participation in the Plan shall pay the Participant's premium contribution directly to the Company.

Article IV

Beneficiary

4.0 Participant shall designate his or her Beneficiary to receive benefits under the Plan in a separate Beneficiary Designation form approved by the Insurer. If more than one Beneficiary is named, the shares and the preference of each shall be indicated.

4.1 The Company and the Participant shall execute a Beneficiary Designation on forms approved by the Administrator. It shall limit the rights of the Participant's designated Beneficiary to the amount of the death benefit proceeds specified in Schedule B of his or her Plan Agreement with the balance payable to the Company. Such Beneficiary Designation shall not be terminated, altered or amended by the Company, without the express written consent of the Participant. The Company and the Participant shall take all action necessary to cause such Beneficiary Designation to conform to the provisions of this Plan and Plan Agreement.

4.2 Participants shall have the right to change their Beneficiary(s) at any time by submitting a new Beneficiary Designation form to the Company. In order to become effective such new form shall be executed by both the Participant and the Company.

4.3 No change in Beneficiary shall be effective until acknowledged in writing by the Insurer.

4.4 Any payment made by the Insurer in accordance with the most recent Beneficiary Designation form filed with the Company and the Insurer shall fully discharge the Insurer from all further obligations with respect to such payment.

4.5 The Beneficiary may elect any settlement option under the Insurance Policy of his or her portion of the death benefit proceeds and the Company agrees to coexecute and deliver to the Insurer the necessary forms to elect the requested settlement options.

Article V

Interest of Company and the Participant in the Insurance Policy During the Participant's Lifetime

5.0 Unless otherwise provided in this Section, a Participant's Plan Agreement shall terminate at the Termination Date. In the event the Participant's employment with the Company terminates prior to the Termination Date, Participants who are eligible to retire under the Company's Retirement Income Guarantee Plan shall have the right to continue the Plan Agreement until the Termination Date, provided that the Participant continues to make the required premium contributions under Section 3.4. In the event that the Participant's employment with the

Company terminates prior to the Termination Date and the Participant is not eligible to retire under the Company's Retirement Income Guarantee Plan, the Participant's Plan Agreement shall terminate.

5.1 At the termination of the Plan Agreement, the Company shall have the unqualified right to cash surrender value of an Insurance Policy in an amount equal to the amount of cumulative premiums paid by the Company with respect to such Insurance Policy. The Company shall also be entitled to an amount equal to one-half of the cash surrender value of the Insurance Policy in excess of the cumulative premiums paid as of the date of the termination of the Plan Agreement (the "Excess Amount") the Excess Amount shall not exceed the amount specified in accordance with Schedule A hereto.

5.2 At the termination of the Plan Agreement, the Participant shall be entitled to the cash surrender value of the Insurance Policy in excess of the amount payable to the Company in accordance with Section 5.1 above, and all other policy rights not otherwise ceded to the Company. The Participant agrees that he or she will not deal with the Insurance Policy other than in a manner expressly provided for in this Plan and the Participant's Plan Agreement until after the Participant's Plan Agreement is terminated.

5.3 While the Plan Agreement is in force, the Company may borrow either directly or indirectly against each Insurance Policy or repledge its collateral security interest in it for an amount not exceeding its interest. While the Plan Agreement is in force, the Participant may not borrow either directly or indirectly against his or her Insurance Policy or pledge his or her interest in the Insurance Policy.

Article VI

Retention of Services

6.0 Nothing contained in this Plan or the Plan Agreements shall be construed as a contract of employment between the Company and a Participant, or as a right of any Participant to be continued in the employment of the Company, or as a limitation of the right of the Company to discharge any of its employees, with or without cause.

Article VII

Termination, Amendment, Modification or Supplement of Plan

7.0 The Company reserves the right to terminate this Plan.

7.1 The Company reserves the right to totally or partially amend, modify or supplement this Plan at any time. Any amendment, modification or supplement shall be in writing signed by the Vice President of the Company having responsibility for human relations.

7.2 The Company reserves the right to terminate the Plan and the Plan Agreements thereunder, provided, however, no such termination shall adversely impact a Participant's right to continue insurance coverage at the Participant's own expense in accordance with the terms of the Insurance Policy.

7.3 No action to terminate, amend, modify or supplement the Plan or terminate any Plan Agreement shall be taken except upon 30 days' prior written notice to each affected Participant.

7.4 If a termination of the Plan occurs, the obligation of the Company to make any premium payments shall cease and the rights of the Company and the Participant shall be controlled by Article VIII.

7.5 In the event of a Participant's disability as defined under the Xerox Long-Term Disability Income Plan, premium payments will be waived.

Article VIII

Release of Company's Ownership Interest

8.0 If the Participant's Plan Agreement is terminated prior to the Participant's death, the Company shall be entitled to withdraw funds from the Insurance Policy equal to the amount provided for in Article V reduced by all indebtedness and interest incurred by it that is owed to the Insurer as a lien against such policy or in its discretion it may apply said net funds to exercise any other option provided by the Insurance Policy, but said application of funds shall not impact the death benefit interest of the Participant's Beneficiary.

8.1 After the Company has exercised its election under Subsection 8.0, it will no longer have any interest in the remaining Insurance Policy which thereafter shall be solely owned by the Participant or his or her assignee. The Company and the Participant shall execute whatever documents that are required by the Insurer to cause this change to occur.

Article IX

Administration of the Plan

9.0 The sole right of construction, interpretation and general administration of the Plan shall be vested in the Administrator. The Administrator shall be deemed the Named Administrator of this Plan.

9.1 The Administrator shall establish rules, forms and procedures for the administration of the Plan from time to time, including a claims procedure. The Administrator shall have the exclusive right to interpret the Plan, determine eligibility hereunder, and to decide any and all matters arising thereunder or in connection with the administration of the Plan.

Article X

Participant's Assignment

10.0 Approval of the Administrator is required for any assignment by a Participant of his or her interest in the Insurance Policy at any time to any person or persons. Approved assignments shall be implemented by use of a form or forms approved from time to time by the Administrator. Assignments will be irrevocable. Upon delivery of a signed copy of the assignment to the Company, all of the rights, obligations and duties of the Participant under this Plan and under the Participant's Plan Agreement shall inure to and be binding upon such assignee (including the right to make further assignments) and the Participant shall have no further interest in this Plan or the Insurance Policy.

Article XI

Insurer's Liability

11.0 If this Plan is still in existence at the death of a Participant, the Insurer shall be discharged from all liability under the Insurance Policy upon payment of the proceeds in the manner following:

(A) The amount provided for in Article IV, Section 4.1 shall be paid in accordance with both the Participant's final Beneficiary Designation and any optional method of settlement election filed with it.

(B) The balance of the proceeds shall be paid to the Company.

Article XII

Miscellaneous

12.0 Any notice which shall or may be given under this Plan or a plan assignment shall be in writing and shall be mailed by United States Mail, postage prepaid. If notice is to be given to the Company, such notice shall be addressed to the Company at its general offices:

Xerox Corporation
P.O. Box 1600
Stamford CT 06904-1600

marked for the attention of the Administrator, Contributory Life Insurance Program; or if notice to a Participant, addressed to the most recent address shown on the Company's personnel records.

12.1 Any party may change the address to which notices shall be mailed from time to time by giving written notice of such new address.

12.2 The Plan shall be binding upon the Company and its successors and assigns, and upon a Participant, his or her beneficiary, heirs, executors and administrators.

12.3 This Plan shall be construed and governed in all respects under and by the laws of the State of New York. If any provision of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

12.4 Headings and subheadings in this Plan are inserted for convenience and reference only and do not constitute any part of this Plan.

Article XIII

Effective Date

The original effective date of the Plan was July 1, 1989. The effective date of this amended Plan shall be as of November 1, 1997.

IN WITNESS WHEREOF, Xerox Corporation has caused this Amended Plan to be executed this 10th day of December, 1997 effective as of January 30, 1998.

XEROX CORPORATION

By: Original Signed by Hector Motroni

Vice President

Schedule A
to
Xerox Contributory Life Insurance Program

Age at Birthday Nearest to July 1, 1989	Officer Participant*	Non-Officer Participant*
30	568,105	284,052
31	516,459	258,230
32	469,508	234,754
33	426,826	213,413
34	388,023	194,012
35	352,748	176,374
36	320,680	160,340
37	291,528	145,764
38	265,025	132,513
39	240,932	120,466
40	219,029	109,515
41	199,117	99,559
42	181,016	90,508
43	164,560	82,280
44	149,600	74,800
45	136,000	68,000
46	123,636	61,818
47	112,397	56,198
48	102,179	51,089
49	92,890	46,445
50	84,445	42,223
51	76,768	38,384
52	69,789	34,895
53	63,445	31,722
54	57,677	28,839
55	52,434	26,217
56	47,667	23,834
57	43,841	21,921
58	40,085	20,043
59	36,398	18,199
60	32,777	16,388
61	29,222	14,611
62	25,732	12,866
63	22,305	11,153
64	18,941	9,470
65	15,637	7,819
66	12,394	6,197
67	9,210	4,605
68	6,083	3,042
69	3,014	1,507

* Status as of date participation in the Plan commenced.

Computation of Net Income Per Common Share

EXHIBIT 11

(Dollars in millions, except per-share data; shares in thousands)

	1997	1996	1995	1994	1993
I. Basic Net Income (Loss) Per Common Share					
Income (loss) from continuing operations	$ 1,452	$ 1,206	$ 1,174	$ 794	$ (193)
Accrued dividends on ESOP preferred stock, net	(44)	(43)	(42)	(41)	(38)
Accrued dividends on redeemable preferred stock	-	(1)	(3)	(12)	(23)
Call premium on redeemable preferred stock	-	-	-	(11)	-
Adjusted income (loss) from continuing operations	1,408	1,162	1,129	730	(254)
Discontinued operations	-	-	(1,646)	-	67
Change in accounting principles	-	-	-	-	-
Adjusted net income (loss)	$ 1,408	$ 1,162	$ (517)	$ 730	$ (187)
Average common shares outstanding during the period	324,804	324,462	322,087	316,275	300,141
Common shares issuable with respect to common stock equivalents for stock options, incentive and exchangeable shares	1,882	2,732	3,927	5,080	4,062
Adjusted average shares outstanding for the period	326,686	327,194	326,014	321,355	304,203
Basic earnings (loss) per share:					
Continuing operations	$ 4.31	$ 3.55	$ 3.46	$ 2.27	$ (.83)
Discontinued operations	-	-	(5.05)	-	(.22)
Change in accounting principles	-	-	-	-	-
Basic earnings (loss) per share	$ 4.31	$ 3.55	$ (1.59)	$ 2.27	$ (.61)
II. Diluted Net Income (Loss) Per Common Share					
Income (loss) from continuing operations	$ 1,452	$ 1,206	$ 1,174	$ 794	$ (193)
Accrued dividends on ESOP preferred stock, net	-	-	-	-	(38)
Accrued dividends on redeemable preferred stock	-	(1)	(3)	(12)	(23)
Call premium on redeemable preferred stock	-	-	-	(11)	-
ESOP expense adjustment, net of tax	-	(3)	(9)	(7)	-
Interest on convertible debt, net of tax	3	3	4	3	-
Adjusted income (loss) from continuing operations	1,455	1,205	1,166	767	(254)
Discontinued operations	-	-	(1,646)	-	67
Change in accounting principles	-	-	-	-	-
Adjusted net income (loss)	$ 1,455	$ 1,205	$ (480)	$ 767	$ (187)
Average common shares outstanding during the period	324,804	324,462	322,087	316,275	300,141
Common shares issuable with respect to:					
Stock options, incentive and exchangeable shares	5,846	8,054	9,603	9,003	4,062
Convertible debt	2,643	2,643	2,643	2,643	-
ESOP preferred stock	27,342	27,981	28,663	29,310	-
Adjusted average shares outstanding for the period	360,636	363,140	362,996	357,231	304,203
Diluted earnings (loss) per share:					
Continuing operations	$ 4.04	$ 3.32	$ 3.21	$ 2.15	$ (.83)
Discontinued operations	-	-	(4.53)	-	.22
Change in accounting principles					
Diluted earnings (loss) per share					

-	-	-	-	-
$ 4.04	$ 3.32	$ (1.32)	$ 2.15	$ (.61)

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges

Year ended December 31 (in millions)	1997	1996	1995	1994	1993*
Fixed Charges:					
Interest expense	$ 617	$ 592	$ 603	$ 520	$ 540
Rental expense	140	140	142	170	180
Total fixed charges before capitalized interest and preferred stock dividend of subsidiary	757	732	745	690	720
Capitalized interest	-	-	-	2	5
Preferred stock dividend of subsidiary	50	-	-	-	-
Total fixed charges	$ 807	732	$ 745	$ 692	$ 725
Earnings available for fixed charges:					
Earnings**	$2,268	$2,067	$1,980	$1,602	$ (193)
Less undistributed income in minority owned companies	(84)	(84)	(90)	(54)	(51)
Add fixed charges before capitalized interest and preferred stock dividend of subsidiary	757	732	745	690	720
Total earnings available for fixed charges	$2,941	$2,715	$2,635	$2,238	$ 476
Ratio of earnings to fixed charges (1)(2)	3.64	3.71	3.54	3.23	0.66

(1) The ratio of earnings to fixed charges has been computed based on the Company's continuing operations by dividing total earnings available for fixed charges, excluding capitalized interest, by total fixed charges. Fixed charges consist of interest, including capitalized interest, one-third of rent expense as representative of the interest portion of rentals, and preferred stock dividend requirements of subsidiaries. Debt has been assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations, adjusted for subsequent paydowns. Discontinued operations consist of the Company's Insurance, Other Financial Services, and Third Party Financing and Real Estate businesses

(2) The Company's ratio of earnings to fixed charges includes the effect of the Company's finance subsidiaries, which primarily finance Xerox equipment. Financing businesses are more highly leveraged and, therefore, tend to operate at lower earnings to fixed charges ratio levels than do non-financial businesses.

* 1993 earnings were inadequate to cover fixed charges. The coverage deficiency was $249 million.

** Sum of "Income (Loss) before Income Taxes, Equity Income and Minorities' Interests" and "Equity in Net Income of Unconsolidated Affiliates."

Consolidated Statements of Income

Year ended December 31 (in millions, except per-share data)	1997	1996	1995
Revenues			
Sales	$ 9,892	$9,256	$8,750
Service and rentals	7,268	7,107	6,830
Finance income	1,006	1,015	1,008
Total Revenues	18,166	17,378	16,588
Costs and Expenses			
Cost of sales	5,363	5,126	4,984
Cost of service and rentals	3,739	3,597	3,442
Equipment financing interest	520	513	507
Research and development expenses	1,079	1,044	949
Selling, administrative and general expenses	5,225	5,074	4,719
Gain on affiliates' sales of stock, net	-	(11)	-
Other, net	99	91	138
Total Costs and Expenses	16,025	15,434	14,739
Income before Income Taxes, Equity Income and Minorities' Interests	2,141	1,944	1,849
Income Taxes	728	700	615
Equity in Net Income of Unconsolidated Affiliates	127	123	131
Minorities' Interests in Earnings of Subsidiaries	88	161	191
Income from Continuing Operations	1,452	1,206	1,174
Discontinued Operations	-	-	(1,646)
Net Income (Loss)	$ 1,452	$ 1,206	$ (472)
Basic Earnings (Loss) per Share			
Continuing Operations	$ 4.31	$ 3.55	$ 3.46
Discontinued Operations	-	-	(5.05)
Basic Earnings per Share	$ 4.31	$ 3.55	$ (1.59)
Diluted Earnings (Loss) per Share			
Continuing Operations	$ 4.04	$ 3.32	$ 3.21
Discontinued Operations	-	-	(4.53)
Diluted Earnings per Share	$ 4.04	$ 3.32	$ (1.32)

The accompanying notes on pages 46 to 65 are an integral part of the consolidated financial statements.

F I N A N C I A L   R E V I E W

Our Results of Operations and Financial Condition

Summary of Total Company Results

Document Processing revenues grew 7 percent on a pre- currency basis to $18.2 billion in 1997, driven by 15 percent growth in equipment sales and 35 percent growth in document outsourcing (excluding equipment accounted for as sales). Pre-currency service revenue growth was 1 percent in 1997. The strong equipment sales growth was the direct result of our investments in sales coverage and excellent customer acceptance of our new digital products. Revenues increased 6 percent on a pre-currency basis to $17.4 billion in 1996 and 7 percent to $16.6 billion in 1995.

Beginning in 1995, the results of our Insurance operations were accounted for as discontinued operations. The Document Processing business is the only component of continuing operations.

The following table summarizes net income and diluted earnings per share (EPS):

(In millions)	1997	1996	1995
Document Processing before Brazil tax gain	$1,452	$1,206	$1,076
Brazil tax gain	-	-	98
Continuing operations	1,452	1,206	1,174
Discontinued operations	-	-	(1,646)
Net income (loss)	$1,452	$1,206	$ (472)
EPS			
Document Processing before Brazil tax gain	$4.04	$ 3.32	$ 2.94
Brazil tax gain	-	-	.27
Continuing operations	4.04	3.32	3.21
Discontinued operations	-	-	(4.53)
Diluted EPS	$4.04	$ 3.32	$(1.32)

Income from continuing operations increased 20 percent in 1997 and 12 percent in 1996, excluding the impact of a $98 million gain from a reduction in the Brazilian tax rate in 1995.

Diluted earnings per share from continuing operations increased 22 percent in 1997 and 13 percent in 1996, excluding the 1995 Brazilian tax gain. Earnings per share have been adjusted to reflect the 3-for-1 stock split effective June 6, 1996 and the December 31, 1997 adoption of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." (See page 36.)

Quarterly results of operations for 1997 and 1996 are shown on page 66.

Discontinued operations results for 1997 and 1996 were charged to previously established reserves and did not affect reported net income. As a result of the discontinuance of the insurance segment and the associated after-tax charges of $1.546 billion, discontinued operations had a loss of $1.646 billion in 1995. These charges included estimated losses on disposals, additional insurance loss reserves and estimated future expenses associated with excess of loss reinsurance coverage.

Diluted Earnings Per Share

$2.94%	$3.32	$4.04
1995	1996	1997

* Continuing operations before Brazil tax gain

Document Processing

Pre-Currency Growth

To understand the trends in the business, we believe that it is helpful to adjust revenue and expense growth (except for ratios) to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted growth as "pre-currency growth."

A substantial portion of our consolidated revenues is derived from operations outside of the United States where the U.S. dollar is not the functional currency, primarily in Europe. When compared with the average of the major European currencies on a revenue-weighted basis, the U.S. dollar was approximately 8 percent stronger in 1997, 2 percent stronger in 1996 and 10 percent weaker in 1995. As a result, foreign currency translation unfavorably impacted revenues by 3 percentage points in 1997 and 1 percentage point in 1996, and favorably impacted revenues by 3 percentage points in 1995.

We do not hedge the translation effect of revenues denominated in currencies where the local currency is the functional currency.

F I N A N C I A L   R E V I E W

Revenues by Product Category

For the major product categories, the pre-currency revenue growth rates were:

	Pre-Currency Growth		
	1997	1996	1995
Total Revenues	7%	6%	7%
Digital products	25	23	17
Light-lens copiers	(2)	(1)	2
Paper and other products	3	-	14

Digital products include production publishing, color copying and printing, production printing, our new family of Document Centre digital black-and-white copiers, multifunction products and network printers. During 1997, digital products revenue growth rates accelerated on a quarterly basis, increasing 18 percent, 24 percent, 26 percent and 31 percent in the first through fourth quarters, respectively. Digital product revenues grew 25 percent for the full year, driven by the full-year effects of products introduced in 1996 and the partial-year effects of new products introduced during 1997. Digital products contributed 36 percent of total revenues in 1997, 30 percent in 1996 and 25 percent in 1995.

Revenues from the DocuTech family of production publishing products reflected strong growth to $2.1 billion in 1997, up from $1.8 billion in 1996 and $1.4 billion in 1995. Our new 180 page-per-minute DocuTech Production Publisher, which became available in July, contributed to this growth. Revenues from color products reflected excellent growth to approximately $1.5 billion in 1997, up from $1.0 billion in 1996 and $600 million in 1995. The DocuColor 40, our 40 page-per-minute

Worldwide Revenues (billions)

[X]   United States: $9.2
[X]   Latin America and Canada: $3.5
[X]   Europe and Other: $5.5
         Total Xerox: $18.2
[X]   Fuji Xerox: $7.4

Pictured here is a world map.

color document production system, introduced in April 1996, continued to contribute significantly to this growth.

Orders and installations of the new Document Centre digital black-and-white copiers, introduced in April 1997, exceeded our expectations. As a result, we more than doubled our planned production and exited the year with a strong order backlog.

The light-lens copier revenue decline reflects several important factors, including customer transition to our new digital black-and-white products and continued price pressures. We believe the trend over the past few years will continue whereby digital products' revenues represent an increasing share of total revenues. Revenues from light-lens copying represented 51 percent of total revenues in 1997, 56 percent in 1996 and 59 percent in 1995.

The annual fluctuations in paper and other products revenue growth was principally due to swings in paper prices and OEM sales. Revenues from paper and other products were 13 percent of total revenues in 1997, 14 percent in 1996 and 16 percent in 1995.

For the major product categories, the revenue shares were:

	1997	1996	1995
Digital products	36%	30%	25%
Light-lens copiers	51	56	59
Paper and other products	13	14	16

Revenues by Geography

Geographically, the pre-currency revenue growth rates were:

	Pre-Currency Growth		
	1997	1996	1995
Total Revenues	7%	6%	7%
United States	7	6	3
Xerox Limited	7	1	8
Other Areas	8	10	16
Memo: Fuji Xerox	3	11	10

Revenues in the United States were 49 percent of total revenues in 1997, which is consistent with prior years. Revenues of Xerox Limited (formerly Rank Xerox, now 100 percent owned by Xerox) and related companies (collectively Xerox

Limited), which operate principally in Europe, represented 30 percent of total revenues. Other Areas, principally Latin America, Canada and China, contributed 21 percent of total revenues.

Revenue growth in 1997 in the U.S. and Xerox Limited was driven primarily by digital products, and in Xerox Limited, by a strengthening economic environment in several European markets. Revenue from light-lens copiers grew

We brought together all of our supplies heritage in one organization to leverage the strength of our brand in this very large market. Our challenge is to meet our customers' needs as new technologies create new production possibilities, enabling the full potential of documents while maximizing the effectiveness of the hardware used to generate them.

Pictured here are copier and printer supplies.

modestly in the U.S. and declined modestly in Europe. Xerox Limited's relatively flat revenue growth in 1996 reflected weak economic environments in a number of major European markets.

Other Areas 1997 revenue reflects good growth in Brazil and China, modest growth in Canada, and excellent growth in Mexico. Revenues in Brazil were $1.8 billion in 1997, $1.6 billion in 1996 and $1.3 billion in 1995.

Fuji Xerox Co., Limited, an unconsolidated entity jointly owned by Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan and the Pacific Rim. Japan represents approximately 90 percent of Fuji Xerox revenues, and Australia, New Zealand, Singapore, and Malaysia represent the remaining 10 percent. Fuji Xerox conducts business in other Pacific Rim countries through joint ventures and distributors. Xerox' exposure to economic turmoil in Asia is mitigated by our joint ownership of Fuji Xerox. Modest revenue growth in 1997 reflects good growth in the Asia Pacific countries and modest growth in Japan due to difficult economic conditions. Revenue growth in 1996 and 1995 reflects strong growth in Japan, driven by excellent growth in digital product sales and good growth in the Asia Pacific countries.

Revenues by Stream

The pre-currency growth rates by type of revenue were:

	Pre-currency growth		
	1997	1996	1995
Total revenues	7%	6%	7%
Equipment sales (excluding OEM)	15	10	6
Non-equipment sales revenues	4	4	7
Supplies	2	6	9
Paper	2	(7)	39
Service	1	-	2
Rentals	(9)	-	1
Document outsourcing*	35	47	46
Finance income	2	1	(4)

* Excludes equipment accounted for as equipment sales.

Equipment Sales: The increased equipment sales growth (excluding OEM sales) is due primarily to the introduction of a stream of state-of-the-art color and black-and-white digital products in 1996 and 1997. Digital product equipment sales grew 40 percent in 1997, 27 percent in 1996 and 13 percent in 1995. Digital products represented 47 percent of equipment sales in 1997, 37 percent in 1996 and 31 percent in 1995.

Non-equipment Sales: Non-equipment sales revenues from supplies, paper, service, rentals, document outsourcing and other revenues, and income from customer financing represented 62 percent of total revenues in 1997, 66 percent in 1996 and 67 percent in 1995. Growth in these revenues is primarily a function of the growth in our installed population of equipment, usage levels and pricing.

Supplies: Supplies growth has decelerated due principally to the increase in document outsourcing, which includes bundled supplies, and lower sales of OEM printer cartridges.

Paper Sales: Our strategy is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor. The increase in 1997 results from volume increases that were partially offset by moderating industry-wide price declines. In 1996, lower wholesale prices more than offset volume increases. The significant growth in 1995 was primarily due to higher industry prices.

Equipment Sales Growth (pre-currency)

[X]	1995	6%
[X]	1996	10%
	1997	15%

Service: Service revenue growth has been relatively flat, reflecting customer preference for document outsourcing as well as competitive price pressures.

Rentals: Rental revenues declined in 1997 and were flat in 1996 and 1995, due primarily to customers' preference for document outsourcing and the continuing trend of increased equipment sales.

Document Outsourcing: Document Outsourcing revenues are split between Equipment Sales and Document Outsourcing. Where document outsourcing contracts include revenue accounted for as equipment sales, this revenue is included in Equipment Sales. All other document outsourcing revenue, including service, equipment rental, supplies, paper and labor are included in Document Outsourcing. This has the effect of diverting some revenues from supplies, paper, service and rental. The excellent Document Outsourcing growth reflects the trend of customers focusing on their core businesses and outsourcing their document processing requirements to Xerox.

Finance Income: Our strategy for financing equipment sales in the industrialized economies is to charge a spread over our cost of borrowing and to lock in that spread by match funding the finance receivables with borrowings of similar maturities. In 1997, good growth in the financing of equipment sales in the U.S., Europe and Latin America has been partially offset by lower average interest rates. In 1996, the strong growth in the financing of equipment sales in Latin America was partially offset by the impacts of the continuing decline in interest rates on financing contracts and the increasing customer preference for document outsourcing rather than purchase and finance. On average, 75 to 80 percent of customers finance purchases of equipment through Xerox.

Costs and Expenses

The gross margins by revenue stream were:

	Gross Margins		
	1997	1996	1995
Total	47.0%	46.9%	46.1%
Sales	45.8	44.6	43.0
Service, rentals and document outsourcing	48.6	49.4	49.6
Finance income	48.3	49.5	49.7

The 1997 total gross margin was essentially unchanged from 1996. The 1996 improvement from 1995 was due to productivity-driven cost reductions and favorable product and geographic mix, partially offset by pricing pressures. The total gross margin is the key metric, as judgment is often needed to separate the individual components of revenues and costs.

The improvement in sales gross margins was due principally to productivity-driven cost reductions and favorable product and geographic mix, partially offset by pricing pressures. The modest decline in service, rentals and document outsourcing gross margins was due primarily to higher growth in lower margin document outsourcing revenue, pricing pressures and adverse currency, partially offset by productivity improvements. Lower document outsourcing margins reflect the impact of the labor content in the document outsourcing business.

Research and development (R&D) expense increased 3 percent in 1997, 10 percent in 1996 and was approximately 6 percent of revenue in both years. We will continue to invest in technological development to maintain our premier position in the rapidly changing document processing market and have reprioritized our spending to focus on areas that will produce significant growth such as digital, color, networking and solutions. Xerox R&D is strategically coordinated with Fuji Xerox, which invested $612 million in R&D in 1997 for a combined increase of 7 percent to $1.7 billion.

Selling, administrative and general expenses (SAG) increased 5 percent in 1997 on a pre-currency basis, 8 percent in 1996 and 5 percent in 1995. SAG as a percent of revenues was 28.8 percent in 1997, 29.2 percent in 1996 and 28.4 percent in 1995. The improvement in 1997 was due primarily to productivity initiatives and expense controls partially offset by investments to increase worldwide sales coverage. The increase in the ratio in 1996 was primarily due to investments in sales coverage and marketing support. We expect the ratio to decline in 1998 due to improved productivity and ongoing expense controls.

Worldwide employment increased by 4,700 in 1997 to 91,400 as a result of hiring 2,500 employees to support our fast-growing document outsourcing business, 1,300 associated with two small acquisitions and 1,000 for increased sales coverage partially offset by reductions in other areas.

Gain on affiliates' sales of stock, net in 1996, reflects our share of the increase in equity of certain small affiliated companies generated by the sales of additional equity by these affiliates.

Other expenses, net, were $99 million in 1997, $91 million in 1996 and $138 million in 1995. The increase of $8 million for 1997 reflects increased non-financing interest expense associated with our June 1997 acquisition of The Rank Group's remaining interest in Xerox Limited, increased currency losses from balance sheet remeasurement due to currency devaluation in our Latin American operations, and Year 2000 information systems remediation spending, partially offset by certain non-recurring charges in 1996. Also, we reduced debt with the proceeds from $650 million of mandatorily redeemable preferred securities issued through a subsidiary trust in January 1997. This partially offset the increase in non-financing interest expense because the after-tax impact of the dividend on these securities is included in the income statement in Minorities' Interests in Earnings of Subsidiaries. The reduction of $47 million for 1996 reflects reduced interest expense due to lower rates, higher interest income and the non-recurrence of several one-time charges in 1995.

Income Taxes, Equity in Net Income of Unconsolidated Affiliates, and Minorities' Interests in Earnings of Subsidiaries.

Income before income taxes was $2,141 million in 1997, $1,944 million in 1996 and $1,849 million in 1995.

The effective tax rates were 34 percent in 1997, 36 percent in 1996 and 39 percent in 1995. The 1995 rate excludes a $98 million benefit from the revaluation of the deferred tax liability due to a change in the Brazilian statutory income tax rate. The 1997 tax rate benefited from implementation of certain tax strategies as well as the profit mix of our worldwide operations. The decline in the 1996 tax rate was primarily due to the lower Brazilian tax rate.

Equity in Net Income of Unconsolidated Affiliates is principally Xerox Limited's share of Fuji Xerox income. Total equity in income increased 4 percent in 1997 to $127 million due principally to Fuji Xerox income growth and increases in income from a number of smaller investments. Strong pre-currency growth in Fuji Xerox income was largely offset by currency translation due to the weakening of the Japanese yen compared with the U.S. dollar. Total equity in income declined 6 percent in 1996 to $123 million principally due to one-time declines in income from smaller investments. The Xerox Limited 50 percent share of Fuji Xerox income was $119 million in 1997, $116 million in 1996 and $112 million in 1995.

Minorities' Interests in Earnings of Subsidiaries, principally The Rank Group Plc's share of Xerox Limited profits, were $88 million in 1997, $161 million in 1996 and $191 million in 1995. In 1997, minorities' interests declined primarily due to our acquisition of The Rank Group's remaining interest in Xerox Limited, effective June 1997, partially offset by the after-tax impact of the $48 million dividend on the mandatorily redeemable preferred securities discussed above. In 1996, minorities' interests declined primarily due to lower Xerox Limited profits.

Modi Xerox, our affiliate in India, covers the territory with a trained telemarketing team to seize new market opportunities. Modi Xerox has 13 years of experience in India, a key emerging market for Xerox because of the huge document processing potential.

Pictured here is a Modi-Xerox employee.

SATIZ, a Fiat Group Company, turned to Xerox when it decided to reengineer its complete multi-lingual document processes, from the step of inputting text and data (received in Italian from technical writers) into a new electronic system, to the step of preparing and distributing worldwide all the after sales documentation on both paper and CD-ROM.

An important step is the translation process. Help came from the Xerox Research Centre Europe, Grenoble, France, which concentrates on eliminating the language barriers that exist in multilingual organizations and markets. Here, research results in linguistics are being commercialized via Xerox Translation and Authoring Systems (XTRAS). XTRAS tools help global companies write and translate technical material, like user or maintenance manuals.

Income

In 1997, Document Processing income of $1,452 grew 20 percent compared with $1,206 million in 1996. 1996 income grew 12 percent from $1,076 million in 1995 before the Brazilian tax gain.

Return on Assets

Return on Assets (ROA) is an important measure throughout all levels of the Document Processing organization, combining a focus on both asset turnover and margin improvement.

The internal measurement for ROA is defined as Document Processing before tax profits plus Equity in Net Income of Unconsolidated Affiliates, divided by average ROA Assets. ROA Assets are Document Processing assets less investments in affiliates and Xerox equipment financing debt.

ROA as defined above was 18.0 percent in 1997, 17.8 percent in 1996 and 18.5 percent in 1995.

Adoption of SFAS No. 128 -"Earnings per Share" Effective December 31, 1997, we adopted SFAS No. 128 - "Earnings per Share." SFAS No. 128 simplifies the calculation of earnings per share ("EPS") and replaces primary EPS with basic EPS and replaces fully diluted EPS with diluted EPS. Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that it gives effect to all potentially dilutive instruments that were outstanding during the period. All EPS amounts have been restated to reflect this new standard. For Xerox, the movement from "fully diluted" to "diluted" increased EPS by one cent in 1996 and 1997 and had no effect on 1995 EPS before Discontinued Operations.

Functional Currency Change in Brazil

Effective July 1, 1997, we changed the functional currency for our Brazilian operation from the U.S. dollar to the Brazilian real because the Brazilian economy is no longer considered hyperinflationary. The effect of this change on our reported results was immaterial.

Acquisition of Remaining Interest in Xerox Limited In June 1997, the company completed the acquisition of The Rank Group's remaining 20 percent financial interest in Xerox Limited and related companies for (pound)940 million, or approximately $1.5 billion. The transaction was earnings accretive in 1997, increasing diluted earnings per share by 14 cents for the full year. The transaction was funded entirely by debt consisting of (pound)500 million of third-party debt and (pound)440 million of notes payable issued to The Rank Group.

Share Repurchase

In February 1996, the Board of Directors authorized the repurchase of up to $1 billion of Xerox common stock. Through the 1997 second quarter, the Company repurchased 8.5 million shares for $422 million. As a result of the Xerox Limited transaction, we suspended the repurchase program during the second quarter because the use of the Company's financial resources to fund the $1.5 billion acquisition of The Rank Group's remaining interest in Xerox Limited produced greater value for Xerox shareholders.

Year 2000

As with all major companies, certain of our information systems and products will require remediation or replacement over the next two years in order to render these systems Year 2000 compliant. The Year 2000 problem is the result of computer programs written with two digits, rather than four, to define the applicable year. During 1997, we incurred $28 million of Year 2000 remediation costs that are included in

Other, net in the Consolidated Statements of Income. We estimate that future remediation costs associated with the Year 2000 problem will be approximately $85 million and $31 million during 1998 and 1999, respectively. These costs will be expensed as incurred. We believe that the remediation or replacement of our information systems and products will occur in a timely fashion so that the Year 2000 problem will not result in significant operating problems with our information systems and products. However, if such remediations or replacements are not completed in a timely manner, the Year 2000 problem could potentially have a material adverse impact on our operations.

Capital Resources and Liquidity

Total debt, including ESOP and Discontinued Operations debt not shown separately in our consolidated balance sheets, increased to $12,903 million at December 31, 1997 from $12,448 million in 1996 and $11,794 million in 1995.

We manage the capital structure of our non-financing operations separately from that of our captive finance companies, which employ a more highly leveraged capital structure typical of captive finance companies.

(In millions)	1997	1996	1995
Total debt* as of January 1	$12,448	$11,794	$10,955
Non-Financing Businesses:			
Document Processing operations cash generation	(1,026)	(678)	(543)
Purchase of The Rank Group's interests in Rank Xerox (now Xerox Limited)	1,534	-	972
Mandatorily redeemable preferred securities	(637)	-	-
ESOP	(60)	(53)	(49)
Discontinued businesses	(541)	47	(399)
Subtotal Non-Financing	(730)	(684)	(19)
Financing Businesses	760	706	494
Shareholder dividends	475	438	389
Equity redemption and other changes	(50)	194	(25)
Total debt* as of December 31	$12,903	$12,448	$11,794

* Includes discontinued operations.

For analytical purposes, total equity includes common equity, ESOP preferred stock, mandatorily redeemable preferred securities and minorities' interests. Total equity increased to $6,454 million at December 31, 1997 from $5,931 million in 1996 and $5,396 million in 1995.

The following is a three-year summary of the changes in total equity:

(In millions)	1997	1996	1995
Total equity as of January 1	$5,931	$5,396	$6,042
Income from continuing operations	1,452	1,206	1,174
Loss from discontinued operations	-	-	(1,646)
Change in unrealized gains on investment securities	-	-	432
Mandatorily redeemable preferred securities	637	-	-
Shareholder dividends	(475)	(438)	(389)
Purchase of treasury stock	(116)	(306)	-
Exercise of stock options	99	84	109
Change in minorities' interests	(716)	88	(276)
Translation adjustments	(463)	(138)	(3)
All other, net	105	39	(47)
Total equity as of December 31	$6,454	$5,931	$5,396

The following table summarizes the results of capital and coverage calculations commonly used to measure the Company's financial strength:

(Dollars in millions)	1997	1996	1995
Non-Financing:			
Debt	$ 2,974*	$ 2,960	$ 3,012
Equity	4,662*	4,565	4,045
Total capital	$ 7,636	$ 7,525	$ 7,057
Debt-to-capital	38.9%	39.3%	42.7%
Ratio of earnings to fixed charges	4.89x	4.67x	3.79x
Ratio of earnings to interest expense	7.24x	6.65x	5.17x
EBITDA**-to-debt	96.4%	89.6%	80.0%
Financing:			
Debt	$10,248	$ 9,488	$ 8,782
Equity	1,473	1,366	1,351

Total capital	$11,721	$10,854	$10,133
Debt-to-equity ratio	7.0x	7.0x	6.5x
Ratio of earnings to fixed charges	1.63x	1.66x	1.71x

* Includes $318.5 million (one-half) share of mandatorily redeemable preferred securities for purposes of this analysis.

** Earnings before interest, taxes, depreciation and amortization.

In 1997, a year-to-year improvement in the debt-to- capital ratio was achieved despite the addition of more than $1.5 billion of debt related to the acquisition of The Rank Group's remaining interest in Xerox Limited. Especially strong cash generation within non-financing operations, lower debt resulting from the sales of Coregis Group, Inc. (Coregis), Industrial Indemnity Holdings, Inc. (II) and The Resolution Group, Inc. (TRG), and the issuance of mandatorily redeemable preferred securities enabled the improvement. Income growth was the primary factor contributing to a 3.4 percentage point improvement to the ratio during 1996. In 1995, the ratio

Financial Review

Consolidated Balance Sheets

December 31 (in millions)	1997	1996
Assets		
Cash	$ 75	$ 104
Accounts receivable, net	2,145	2,022
Finance receivables, net	4,599	4,386
Inventories	2,792	2,676
Deferred taxes and other current assets	1,155	964
Total Current Assets	10,766	10,152
Finance receivables due after one year, net	7,754	6,986
Land, buildings and equipment, net	2,377	2,256
Investments in affiliates, at equity	1,332	1,282
Goodwill	1,375	623
Other assets	1,103	1,121
Investment in discontinued operations	3,025	4,398
Total Assets	$27,732	$26,818
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 3,707	$ 3,536
Accounts payable	776	577
Accrued compensation and benefits costs	811	761
Unearned income	205	208
Other current liabilities	2,193	2,122
Total Current Liabilities	7,692	7,204
Long-term debt	8,779	8,424
Postretirement medical benefits	1,079	1,050
Deferred taxes and other liabilities	2,469	2,429
Discontinued operations liabilities - policyholders' deposits and other	1,693	2,274
Deferred ESOP benefits	(434)	(494)
Minorities' interests in equity of subsidiaries	127	843
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	637	-
Preferred stock	705	721
Common shareholders' equity	4,985	4,367
Total Liabilities and Equity	$27,732	$26,818

Shares of common stock issued and outstanding at December 31, 1997 were (in thousands) 326,241. Shares of common stock issued and outstanding at December 31, 1996 were (in thousands) 325,902 and 323,681, respectively.

The accompanying notes on pages 46 to 65 are an integral part of the consolidated financial statements.

Financial Review

increased by 6.7 percentage points versus year-end 1994 as proceeds from the sales of Constitution Re Corporation (Constitution Re), Viking Insurance Holdings, Inc. (Viking) and Xerox Financial Services Life Insurance Company and related companies (Xerox Life) were more than offset by the 1995 purchase of a part of The Rank Group's interests in Xerox Limited and non-cash charges in connection with our decision to sell the then-remaining insurance units.

Coverage metrics related to our non-financing businesses have shown strong, consistent improvement throughout the past three years. Within the financing business, the ratio of earnings to fixed charges remains strong despite an increase in 1996, from 6.5:1 to 7.0:1, in our financing business debt-to-equity guideline.

We "match fund" our financing operations by arranging fixed-rate liabilities with maturities similar to the underlying customer financing assets. Our 7.0 to 1 debt-to-equity guideline reflects both the high quality of the underlying assets and the strong financial returns from our captive financing businesses.

Non-Financing Operations

The following table summarizes 1997, 1996 and 1995 document processing non-financing operations cash generation and usage:

(In millions)	1997	1996	1995
Document Processing Non-Financing:			
Income	$1,248	$1,004	$ 970
Depreciation and amortization	739	715	719
Subtotal	$1,987	$1,719	$1,689
Capital expenditures/assets sold	(484)	(470)	(348)
Equipment on operating leases	(347)	(403)	(475)
Restructuring payments	(88)	(197)	(331)
Working capital/other	(42)	29	8
Net Cash Generation	$1,026	$ 678	$ 543

Document processing non-financing businesses generated $1,987 million of cash from operations in 1997 or 16 percent more than in 1996. Net cash generation after investments to fund the growth of the businesses was $1,026 million, an increase of $348 million. The growth was largely due to higher income, higher growth in accounts payable and accrued compensation and benefits costs, and lower restruc

Pictured here are Xerox employees and Xerox customers standing behind a Xerox copier.

Bradesco Seguros is a leading Brazilian insurance company that uses several DocuPrint 4890 and DocuPrint 4635 MX printers, which combine leading-edge highlight color and Magnetic Ink Character Recognition (MICR) marking technologies with exceptional paper handling capabilities at speeds up to 92 and 135 pages-per-minute. Bradesco Seguros prints insurance and financial documents with highlighted variable information, as well as checks and payment coupons with MICR symbols. Photographed here are Carlos Avelar, Branch Manager, Xerox do Brasil; Geraldo Teixeira, Director Bradesco Seguros; Carlos Henrique Schmitz, Director, Bradesco Seguros; and Jorge Luiz Goncalves, Account Manager, Xerox do Brasil.

turing payments. Net cash generation was $135 million higher in 1996 than in 1995 as income growth, lower restructuring payments and lower inventory growth more than offset higher capital spending and tax payments.

Discontinued non-financing businesses generated $541 million in 1997 as a result of the sales of Coregis, II and TRG. These businesses experienced net cash usage of $47 million in 1996 versus $399 million of generation in 1995 reflecting the sales in 1995 of Constitution Re, Viking and Xerox Life.

Financing Businesses

Customer financing-related debt grew by $760 million in 1997, $54 million more than in 1996, reflecting growth in equipment sales partially offset by currency translation effects and the 1996 increase in our financing business debt-to-equity guideline from 6.5 to 1 to 7.0 to 1. Financing debt growth of $706 million in 1996 was $212 million more than in 1995 due to higher equipment sales growth and the modest increase in our leverage guideline.

Debt related to discontinued third party financing and real estate activities, which is included in financing business debt, totaled $117 million in 1997, $223 million in 1996 and $231 million in 1995. Asset sales and portfolio run-off account for the 1997 decline. In 1996, asset sales and

Pictured here is the Inxight logo.

What value is an entire database of information if you can't find the one piece of it you need? The challenge of making information make sense is what Inxight, a Xerox New Enterprise Company, hopes to solve with its VizControls and LinguistX technologies originally developed at Xerox' Palo Alto Research Center (PARC) and Xerox Research Centre Europe, Grenoble, France. Inxight's visualization technology gives users a way to easily cull relevant information for analysis. Inxight licenses VizControls to companies such as Comshare to help make information products more manageable. Comshare uses Inxight technology in Commander Decision, a product that allows company executives to get their hands on the information they need (sales results, trends, business plans, competition, etc.) to make better decisions. Inxight was launched as a Xerox New Enterprise company in December 1996. Xerox New Enterprises (XNE) is our business development arm that focuses on high-growth-potential new technology ventures. Ultimately, these companies either will be merged into the Xerox mainstream, become majority owned, become publicly traded subsidiaries or be sold.

run-off more than offset growth in reported real estate-related debt caused by our decision to fund the retirement of off-balance-sheet debt with lower cost Company borrowing.

Funding Plans for 1998

Any term funding related to our non-financing businesses will be based on the interest rate environment and overall capital market conditions. Our underlying strategy is to continue to extend funding duration while balancing the typical yield curve benefit of floating rates and the reduced volatility obtained from fixed-rate financing.

Customer financing-related debt is planned to increase in line with 1998 sales growth, while third party financing and real estate-related debt is expected to continue to decline. Decisions in 1998 regarding the size and timing of term funding for our financing businesses will be made based on match funding needs, refinancing requirements and capital market conditions.

We believe that we have adequate short-term credit facilities available to fund day-to-day operations and have readily available access to the capital markets to meet any longer term financing requirements. Our $7.0 billion global revolving credit agreement with a group of banks expires in 2002. This facility is unused and available to provide back-up to Xerox, Xerox Credit Corporation (XCC), Xerox Capital (Europe) plc (XCE) and Xerox Overseas Holdings PLC (XOH) commercial paper borrowings that amounted to $3.8 billion at December 31, 1997. Xerox or XCC may access the facility up to its $7.0 billion limit. XCE or XOH have access subject to a $4.0 billion limit. Total drawdowns cannot exceed $7.0 billion.

At December 31, 1997, Xerox, XCE and XOH had combined, U.S. shelf capacity of $2,250 million and XCC had U.S. shelf capacity of $1,875 million. In addition, a $2 billion Euro-debt facility is available to Xerox, XCC, XCE and XOH, of which $1,193 million remained unused at December 31, 1997.

Risk Management

Xerox is typical of multinational corporations in that it is exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect our results of operations and financial condition.

We have entered into certain financial instruments to manage interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements, forward exchange contracts and foreign currency swap agreements. We do not enter into derivative instrument transactions for trading purposes, and, employ long-standing policies prescribing that derivative instruments are only to be used to achieve a set of very limited objectives.

Currency derivatives are primarily arranged in conjunction with underlying transactions that give rise to foreign currency- denominated payables and receivables: for example, an option to buy foreign currency to settle the importation of goods from foreign suppliers, or a forward exchange contract to fix the dollar value of a foreign currency-denominated loan.

As of December 31, 1997 and 1996 our primary foreign currency market exposures include the Japanese yen, British pound sterling, Brazilian real, U.S. dollar, French franc and Canadian dollar.

In order to manage the risk of foreign currency exchange rate fluctuations, we hedge a significant portion of all transactions (except for amounts "permanently" invested) denominated in a currency other than the functional currency applicable to each of our legal entities. From time to time, when cost-effective, currency derivatives are used to hedge international equity investments.

Consistent with the nature of the economic hedge of such foreign currency exchange contracts, associated unrealized gains or losses would be offset by corresponding decreases or increases in the value of the underlying asset or liability being hedged. Assuming a 10 percent appreciation or depreciation in foreign currency exchange rates as of December 31, 1997, the potential change in fair value of our net foreign currency position would approximate $46 million.

The amount permanently invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox and Xerox do Brasil, and translated into dollars using the year-end exchange rate, is $6 billion at December 31, 1997. Assuming a 10 percent appreciation or depreciation of the U.S. dollar against all currencies from the quoted foreign currency exchange rates at December 31, 1997, the unrealized loss or gain would amount to $599 million.

We do not hedge foreign currency-denominated revenues of our foreign subsidiaries since these do not represent cross-border cash flows.

With regard to interest rate hedging, virtually all customer financing assets earn fixed rates of interest and, therefore, we "lock in" an interest rate spread by arranging fixed-rate liabilities with similar maturities as the underlying assets. Additionally, customer financing assets in one currency are consistently funded with liabilities in the same currency. We refer to the effect of these conservative practices as "match funding" customer financing assets. This practice effectively eliminates the risk of a major decline in interest margins during a period of rising interest rates. Conversely, this practice effectively eliminates the opportunity to materially increase margins when interest rates are declining.

More specifically, pay fixed-rate and receive variable-rate swaps are typically used in place of more expensive fixed-rate debt. Pay variable-rate and receive variable-rate swaps are used to transform variable-rate medium-term debt into commercial paper or LIBOR obligations. Additionally, pay variable-rate and receive fixed-rate swaps are used from time to time to transform longer term fixed-rate debt into variable-rate obligations. The transactions performed within each of these three categories enable more cost-effective management of interest rate exposures. The potential risk attendant to this strategy is the performance of the swap counterparty. We address this risk by arranging swaps with a diverse group of strong-credit counterparties, regularly monitoring their credit ratings and determining the replacement cost, if any, of existing transactions.

On an overall worldwide basis, and including the impact of our hedging activities, weighted average interest rates for 1997, 1996 and 1995 approximated 6.6 percent, 6.9 percent and 7.7 percent, respectively.

Many of the financial instruments we use are sensitive to changes in interest rates. Hypothetically, interest rate changes result in gains or losses related to the market value of our term debt and interest rate swaps due to differences between current market interest rates and the stated interest rates within the instrument. Applying an assumed 10 percent reduction or increase in the yield curves at December 31, 1997, the fair value of our term debt and interest swaps would increase or decrease, by approximately $93 million.

Our currency and interest rate hedging are typically unaffected by changes in market conditions as forward contracts, options and swaps are normally held to maturity consistent with our objective to lock in currency rates and interest rate spreads on the underlying transactions.

Pictured here is the Xerox Sixth Sense Technology team.

Xerox people are team players. Teams that achieve a "black belt" in teamwork earn the title X Team a group of innovative people who deliver results and whose best practices are shared across organizational lines. It is the highest level of team recognition in Xerox. This team worked on the delivery of Sixth Sense Technology, an exclusive Xerox service offering that allows Customer Service Engineers to use laptop computers and software to monitor and diagnose a machine's performance remotely. Photographed (top to bottom) here are Steve Pleavin, Chuck Boyle, Kelly Langan, Arturo Lorenzo, Wilbur Thornton, Dan Auman, Carol Goldstein, Norm Kriehn, Nancy Nam, Dennis Martin and Carl Edmunds.

Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	1997	1996	1995
Cash Flows from Operating Activities			
Income from continuing operations	$ 1,452	$ 1,206	$ 1,174
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization	739	715	719
Provision for doubtful accounts	265	259	235
Provision for postretirement medical benefits, net of payments	29	38	40
Minorities' interests in earnings of subsidiaries	88	161	191
Undistributed equity in income of affiliated companies	(84)	(84)	(90)
Increase in inventories	(517)	(422)	(663)
Increase in finance receivables	(1,629)	(1,220)	(701)
Increase in accounts receivable	(188)	(180)	(173)
Increase in accounts payable and accrued compensation and benefit costs	250	63	179
Net change in current and deferred income taxes	361	293	263
Other, net	(294)	(519)	(575)
Total	472	310	599
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(520)	(510)	(438)
Proceeds from sales of land, buildings and equipment	36	40	90
Net change in payables to Discontinued Operations	(208)	(51)	(57)
Purchase of additional interest in Xerox Limited	(812)	-	(972)
Other, net	45	14	-
Total	(1,459)	(507)	(1,377)
Cash Flows from Financing Activities			
Net change in debt	5	990	766
Dividends on common and preferred stock	(475)	(438)	(389)
Proceeds from sale of common stock	140	95	111
Repurchase of preferred and common stock	(116)	(316)	(41)
Dividends to minority shareholders	(6)	(68)	(86)
Proceeds received from (returned to) minority shareholders	(1)	32	20
Proceeds from issuance of mandatorily redeemable preferred securities	637	-	-
Total	184	295	381
Effect of exchange rate changes on cash	(18)	(6)	(5)
Cash provided (used) by continuing operations	(821)	92	(402)
Cash provided (used) by discontinued operations	792	(124)	497
Increase (decrease) in cash	(29)	(32)	95
Cash at beginning of year	104	136	41
Cash at end of year	$ 75	$ 104	$ 136

The accompanying notes on pages 46 to 65 are an integral part of the consolidated financial statements.

Liquidity

Our primary sources of liquidity are cash generated from operations and borrowings. The consolidated statements of cash flows detailing changes in our cash balances are on page 42.

Operating activities generated positive cash flows in each of the past three years. Cash generation of $472 million in 1997 was $162 more than in 1996 despite a $1,629 million net increase to customer finance receivables associated with growth in equipment sales. Conversely, 1996 cash flow from operating activities was $289 million less than in 1995 as income growth and improved inventory performance did not fully offset finance receivables growth.

Investing activities resulted in net cash usage in all three years. Cash used for investing activities was $952 higher in 1997 than in 1996 largely due to payment to The Rank Group of the initial installment under our agreement to purchase The Rank Group's remaining interests in the former Rank Xerox. Net usage in 1996 was $507 million or $870 million less than in 1995. Lower 1996 usage primarily reflected the absence of a 1995 payment to The Rank Group that increased our financial interest in Rank Xerox from 67 percent to 80 percent.

Excluding (pound)440 million ($720 million) of notes payable to The Rank Group, cash generated by financing activities continued to decline as strong cash generation from our continuing non-financing businesses, and proceeds from sales of discontinued businesses, have offset the need for additional borrowing related to financing business growth.

Overall, including payments to The Rank Group of $812 million and $972 million in 1997 and 1995, respectively, continuing operations used $821 million of cash in 1997, generated $92 million in 1996 and used $402 million in 1995.

Discontinued operations provided $792 million of cash in 1997, used $124 million in 1996 and provided $497 million in 1995.

Cash balances were $75 million at year-end 1997, versus $104 million in 1996 and $136 million in 1995, consistent with our objective to minimize investments that do not provide added value to our shareholders.

Discontinued Operations - Insurance and Other Financial Services

The net investment in the discontinued financial services businesses, which include Insurance, Other Financial Services and Third Party Financing and Real Estate, totaled $1,332 million at December 31, 1997 compared with $2,124 million and $2,000 million at December 31, 1996 and 1995, respectively. The decrease primarily reflects the sale of Coregis Group, Inc. (Coregis), Industrial Indemnity Holdings, Inc. (II) and The Resolution Group, Inc. (TRG), somewhat offset by scheduled funding of reinsurance coverage to the Talegen Holdings, Inc. (Talegen) companies and TRG by Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt.

Status of Insurance

In 1995, we recorded a $1,546 million after-tax charge in connection with agreements to sell all of our "Remaining" insurance companies, which included Coregis, Crum & Forster Holdings, Inc. (CFI), II, Westchester Specialty Group, Inc. (WSG), TRG and three insurance-related service companies.

On September 11, 1996, those agreements were terminated. No additional charges were considered necessary as a result of the termination. In September 1996, the Board of Directors of Xerox formally approved a plan of disposal under which we retained investment bankers to assist us in the simultaneous disposition of each of the Remaining insurance and service companies.

Significant progress was made during the past year in the disposition of these companies at values consistent with expectations at the time we discontinued the insurance

Pictured here are Xerox customers.

REMARK, Minsk, Belarus, is a fast growing advertising agency made up of 20 young people with creative ideas and color know-how. They use a Xerox 5790 to print brochures and leaflets and a Xerox 8954 plotter for printing large-format posters and ads. Here (left to right) are Dimitri Lunyov, Dimitri Yarota, Gennadi Yermakovich and Edward Berezin. REMARK also creates advertising for Xerox in Belarus, including this advertisement for the C55 color laser printer.

operations in 1995. As of January 2, 1998, the sale of four of the five Remaining insurance companies was completed, as was the disposition of one service company. Specifically:

- - In the first quarter, we sold certain assets of Apprise Corp., one of Talegen's insurance-related service companies. The financial terms of this transaction were not material.
- - In the second quarter, we completed the sale of Coregis for $375 million in cash and the assumption of $75 million in debt.
- - In the third quarter, we completed the sale of II for $365 million in cash and the assumption of $79 million in debt.
- - In the fourth quarter, we completed the sale of TRG for $150 million in cash and a $462 million performance-based instrument to an investor group. Ultimate recovery of the value of this instrument will be dependent on TRG's future cash flows available for dividends.
- - And, on January 2, 1998, we completed the sale of WSG for $338 million in cash, less approximately $70 million in transaction-related costs.

The disengagement strategy for the last remaining insurance company, CFI, includes the option of either a private sale or an initial public offering (IPO) of CFI stock, whichever delivers better shareholder value. Pursuant to this strategy, subsequent to year-end, a Form S-1 Registration Statement for the IPO was filed with the Securities and Exchange Commission. During the disposal process, we remain subject to all business risks and rewards of the remaining unit. Until

Pictured here is a London-theme bus.

This entire job - starting from the digital image in the computer and including printing by our customer Pixus Digital Printing, Lafayette, La., on ColorgrafX equipment, to transfer to vinyl and application on the vehicle - took only two days to complete. ColorgrafX provides color printing systems for production of large color documents like banners, billboards and backlit signs.

CFI is actually sold, no assurances can be given as to the ultimate impact on our total results from operations or whether the proceeds from CFI's sale will equal its carrying value.

Xerox Financial Services, Inc. (XFSI) continues to provide aggregate excess of loss reinsurance coverage (the Reinsurance Agreements) to certain of the current and former Talegen units and TRG through Ridge Re, a wholly owned subsidiary of XFSI. The coverage limits total $1,109 million, which is net of 15 percent coinsurance. Through December 31, 1997, Ridge Re had provided for approximately $648 million of this available coverage and it is possible that some additional reserves could ultimately be needed, although this is not currently anticipated. XFSI has guaranteed to the current and former Talegen units and TRG that Ridge Re will meet all of its financial obligations under the Reinsurance Agreements. Related premium payments to Ridge Re are made by XFSI and guaranteed by us. As of December 31, 1997, there were five remaining annual installments of $45 million, plus finance charges. We have also guaranteed that Ridge Re will meet its financial obligations on $578 million of the Reinsurance Agreements and we have provided a $400 million partial guaranty of Ridge Re's $800 million letter of credit facility. This facility is required to provide security with respect to aggregate excess of loss reinsurance obligations under contracts with the current and former Talegen units and TRG.

XFSI may also be required, under certain circumstances, to purchase over time additional redeemable preferred shares of Ridge Re, up to a maximum of $301 million.

Prior Sales of Talegen Insurance Companies In April 1995, Constitution Re Corporation was sold for $421 million in cash. In July 1995, Viking was sold for approximately $103 million in cash plus future upward price adjustments based on loss reserve development.

Net Investment in Insurance

The net investment in Insurance at December 31, 1997 totaled $1,076 million compared with balances of $1,846 million and $1,678 million at December 31, 1996 and 1995, respectively. The decrease in 1997 over 1996 primarily reflects the sales of Coregis, II and TRG somewhat offset by contractual payments to Ridge Re for annual premium installments and associated finance charges and interest on the assigned insurance debt.

Property and Casualty Operating Trends

The industry's profitability can be significantly affected by cyclical competitive conditions, judicial decisions affecting insurers' liabilities and volatile and unpredictable developments, including changes in the propensity of courts to grant large awards, fluctuations in interest rates, inflationary pressures that may tend to affect the size of losses and changes in the investment environment that affect market prices of insurance companies' investments. CFI's operating results have historically been influenced by these industry trends, as well as by its exposure to uncollectible reinsurance, which had been greater than most other insurers.

Other Financial Services

The net investment in Other Financial Services at December 31, 1997 was $125 million compared with $101 million and $114 million at December 31, 1996 and 1995, respectively. The increase in the investment primarily reflects the effect of a transfer from Insurance that had no effect on the total net investment in the discontinued financial services businesses.

On June 1, 1995, XFSI completed the sale of Xerox Financial Services Life Insurance Company and related companies (Xerox Life). In connection with the transaction, OakRe Life Insurance Company (OakRe), a wholly owned XFSI subsidiary, has assumed responsibility, via Coinsurance Agreements, for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life. The Coinsurance Agreements include a provision for the assumption (at their election) by the purchaser's companies of all of the SPDA policies at the end of their current rate reset periods. A Novation Agreement with an affiliate of the new owner provides for the assumption of the liability under the Coinsurance Agreements for any SPDA policies not so assumed. Other policies (of Immediate, Whole Life and Variable annuities as well as a minor amount of SPDAs) were sold and are now the responsibility of the purchaser's companies.

As a result of the Coinsurance Agreements, at December 31, 1997, OakRe retained approximately $1.5 billion of investment portfolio assets (transferred from Xerox Life) and liabilities related to the reinsured SPDA policies. Interest rates on these policies are fixed and were established upon issuance of the respective policies. Substantially all of these policies will reach their rate reset periods through the year 2000 and will be assumed under the Agreements as described above. Xerox Life's portfolio was designed to recognize that policy renewals extended liability "maturities," thereby permitting investments with average duration somewhat beyond the rate reset periods. OakRe's practice is to selectively improve this match over time as market conditions allow.

In connection with the aforementioned sale, XFSI established a $500 million letter of credit and line of credit with a group of banks to support OakRe's coinsurance obligations. The term of this letter of credit is five years, and it is unused and available at December 31, 1997. Upon a drawing under the letter of credit, XFSI has the option to cover the drawing in cash or to draw upon the credit line.

Third Party Financing and Real Estate

Third Party Financing and Real Estate assets at December 31, 1997, 1996 and 1995 totaled $298 million, $450 million and $489 million, respectively. The proceeds from the asset sales and run-off activity were consistent with the amounts contemplated in the formal disposal plan.

Forward Looking Statements

This document contains forward-looking statements and

information relating to Xerox that are based on our beliefs and assumptions and information currently available to us. The words "anticipate," "believe," "estimate," "expect," "intends" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Information concerning certain factors that could cause actual results to differ materially is included in the Company's third quarter 1997 10-Q. We do not intend to update these forward-looking statements.

Pictured here is color printer ink.

Fuji Xerox integrated research and artistic development facilities are at the forefront of document technologies. Research in color imaging has led to a number of successful color products, contributing to the No. 1 position in Japan in color for Fuji Xerox.

Notes to Consolidated Financial Statements

(Dollars in millions, except per-share data and unless otherwise indicated)

1 Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of Xerox Corporation and all majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated. References herein to "we" or "our" refer to Xerox and consolidated subsidiaries unless the context specifically requires otherwise.

Xerox Limited (formerly Rank Xerox Limited), Rank Xerox Holding BV, Rank Xerox Investment Limited, R-X Holdings Limited and their respective subsidiaries are referred to as Xerox Limited.

Investments in which we have a 20 to 50 percent ownership interest are generally accounted for on the equity method.

Upon the sale of stock by a subsidiary, we recognize a gain or loss equal to our proportionate share of the increase or decrease in the subsidiary's equity. During 1996, we recognized a pre-tax net gain of $11 from such transactions.

Effective 1997, Fuji Xerox changed its reporting period from a fiscal year ending October 20 to a fiscal year ending December 20. The results of operations during the period between the end of the 1996 fiscal year and the beginning of the new fiscal year (the stub period) amounted to a gain of $8. The gain was credited to retained earnings to avoid reporting more than 12 months' results of operations in one year.

Effective January 1, 1995, we changed the reporting periods of Xerox Limited and the Latin American operations from fiscal years ending October 31 and November 30, respectively, to a calendar year ending December 31. The results of these operations during the period between the end of the 1994 fiscal year and the beginning of the new calendar year (the stub period) amounted to a loss of $21. The loss was charged to retained earnings to avoid reporting more than 12 months' results of operations in one year. Accordingly, 1995 worldwide operations include the results for all consolidated subsidiaries beginning January 1, 1995. The cash activity for the stub period is included in Other, net in the 1995 consolidated statement of cash flows.

Business Segment Information. We operate in a single industry segment that consists of the worldwide development, manufacturing, marketing, financing and servicing of document processing products and services. This business is unitary from both a company and a customer perspective in that the marketing, financing and servicing of our products represent an integrated document services solution.

Earnings Per Share. Basic earnings per share are based on net income less preferred stock dividend requirements divided by the average common shares outstanding during the period. Diluted earnings per share assume exercise of in-the-money stock options outstanding and full conversion of convertible debt and convertible preferred stock into common stock at the beginning of the year or date of issuance, unless they are antidilutive.

Use of Estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Goodwill. Goodwill represents the cost of acquired businesses in excess of the net assets purchased and is amortized on a straight-line basis, generally over 40 years. Goodwill is reported net of accumulated amortization, and the recoverability of the carrying value is evaluated on a periodic basis by assessing current and future levels of income and cash flows as well as other factors. Accumulated amortization at December 31, 1997 and 1996 was $71 and $41, respectively.

Accounting Changes. Effective December 1997, we adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." SFAS No. 128 simplifies the calculation of earnings per share (EPS), replaces primary EPS with basic EPS and replaces fully diluted EPS with diluted EPS. See Note 18 on page 65.

Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that it gives effect to all potentially dilutive instruments that were outstanding during the period. All earnings per share amounts in Xerox' annual report have been restated to reflect this new standard. 1997 primary and fully diluted EPS of $4.25 and $4.03, respectively, have been restated as basic and diluted EPS of $4.31 and $4.04, respectively. 1996 primary and fully diluted EPS of $3.49 and $3.31, respectively, have been restated as basic and diluted EPS of $3.55 and $3.32, respectively.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," and No. 131, "Disclosures about Segments of an Enterprise and Related Information." Commencing in 1998, SFAS No. 130 will require companies to report comprehensive income, and SFAS No. 131 will require companies to report segment performance as it is used internally to evaluate segment performance. These statements merely provide for additional disclosure requirements.

Revenue Recognition. Revenues from the sale of equipment under installment contracts and from sales-type leases are recognized at the time of sale or at the inception of the lease, respectively. Associated finance income is earned on an accrual basis under an effective annual yield method. Revenues from equipment under other leases are accounted for by the operating lease method and are recognized over the lease term. Service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts.

Provisions for Losses on Uncollectible Receivables. The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience.

Inventories. Inventories are carried at the lower of average cost or market.

Buildings and Equipment. Our fixed assets are depreciated over their estimated useful lives. Depreciation is computed using principally the straight-line method. Significant improvements are capitalized; maintenance and repairs are expensed. See Note

5 on page 49.

Classification of Commercial Paper and Bank Notes Payable. It is our policy to classify as long-term debt that portion of commercial paper and notes payable that is intended to match fund finance receivables due after one year to the extent that we have the ability under our revolving credit agreement to refinance such commercial paper and notes payable on a long-term basis. See Note 9 on page 53.

Foreign Currency Translation. The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange, and income and expense items are translated at the average exchange rate for the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity. The U.S. dollar is used as the functional currency for certain subsidiaries, primarily those in Latin America, which conduct their business in U.S. dollars or operate in hyperinflationary economies. A combination of current and historical exchange rates is used in remeasuring the local currency transactions of these subsidiaries, and the resulting exchange adjustments are included in income. Aggregate foreign currency losses were $85, $27 and $18 in 1997, 1996 and 1995, respectively, and are included in Other, net in the consolidated statements of income.

Effective July 1, 1997, we changed the functional currency for our Brazilian operation from the U.S. dollar to the Brazilian real, as the Brazilian economy is no longer considered hyperinflationary. The effect of this change was immaterial.

Reclassifications. Prior years' financial statements have been restated to reflect certain reclassifications to conform with the 1997 presentation. The impact of these changes is not material and did not affect net income.

N O T E S

2 Acquisition

In June 1997, we acquired the remaining 20 percent of Xerox Limited from The Rank Group Plc (Rank) in a transaction valued at (pound)940 million, or approximately $1.5 billion. As a result of this transaction, we now own 100 percent of Xerox Limited. The transaction was funded entirely by debt consisting of (pound)500 million of third-party debt and (pound)440 million of notes payable issued to Rank, which will be paid in deferred installments, half by June 29, 1998 and the other half by June 30, 1999. An additional payment of up to (pound)60 million would be made in 2000 based upon achievement of certain Xerox Limited earnings growth targets by 1999. The purchase price (including transaction costs) was allocated such that goodwill increased by $737, minority interest in equity of subsidiaries was reduced by approximately $720, with the balance of $70 applied to other assets and liabilities, primarily investment in affiliates, at equity.

On February 28, 1995, we paid Rank (pound)620 million, or approximately $972, for 40 percent of Rank's financial interest in Xerox Limited. The transaction increased our financial interest in Xerox Limited to 80 percent from 67 percent. Our additional interest in the operating results of Xerox Limited is included in the consolidated statement of income from the date of acquisition. Based on the allocation of the purchase price, this transaction resulted in goodwill of $574 (including transaction costs), a decline in minorities' interests in equity of subsidiaries of approximately $400 and an increase in long-term debt of $972.

3 Finance Receivables, Net

Finance receivables represent installment sales and sales-type leases resulting from the marketing of our business equipment products. These receivables generally mature over two to five years and are typically collateralized by a security interest in the underlying assets. The components of finance receivables, net at December 31, 1997, 1996 and 1995 follow:

	1997	1996	1995
Gross receivables	$15,035	$13,872	$12,696
Unearned income	(2,850)	(2,551)	(2,207)
Unguaranteed residual values	557	398	308
Allowance for doubtful accounts	(389)	(347)	(322)
Finance receivables, net	12,353	11,372	10,475
Less current portion	4,599	4,386	4,069
Amounts due after one year, net	$ 7,754	$ 6,986	$ 6,406

Contractual maturities of our gross finance receivables subsequent to December 31, 1997 follow:

1998	1999	2000	2001	2002	Thereafter
$5,653	$4,044	$2,930	$1,709	$571	$128

Experience has shown that a portion of these finance receivables will be prepaid prior to maturity. Accordingly, the preceding schedule of contractual maturities should not be considered a forecast of future cash collections.

4 Inventories

The components of inventories at December 31, 1997, 1996 and 1995 follow:

	1997	1996	1995
Finished goods	$1,549	$1,570	$1,646
Work in process	97	80	88
Raw materials	406	322	295
Equipment on operating leases, net	740	704	627
Inventories	$2,792	$2,676	$2,656

Equipment on operating leases consists of our business equipment products that are rented to customers and are depreciated to estimated residual value. Depreciable lives vary from two to four years. In order to more precisely match depreciable lives to the duration of lease contracts with customers, during 1996, we increased the depreciable lives of certain equipment on operating leases such that the equipment is now predominately depreciated over three to four years. The effect of this change was not material. Our business equipment operating lease terms vary, generally from 12 to 36 months. Accumulated depreciation on equipment on operating leases for the years ended December 31, 1997, 1996 and 1995 amounted to $1,198, $1,259 and $1,065, respectively. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

1998	1999	2000	Thereafter
$406	$210	$78	$42

- --

Total contingent rentals, principally usage charges in excess of minimum allowances relating to operating leases, for the years ended December 31, 1997, 1996 and 1995 amounted to $186, $199 and $190, respectively.

5 Land, Buildings and Equipment, Net The components of land, buildings and equipment, net at December 31, 1997, 1996 and 1995 follow:

	Estimated Useful Lives (Years)	1997	1996	1995
Land		$ 88	$ 89	$ 85
Buildings and building equipment	20 to 40	1,012	991	941
Leasehold improvements	Lease term	403	378	347
Plant machinery	4 to 12	1,870	1,862	1,907
Office furniture and equipment	3 to 10	1,285	1,231	1,161
Other	3 to 20	190	218	201
Construction in progress		310	250	231
Subtotal		5,158	5,019	4,873
Less accumulated depreciation		2,781	2,763	2,768
Land, buildings and equipment, net		$2,377	$2,256	$2,105

We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases. Total rent expense under operating leases for the years ended December 31, 1997, 1996 and 1995 amounted to $419, $421 and $425, respectively. Future minimum operating lease commitments that have remaining non-cancelable lease terms in excess of one year at December 31, 1997 follow:

1998	1999	2000	2001	2002	Thereafter
$313	$243	$190	$146	$113	$358

In certain circumstances, we sublease space not currently required in operations. Future minimum sublease income under leases with non-cancelable terms in excess of one year amounted to $29 at December 31, 1997.

In 1994, we awarded a contract to Electronic Data Systems Corp. (EDS) to operate our worldwide data processing and telecommunications network through the year 2004. Minimum payments due EDS under the contract follow:

1998	1999	2000	2001	2002	Thereafter
$296	$257	$229	$217	$198	$278

6 Investments in Affiliates, at Equity Investments in corporate joint ventures and other companies in which we generally have a 20 to 50 percent ownership interest at December 31, 1997, 1996 and 1995 follow:

	1997	1996	1995
Fuji Xerox	$1,231	$1,173	$1,223
Other investments	101	109	91
Investments in affiliates, at equity	$1,332	$1,282	$1,314

Xerox Limited, a consolidated subsidiary, owns 50 percent of the outstanding stock of Fuji Xerox, a corporate joint venture with Fuji Photo Film Co., Ltd. Fuji Xerox is headquartered in Tokyo and operates in Japan and other areas of the Pacific Rim, Australia and New Zealand, except for China. As disclosed in Note 2 on page 48, in June 1997 we purchased Rank Group Plc's remaining interest in Xerox Limited. In order to record the acquired assets at fair value, $137 of goodwill was allocated to Xerox Limited's investment in Fuji Xerox and is being amortized over 40 years. Condensed financial data of Fuji Xerox for its last three fiscal years follow:

	1997	1996	1995
Summary of Operations			
Revenues	$7,415	$8,091	$8,500
Costs and expenses	6,882	7,546	7,989
Income before income taxes	533	545	511
Income taxes	295	313	287
Net income	$ 238	$ 232	$ 224
Xerox Limited's equity in net income	$ 119	$ 116	$ 112
Xerox' equity in net income	$ 109	$ 93	$ 88

Balance Sheet Data

Assets			
Current assets	$2,461	$3,008	$3,518
Non-current assets	2,942	3,168	3,085
Total assets	$5,403	$6,176	$6,603
Liabilities and Shareholders' Equity			
Current liabilities	$2,218	$2,546	$2,675
Long-term debt	286	427	594
Other non-current liabilities	679	850	884
Shareholders' equity	2,220	2,353	2,450
Total liabilities and shareholders' equity	$5,403	$6,176	$6,603

7 Geographic Area Data

Revenues and assets of Xerox Limited are substantially attributable to European operations; its consolidated operations in Africa, Asia and the Middle East together constitute less than 2 percent of our consolidated amounts. The Other Areas classification reflects Brazil and to a lesser extent, Canada, Mexico and other Latin American countries.

Intercompany revenues are generally based on manufacturing cost plus a markup to recover other operating costs and to provide a profit margin to the selling company.

N O T E S

Geographic area data for our continuing operations follow:

Year ended December 31	1997	1996	1995
Revenues from Unrelated Entities			
United States	$ 9,191	$ 8,583	$ 8,068
Xerox Limited	5,511	5,501	5,495
Other areas	3,464	3,294	3,025
Total	$18,166	$17,378	$16,588
Intercompany Revenues			
United States	$ 1,455	$ 1,377	$ 1,376
Xerox Limited	187	230	226
Other areas	557	425	463
Total	$ 2,199	$ 2,032	$ 2,065
Total Revenues			
United States	$10,646	$ 9,960	$ 9,444
Xerox Limited	5,698	5,731	5,721
Other areas	4,021	3,719	3,488
Less intercompany revenues	(2,199)	(2,032)	(2,065)
Total	$18,166	$17,378	$16,588
Income from Continuing Operations (Before Intercompany Eliminations			
United States	$ 638	$ 444	$ 370
Xerox Limited	390	432	409
Other areas	437	375	364
Total	$ 1,465	$1,251	$ 1,143
Income from Continuing Operations (After Intercompany Eliminations)			
United States	$ 642	$ 414	$ 418
Xerox Limited	392	431	408
Other areas	418	361	348
Total	$ 1,452	$ 1,206	$ 1,174
Assets			
United States	$11,179	$10,354	$ 9,876
Xerox Limited	8,591	7,844	7,566
Other areas	4,937	4,222	3,756
Subtotal	24,707	22,420	21,198
Investment in discontinued operations	3,025	4,398	4,810
Total	$27,732	$26,818	$26,008

8 Discontinued Operations

In January 1993, we announced our intent to sell or otherwise disengage from our Insurance and Other Financial Services (IOFS) businesses. Since that time, we have disposed of a number of these businesses through sale and run-off collection activities. At December 31, 1997, our sole remaining non-Document Processing operation is the Insurance business, which excludes our other discontinued businesses consisting of Other Financial Services and Third Party Financing and Real Estate, which are primarily in asset run-off. A discussion of the status of IOFS's three segments follows.

Insurance. In 1993, Talegen Holdings, Inc. (Talegen) completed a restructuring which established and capitalized seven insurance operating groups as independent legal entities: Constitution Re Corporation (CRC), Coregis Group, Inc. (Coregis), Crum & Forster Holdings, Inc. (CFI), Industrial Indemnity Holdings, Inc. (II), The Resolution Group, Inc. (TRG), Viking Insurance Holdings, Inc. (Viking) and Westchester Specialty Group, Inc. (WSG).

Since the restructuring, we have disposed of all of the insurance operating groups except CFI. Details of these disposals follow:

In April 1995, CRC was sold for $421 in cash, which approximated book value. In July 1995, Viking was sold for approximately $103 in cash plus future upward price adjustments based on loss reserve development. The proceeds approximated book value. The proceeds of both transactions were used to retire debt.

In the fourth quarter of 1995, we recorded a $1,546 loss on disposal in connection with agreements to sell Coregis, CFI, II, WSG, TRG and three insurance-related service companies (collectively referred to as the Remaining companies). In September 1996, those agreements were terminated. No additional charges were considered necessary as a result of the termination. In September 1996, the Board of Directors formally approved a plan of disposal under which we retained investment bankers to assist us in the simultaneous disposition of each of the Remaining companies.

During 1997 and January 1998, we made significant progress in the disposition of these companies, including the completed sales of four of the five Remaining insurance companies and one insurance-related service company.

Specifically, the following occurred:

In the first quarter of 1997, we sold certain assets of Apprise Corp., one of Talegen's insurance-related service companies. The financial terms of this transaction were not material.

In May 1997, we completed the sale of Coregis for $375 in cash and the assumption of $75 in debt.

In August 1997, we completed the sale of II for $365 in cash and the assumption of $79 in debt.

In October 1997, we completed the sale of TRG for $150 in cash and a $462 performance-based instrument to an investor group. We will participate in the future cash flows of TRG via the performance-based instrument. The recovery of this instrument is dependent upon the sufficiency of TRG's available cash flows, as defined. Based on current forecasts at December 31, 1997, we expect to realize $462 for this instrument. However, the ultimate realization may be greater or less than this amount.

On January 2, 1998, we completed the sale of WSG for $338 in cash less approximately $70 in transaction-related costs.

The disengagement strategy for the last remaining insurance company, CFI, includes the option of either a private sale or an initial public offering (IPO) of CFI stock, whichever delivers better shareholder value. Pursuant to this strategy, subsequent to year-end, a Form S-1 Registration Statement for the IPO was filed with the Securities and Exchange Commission.

The values received for the companies disposed of in 1997 and January 1998 were consistent with their carrying values. The net proceeds of the sales transactions after transaction related costs were used primarily to retire debt.

At December 31, 1997, the Insurance business consists of Talegen (primarily WSG and CFI), Ridge Reinsurance Limited (Ridge Re), and headquarters costs and interest expense associated with the insurance activities of Xerox Financial Services, Inc. (XFSI), a wholly owned subsidiary.

XFSI continues to provide aggregate excess of loss reinsurance coverage (the Reinsurance Agreements) to certain of the current and former Talegen units and TRG through Ridge Re, a wholly owned subsidiary of XFSI. The coverage limits total $1,109, which is net of 15 percent coinsurance. Through December 31, 1997, Ridge Re had provided for approximately $648 of this available coverage and it is possible that some additional reserves could ultimately be needed, although this is not currently anticipated. XFSI has guaranteed to the current and former Talegen units and TRG that Ridge Re will meet all of its financial obligations under the Reinsurance Agreements. Related premium payments to Ridge Re are made by XFSI and guaranteed by us. As of December 31, 1997, there were five remaining annual installments of $45, plus finance charges. We have also guaranteed that Ridge Re will meet its financial obligations on $578 of the Reinsurance Agreements and we have provided a $400 partial guaranty of Ridge Re's $800 letter of credit facility. This facility is required to provide security with respect to aggregate excess of loss reinsurance obligations under contracts with the current and former Talegen units and TRG.

XFSI may also be required, under certain circumstances, to purchase, over time, additional redeemable preferred shares of Ridge Re, up to a maximum of $301.

Insurance Financial Information. Summarized operating results of Insurance for the three years ended December 31, 1997 follow:

	1997	1996	1995
Revenues			
Insurance premiums earned	$1,338	$1,708	$ 1,888
Investment and other income	386	435	464
Total Revenues	1,724	2,143	2,352
Costs and Expenses			
Insurance losses and loss expenses	1,345	1,667	2,031
Insurance acquisition costs and other operating expenses	518	557	619
Interest expense	173	203	231
Administrative and general expenses	62	10	556
Total costs and expenses	2,098	2,437	3,437
Realized capital gains	36	4	60
Income (loss) before income taxes	(338)	(290)	(1,025)
Income tax benefits	143	100	357
Net income (loss) from operations*	(195)	(190)	(668)
Loss on disposal	-	-	(978)
Income (loss) from Insurance**	$ (195)	$ (190)	$(1,646)

* The 1995 amount includes $568 of after-tax reserve provisions.
** The 1997 and 1996 operating results exclude the gains and losses related to sales of the Insurance subsidiaries. The 1997 and 1996 results, including the sale-related impacts, were charged to reserves established for this purpose and, therefore, did not impact our earnings.

The net assets at December 31, 1997, 1996 and 1995 of the Insurance businesses included in our consolidated balance sheets as discontinued operations are summarized as follows:

	1997	1996	1995
Insurance Assets			
Investments	$4,597	$ 7,889	$ 7,871
Reinsurance recoverable	1,459	2,458	2,616
Premiums and other receivables	592	1,082	1,191
Deferred taxes and other assets	1,082	1,201	1,450

Total Insurance assets	$7,730	$12,630	$13,128
Insurance Liabilities			
Unpaid losses and loss expenses	$4,999	$ 8,572	$ 8,761
Unearned income	541	812	859
Notes payable	250	215	372
Other liabilities	864	1,185	1,458
Total Insurance liabilities	$6,654	$10,784	$11,450
Investment in Insurance, net	$1,076	$ 1,846	$ 1,678

N O T E S

At December 31,1997 and 1996, intercompany receivables aggregating approximately $206 and $414, respectively, have been included as assets in Investment in discontinued operations in the consolidated balance sheets. The corresponding obligations are included in Deferred taxes and other liabilities in the consolidated balance sheets and represent funding commitments by XFSI guaranteed by us. Substantially all of these funding commitments will be paid at the time the CFI sale is completed.

The Investments caption consists mainly of short-term investments as shown below. At December 31, 1997, approximately 99 percent of the fixed maturity investments are investment grade securities. The amortized cost and fair value of the investment portfolio at December 31, 1997 follow:

	Amortized Cost	Fair Value
Fixed maturities	$1,046	$1,066
Short-term investments	3,531	3,531
Total investments	$4,577	$4,597

Activity related to unpaid losses and loss expenses for the three years ended December 31, 1997 follows:

	1997	1996	1995
Unpaid Losses and Loss Expenses			
Gross unpaid losses and loss expenses, January 1	$ 8,572	$8,761	$8,809
Reinsurance recoverable	2,245	2,290	2,391
Net unpaid losses and loss expenses, January 1	6,327	6,471	6,418
Incurred related to:			
Current year accident losses	1,100	1,364	1,461
Prior year accident losses	245	303	570
Total incurred	1,345	1,667	2,031
Paid related to:			
Current year accident losses	308	407	427
Prior year accident losses	982	1,215	1,203
Total paid	1,290	1,622	1,630
Sales of subsidiaries	(2,463)	-	(769)
Other adjustments	(319)	(189)	421
Net unpaid losses and loss expenses, December 31	3,600	6,327	6,471
Reinsurance recoverable	1,399	2,245	2,290
Gross unpaid losses and loss expenses, December 31	$ 4,999	$8,572	$8,761

Other Financial Services. In 1995, we completed the sale of Xerox Financial Services Life Insurance Company and related companies (Xerox Life) for approximately $104 before settlement costs and capital funding of OakRe Life Insurance Company (OakRe), a single-purpose XFSI subsidiary. OakRe assumed responsibility for the Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life's Missouri and California companies via coinsurance agreements. As a result of these coinsurance agreements, at December 31, 1997 and 1996, we have retained on our consolidated balance sheet approximately $1.5 and $2.0 billion, respectively, of investment portfolio assets and reinsurance reserves related to Xerox Life's former SPDA policies. These amounts will decrease through the year 2000 as the SPDA policies are either terminated by the policyholder or renewed and transferred to the buyer.

In connection with the aforementioned sale, XFSI established a $500 letter of credit and line of credit with a group of banks to support OakRe's coinsurance obligations. This letter of credit expires in 2000, and it is unused and available at December 31, 1997. Upon a drawing under the letter of credit, XFSI has the option to cover the drawing in cash or to draw upon the credit line.

Third Party Financing and Real Estate. During the last seven years, we made substantial progress in disengaging from the Third Party Financing and Real Estate businesses that were discontinued in 1990. During the three years ended December 31, 1997, we received net cash proceeds of $252 ($152 in 1997, $36 in 1996 and $64 in 1995) from the sale of individual assets and from run-off collection activities. The amounts received were consistent with our estimates in the disposal plan and were used primarily to retire debt. The remaining assets primarily represent direct financing leases, many with long-duration contractual maturities and unique tax attributes. Collections in 1998 are expected to be less than we received in 1997.

Total Discontinued Operations. The consolidated financial statements present the Insurance, Other Financial Services and Third Party Financing and Real Estate businesses as discontinued operations. Debt has been assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations, adjusted for subsequent paydowns. Interest expense thereon is primarily determined based on our annual average domestic borrowing costs. Assigned interest expense for the discontinued businesses for the years ended December 31, 1997, 1996 and 1995 was $201, $226 and $255, respectively.

Summarized information of discontinued operations for the three years ended December 31, 1997 follows:

	1997	1996	1995
Summary of Operations			
Income (loss) before income taxes	$ -	$ -	$(1,025)
Income tax benefits	-	-	357
Loss on disposal	-	-	(978)
Net income (loss)	$ -	$ -	$(1,646)
Balance Sheet Data			
Assets			
Insurance			
Investment, net	$1,076	$1,846	$ 1,678
Other Financial Services			
Investments	1,537	1,991	2,508
Other assets, net	114	111	135
OFS assets	1,651	2,102	2,643
Third Party Financing and Real Estate			
Gross finance receivables	303	401	472
Unearned income and other	(5)	49	17
Investment, net	298	450	489
Investment in discontinued operations	$3,025	$4,398	$ 4,810
Liabilities			
OFS policyholders' deposits	$1,523	$1,998	$ 2,528
Other OFS liabilities	3	3	1
Assigned debt	167	273	281
Discontinued operations liabilities	$1,693	$2,274	$ 2,810
Net investment in discontinued operations	$1,332	$2,124	$ 2,000

At December 31, 1997 and 1996, approximately $1.9 billion and $2.5 billion, respectively, of third party indebtedness assigned to the Insurance operations is included in the consolidated balance sheet caption Long-term debt.

Based on current estimates, we believe that the proceeds received from disposal of the remaining net discontinued assets will be consistent with our net carrying value of these businesses.

9 Debt

Short-Term Debt. Short-term borrowings data at December 31, 1997 and 1996 follow:

	Weighted average interest rates at 12/31/97	1997	1996
Notes payable	4.05%	$1,164	$ 762
Foreign commercial paper	5.83%	629	864
Total short-term debt		1,793	1,626
Current maturities of long-term debt		1,914	1,910
Total		$3,707	$3,536

Notes payable generally represent foreign currency denominated borrowings of non-U.S. subsidiaries.

Long-Term Debt. A summary of long-term debt by final maturity date at December 31, 1997 and 1996 follows:

	Weighted average interest rates at 12/31/97	1997	1996
U.S. Operations			
Xerox Corporation (parent company)			
Guaranteed ESOP notes due 1998-2004	7.62%	$ 434	$ 494
Notes due 1997	-	-	275

Notes due 1998	6.67	585	-
Notes due 1999	5.52	730	454
Notes due 2000	7.33	600	600
Notes due 2001	6.85	212	212
Notes due 2002	8.13	200	225
Notes due 2003	5.01	147	-
Notes due 2004	7.15	200	200
Notes due 2006	7.25	25	50
Notes due 2007	7.38	25	25
Notes due 2011	7.01	50	205
Notes due 2016	7.20	250	250
Notes due 2026	6.25	350	350
Other debt due 1997-2014	7.20	126	128
Capital lease obligations	6.85	3	4
Subtotal		3,937	3,472
Xerox Credit Corporation			
Notes due 1997	-	-	877
Notes due 1998	7.42	795	420
Notes due 1999	8.25	300	300
Notes due 2000	5.53	201	153
Notes due 2001	6.04	126	100
Notes due 2002	2.88	250	-
Notes due 2007	7.13	25	-
Notes due 2011	7.68	-	200
Notes due 2012	7.18	225	-
Floating rate notes due 2048	5.65	60	61
Other notes due 1997 and 2000	-	4	13
Subtotal		1,986	2,124
Total U.S. operations		$5,923	$5,596

	Weighted average interest rates at 12/31/97	1997	1996
International Operations			
Various obligations, payable in:			
Canadian dollars due 1997-2007	11.40%	$ 124	$ 192
Dutch guilders due 1997-2000	5.61	66	108
French francs due 1997-1999	5.13	21	47
German marks due 1997-1999	6.33	51	146
Pounds sterling due 1997-2003	8.75	206	257
Swiss francs due 1997-2000	3.30	35	57
Italian lira due 1997-1998	7.30	123	113
U.S. dollars due 1997-1999	6.15	229	133
Other currencies due 1997-2001	7.14	207	274
Capital lease obligations	7.67	3	-
Total international operations		1,065	1,327
Other borrowings deemed long-term		3,872	3,684
Subtotal		10,860	10,607
Less current maturities		1,914	1,910
Total long-term debt		$ 8,946	$ 8,697

Consolidated Long-Term Debt Maturities. Payments due on long-term debt for the next five years and thereafter follow:

1998	1999	2000	2001	2002	Thereafter
$1,914	$1,285	$1,040	$456	$619	$1,674

These payments do not include amounts relating to domestic commercial paper and foreign bank notes payable, which have been classified as long-term debt under the caption Other borrowings deemed long-term. These borrowings are classified as long-term because we have the intent to refinance them on a long-term basis and the ability to do so under our revolving credit agreement.

Certain of our debt agreements allow us to redeem outstanding debt prior to scheduled maturity. Outstanding debt issues with these call features are classified in the preceding five-year maturity table in accordance with management's current expectations. The actual decision as to early redemption will be made at the time the early redemption option becomes exercisable and will be based on prevailing economic and business conditions.

Lines of Credit. In October 1997, we replaced the then-existing $5 billion revolving credit agreement with a $7 billion revolving credit agreement with a group of banks. This new Revolver, maturing 2002, is also accessible by the following wholly owned subsidiaries: Xerox Credit Corp. (up to a $7 billion limit), and by Xerox Capital (Europe) plc and Xerox Overseas Holdings PLC (up to a $4 billion limit) with our guarantee. Any amounts borrowed under this facility would be at rates based, at the borrower's option, on spreads above certain reference rates such as LIBOR. This agreement is unused and is available to back commercial paper borrowings of our domestic operations, Xerox Capital (Europe) plc and Xerox Overseas Holdings PLC which amounted to $3.8 billion at December 31, 1997. In addition, our foreign subsidiaries had unused committed long-term lines of credit used to back short-term indebtedness that aggregate $0.2 billion in various currencies at prevailing interest rates.

Match Funding of Finance Receivables and Indebtedness. We employ a match funding policy for customer financing assets and related liabilities. Under this policy, which is more fully discussed in the accompanying Financial Review on page 41, the interest and currency characteristics of the indebtedness are, in most cases, matched to the interest and currency characteristics of the finance receivables. At December 31, 1997, these operations had approximately $12.5 billion of net finance receivables, which will service approximately $10.2 billion of assigned short- and long-term debt, including $0.1 billion of debt assigned to discontinued third party financing businesses.

Guarantees. At December 31, 1997, we have guaranteed the borrowings of our ESOP and $2,616 of indebtedness of our foreign subsidiaries.

Interest. Interest paid by us on our short- and long-term debt, including amounts relating to debt assigned to discontinued operations, amounted to $812, $871 and $817 for the years ended December 31, 1997, 1996 and 1995, respectively.

Total Short- and Long-Term Debt. Our total indebtedness, excluding the direct indebtedness of Talegen, at December 31, 1997 and 1996 is reflected in the consolidated balance sheet captions as follows:

	1997	1996
Short-term debt and current portion of long-term debt	$ 3,707	$ 3,536
Long-term debt	8,779	8,424
Discontinued operations liabilities -		

policyholders' deposits and other	167	273
Total debt	$12,653	$12,233

A summary of changes in consolidated indebtedness for the three years ended December 31, 1997 follows:

	1997	1996	1995
Increase (decrease) in short-term debt, net	$ (276)	$ 973	$ 94
Proceeds from long-term debt	1,807	2,998	3,169
Principal payments on long-term debt	(1,632)	(2,989)	(2,497)
Subtotal	(101)	982	766
Less change in debt of discontinued operations	(106)	(8)	-
Total change in debt of continuing operations	$ 5	$ 990	$ 766

10 Financial Instruments

Derivative Financial Instruments. Certain financial instruments with off-balance-sheet risk have been entered into by us to manage our interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements, forward exchange contracts and foreign currency swap agreements. We do not enter into derivative instrument transactions for trading or other speculative purposes.

We typically enter into simple, unleveraged derivative transactions which, by their nature, have low credit and market risk. Our policies on the use of derivative instruments prescribe an investment-grade counterparty credit floor and at least quarterly monitoring of market risk on a counterparty-by-counterparty basis. We utilize numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties. Based upon our ongoing evaluation of the replacement cost of our derivative transactions and counterparty creditworthiness, we consider the risk of credit default significantly affecting our financial position or results of operations to be remote.

We employ the use of hedges to reduce the risks that rapidly changing market conditions may have on the underlying transactions. Typically, our currency and interest rate hedging activities are not affected by changes in market conditions, as forward contracts and swaps are arranged and normally held to maturity in order to lock in currency rates and interest rate spreads related to underlying transactions.

None of our hedging activities involves exchange traded instruments.

Interest Rate Swaps. We enter into interest rate swap agreements to manage interest rate exposure. An interest rate swap is an agreement to exchange interest rate payment streams based on a notional principal amount. We follow settlement accounting principles for interest rate swaps whereby the net interest rate differentials to be paid or received are recorded currently as adjustments to interest expense.

Virtually all customer financing assets earn fixed rates of interest. Accordingly, through the use of interest rate swaps in conjunction with the contractual maturity terms of outstanding debt, we "lock in" an interest spread by arranging fixed-rate interest obligations with maturities similar to the underlying assets. Additionally, customer financing assets are consistently funded with liabilities denominated in the same currency. We refer to the effects of these conservative practices as "match funding" our customer financing assets. This practice effectively eliminates the risk of a major decline in interest margins resulting from adverse changes in the interest rate environment. Conversely, this practice does effectively eliminate the opportunity to materially increase margins when interest rates are declining.

More specifically, pay fixed/receive variable interest rate swaps are often used in place of more expensive fixed-rate debt for the purpose of match funding fixed-rate customer contracts.

Pay variable/receive variable interest rate swaps ("basis swaps") are used to transform variable rate, medium-term debt into commercial paper or local currency LIBOR rate obligations. Pay variable/receive fixed interest rate swaps are used to transform term fixed-rate debt into variable rate obligations. During 1997, three such agreements were cancelled in connection with the early retirement of three medium-term notes. The transactions performed within each of these three categories enable the cost-effective management of interest rate exposures. During 1997, the average notional amount of an interest rate swap agreement was $28.

At December 31, 1997 and 1996, the total notional amounts of these transactions, based on contract maturity, follow:

	1997	1996
Commercial paper/bank borrowings	$ 1,991	$ 1,822
Medium-term debt	5,388	4,000
Long-term debt	4,313	3,444
Total	$11,692	$ 9,266

For the three years ended December 31, 1997, no pay fixed/receive variable interest rate swap agreements were terminated prior to maturity.

The aggregate notional amounts of interest rate swaps by maturity date and type at December 31, 1997 and 1996 follow:

	1997	1998	1999-2001	2002-2016	Total
1997					
Pay fixed/receive variable	$ --	$ 1,136	$ 4,203	$ 2,330	$ 7,669
Pay variable/receive variable	--	320	203	0	523
Pay variable/receive fixed	--	535	982	1,983	3,500
Total	--	$ 1,991	$ 5,388	$ 4,313	$11,692
Memo:					
Interest rate paid	--	6.20%	6.22%	6.03%	6.14%
Interest rate received	$ --	6.18%	5.55%	6.22%	5.90%
1996					
Pay fixed/receive variable	$ 1,224	$ 925	$ 3,612	$ 419	$ 6,180
Pay variable/receive variable	455	0	332	25	812
Pay variable/receive fixed	143	0	760	1,371	2,274
Total	$ 1,822	$ 925	$ 4,704	$ 1,815	$ 9,266
Memo:					
Interest rate paid	6.21%	6.69%	6.48%	5.97%	6.35%
Interest rate received	5.90%	5.37%	5.82%	7.10%	6.04%

Forward Exchange Contracts. We utilize forward exchange contracts to hedge against the potentially adverse impacts of foreign currency fluctuations on foreign currency denominated receivables and payables; firm foreign currency commitments; and investments in foreign operations. Firm foreign currency commitments generally represent committed purchase orders for foreign-sourced inventory. These contracts generally mature in six months or less. At December 31, 1997 and 1996, we had outstanding forward exchange contracts of $1,977 and $2,259, respectively. Of the outstanding contracts at December 31, 1997, the largest single currency represented was the pound sterling. Contracts denominated in British pounds sterling, U.S. dollars, Brazilian reais, French francs and Canadian dollars accounted for over 75 percent of our forward exchange contracts. On contracts that hedge foreign currency denominated receivables and payables, gains or losses are reported currently in income, and premiums or discounts are amortized to income and included in Other, net in the consolidated statements of income. Gains or losses, as well as premiums or discounts, on contracts that hedge firm commitments are deferred and subsequently recognized as part of the underlying transaction. At December 31, 1997, we had a net deferred loss of $38. Gains or losses on contracts that hedge an investment in a foreign operation are reported currently in the balance sheet as a component of cumulative translation adjustments. The premium or discount on contracts that hedge an investment in a foreign operation are amortized to income and included in Other, net in the consolidated statements of income. During 1997, the average notional amount of a forward exchange contract amounted to $13.

Foreign Currency Swap Agreements. We enter into cross-currency interest rate swap agreements, whereby we issue foreign currency denominated debt and swap the proceeds with a counterparty. In return, we receive and effectively denominate the debt in local currencies. Currency swaps are utilized as hedges of the underlying foreign currency borrowings, and exchange gains or losses are recognized currently in Other, net in the consolidated statements of income. At December 31, 1997, cross-currency interest rate swap agreements with an aggregate notional amount of $1,708 remained outstanding.

Fair Value of Financial Instruments. The estimated fair values of our financial instruments at December 31, 1997 and 1996 follow:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 75	$ 75	$ 104	$ 104
Accounts receivable, net	2,145	2,145	2,022	2,022
Short-term debt	1,793	1,793	1,626	1,626
Long-term debt	10,860	11,189	10,607	10,766
Interest rate and currency swap agreements	--	25	--	(61)
Forward exchange contracts	--	(44)	--	19

The fair value amounts for Cash, Accounts receivable, net and Short-term debt approximate carrying amounts due to the short maturities of these instruments.

The fair value of Long-term debt was estimated based on quoted market prices for these or similar issues or on the current rates offered to us for debt of the same remaining maturities. The difference between the fair value and the carrying value represents the theoretical net premium we would have to pay to retire all debt at such date. We have no plans to retire significant portions of our long-term debt prior to scheduled maturity. We are not required to determine the fair value of our finance receivables, the match funding of which is the source of much of our interest rate swap activity.

The fair values for interest rate and cross-currency swap agreements and forward exchange contracts were calculated by us based on market conditions at year-end and supplemented with quotes from brokers. They represent amounts we would receive (pay) to terminate/replace these contracts. We have no present plans to terminate/replace significant portions of these contracts.

11 Employee Benefit Plans

Retirement Income Guarantee Plan (RIGP).

Approximately 54,000 salaried and union employees participate in the RIGP plans. The RIGP plans are defined benefit plans, which provide employees with the greater of (i) the benefit calculated under a highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life, or (iii) the individual account balance from our prior defined contribution plan (Transitional Retirement Accounts or TRA).

At December 31, 1997, these domestic plans accounted for approximately 64 percent of our total pension assets and were invested as follows: domestic and international equity securities - 69 percent; fixed-income investments - 30 percent; and real estate - 1 percent. No plan assets are invested in our stock.

The RIGP plans are in compliance with the minimum funding standards of the Employee Retirement Income Security Act of 1974 (ERISA).

Pension costs are determined using assumptions as of the beginning of the year, while the funded status is determined using assumptions as of the end of the year. The transition asset and prior service cost are amortized over 15 years. The assumptions used in the accounting for the U.S. defined benefit plans follow:

	1997	1996	1995
Assumed discount rates	7.25%	7.75%	7.25%
Assumed rates for compensation increases	4.13	4.50	4.25
Expected return on plan assets	9.50	9.50	9.50

Our discount rate considers, among other items, the aggregate effects of a relatively young work force and, because pension benefits are settled at retirement, the absence of retirees receiving pension benefits from plan assets. Accordingly, the duration of our pension obligation tends to be relatively longer in comparison to other companies. Changes in the assumed discount rates and rates of compensation increases primarily reflect changes in the underlying rates of long-term inflation.

Other Plans. We maintain various supplemental executive retirement plans (SERPs) that are not tax-qualified and are unfunded.

We sponsor numerous pension plans for our international operating units in Europe, Canada and Latin America, which generally provide pay- and service-related benefits. Plan benefits are provided through a combination of funded trusteed arrangements or through book reserves. The Xerox Limited pension plan in the United Kingdom is the largest international plan and accounted for approximately 25 percent of our total pension assets at December 31, 1997. It is primarily invested in marketable equity securities.

N O T E S

Financial Information. Our disclosures about the funded status and components of pension cost are in accordance with U.S. accounting principles. Such principles recognize the long-term nature of pension plan obligations and the need to make assumptions about events many years into the future. In any year there may be significant differences between a plan's actual experience and its actuarially assumed experience. Such differences are deferred and do not generally affect current net pension cost. The objective of deferring such differences is to allow actuarial gains and losses an opportunity to offset over time. These deferrals are included in the captions Unrecognized net gain (loss) and Net amortization and deferrals in the accompanying tables. Due to variations in investment results, the effect of revising actuarial assumptions, and actual plan experience which differs from assumed experience, certain of our plans may be classified as overfunded in one year and underfunded in another year. Under ERISA and other laws, the excess assets of overfunded plans are not available to fund deficits in other plans.

The non-funded plans are the SERPs, the Xerox Canada Limited non-registered pension plan and the Xerox Limited pension plans in Germany and Austria. For tax reasons, these plans are most efficiently and customarily funded on a pay-as-you-go basis.

A reconciliation of the funded status of our retirement plans to the amounts accrued in our consolidated balance sheets at December 31, 1997 and 1996 follows:

	1997				1996			
	Over-funded	Under-funded	Non-funded	Total	Over-funded	Under-funded	Non-funded	Total
Accumulated benefit obligation	$ 6,354	$ 70	$ 271	$6,695	$5,549	$ 70	$ 252	$ 5,871
Effect of projected compensation increases	526	10	52	588	471	51	48	570
Projected benefit obligation (PBO)	6,880	80	323	7,283	6,020	121	300	6,441
Plan assets at fair value	7,640	68	--	7,708	6,706	65	--	6,771
Excess (deficit) of plan assets over PBO	760	(12)	(323)	425	686	(56)	(300)	330
Items not yet reflected in the financial statements:								
Unamortized transition obligations (assets)	(87)	(1)	7	(81)	(116)	17	10	(89)
Unrecognized prior service cost	27	1	6	34	40	--	(9)	31
Unrecognized net (gain) loss	(394)	24	37	(333)	(268)	30	29	(209)
Prepaid (accrued) pension cost recognized in the consolidated balance sheets at December 31	$ 306	$ 12	$ (273)	$ 45	$ 342	$ (9)	$ (270)	$ 63

The components of pension cost for the three years ended December 31, 1997 follow:

	1997	1996	1995
Defined benefit plans			
Service cost	$ 167	$ 164	$ 143
Interest cost - change in PBO due to:			
Passage of time	215	201	186
Net investment income (loss) allocated to TRA accounts	677	586	624
Subtotal	892	787	810
Net investment income on:			
TRA assets	(677)	(586)	(624)
Other plan assets	(621)	(417)	(372)
Subtotal	(1,298)	(1,003)	(996)
Net amortization and deferrals	344	150	120
Settlement and curtailment gains	(31)	(7)	(32)
Defined benefit plans - net pension cost	74	91	45
Defined contribution plans - pension cost	23	17	13
Total pension cost	$ 97	$ 108	$ 58

Plan assets consist of both assets legally allocated to the TRA accounts and other defined benefit plan assets. The combined investment results of the assets are shown, left, in the Net investment income caption. To the extent investment results relate to TRA, such results are credited to these accounts as a component of interest cost. The TRA account assets were $4.3 billion and $4.0 billion at December 31, 1997 and 1996, respectively. Our pension plans' funding surplus tends to be less than that of comparable companies because a substantial portion of plan assets are TRA-related and are equal to TRA-related liabilities.

Other Postretirement Benefits. The primary plan for U.S. salaried employees retiring on or after January 1, 1995 provides retirees an annual allowance that can be used to purchase medical and other benefits. The allowance available to each eligible employee is partially service-related and, for financial accounting purposes, is projected to increase at an annual rate of 7.5 percent until it reaches the plan's annual maximum coverage of approximately two times the 1995 level, the transition date to the new plan.

We also have other postretirement benefit plans that cover employees who retired prior to January 1, 1995 and certain grandfathered employees. These other plans are generally indemnity arrangements that provide varying levels of benefit coverage. The medical inflation assumption for these plans is 7.5 percent in 1997 and declines to 5.25 percent in 2002 and thereafter. A 1 percentage point increase in the medical inflation assumptions would increase the service and interest cost for these plans by $3 and the accumulated postretirement benefit obligation by $47.

The discount rate used to determine the funded status was 7.25 percent, 7.75 percent and 7.25 percent at December 31, 1997, 1996 and 1995, respectively.

A reconciliation of the financial status of the plans as of December 31 follows:

	1997	1996	1995
Accumulated Postretirement			
Benefit Obligation:			
Retirees	$ 592	$ 501	$ 506
Fully eligible employees	200	183	251
Other employees	237	208	219
Total	1,029	892	976
Unrecognized net gain	50	158	42
Accrued cost recognized in the consolidated balance sheets	$ 1,079	$ 1,050	$ 1,018

The components of postretirement benefit cost for the three years ended December 31, 1997 follow:

	1997	1996	1995
Service cost	$25	$26	$19
Interest cost	66	63	70
Net amortization	(4)	(1)	(4)
Settlement gain	-	-	(8)
Total	$87	$88	$77

These plans are most efficiently and customarily funded on a pay-as-you-go basis.

Employee Stock Ownership Plan (ESOP) Benefits. In 1989, we established an ESOP and sold to it 10 million shares of Series B Convertible Preferred Stock (Convertible Preferred) of the Company for a purchase price of $785. Each ESOP share is convertible into 3 common shares of the Company. The Convertible Preferred has a $1 par value, a guaranteed minimum value of $78.25 per share and accrues annual dividends of $6.25 per share. The ESOP borrowed the purchase price from a group of lenders. The ESOP debt is included in our consolidated balance sheets because we guarantee the ESOP borrowings. A corresponding amount classified as Deferred ESOP benefits represents our commitment to future compensation expense related to the ESOP benefits.

The ESOP will repay its borrowings from dividends on the Convertible Preferred and from our contributions. The ESOP's debt service is structured such that our annual contributions (in excess of dividends) essentially correspond to a specified level percentage of participant compensation. As the borrowings are repaid, the Convertible Preferred is allocated to ESOP participants and Deferred ESOP benefits are reduced by principal payments on the borrowings. Most of our domestic employees are eligible to participate in the ESOP.

Information relating to the ESOP for the three years ended December 31, 1997 follows:

	1997	1996	1995
CInterest on ESOP Borrowings	$38	$42	$45
Dividends declared on Convertible Preferred Stock	$57	$58	$59
Cash contribution to the ESOP	$39	$36	$34
Compensation expense	$40	$37	$35

We recognize ESOP costs based on the amount committed to be contributed to the ESOP plus related trustee, finance and other charges.

12 Income Taxes

The parent company and its domestic subsidiaries file consolidated U.S. income tax returns. Generally, pursuant to tax allocation arrangements, domestic subsidiaries record their tax provisions and make payments to the parent company for taxes due or receive payments from the parent company for tax benefits utilized.

Income before income taxes from continuing operations for the three years ended December 31, 1997 consi sts of the following:

	1997	1996	1995
Domestic income	$1,082	$ 781	$ 747
Foreign income	1,059	1,163	1,102
Income before income taxes	$2,141	$1,944	$1,849

Provisions for income taxes from continuing operations for the three years ended December 31, 1997 consist of the following:

	1997	1996	1995
Federal income taxes			
Current	$ 253	$ 210	$ 285
Deferred	67	50	(21)
Foreign income taxes			
Current	168	205	178
Deferred	158	166	110
State income taxes			
Current	69	62	57
Deferred	13	7	6
Income taxes	$ 728	$ 700	$ 615

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate for continuing operations for the three years ended December 31, 1997 follows:

	1997	1996	1995
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Foreign earnings and dividends taxed at different rates	(3.2)	.5	2.2
Goodwill amortization	.3	.3	.3
Tax-exempt income	(.8)	(.5)	(.6)
Effect of tax rate changes on deferred tax assets and liabilities	--	--	(5.3)
State taxes	2.5	2.3	2.2
Change in valuation allowance for deferred tax assets	--	(1.0)	(.8)
Other	.2	(.6)	.3
Effective income tax rate	34.0%	36.0%	33.3%

The 1997 effective tax rate of 34.0 percent is 2.0 percentage points lower than 1996. This lower 1997 rate is primarily attributable to an increase in foreign tax credits, refund of foreign taxes and mix of profits from our worldwide operations.

The 1996 effective tax rate of 36.0 percent is 2.7 percentage points higher than 1995. The lower 1995 rate was primarily caused by a decrease in Brazilian corporate tax rates, which created a deferred tax benefit. Excluding the 1995 Brazilian deferred tax benefit, the 1996 effective tax rate was 2.6 percentage points lower than 1995. This lower effective tax rate was primarily due to the lower statutory tax rate in Brazil and the mix of profits from our worldwide operations.

On a consolidated basis, including the effects of discontinued operations, we paid a total of $241, $252 and $182 in income taxes to federal, foreign and state income-taxing authorities in 1997, 1996 and 1995, respectively.

Total income tax expense (benefit) for the three years ended December 31, 1997 was allocated as follows:

	1997	1996	1995
Income taxes on income from continuing operations	$ 728	$ 700	$ 615
Tax benefit included in minorities' interests*	(19)	--	--
Discontinued operations	(166)	(84)	(374)
Common shareholders' equity**	(57)	(15)	(15)
Total	$ 486	$ 601	$ 226

* Benefit relates to preferred securities as more fully described in Note 15 on page 61.

** For dividends paid on shares held by the ESOP; cumulative translation adjustments; tax benefit on nonqualified stock options; and unrealized gains and losses on investment securities.

Deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings included in consolidated retained earnings at December 31, 1997 was approximately $4.5 billion. These earnings have been substantially reinvested, and we do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 1997 and 1996 follow:

	1997	1996
Tax effect of future tax deductions		
Depreciation	$ 294	$ 397
Postretirement medical benefits	406	405
Restructuring reserves	22	70
Other operating reserves	299	296
Deferred intercompany profit	60	83
Allowance for doubtful accounts	95	69
Deferred compensation	151	138
Tax credit carryforwards	125	122
Research and development	256	158
Other	133	108
Total	$1,841	$1,846
Tax effect of future taxable income		
Installment sales and leases	$(1,282)	$(1,287)
Leverage leases	(21)	(31)
Deferred income	(353)	(205)
Other	(192)	(163)
Total	$(1,848)	$(1,686)

The above amounts are classified as current or long-term in the consolidated balance sheets in accordance with the asset or liability to which they relate. Current deferred tax assets at December 31, 1997, 1996 and 1995 amounted to $516, $473 and $608, respectively.

We conclude that it is more likely than not that the deferred tax assets will be realized in the ordinary course of operations based on scheduling of deferred tax liabilities and income from operating activities.

At December 31, 1997, we have tax credit carryforwards for federal income tax purposes of $20 available to offset future federal income taxes through 2001 and $105 available to offset future federal income taxes indefinitely.

13 Litigation

On March 10, 1994, a lawsuit was filed in the United States District Court for the District of Kansas by two independent service organizations (ISOs) in Kansas City and St. Louis and their parent company. Plaintiffs claim damages predominately resulting from the Company's alleged refusal to sell parts for high volume copiers and printers to plaintiffs prior to 1994. The Company's policies and practices with respect to the sale of parts to ISOs were at issue in an antitrust class action in Texas, which was settled by the Company during 1994. Claims for individual lost profits of ISOs who were not named parties, such as the plaintiffs in the Kansas action, were not included in that class action. In their complaint plaintiffs allege monetary damages in the form of lost profits in excess of $10 million (to be trebled) and injunctive relief. In a report prepared pursuant to Rule 26(a)2)B) of the Federal Rules of Civil Procedure, an accountant retained by plaintiffs as an expert indicated that he plans to testify at trial that, allegedly as a result of Xerox' conduct, plaintiffs have lost profits of approximately $75 million. The Company has asserted counterclaims against the plaintiffs alleging patent and copyright infringement, misappropriation of Xerox trade secrets and conversion. On December 11, 1995, the District Court issued a preliminary injunction against the parent company for copyright infringement. On April 8, 1997, the District Court granted partial summary judgment in favor of the Company on plaintiffs' antitrust claims, ruling that the Company's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability. The Court's ruling did not preclude a finding of antitrust liability based upon other allegations of exclusionary conduct, including the refusal to sell unpatented parts. The District Court also granted summary judgment in favor of the Company on its patent infringement claim, leaving open with respect to patent infringement only the issues of willfulness and the amount of damages, and granted partial summary judgment in favor of the Company with respect to some of its claims of copyright infringement. On September 8, 1997, the United States Court of Appeals for the Federal Circuit denied plaintiffs' petition for permission to appeal the District Court's April 8, 1997 Order. A trial date tentatively has been set for March 9, 1998 for the remaining issues in the case. The Company denies any wrongdoing and intends to vigorously defend the remaining claims and pursue its counterclaims.

14 Common Stock Split

At our annual meeting on May 16, 1996, shareholders approved an increase in the number of authorized shares of common stock, from 350 million to 1.05 billion, to effect a three-for-one stock split. The effective date of the stock split was June 6 for shareholders of record as of May 23. Shareholders' equity has been restated to give retroactive recognition to the stock split in prior periods by reclassifying from additional paid-in capital to common stock the par value of the additional shares arising from the split. In addition, all references in the financial statements to number of shares and per share amounts have been restated.

15 Preferred Securities

We have 22 million authorized shares of cumulative preferred stock, $1 par value. Outstanding preferred stock at December 31, 1997 and 1996 follows (shares in thousands):

	1997		1996	
	Shares	Amount	Shares	Amount
Convertible Preferred Stock	9,013	$705	9,212	$721

Convertible Preferred Stock. As more fully described in Note 11 on page 57, we sold, for $785, 10 million shares of our Series B Convertible Preferred Stock (ESOP shares) in 1989 in connection with the establishment of our ESOP. As employees with vested ESOP shares leave the Company, these shares are redeemed by us. We have the option to settle such redemptions with either shares of common stock or cash.

Preferred Stock Purchase Rights. We have a shareholder rights plan designed to deter coercive or unfair takeover tactics and to prevent a person or persons from gaining control of us without offering a fair price to all shareholders.

Under the terms of the plan, one preferred stock purchase right (Right) accompanies each share of outstanding common stock. Each Right entitles the holder to purchase from us one three-hundredth of a new series of preferred stock at an exercise price of $250.

Within the time limits and under the circumstances specified in the plan, the Rights entitle the holder to acquire either our common stock, the surviving company in a business combination, or the purchaser of our assets, having a value of two times the exercise price.

The Rights may be redeemed prior to becoming exercisable by action of the Board of Directors at a redemption price of $.01 per Right. The Rights expire in April 2007.

The Rights are non-voting and, until they become exercisable, have no dilutive effect on the earnings per share or book value per share of our common stock.

Deferred Preferred Stock. In October 1996, a subsidiary of ours issued 2 million deferred preferred shares for Canadian (Cdn.) $50 million. The U.S. dollar value was $37 and is included in Minorities' interests in equity of subsidiaries in the consolidated balance sheet. These shares are mandatorily redeemable on February 28, 2006 for Cdn. $90 million. The difference between the redemption amount and the proceeds from the issue is being amortized, through the redemption date, to minorities' interests in earnings of subsidiaries in the consolidated statements of income. We have guaranteed the redemption value.

Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company. On January 29, 1997, a trust sponsored and wholly owned by the Company issued $650 aggregate liquidation amount preferred securities (the "Original Preferred Securities") to investors and 20,103 shares of common securities to the Company, the proceeds of which were invested by the trust in $670.1 aggregate principal amount of the Company's newly issued 8 percent Junior Subordinated Debentures due 2027 ("the Original Debentures"). On June 13, 1997, pursuant to a registration statement filed by the Company and the trust with the Securities and Exchange Commission, Original Preferred Securities with an aggregate liquidation preference amount of $644.2 and Original Debentures with a principal amount of $644.2 were exchanged for a like amount of preferred securities (together with the Original Preferred Securities, the "Preferred Securities") and 8 percent Junior Subordinated Debentures due 2027 (together with the Original Debentures, the "Debentures") which were registered under the Securities Act of 1993. The Debentures represent all of the assets of the trust. The proceeds from the issuance of the Original Debentures were used by the Company for general corporate purposes. The Debentures and related income statement effects are eliminated in the Company's consolidated financial statements.

The Preferred Securities accrue and pay cash distributions semi-annually at a rate of 8 percent per annum of the stated liquidation amount of $1,000 per Preferred Security. The Company has guaranteed (the "Guarantee"), on a subordinated basis, distributions and other payments due on the Preferred Securities. The Guarantee and the Company's obligations under the Debentures and in the indenture pursuant to which the Debentures were issued and the Company's obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities.

The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by the Company of any Debentures. The redemption price in either such case will be $1,000 per share plus accrued and unpaid distributions to the date fixed for redemption.

16 Common Shareholders' Equity

The components of common shareholders' equity and the changes therein for the three years ended December 31, 1997 follow:

(Shares in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on Investment Securities	Translation Adjust-ments	Treasury Stock Shares
Balance at December 31, 1994	317,979	$ 321	$ 1,192	$ 3,197	$ (433)	$ (100)	--
Stock option, incentive plans and other	4,962	6	114	(11)			
Xerox Canada Inc. exchangeable stock	1,365						
Convertible securities	723		28				
Net loss				(472)			
Net loss during stub period				(21)			
Cash dividends declared							
Common stock ($1.00 per share)				(327)			
Preferred stock				(62)			
Tax benefits on ESOP dividends				17			
Net unrealized gain on investment securities					432		
Translation adjustments - net of minority shareholders' interests of $17						(3)	
Balance at December 31, 1995	325,029	327	1,334	2,321	(1)	(103)	--
Purchase of treasury stock							(6,493)
Stock option, incentive plans and other	596		(23)	(15)			2,428
Xerox Canada Inc. exchangeable stock	103						1,347
Convertible securities	174		10				497
Net income				1,206			
Cash dividends declared							
Common stock ($1.16 per share)				(379)			
Preferred stock				(59)			
Tax benefits on ESOP dividends				16			
Translation adjustments - net of minority shareholders' interests of ($24)						(138)	
Premiums from sale of put options			11				
Tax benefits on stock options			21				
Balance at December 31, 1996	325,902	327	1,353	3,090	(1)	(241)	(2,221)
Purchase of treasury stock							(1,987)
Stock option, incentive plans and other	180		(117)	(29)			3,648
Xerox Canada Inc. exchangeable stock	58						63
Convertible securities	101		9				497
Net income				1,452			
Net income during stub period				8			
Cash dividends declared							
Common stock ($1.28 per share)				(418)			
Preferred stock				(57)			
Tax benefits on ESOP dividends				14			
Translation adjustments - net of minority shareholders' interests of ($44)						(463)	
Premiums from sale of put options			13				
Tax benefits on stock options			45				
Balance at December 31, 1997	326,241	$ 327	$ 1,303	$ 4,060	$ (1)	(704)	0

(Shares in thousands)	Treasury Stock Amount	Total
Balance at December 31, 1994	--	4,177
Stock option, incentive plans and other		109
Xerox Canada Inc. exchangeable stock		
Convertible securities		28
Net loss		(472)
Net loss during stub period		(21)
Cash dividends declared		
Common stock ($1.00 per share)		(327)
Preferred stock		(62)
Tax benefits on ESOP dividends		17
Net unrealized gain on investment securities		432
Translation adjustments - net of minority shareholders' interests of $17		(3)
Balance at December 31, 1995	--	3,878
Purchase of treasury stock	(306)	(306)
Stock option, incentive plans and other	122	84

Xerox Canada Inc. exchangeable stock		
Convertible securities	23	33
Net income		1,206
Cash dividends declared		
Common stock ($1.12 per share)		(379)
Preferred stock		(59)
Tax benefits on ESOP dividends		16
Translation adjustments -		
net of minority shareholders'		
interests of ($24)		(138)
Premiums from sale of put options		11
Tax benefits on stock options		21
Balance at December 31, 1996	(161)	4,367
Purchase of treasury stock	(116)	(116)
Stock option, incentive plans and other	245	99
Xerox Canada Inc. exchangeable stock		
Convertible securities	32	41
Net income		1,452
Net income during stub period		8
Cash dividends declared		
Common stock ($1.28 per share)		(418)
Preferred stock		(57)
Tax benefits on ESOP dividends		14
Translation adjustments -		
net of minority shareholders'		
interests of ($44)		(463)
Premiums from sale of put options		13
Tax benefits on stock options		45
Balance at December 31, 1997	$ 0	$4,985

Common Stock. We have 1.05 billion authorized shares of common stock, $1 par value. At December 31, 1997 and 1996, 20.7 and 20.9 million shares, respectively, were reserved for issuance under our incentive compensation plans. In addition, at December 31, 1997, 2.6 million common shares were reserved for the conversion of $53 of convertible debt and 27.0 million common shares were reserved for conversion of ESOP-related Convertible Preferred Stock.

Treasury Stock. The Board of Directors has authorized us to repurchase up to $1 billion of our common stock. The stock will be repurchased from time to time on the open market depending on market conditions. During 1997, we repurchased 2.0 million shares for $116. Common shares issued for stock option exercises, conversion of convertible securities and other exchanges were partially satisfied by reissuances of treasury shares. In the second quarter of 1997, the repurchase program was suspended in connection with the acquisition of the remaining interest in Xerox Limited.

Put Options. In connection with the share repurchase program, during 1997 and 1996, we sold 4.0 million and 2.8 million put options, respectively, that entitle the holder to sell one share of our common stock to us at a specified price. These put options are exercisable only at maturity and can be settled in cash at our option. The put options had original maturities ranging from six months to two years.

At December 31, 1997, 4.0 million put options remain outstanding with a weighted average strike price of $54.32 per share.

Stock Option and Long-Term Incentive Plans. We have a long-term incentive plan whereby eligible employees may be granted nonqualified stock options and performance unit rights. Subject to vesting and other requirements, performance unit rights are typically paid in cash, and stock options and rights are settled with newly issued or treasury shares of our common stock. Stock options granted prior to December 31, 1995 normally vest in two years and normally expire five years from the date of grant. Stock options granted subsequent to December 31, 1995 vest in three years and will expire eight years from the date of grant. The exercise price of the options is equal to the market value of our common stock on the date of grant. The value of each performance unit is typically based upon the level of return on assets during the year in which granted. Performance units ratably vest in the three years after the year awarded.

At December 31, 1997 and 1996, 4.3 and 7.7 million shares, respectively, were available for grant of options or rights. The following table provides information relating to the status of, and changes in, options granted:

Employee Stock Options	1997		1996		1995	
(Options in thousands)	Stock Options	Average Option Price	Stock Options	Average Option Price	Stock Options	Average Option Price
Outstanding at January 1	11,103	$ 37	10,794	$ 33	9,726	$ 28
Granted	6,101	68	3,688	43	5,508	37
Canceled	(150)	49	(365)	38	(228)	34
Exercised	(3,487)	34	(2,939)	31	(4,092)	26
Surrendered for SARs	--	--	(75)	15	(120)	16
Outstanding at December 31	13,567	52	11,103	37	10,794	33
Exercisable at end of year	4,425		4,444		3,585	

Options outstanding and exercisable at December 31, 1997 are as follows:

Thousands except per share data	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$26.35 to $44.50	7,360	4.08	$38.59	4,379	$36.38
46.50 to 64.31	3,084	6.96	61.34	46	48.62
69.63 to 84.53	3,123	7.78	73.34	-	-
$26.35 to $84.53	13,567	5.59	$51.76	4,425	$36.50

We do not recognize compensation expense relating to employee stock options because the exercise price of the option equals the fair value of the stock on the date of grant. If we had determined the compensation based on the fair value of the options on the date of grant in accordance with SFAS No. 123, the pro forma net income and earnings per share would be as follows:

	1997	1996
Net income - as reported	$ 1,452	$ 1,206
Net income - pro forma	1,429	1,189
Basic Earnings per share - as reported	4.31	3.55
Basic Earnings per share - pro forma	4.24	3.50
Diluted Earnings per share - as reported	4.04	3.32
Diluted Earnings per share - pro forma	3.98	3.27

The effects of applying SFAS No. 123 in this pro forma disclosure are not necessarily indicative of future amounts.

As reflected in the pro forma amounts in the table above, the fair value of each option granted in 1997 and 1996 was $18.06 and $10.50, respectively. The fair value of each option granted was estimated on the date of grant using the modified Black-Scholes option pricing model using the following weighted average assumptions:

	1997	1996
Risk-free interest rate	6.1%	5.7%
Expected life in years	5.0	5.5
Expected volatility	23.5%	22.0%
Expected dividend yield	1.9%	2.6%

17 Summarized Financial Information of Xerox Overseas

Xerox Overseas Holdings PLC ("Xerox Overseas"), which was formed in November 1996, is the majority shareholder of Xerox Limited and also owns 100 percent of those companies of Rank Group which were acquired in June 1997. The following table presents combined financial information of Xerox Overseas and its subsidiaries as if Xerox Overseas owned those subsidiaries since January 1, 1995.

Years Ended December 31,	1997	1996	1995
Income Statement Information:			
Total Revenues	$5,634	$5,630	$5,749
Income Before Income Taxes, Equity Income and Minorities' Interests	386	561	777
Equity in Net Income of Unconsolidated Affiliates	144	135	15
Minorities' Interests in Earnings of Subsidiaries	8	7	3
Net Income	393	502	563

	1997	1996
Balance Sheet Information:		
Total Current Assets	$3,081	$3,120
Total Current Liabilities	4,846	3,092
Total Non Current Assets	5,426	4,535
Total Non Current Liabilities	955	1,132
Minorities' Interests in Equity of Subsidiaries	24	21

18 Earnings per Share

A reconciliation of the numerators and denominators of the basic and diluted EPS calculation follows:

	1997			1996			1995		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS									
Income from continuing operations	$ 1,452			$ 1,206			$ 1,174		
Accrued dividends on preferred stock	(44)			(44)			(45)		
Basic EPS	1,408	326,686	$ 4.31	1,162	327,194	$ 3.55	1,129	326,014	$ 3.46
Diluted EPS									
Stock options and other incentives		3,964			5,321			5,615	
ESOP Adjustment*	44	27,342		40	27,981		33	28,663	
Convertible debt, net of tax	3	2,644		3	2,644		4	2,644	

Diluted EPS	$ 1,455	360,636	$ 4.04	$ 1,205	363,140	$ 3.32	$ 1,166	362,996	$ 3.21

Note: Recalculation of per share amounts may be off by $0.01 in certain instances due to rounding.
* ESOP Adjustment includes preferred stock dividends, ESOP expense adjustment and related tax benefit.

Quarterly Results of Operations
(Unaudited)

In millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1997					
Revenues	$ 4,022	4,356	$ 4,376	$ 5,412	$ 18,166
Costs and Expenses	3,594	3,859	3,926	4,646	16,025
Income before Income Taxes, Equity Income and Minorities' Interests	428	497	450	766	2,141
Income Taxes	150	175	153	250	728
Equity in New Income of Unconsolidated Affiliates	22	46	37	22	127
Minorities' Interests in Earnings of Subsidiaries	30	31	14	13	88
Net Income	$ 270	$ 337	$ 320	$ 525	$ 1,452
Basic Earnings per Share					
Income available for common shareholders	$ 259	$ 326	$ 309	$ 515	$ 1,409
Average shares outstanding (thousands)	325,771	326,001	327,145	327,815	326,686
Basic Earnings per Share	$ 0.79	$ 1.01	$0.94	$ 1.57	$ 4.31
Diluted Earnings per Share					
Income available for common shareholders	$ 271	$ 338	$ 320	$ 526	$ 1,455
Average shares outstanding (thousands)	361,773	359,750	361,140	361,766	360,636
Diluted Earnings per Share	$ 0.75	$ 0.94	$ 0.89	$ 1.46	$ 4.04
1996					
Revenues	$3,928	$ 4,217	$ 4,158	$ 5,075	$ 17,378
Costs and Expenses	3,544	3,758	3,775	4,357	15,434
Income before Income Taxes, Equity Income and Minorities' Interests	384	459	383	718	1,944
Income Taxes	139	164	138	259	700
Equity in New Income of Unconsolidated Affiliates	20	42	30	31	123
Minorities' Interests in Earnings of Subsidiaries	28	44	25	64	161
Net Income	$ 237	$ 293	$ 250	$ 426	$ 1,206
Basic Earnings per Share					
Income available for common shareholders	$ 225	$ 283	$ 240	$ 415	$ 1,163
Average shares outstanding (thousands)	328,291	327,062	327,458	326,926	327,194
Basic Earnings per Share	$ 0.69	$ 0.86	$ 0.73	$ 1.27	$ 3.55
Diluted Earnings per Share					
Income available for common shareholders	$ 236	$ 293	$ 251	$ 426	$ 1,206
Average shares outstanding (thousands)	363,890	362,968	363,543	362,872	363,140
Diluted Earnings per Share	$ 0.65	$ 0.81	$ 0.68	$ 1.18	$ 3.32

Note: Recalculation of earnings per share amounts may be off by $0.01 in certain instances due to rounding.

Reports of Management and Independent Auditors

Report of Management

Xerox Corporation management is responsible for the integrity and objectivity of the financial data presented in this annual report. The consolidated financial statements were prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments.

The Company maintains an internal control structure designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. This structure includes the hiring and training of qualified people, written accounting and control policies and procedures, clearly drawn lines of accountability and delegations of authority. In a business ethics policy that is communicated annually to all employees, the Company has established its intent to adhere to the highest standards of ethical conduct in all of its business activities.

The Company monitors its internal control structure with direct management reviews and a comprehensive program of internal audits. In addition, KPMG Peat Marwick LLP, independent auditors, have audited the consolidated financial statements and have reviewed the internal control structure to the extent they considered necessary to support their report, which follows.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets regularly with the independent auditors, the internal auditors and representatives of management to review audits, financial reporting and internal control matters, as well as the nature and extent of the audit effort. The Audit Committee also recommends the engagement of independent auditors, subject to shareholder approval. The independent auditors and internal auditors have free access to the Audit Committee.

/s/ Paul A. Allaire	/s/ Barry D. Romeril
Paul A. Allaire	Barry D. Romeril
Chairman of the Board and	Executive Vice President and
Chief Executive Officer	Chief Financial Officer

Report of Independent Auditors

To the Board of Directors and Shareholders of
Xerox Corporation:

We have audited the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1997. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements appearing on pages 30, 38, 42 and 46-65 present fairly, in all material respects, the financial position of Xerox Corporation and consolidated subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP
KPMG Peat Marwick LLP
Stamford, Connecticut
January 23, 1998

Eleven Years in Review

(Dollars in millions, except per-share data)	1997	1996	1995	1994	1993	1992
Per-Share Data						
Earnings (loss) from continuing operations						
Basic	$ 4.31	$ 3.55	$ 3.46	$ 2.27	$ (0.83)	$ 1.74
Diluted	4.04	3.32	3.21	2.15	(0.83)	1.53
Dividends declared	1.28	1.16	1.00	1.00	1.00	1.00
Operations						
Revenues	$ 18,166	$ 17,378	$ 16,588	$ 15,084	$ 14,229	$ 14,298
Research and development expenses	1,079	1,044	949	895	883	922
Income (loss) from continuing operations	1,452	1,206	1,174	794	(193)	562
Net income (loss)	1,452	1,206	(472)	794	(126)	(1,020)
Financial Position						
Accounts and finance receivables, net	$ 14,498	$ 13,394	$ 12,389	$ 11,759	$ 10,565	$ 10,250
Inventories	2,792	2,676	2,656	2,294	2,162	2,257
Land, buildings and equipment, net	2,377	2,256	2,105	2,108	2,219	2,150
Investment in discontinued operations	3,025	4,398	4,810	7,904	8,841	8,652
Total assets	27,732	26,818	26,008	27,278	26,999	25,792
Consolidated capitalization						
Short-term debt	3,707	3,536	3,274	3,159	2,698	2,533
Long-term debt	8,946	8,697	8,148	7,355	7,386	8,105
Total debt	12,653	12,233	11,422	10,514	10,084	10,638
Deferred ESOP benefits	(434)	(494)	(547)	(596)	(641)	(681)
Minorities' interests in equity of subsidiaries	127	843	755	1,021	844	885
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	637	--	--	--	--	--
Preferred stock	705	721	763	832	1,066	1,072
Common shareholders' equity	4,985	4,367	3,878	4,177	3,972	3,875
Total capitalization	18,673	17,670	16,271	15,948	15,325	15,789
Selected Data and Ratios						
Common shareholders of record at year-end	54,689	55,908	54,262	56,414	65,820	68,877
Book value per common share 1	$ 15.21	$ 13.42	$ 11.83	$ 12.95	$ 12.56	$ 13.40
Year-end common stock market price	$ 73.88	$ 52.63	$ 45.67	$ 33.00	$ 29.38	$ 26.42
Employees at year-end	91,400	86,700	85,900	87,600	97,000	99,300
Working capital	$ 3,068	$ 2,948	$2,843	$2,411	$ 2,357	$ 2,578
Current ratio	1.4	1.4	1.4	1.4	1.4	1.5
Additions to land, buildings and equipment	$ 520	$ 510	$ 438	$ 389	$ 470	$ 582
Depreciation on land, buildings and equipment	$ 400	$ 372	$ 376	$ 446	$ 437	$ 418

* Data that conform with the 1997 basis of presentation were not available.

1 Book value per common share is computed by dividing common shareholders' equity by outstanding common shares plus common shares reserved for the conversion of the Xerox Canada Inc. Exchangeable Class B Stock.

	1991	1990	1989	1988	1987
	$ 1.25	$ 1.81	$ 1.47	$ 0.38	$ 1.03
	1.23	1.74	1.45	0.38	1.02
	1.00	1.00	1.00	1.00	1.00
	$13,438	$13,210	$12,095	$11,354	$10,537
	890	848	809	794	722
	436	599	488	148	353
	454	243	704	388	578
	$ 8,952	$ 8,016	$ 7,272	$ 6,109	$ 4,948
	2,091	2,148	2,413	2,558	2,286
	1,950	1,851	1,781	1,803	1,639
	9,164	9,695	*	*	*
	24,342	24,116	*	*	*
	2,038	1,828	1,482	1,174	*
	7,825	8,726	9,247	6,675	*
	9,863	10,554	10,729	7,849	5,771
	(720)	(756)	(785)	--	--
	818	832	715	806	655
	--	--	--	--	--
	1,078	1,081	1,081	296	442
	5,140	5,051	5,035	5,371	5,105
	16,179	16,762	16,775	14,322	11,973
	71,213	74,994	78,876	84,864	86,388
	$ 18.14	$ 17.91	$ 17.86	$ 17.41	$ 17.00
	$ 22.83	$ 11.83	$ 19.08	$ 19.46	$ 18.88
	100,900	99,000	99,000	100,000	99,200
	$ 2,282	$ 2,537	*	*	*
	1.5	1.6	*	*	*
	$ 467	$ 405	$ 390	$ 418	$ 347
	$ 397	$ 372	$ 370	$ 369	$ 320

Consecutive Dividends Paid to Shareholders

The Company's Board of Directors, at a special meeting held January 22, 1998, declared a 13 percent increase in the Xerox common stock dividend to $.36 per share effective April 1, 1998. Xerox has declared dividends to its shareholders for 69 consecutive years and has paid consecutive quarterly dividends since 1948.

At its February 2, 1998 meeting, the Company's Board of Directors declared the regular quarterly $1.5625 per share dividend on the Company's preferred stock. The Series B Convertible Preferred stock was issued in July 1989 in connection with the formation of a Xerox Employee Stock Ownership Plan.

Both the common and preferred stock dividends are payable April 1 to shareholders of record March 6.

Xerox Common Stock Prices and Dividends

New York Stock Exchange Composite Prices		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997	High	$ 63.25	$ 79.38	$85.13	$88.00
	Low	51.50	54.75	72.69	68.00
	Dividends Paid	.29	.32	.32	.32
1996	High	$ 47.33	$ 54.75	$ 58.25	$57.13
	Low	39.79	42.08	46.25	44.63
	Dividends Paid	.25	.29	.29	.29

During 1997, Xerox common stock reached an all-time high of $88.00 on October 22 and closed at $73.88 on December 31.

Stock Listed and Traded

Xerox common stock (XRX) is listed on the New York Stock Exchange and the Chicago Stock Exchange. It is also traded on the Boston, Cincinnati, Pacific Coast, Philadelphia, London and Switzerland exchanges.

Notes and Debentures
9 3/4% Notes Due 2000

Trustee:

First Trust of New York, N.A.
100 Wall Street
16th Floor

New York, NY 10005
212 361-2500

Registrar and Paying Agent:
The First National Bank of Boston
P.O. Box 8038
Boston, MA 02266-8038
800 828-6396

8 1/8% Notes Due 2002
7.15% Notes Due 2004

Trustee:
Citibank, N.A.
Corp. Trust Services
111 Wall Street
New York, NY 10043
800 422-2066

Registrar and Paying Agent:
The First National Bank of Boston
P.O. Box 8038
Boston, MA 02266-8038
800 828-6396

EXHIBIT 21

Subsidiaries of Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of March 1, 1998. The names of a number of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary	Incorporated In
AMTX, Inc.	Delaware
Carmel Valley, Inc.	Delaware
ChannelBind Corporation	Delaware
Chrystal Software, Inc.	Delaware
Copiadores Nacionales, S.A.	Peru
Copicentro N.V.	Netherlands Antilles
Copicentros, S.A.	Venezuela
Delphax Systems, Inc.	Delaware
Docucentro S.A.	Colombia
Document Sciences Corporation	Delaware
dpiX, Inc.	Delaware
DS Holdings, Inc.	Delaware
FairCopy Services Inc.	Canada
InConcert, Inc.	Delaware
Institute for Research on Learning	Delaware
InXight Software, Inc.	Delaware
Jeremiad Co.	Delaware
LiveWorks, Inc.	Delaware
Low-Complexity Manufacturing Group, Inc.	Delaware
Lyell Holdings Limited	Delaware
Triton Business Finance Limited	United Kingdom
Xerox Business Equipment Limited	United Kingdom
Xerox Imaging Systems UK Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Engineering Systems Limited	United Kingdom
Xerox Engineering Systems Europe Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom
Xerox Research (UK) Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Magua, S.A.	Dominican Republic
New Orleans Xerox Centre, Inc.	Delaware
Pacific Services and Development Corporation	Delaware
Inversiones San Simon, S.A.	Venezuela
Estacionamiento Bajada III, C.A.	Venezuela
Panama Services and Development Corporation	Panama
PD Reader, Inc.	Delaware
PixelCraft, Inc.	Delaware
Proyectos Inverdoco, C.A.	Venezuela
Xerox de Venezuela, C.A.	Venezuela
Securities Information Center, Inc.	Delaware
Semaphore Communications Corporation	Delaware
Servicios Xerograficos del Peru S.A.	Peru
79861 Ontario Inc.	Ontario
Terabank Systems, Inc.	Delaware
The Xerox Foundation	Delaware
Via Xerox Relocation Company, Inc.	New York
XDI, Inc.	Delaware
XEG Business Services, Inc.	Delaware

Name of Subsidiary	Incorporated In
Xerox Antilliana N.V.	Netherlands Antilles
Xerox Antilliana (Aruba) N.V.	Aruba
Xerox Antilliana (St. Maarten) N.V.	Netherlands Antilles
Xerox Argentina, I.C.S.A.	Argentina
Xerox (Barbados) SRL	Barbados
Xerox do Brasil Ltda.	Brazil
Astor Administradora De Cartoes De Compra Ltda.	Brazil
Centro de Desenvolvimiento de Sistemas Vitoria S.A.	Brazil
J.D.R. Vitoria Equipamentos S.A.	Brazil
Xerox Canada Inc.	Ontario
832666 Ontario Inc.	Ontario
832667 Ontario Inc.	Ontario
1192990 Ontario Inc.	Ontario
Xerox Canada Acceptance Inc.	Canada
Xerox Canada Facilities Management Ltd.	Ontario
Xerox Canada Finance Inc.	Canada
Xerox Canada Ltd.	Canada
Xerox Canada Manufacturing & Research Inc.	Ontario
Xerox Capital, LLC	Turks and Caicos Islands
Xerox Capital Trust I	Delaware
Xerox Capital de Mexico, S.A. de C.V.	Mexico
Xerox de Chile S.A.	Chile
Xerox Latina S.A.	Chile
Xerox de Colombia S.A.	Colombia
Xerox ColorgrafX Systems, Inc.	California
Xerox de Costa Rica, S.A.	Costa Rica
Xerox Dominicana, C. por A.	Dominican Republic
Xerox del Ecuador, S.A.	Ecuador
Xerox de El Salvador, S.A. de C.V.	El Salvador
Xerox Financial Services, Inc.	Delaware
OakRe Life Insurance Company	Missouri
LKN-1, Inc.	Illinois
Talegen Holdings, Inc.	Delaware
Crum & Forster Holdings, Inc.	Delaware
United States Fire Insurance Company	New York
Southbend Properties, Inc.	Texas
The North River Insurance Company	New Jersey
Crum and Forster Insurance Company	New Jersey

Crum & Forster Underwriters Co. of Ohio	Ohio
Crum & Forster Indemnity Company	New York
Crum & Forster Custom Securities, Inc.	California
Ridge Reinsurance Limited	Bermuda
VRN Inc.	Delaware
Xerox Credit Corporation	Delaware
MultiLease, Ltd.	Delaware
XCC/AFG, Inc.	Delaware
XCC Holdings, Inc.	Delaware
XCC Investment Corporation	Delaware
Xerox Credit International, Ltd.	Bermuda
Xerox International Credit Corporation	Delaware
XFS Merchant Partner, Inc.	Delaware
Xerox Foreign Sales Corporation	Barbados
Xerox Funding Corporation	Delaware
Xerox de Guatemala, S.A.	Guatemala
Xerox d'Haiti, S.A.	Haiti
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Limited	Hong Kong

Name of Subsidiary	Incorporated In
Xerox Manufacturing (Nederland) B.V.	Netherlands
Tefea B.V.	Netherlands
Xerox Holdings (Bermuda) Limited	Bermuda
Xerox (Bermuda) Limited	Bermuda
Xerox (China) Limited	China
Xerox Engineering Copy Systems Suzhou Co. Limited	China
Xerox Shanghai Limited	China
Xerox de Honduras, S.A.	Honduras
Xerox Imaging Systems, Inc.	Delaware
ScanSoft, Inc.	Delaware
Xerox International Joint Marketing, Inc.	Delaware
Xerox International Partners	California
Xerox International Realty Corporation	Delaware
Xerox Canada Realty Inc.	Ontario
Xerox Investments (Bermuda) Limited	Bermuda
Bessemer Insurance Limited	Bermuda
Investissements Xerographiques Marocains S.A.	Morocco
Reprographics Egypt Limited	Egypt
Xerox Egypt S.A.E.	Egypt
Xerox Finance Leasing S.A.E.	Egypt
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco
Xerox Products Limited	Bermuda
Xerox (Jamaica) Limited	Jamaica
Xerox Latinamerican Holdings, Inc.	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico
Xerox de Nicaragua, S.A.	Nicaragua
Xerox Overseas Holdings PLC	United Kingdom
Xerox Capital (Europe) plc	United Kingdom
Xerox Limited	United Kingdom
Continua Limited *	United Kingdom
City Paper Limited	United Kingdom
Fuji Xerox Co., Ltd.*	Japan
Aichi Xerox Co., Ltd.	Japan
Aichi-Higashi Xerox Co., Ltd.	Japan
Assist V Co., Ltd.	Japan
Chiba Xerox Co., Ltd.	Japan
Fuji Xerox Asia Pacific Pte. Ltd.	Singapore
Fuji Xerox (Finance) Limited	Australia
Fuji Xerox (Australia) Pty. Limited	Australia
Fuji Xerox (Sales) Pty Limited	Australia
Fuji Xerox Finance Limited	New Zealand
Fuji Xerox New Zealand Limited	New Zealand
College Hill Properties Limited	New Zealand
Fuji Xerox (Singapore) Pte. Ltd.	Singapore
Korea Xerox Company Limited *	S. Korea
Taiwan Fuji Xerox System Service Corporation	Taiwan
Xerox (Myanmar) Limited	Bermuda
Fuji System Brain Co. Ltd.	Japan
Fuji Xerox Career Net Co., Ltd.	Japan
Fuji Xerox Distribution Co., Ltd.	Japan
Fuji Xerox Engineering Co., Ltd.	Japan
Fuji Xerox Far East Limited	Hong Kong
Fuji Xerox General Business Co., Ltd.	Japan
Fuji Xerox Information Systems Co., Ltd.	Japan
Fuji Xerox Learning Institute Inc.	Japan
Fuji Xerox Office Supply Co., Ltd.	Japan

Name of Subsidiary	Incorporated In
Fuji Xerox System Service Co., Ltd.	Japan
Fukuoka Xerox Co., Ltd.	Japan
Fukushima Xerox Co., Ltd.	Japan
FX Global, Inc.	Delaware
FX Palo Alto Laboratory, Inc.	Delaware
FX Pacific Trading Pte. Ltd.	Singapore
Gifu Xerox Co., Ltd.	Japan
Gunma Xerox Co., Ltd.	Japan
Hiroshima Xerox Co., Ltd.	Japan
Hokkaido Xerox Co., Ltd.	Japan
Hokuriku Xerox Co., Ltd.	Japan
Hyogo Xerox Co., Ltd.	Japan
Ibaraki Xerox Co., Ltd.	Japan
Iwate Xerox Co., Ltd.	Japan
Kagoshima Xerox Co., Ltd.	Japan
Kanagawa Xerox Co., Ltd.	Japan
Kita Kyushu Xerox Co., Ltd.	Japan
Kumamoto Xerox Co., Ltd.	Japan
Kyoto Xerox Co., Ltd.	Japan

Mie Xerox Co., Ltd.	Japan
Miyagi Xerox Co., Ltd.	Japan
Nagano Xerox Co., Ltd.	Japan
Nagasaki Xerox Co., Ltd.	Japan
Nara Xerox Co., Ltd.	Japan
Niigata Xerox Co., Ltd.	Japan
Okayama Xerox Co., Ltd.	Japan
Osaka Xerox Co., Ltd.	Japan
Protex Co. Ltd.	Japan
Saitama Xerox Co., Ltd.	Japan
Shikoku Xerox Co., Ltd.	Japan
Shizuoka Xerox Co., Ltd.	Japan
Suzuka Fuji Xerox Co., Ltd.	Japan
Tama Xerox Co., Ltd.	Japan
Tochigi Xerox Co., Ltd.	Japan
Tokyo Xerox Co., Ltd.	Japan
Yamaguchi Xerox Co., Ltd.	Japan
Xerox High-Technology Company of Shenzhen Ltd.	China
GS Xerox Electronics	Korea
Inserco Manufacturing Limited	United Kingdom
Mitcheldean Enterprise Workshops Limited	United Kingdom
Modi Xerox Financial Services Limited	India
MX Software Services Limited	India
NV Xerox Credit S.A.	Belgium
NV Xerox Management Services S.A.	Belgium
N.V. Xerox S.A.	Belgium
Rank Xerox Bulgaria	Bulgaria
Rank Xerox (C.I.S.)	Russia
Rank Xerox Direct Ost GmbH	Germany
Rank Xerox (Romania) SRL	Romania
Rank Xerox Slovenija d.o.o.	Slovenia
The Limited Liability Company Xerox (Ukraine) Limited	Ukraine
The Xerox (UK) Trust	United Kingdom
Westbourne Limited	United Kingdom
Xerox AB	Sweden
Xerox AG	Switzerland
Xerox Office Supplies AG	Switzerland
Xerox A/S	Denmark
Name of Subsidiary	Incorporated In
Xerox AS	Norway
Xerox Austria GmbH	Austria
Xerox Business Services GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Beograd d.o.o.	Yugoslavia
Xerox Buro Araciari Ticaret ve Servis A.S.	Turkey
Xerox Channels Limited	United Kingdom
Xerox Credit AB	Sweden
XEROX CZECH Republic s r.o.	Czech Republic
Xerox Direct Nord GmbH	Germany
Xerox Direct Rheinland GmbH	Germany
Xerox Direct Rhein-Main GmbH	Germany
Xerox Direct Sud GmbH	Germany
Xerox Direct Sud-West GmbH	Germany
Xerox Direct Westfalen GmbH	Germany
Xerox Espana - The Document Company, S.A.U.	Spain
Xerox Exports Limited	United Kingdom
Xerox Fabricacion S.A.U.	Spain
Xerox Finance AG	Switzerland
Xerox Finance Limited	United Kingdom
Xerox Finance (Nederland) BV	Netherlands
Xerox de Financiacion S.A.U., E.F.C.	Spain
Xerox GmbH	Germany
Rank Xerox Dienstleistungsgesellschaft GmbH	Germany
Rank Xerox Service GmbH	Germany
Xerox Reprographische Services GmbH	Germany
Xerox Hellas AEE	Greece
Xerox (Hong Kong) Limited	Hong Kong
Xerox Industry Development (Shanghai) Co., Ltd.	China
Rank Xerox Hungary Trading Limited	Hungary
Rank Xerox (Ireland) Limited	Ireland
Xerox Kenya Limited	Kenya
Xerox Leasing Deutschland GmbH	Germany
Xerox Leasing (Europe) Limited	United Kingdom
Xerox (Nederland) BV	Netherlands
"Veco" Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Rentalease BV	Netherlands
Xerox (Nigeria) Limited	Nigeria
Xerox Office Supplies S.A.U.	Spain
Xerox Office Supplies GmbH	Austria
Xerox Oy	Finland
Xerox Pensions Limited	United Kingdom
Xerox Polska Sp. zo.o.	Poland
Xerox Portugal Equipamentos de Escritorio, Limitada	Portugal
CREDITEX - Aluguer de Equipamentos S.A.	Portugal
Xerox Professional Services Limited	United Kingdom
Xerox Renting S.A.U.	Spain
Xerox South Africa (Proprietary) Limited	South Africa
Xerox SpA	Italy
Xerox Noleggi SpA	Italy
Xerox - THE DOCUMENT COMPANY S.A.	France
Burofinance S.A.	France
Office de Transformation Papetiere S.N.C.	France
Servitique	France
Xerobail S.A.	France
Xerbail Gestion (SNC)	France
Name of Subsidiary	Incorporated In

Xerox Business Services Sarl	France
Xerox Uganda Limited	Uganda
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Xerox (Copy Bureaux) Limited	United Kingdom
Xerox Office Supplies Limited	United Kingdom
Xerox (R & S) Limited	United Kingdom
Xexco Trading Limited	United Kingdom
Xerox West Africa Limited	United Kingdom
XRO Limited	United Kingdom
Nemo (AKS) Limited	United Kingdom
RRXH Limited	United Kingdom
RRXIL Limited	United Kingdom
RRXO Limited	United Kingdom
XRI Limited	United Kingdom
Xerox de Panama, S.A.	Panama
Xerox del Paraguay SRL	Paraguay
Xerox del Peru, S.A.	Peru
Xerox Real Estate Services, Inc.	New York
Xerox Realty Corporation	Delaware
Xerox Realty Corp. (California)	California
XRC Realty Corp. West	California
Xerox Servicios Tecnicos, C.A.	Venezuela
Xerox Trinidad Limited	Trinidad
Xerox Uruguay S.A.	Uruguay
Xerox Zona Libre, S.A.	Panama
XESystems, Inc.	Delaware
XE Holdings, Inc.	Delaware
Xerox Engineering Systems AG	Switzerland
Xerox Engineering Systems Espanola SA	Spain
Xerox Engineering Systems SpA	Italy
Xerox Engineering Systems N.V.	Belgium
Xerox Engineering Systems S.A.	France
Xerox Engineering Systems GmbH	Germany
Xerox Engineering Systems B.V.	Netherlands
XESystems Canada Inc.	Ontario
XESystems UK Limited	United Kingdom
Xtended Memory Systems	California

* indicates only 50% owned by Xerox Corporation

EXHIBIT 23

Consent of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

We consent to the incorporation by reference in the Registration Statement of Xerox Corporation on Form S-3 (No. 333-34333) of our reports dated January 23, 1998 relating to the consolidated balance sheets of Xerox Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income and cash flows and related schedule for each of the years in the three-year period ended December 31, 1997, which reports appear in or are incorporated by reference in the 1997 Annual Report on Form 10-K of Xerox Corporation.

KPMG PEAT MARWICK LLP

Stamford, Connecticut
March 23, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX
CORPORATION'S DECEMBER 31, 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN
ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR
DEC-31-1997
DEC-31-1997
75
0
14,979
481
2,792
10,766
5,158
2,781
27,732
7,692
12,653
0
705
327
4,658
27,732
9,892
18,166
5,363
9,622
6,403
265
617
2,141
728
1,452
0
0
0
1,452
4.31
4.04