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, 1996

( ) 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 28, 1997 was: $21,775,109,185.

(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 28, 1997
Common Stock, $1 Par Value	324,016,042 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 1996 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 1997 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

This Form 10-K contains certain forward-looking statements and information relating to the Company that 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," "intends" 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 Company 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 Company does not intend to update these forward-looking statements.

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 Rank Xerox Limited and related companies (Rank Xerox) in which we have an 80 percent financial interest and The Rank Group Plc (Rank Group) has a 20 percent financial interest. In Japan and other areas of the Pacific Rim, Australia and New Zealand, document processing products are distributed by Fuji Xerox Co. Ltd. (Fuji Xerox), an unconsolidated joint venture, which is equally owned by Fuji Photo Film Company, Ltd. of Japan and Rank Xerox. On February 28, 1995, we paid Rank Group 620 million pounds sterling, or $972 million, to increase our financial interest in Rank Xerox to 80 percent from 67 percent.

Beginning in 1995, the results of our Insurance operations were accounted for as discontinued operations. The Document Processing business is now 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 documents will play a central role in business, government, education and other organizations far into the future and that efficient processing of documents offers significant opportunities for productivity improvements. 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 employed 86,700 people worldwide at year-end 1996.

In 1993, we announced a worldwide Document Processing restructuring program to significantly reduce our cost base and to improve productivity. The activities associated with this program have reduced employment by 14,000. We have achieved our restructuring program objectives with pre-tax cost reductions of approximately $350 million in 1994, $650 million in 1995 and $770 million in 1996. A portion of the savings is being reinvested to reengineer business processes, to support the expansion in growth markets and to mitigate pricing pressures.

Continuing Operations - Document Processing

The Document Processing Strategy

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

- - 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 over $100 billion in 1996 and is estimated to grow to about $175 billion in 2000.

We have traditionally had a strong position in the general office document market, which is expected to grow at 7 percent per year, or about two to three times real economic growth. The remaining production systems market segments, which include production publishing and production printing, are expected to grow at a substantially higher rate. With our many new product introductions during this decade, our participation in the global document market has been considerably broadened and is expected to increase. This growth will be driven by the transfer of document production from offset printing to digital publishing, the increase in customer requirements for network and distributed printing, and the accelerating demand for color documents.

Xerox Focus

We believe that our competitive advantages lie in our ability to continually improve the features and performance of our products and services 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 and retail chains; 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 home office market. As a result, we believe we are well positioned to participate fully in the anticipated growth in the market segments in which we compete.

Digital Products

Our digital products fall into four categories: black-and-white production publishing, black-and-white laser printing, color laser copying and printing, and black-and-white digital office systems.

Production Publishing

The era of production publishing was launched in 1990 when we announced the DocuTech family which was a major step beyond our traditional reprographics market into the publishing industry. We estimate that the black-and-white digital production publishing market was $2 billion in 1996 and is estimated to grow to over $4 billion in 2000. Having installed to date more than 14,000 systems all over the world, our production publishing revenues in 1996 were $1.8 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 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 shipping costs, by transmitting electronically and printing where the documents are required.

DocuTech prints high-resolution (600 dots per inch) pages at up to 135 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 6135 Production Publisher. It makes print-for-one publishing practical; personalized publishing runs can now be as short as one or two prints.

Laser Printing

We estimate that the high-end black-and-white laser printing market was over $6 billion in 1996 and is expected to grow to about $10 billion in 2000. Our revenues from high-end black-and-white laser printers grew 7 percent in 1996 to $2.1 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 will 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 high-end, high-volume electronic printing market segment since 1977. We are well positioned to capitalize on the growth in the electronic printing market because of both 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 electronic printing into a single, seamless, user-friendly network.

Xerox pioneered and continues to be a worldwide leader in electronic 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 135 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 allows printing, in a single pass through our highlight color printers, black-and-white plus one customer-changeable color (as well as shades, textures and mixtures of each) at production speeds up to 92 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.

During 1995, we significantly expanded our opportunities with the introduction of two major new printer series that will 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 new DocuPrint IPS Series makes the IBM Advanced Function Presentation (AFP) architecture directly available to our production printing customers.

Color Laser Copying and Printing

We estimate that the color laser copying and printing market was $5 billion in 1996 and is expected to grow to $14 billion in 2000. Our revenues from color laser copiers and printers grew 59 percent in 1996 to almost $1 billion.

The use of color originals in the office is accelerating. Independent studies have concluded that color documents are more effective in communicating information and that decision-maker 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. Ink-jet technology offers very low equipment cost but is slow and lacks the image quality that most customers require for important documents such as presentations and proposals. Laser copiers and printers offer near-offset image quality, excellent running 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. In less than a full year, the DocuColor 40 achieved a market share of approximately two-thirds of the installations for the total production color industry and 50 percent of the installed population of production color products.

Digital Office Systems

The volume of paper documents used in the office continues to grow. Pages per worker per day in the US 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 them with superior marking, paper handling and finishing technology. We know our customers, their requirements and how to sell to them. During 1997, we are introducing new stand-alone digital copiers that will have all the features of our traditional light lens copiers, plus many advantages, including improved image quality, faster scanning, fewer controls and significantly reduced downtime. These digital copiers will sell for a modest premium over light lens copiers.

Second, we will upgrade these copiers to digital office systems and connect them to local and wide-area networks, as customers require, to gain incremental volume from computer printing and ultimately to replace desktop printers and single purpose copiers and faxes. The upgrades will have compelling economics versus the alternative of purchasing comparable printers and faxes.

We estimate that the digital copier and digital office systems market was over $1 billion in 1996 and is estimated to grow to $14 billion in 2000. In 1996, we entered the market for digital copiers and digital office systems on a limited basis and our revenues were almost $100 million.

Our digital office systems, known as Document Centre Systems, were introduced in late 1995 and bring production publishing productivity to the office. This new category of robust and extensible systems combines many capabilities - printing, scanning, faxing and copying documents - into a single digital resource that can be accessed from either a personal computer or on a walk-up basis. With interactive software, a user can easily control the various steps of the document cycle - document input, management and output - from the desktop. The seamless integration of services and interoperability will bring new levels of efficiency to the office. These new systems are a portal to the network and allow office workers to navigate between digital and paper documents, share information and knowledge, and collaborate with other members of their work groups. The multi-tasking architecture allows Document Centre Systems to perform multiple functions concurrently.

The two initial models in the Document Centre product family are equipped with integrated scanners for digital copying and printing services, accessible either from the PC desktop or from the user interface on the devices themselves. The Document Centre System 35 is designed for work groups of up to 50 people, and copies and prints at 35 pages per minute with resolutions of up to 600 by 2,400 dots per inch. It provides two-sided printing and several document finishing options. The Document Centre System 20 is targeted for work groups of up to 20 people, and copies and prints at 20 pages per minute with 400 dots per inch resolution. Fax services, from the desktop or at the device, are standard.

Light Lens Copying

We estimate that the market for light lens copying was approximately $33 billion in 1996 and that it will decline to $28 billion in 2000. Our revenues from light lens copiers declined 1 percent in 1996 to over $9.7 billion.

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 sales through independent agents, retail outlets and trade associations like the American Medical Association, which represents more than two million current and prospective customers.

The market for commercial copiers is expanding rapidly in emerging countries in Latin America, Eastern Europe, the Commonwealth of Independent States (formerly the Soviet Union), Africa, China and India. Although 1996 revenue growth slowed because of difficult economic environments, all of these markets grew faster than the growth in the developed markets over the past five years.

Although we expect that light lens copiers will increasingly be replaced by digital copiers and Document Centre Systems, 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, multifunction 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 supply sales, service and rental 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)	1996	1995	1994
Light lens copiers	$ 9.7	$ 9.8	$ 9.7
Digital products	5.3	4.3	3.7
Paper, other products, currency	2.4	2.5	1.7
Total revenues	$17.4	$16.6	$15.1

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, 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

The Xerox research and development (R&D) program 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 1996, R&D expense was $1,044 million compared with $949 million in 1995 and $895 million in 1994. We expect to increase our investment in technological development in 1997 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 $537 million in 1996, bringing the total to $1.6 billion.

Marketing

Xerox document processing products are principally sold directly to users by our worldwide sales force of approximately 13,000 employees. We also market through a network of independent agents, dealers, distributors and value-added resellers and have arrangements with U.S. retail marketing channels, including Sears, Office Depot, Office Max, Service Merchandise, Staples, Wal-Mart, Costco, The Wiz, Price Club and MicroAge, to market low-end products not generally suited for distribution through our direct sales force. These products are now sold through approximately 3,000 retail stores.

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 25,000 employees. In our opinion, this direct service force is 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 $17.4 billion in 1996, of which 49 percent were generated in the United States, 31 percent in Europe, and 20 percent in the remainder of the world (excluding the unconsolidated $8.1 billion of Fuji Xerox revenues in Japan and much of the Pacific Rim).

Revenues from supplies, paper, service, rentals, facilities management and other revenues, and income from customer financing represented 66 percent of total revenues in 1996. 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. After a number of years of decline, rental revenues were essentially flat during 1996, 1995, and 1994.

Our document outsourcing business provides printing, publishing, duplicating and related services at more than 4,000 customer locations in 36 countries, including legal and accounting firms, financial institutions, insurance agencies and manufacturing companies. Our revenues from these services, which are largely in the U.S., increased 39 percent to $1.3 billion in 1996.

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. Approximately 80 percent of U.S. equipment sales and 75 percent of European equipment sales are financed through Xerox. Over time, the growth rate of financing income is expected to correspond to the growth rate of equipment sales and trends in interest rates.

International Operations

Our international operations account for 51 percent of Document Processing revenues. Our largest interest outside the United States is Rank Xerox. Marketing and manufacturing operations are also conducted through joint ventures in India and China. Marketing and manufacturing in the Americas Customer Operations organization are conducted through subsidiaries or distributors in 40 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 1996, 1995 and 1994, which are presented on pages 29, 30, and 52 of the Company's 1996 Annual Report to Shareholders, are hereby incorporated by reference in this document in partial answer to this item.

Discontinued Operations - Insurance and Other Financial Services

The discussion in the first thirteen paragraphs under the caption "Discontinued Operations - Insurance and Other Financial Services" on pages 43 through 45 and under the captions "Other Financial Services" and "Third-Party Financing and Real-Estate" on page 47 set forth under the caption "Financial Review" in the Company's 1996 Annual Report to Shareholders is hereby incorporated by reference in this document in partial answer to this item.

As used herein, the "Remaining insurance companies" include Coregis Group, Inc., Crum & Forster Holdings, Inc., Industrial Indemnity Holdings, Inc., Westchester Specialty Group, Inc., and The Resolution Group, Inc. ("TRG").

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 liability 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 incurred on policies issued are difficult to estimate and are subject to constant reevaluation as new information becomes available. The Remaining insurance companies, like most insurance companies utilize a variety of loss trending and analysis techniques to estimate anticipated ultimate losses and the time frames when 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, the Remaining insurance companies cede (i.e., transfer) through reinsurance mechanisms a portion of their gross policy premiums to reinsurers in exchange for the reinsurer's agreement 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.

The net liability retained by the Remaining insurance companies on individual risks varies by product and by the nature of the risk. Insured liabilities can be reinsured either by treaty, wherein reinsurers agree in advance to provide coverage above retained limits or for a specified percentage of losses attributable to specific products, or by facultative arrangements, wherein reinsurance is provided for individual risks based on individual negotiations.

Reserve provisions are established by the Remaining insurance companies to provide for the estimated level of claim payments which 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 which will be incurred, net of anticipated salvage and subrogation. 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 costs that can be assigned to a related claim file and can be included as part of the loss under the contract are 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 reserves)and salvage and subrogation on those reserves.

The effect of inflation on gross reserves is considered implicitly through utilization of historical paid loss and loss expense development when estimating the liability for unpaid losses and loss expenses by using actuarial methods. The effect of inflation on individual case basis reserves reflects the direction of economic price levels.

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

Gross and net reserves for business written in both current and prior years is continually monitored by the Remaining insurance companies, and senior management of Talegen Holdings, Inc. ("Talegen") reviews these reserves on a periodic basis. Each of the Remaining insurance companies employs experienced actuarial staff, who 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 analyses of gross reserves, ceded reserves and reserves net of reinsurance are conducted by line of business and accident year. Actual claims activity is monitored quarterly and compared to expected levels to detect variances or trends indicating changes in reserve requirements. When unique or special reserve issues are identified, the Remaining insurance companies and/or Talegen routinely seek additional outside expertise from a variety of consulting actuaries. In addition, at year end, the reserves for each of the Remaining insurance companies are independently analyzed and certified by an outside actuary appointed by the Remaining insurance company's Board of Directors.

Overall reserve levels are affected 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 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

Most of the Remaining insurance companies made significant use of reinsurance during the 1970's and early 1980's. Since that time, the Remaining insurance companies have generally increased the portion of business they retain while reducing the number of reinsurers used for their reinsurance contracts. During 1996 and 1995, excluding the reinsurance ceded to pools, associations and similar organizations, 88% and 85%, respectively, of total written premiums ceded to reinsurers were placed with approximately 35 reinsurers.

Talegen and the Remaining insurance companies have reinsurance security committees composed of senior management who approve those reinsurers with whom Talegen and the Remaining insurance companies will do business. The criteria under which such approvals are granted have become increasingly restrictive over the past several years.

The potential uncollectibility of ceded reinsurance has been an industry-wide issue. With respect to the management of recoveries due from reinsurers, the Remaining insurance companies operate under common guidelines for the early identification of potential collection problems and they utilize the services of the Resolution Reinsurance Service Company (a subsidiary of TRG) which employs a specialized group of work-out experts to aid in the more complicated cases. This unit aggressively pursues collection of reinsurance recoverables through mediation, arbitration and, where necessary, litigation to enforce the Remaining insurance companies contractual rights against reinsurers. Nevertheless, periodically, it becomes necessary for management to adjust reserves for potential losses to reflect their ongoing evaluation of developments which affect recoverability, including the financial difficulties that some reinsurers can experience. Based upon the review of financial condition and assessment of other available information, the Remaining insurance companies maintain a provision for uncollectible amounts due from reinsurers. The balance of reinsurance recoverable is considered to be valid and collectible.

Ridge Re Coverage

Under the terms of the reinsurance coverage provided by Ridge Reinsurance Limited ("Ridge Re") and subject to the limits established for each of the Remaining insurance companies, Ridge Re will reimburse the Remaining insurance companies for 85% of net aggregate increases, if any, to ultimate net unpaid loss and loss expenses and uncollectible reinsurance reserves which develop on its 1992 and prior accident years as carried at December 31, 1992 (net of all salvage, subrogation and other recoverables). At December 31, 1996, Ridge Re recognized approximately $650 million of the $1,245 million excess of loss reinsurance coverage estimated to be required based on actuarial projections. The Ridge Re coverage is guaranteed by Xerox Financial Services, Inc., and, subject to certain commutation provisions, remains in effect until all 1992 and prior accident year claims are paid. Cessions to Ridge Re, while beneficial to the Remaining insurance companies, do not result in a benefit to the Insurance segment or consolidated Xerox accounts.

Statutory and GAAP Reporting of Net Unpaid Losses and Loss Expenses

The liability for net 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 not all GAAP adjustments to the recorded SAP liability can 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

In Note 10 on pages 52 through 55 of the Company's 1996 Annual Report to Shareholders, which is hereby incorporated by reference in this document in partial answer to this item, the net liability for unpaid losses and loss expenses is reconciled for each of the years in the three-year period ended December 31, 1996. Included therein are current year and prior year development data.

As a result of claim activity during 1996 and after reflection of prior experience, it is management's judgment that the total net liability for unpaid losses and loss expenses at December 31, 1996 is reasonably stated.

The loss and loss expense reserve development table illustrates the development of statutory balance sheet liabilities for 1986 through 1996 for the Remaining insurance companies before cessions to Ridge Re. Net unpaid loss and loss expense reserves and accident year development have been restated to exclude the reserves of Constitution Reinsurance Corporation and Viking Insurance Company of Wisconsin, which were sold during 1995. 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 GAAP liability for net unpaid losses and loss expenses to the 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. The effect as calculated under GAAP on income for the latest three years is shown in Note 10 on pages 52 through 55 of the Company's 1996 Annual Report to Shareholders, which is hereby incorporated by reference in this document in partial answer to this item. These changes in estimates have been reflected in the Remaining insurance companies' calendar year operating results. Because the Remaining insurance companies recognize 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.

Loss and Loss Expense Reserve Development

Year ended December 31 (in millions)	1986	1987	1988	1989
Liability for unpaid losses and loss expenses - GAAP (net of reinsurance)	$ 4,127	$ 4,824	$ 5,200	$ 5,637
GAAP to SAP differences	(256)	(241)	(208)	(215)
Liability for unpaid losses and loss expense - SAP (net of reinsurance)	3,871	4,583	4,992	5,422
Paid (cumulative) as of:				
End of year	-	-	-	-
One year later	1,187	1,323	1,246	1,560
Two years later	2,080	2,188	2,269	2,635
Three years later	2,701	2,933	3,043	3,690
Four years later	3,224	3,472	3,854	4,018
Five years later	3,611	4,150	4,053	4,508
Six years later	4,180	4,316	4,432	4,887
Seven years later	4,278	4,571	4,751	5,159
Eight years later	4,476	4,859	4,985	
Nine years later	4,720	5,066		
Ten years later	4,904			
Liability estimated as of:				
End of year	3,871	4,583	4,992	5,422
One year later	3,893	4,681	5,052	5,611
Two years later	4,314	4,870	5,247	5,591
Three years later	4,527	5,168	5,171	6,408
Four years later	4,928	5,073	5,953	6,329
Five years later	4,803	5,832	5,903	6,428
Six years later	5,495	5,854	6,029	6,770
Seven years later	5,546	5,959	6,381	7,049
Eight years later	5,673	6,314	6,666	
Nine years later	6,045	6,598		
Ten years later	6,322			
Deficiency	$(2,451)	$(2,015)	$(1,674)	$(1,627)
End of Year:				
Gross liability				
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

1990	1991	1992	1993	1994	1995	1996
$ 5,848	$ 5,743	$ 6,109	$ 5,972	$ 5,618	$ 6,471	$ 6,327
(287)	(299)	(370)	(254)	(216)	(827)	(625)
5,561	5,444	5,739	5,718	5,402	5,644	5,702
-	-	-	-	-	-	-
1,542	1,721	1,080	1,303	1,242	1,173	
2,882	2,518	2,153	2,264	2,142		
3,412	3,381	2,939	2,969			
4,062	4,008	3,480				
4,563	4,418					
4,894						
5,561	5,444	5,739	5,718	5,402	5,644	5,702
5,658	6,340	5,734	5,711	5,944	5,903	
6,484	6,274	5,771	6,216	6,165		
6,370	6,326	6,230	6,410			
6,429	6,747	6,401				
6,803	6,957					
7,057						
$(1,496)	$(1,513)	$ (662)	$ (692)	$ (763)	$ (259)	$ -
		$ 9,469	$ 8,526	$ 7,849	$ 8,143	$ 8,337
		3,730	2,808	2,447	2,499	2,635
		5,739	5,718	5,402	5,644	5,702
		9,444	8,590	8,616	8,753	
		3,710	2,879	2,672	2,850	
		5,734	5,711	5,944	5,903	
		9,482	9,316	9,154		
		3,711	3,100	2,989		
		5,771	6,216	6,165		
		10,188	9,810			
		3,958	3,400			
		6,230	6,410			
		10,649				
		4,248				
		6,401				

$(1,180)	$(1,284)	$(1,305)	$ (610)	$ -

Asbestos, Environmental and Other Latent Exposure Claims

The discussion under the captions "Latent Exposures" and "Reserves for the Remaining Insurance Companies" on pages 46 through 47 in the Company's 1996 Annual Report to Shareholders is hereby incorporated by reference in this document in partial answer to this item.

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 15 "Litigation" on pages 63-64 of the Company's 1996 Annual Report to Shareholders is incorporated by reference in this document in answer to this item.

In the action by the independent service organizations, in a revised expert 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.

On July 21, 1993, the Company was notified that it had been named as a respondent by the United States Environmental Protection Agency ("EPA") in a unilateral Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") section 106 (a) Administrative Order regarding the Metcoa Radiation Site in Pulaski, PA. The Order directs the Company and 21 other companies to perform remedial work at the Site. The order alleges that these parties are jointly and severally liable to perform the work. Under CERCLA, a respondent that does not comply with the Order could be subject to a civil penalty of $25,000 for each day of noncompliance and be liable for punitive damages at least equal to treble the EPA's cost of cleaning up the Site. The Company denies that it is liable to perform the work described in the Order.

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

The information set forth under the following captions on the indicated pages of the Company's 1996 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item:

Caption	Page No.
Stock Listed and Traded	71
Dividends and Stock Prices	71
Eleven Years in Review - Common Shareholders of Record at Year-End	70 and 71

Item 6. Selected Financial Data

The following information, as of and for the five years ended December 31, 1996, as set forth and included under the caption "Eleven Years in Review" on pages 70 and 71 of the Company's 1996 Annual Report to Shareholders, is hereby incorporated by reference in this document in answer to this Item:

Revenues
Income (loss) from continuing operations
Primary earnings (loss) per common share from continuing operations
Total assets
Long-term debt
Preferred stock
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 27-34, 36-41, and 43-47 of the Company's 1996 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 26, 35, 42, 48-67, and 69 of the Company's 1996 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 68 of the Company's 1996 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 1997 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*	58	Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee	1991	1983
William F. Buehler	57	Executive Vice President and Chief Staff Officer	1995	1991
A. Barry Rand	52	Executive Vice President, Operations	1992	1986
Barry D. Romeril	53	Executive Vice President and Chief Financial Officer	1993	1993
Stuart B. Ross	59	Executive Vice President; Chairman and Chief Executive Officer, Xerox Financial Services, Inc.	1990	1979
Allan E. Dugan	56	Senior Vice President, Corporate Strategic Services	1992	1990
John A. Lopiano	58	Senior Vice President; President, Production Systems Group	1995	1993
Mark B. Myers	58	Senior Vice President, Corporate Research and Technology	1992	1989
David R. Myerscough	56	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
Richard S. Paul	55	Senior Vice President and General Counsel	1992	1989
Brian E. Stern	49	Senior Vice President; President, Office Document Products Group	1996	1993
Eunice M. Filter	56	Vice President, Treasurer and Secretary	1990	1984
Philip D. Fishbach	55	Vice President and Controller	1995	1990
James H. Lesko	45	Vice President; President, Desktop Products Group	1996	1993
Carlos Pascual	51	Vice President; President, U.S. Customer Operations	1995	1994

Each officer named above, with the exception of 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 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 31, 1996 reporting Item 5 "Other Events" 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 1997 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 27, 1997

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 27, 1997

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/ 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/ Martha R. Seger	Director
/s/ Thomas C. Theobald	Director

Report of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

Under date of January 23, 1997, we reported on the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1996, as contained in the Xerox Corporation 1996 Annual Report to Shareholders on pages 26, 35, 42, and 48-67. These consolidated financial statements and our report thereon are incorporated by reference in the 1996 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, 1997

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 26, 35, 42, 48-67, 68, and 69 of the Company's 1996 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, 1996, 1995 and 1994

(in millions)	Balance at beginning of period	Additions charged to costs and expenses	Deductions, net of recoveries	Balance at end of period
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

1994				
Allowance for Losses on:				
Accounts Receivable	$ 62	$ 70	$ 53	$ 79
Finance Receivables	300	132	112	320
Deferred Tax Valuation Allowance	34	-	-	34
	$396	$202	$165	$433

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 May 29, 1991.

Incorporated by reference to Exhibit 3(b)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1991.

(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 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.

(e) 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.

(f) Indenture dated as of October 1, 1991, as supplemented by the First Supplemental Indenture dated as of May 1, 1992, 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. 33-43470.

(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 1997 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 July 15, 1991.

Incorporated by reference to Exhibit 10(b) to Registrant's

Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1991.

(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 1993 Restatement of Unfunded Retirement Income Guarantee Plan.

Incorporated by reference to Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.

*(f) 1996 Restatement of Registrant's Unfunded Supplemental Retirement Plan.

(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 Plan.

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

(k) 1996 Amendment and Restatement of Registrant's 1989 Deferred Compensation Plan for Directors.

Incorporated by reference to Exhibit 10(l) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

*(l) 1993 Amendment and Restatement of Registrant's 1989 Deferred Compensation Plan for Executives.

*(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 26 through 71 of Registrant's 1996 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 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 1996, the performance measures are profit before tax (35%), revenue growth (20%), cash generation (15%), customer satisfaction (15%), and employee satisfaction (15%). 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(f)

As amended through December 9, 1996

1996 Restatement

of

XEROX CORPORATION

UNFUNDED SUPPLEMENTAL RETIREMENT PLAN

XEROX CORPORATION, a New York corporation having its principal executive office in the City of Stamford, County of Fairfield and State of Connecticut, hereby adopts the XEROX CORPORATION UNFUNDED SUPPLEMENTAL RETIREMENT PLAN effective on the Effective Date as follows:

Restatement December 9, 1996

UNFUNDED SUPPLEMENTAL RETIREMENT PLAN

Section 1. Plan Name

The plan name is the Xerox Corporation Unfunded Supplemental Retirement Plan (the "Plan").

Section 2. Effective Date

The original effective date of the Plan is June 30, 1982. The Plan was restated on three previous occasions, effective February 4, 1985, January 1, 1990 and December 6, 1993. This Restatement is effective as of December 9, 1996.

Section 3. Purpose of the Plan

The Plan is designed to address special circumstances involved in the retirement of executives.

Section 4. Covered Employees

The following employees of the Company are covered by the Plan:

A. All employees who were corporate officers of Xerox Corporation (the "Company") at grade level 25 and above on the original effective date of the Plan (the "Grandfathered Officers").

B. All employees who were corporate officers at grades 23 or 24 on the original effective date of the Plan or who first become corporate officers of the Company at grade level 23 and above after the original effective date of the Plan and do not fall within categories D through G below (the "Officers").

C. Certain employees who received a letter dated September 2, 1982 from David T. Kearns regarding Executive Retirement Guidelines (the "Guideline Employees").

D. All employees who are corporate officers of the Company on the date of this 1996 Restatement who first commenced employment with the Company on or after attainment of age 40 and whose names appear on Schedule A ("Schedule A") presented at the meeting of the Executive Compensation and Benefits Committee held December 9, 1996 and made part of the records of that

meeting which Schedule is incorporated herein by reference and made a part of the Plan ("Grandfathered Mid-Career Officers").

E. All employees who after the date of this 1996 Restatement first commence employment with the Company on or after attainment of age 40 who are elected corporate officers and whose names are added to Schedule A upon selection by the Chief Executive Officer of the Company as maintained with records of the Executive Compensation department of the Company which Schedule as so modified from time to time is incorporated herein by reference and made a part hereof ("Mid-Career Officer Hires").

F. All employees who are in payroll Band A of the Company on the date of this 1996 Restatement who first commenced employment with the Company on or after attainment of age 40 and whose names are set forth on Schedule B ("Schedule B") which has been approved by the Vice President responsible for Human Resources and placed with the records of the Executive Compensation department of the Company which Schedule is incorporated herein by reference and made a part of the Plan ("Grandfathered Mid-Career Band A Employees").

G. All employees who after the date of this 1996 Restatement first commence employment with the Company on or after attainment of age 40 who are hired into payroll Band A selected by the Vice President of the Company responsible for Human Resources, or his or her designee, such selection to be evidenced by the placement of the employee's name on Schedule C to be maintained from time to time by such Vice President or his or her designee, which Schedule is incorporated herein by reference and made a part of the Plan ("Mid-Career Band A Hires")

H. Grandfathered Mid-Career Officers, Mid-Career Officer Hires, Grandfathered Mid-Career Band A Employees and Mid-Career Band A Hires are sometimes together referred to as "Mid-Career Executives".

I. The employees referred to in paragraphs A through G above are together referred to herein as "Participants".

Section 5. Eligibility for Benefits

Participants must have attained the following age and completed the following Years of Service to be eligible for benefits under the Plan:

A. Grandfathered Officers and Guideline Employees -- age 55, Years of Service -- 5.

B. Officers -- age 60, Years of Service -- 10.

C. Grandfathered Mid-Career Officers -- the age set forth opposite their respective names on Schedule A, Years of Service -- 5.

D. Mid-Career Officer Hires -- the age determined by the Chief Executive Officer of the Company as reflected in Schedule A, Years of Service -- 5.

E. Grandfathered Mid-Career Band A Employees -- the age set forth opposite their respective names on the Schedule B, Years of Service -- 5.

F. Mid-Career Band A Hires -- the age determined by the Vice President responsible for Human Resources or his or her delegate as set forth on Schedule C referred to above, Years of Service -- 5.

Section 6. Supplemental Retirement Benefit

A. The benefit payable under the Plan shall be a monthly retirement benefit equal to the greater of 1 or 2 below with the "Adjustments" set forth below:

1. One and two-thirds percent of Average Monthly Compensation of the Participant multiplied by the number of full and fractional Years of Participation up to thirty less

a) One and two-thirds percent of the Social Security Benefit multiplied by the number of full and fractional Years of Participation up to thirty; and

b) The monthly retirement benefit payable under the Company's Retirement Income Guarantee Plan ("RIGP") (stated as a Life Annuity)* as it is in effect as of and from time to time after January 1, 1990.

2. One percent of Average Monthly Compensation of the Participant multiplied by the Participant's full and fractional Years of Participation (but this amount when added to the Participant's Social Security Benefit shall not exceed eighty-five percent of the Average Monthly Compensation of the Participant) less the amounts specified in subsection b) of subsection 1 of this Section 6A.

"Average Monthly Compensation" shall be determined under RIGP without regard to the dollar limitation contained in the Plan as required by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, or any successor thereto.

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* Defined terms in RIGP shall have the same meanings in the Plan, except as otherwise noted herein.

"Social Security Benefit" shall mean the monthly benefit which a retired Participant or a terminated Participant receives or would be entitled to receive at the age at which unreduced retirement benefits are then paid under the US Social Security Act (or at his sixty-second birthday, in the case of a retired Participant who has at least thirty Years of Service or who, on such Participant's retirement, is the pilot of an airplane operated by the Company), as a primary insurance amount under the U.S. Social Security Act, as amended, whether he or she applies for such benefit or not, and even though he or she may lose part or all of such benefit for any reason.

The amount of such Social Security Benefit to which the retired or terminated Participant is or would be entitled shall be computed by the Administrator for the purposes of the Plan as of the January 1 of the calendar year of retirement or termination. In computing such amount, the Administrator shall use estimated benefit tables developed by the Plan's actuary, the five-year average compensation of the Participant and the assumption that the Participant's compensation prior to the fifth year preceding the year of termination grew in accordance with average national wages.

B. Grandfathered Officers -- Adjustments shall be

1. The monthly benefit and the Social Security Benefit shall be calculated at the rate of 3 1/3% of Average Monthly Compensation and of the Social Security Benefit, respectively, for each full or fractional Year of Participation up to a maximum of 15 Years of Participation.

2. There shall be no reduction in the benefit payable upon retirement on or after attainment of age 55 on account of payment commencing prior to attainment of age 65.

3. Amounts included in the Participant's Executive Expense Allowance shall be included in determining Average Monthly Compensation.

C. Officers -- Adjustments shall be that there shall be no reduction in the benefit payable upon retirement on or after attainment of age 60 on account of payment commencing prior to attainment of age 65 and no part of the Executive Expense Allowance shall be included in determining Average Monthly Compensation.

D. Guideline Employees -- An adjustment shall be that there shall be no reduction in the benefit payable upon retirement on or after attainment of age 55.

E. Mid-Career Executives -- Adjustments shall be

1. The monthly benefit and the Social Security Benefit shall be calculated at the rate of 2.5% of the Average Monthly Compensation and of the Social Security Benefit, respectively, for each full or fractional Year of Participation up to a maximum of 20 Years of Participation.

2. There shall be no reduction in the benefit payable upon retirement on or after attainment of age 60 on account of payment commencing prior to attainment of age 65 and no part of the Executive Expense Allowance, if any, shall be included in determining Average Monthly Compensation.

F. All Participants -- Adjustments shall be

1. Average Monthly Compensation shall be calculated including any compensation deferred by the Participant during the period used in calculating Average Monthly Compensation (except that there shall not be included any increase in Participant's compensation which became payable under the Company's policy of increasing compensation by the amount which cannot be added to the Participant's accounts under the Company's Profit Sharing and

Savings Plan ("Profit Sharing Plan") by reason of the limitation contained in Section 415 of the Internal Revenue Code of 1986, as amended).

2. The following additional amounts shall be deducted from the hypothetical monthly benefit:

(a) The value of the portion of the Participant's Account under the Company's Deferred Compensation Plan, if any, resulting from the Retirement Account portion of the Profit Sharing Adjustment (as defined in such Deferred Compensation Plan) translated into an annuity (single life or joint and survivor, as appropriate) payable commencing on the date of retirement.

(b) The benefit payable under the Company's Unfunded Retirement Income Guarantee Plan ("Unfunded RIGP").

(c) The aggregate amount of cash payments received by the Participant, if any, under the Company's policy of increasing compensation by the amount which could not be added to the Participant's Retirement Account under the Profit Sharing Plan as it was in effect prior to January 1, 1990 by reason of the limitation contained in Section 415 of the Code, as such sum would have increased or decreased during the period from the time as of which it

would otherwise have been credited to such Participant's Retirement Account to the relevant time if such sum had been invested in the Balanced Fund under the Profit Sharing Plan, translated into an annuity (single life or joint and survivor, as appropriate) payable commencing on the date of retirement.

G. Notwithstanding anything to the contrary in this Plan, in the event of a change in control of the Company, as hereinafter defined, each Participant shall be entitled to a benefit hereunder without regard to his or her age or Years of Service at the time of such change in control (including, without limitation, the benefit provided under Section 7 hereof, if applicable). Upon the occurrence of a change in control of the Company, the benefit of each Participant shall be payable in a lump sum within five days of such change in control equal in amount to the present value of a benefit expressed in the form provided in Section 9 hereof, commencing on the later of (i) the date of such change in control, (ii) the date the Participant attains age 55 or (iii) in the case of a Grandfathered Officer or Mid-Career Executive, the date such Participant attains the age specified in Schedule A, B or C, and based upon such Participant's compensation and Years of Service as of the date of such change in control. A "change in control of the Company" shall be deemed to have occurred if (A) any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; or (B) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, including for this purpose any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in this Section) whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof.

H. Upon the termination of employment of a Participant following a change in control of the Company, such Participant, if he or she has otherwise satisfied the requirements of Section 5 hereof, shall be entitled to a benefit equal to the benefit to which he or she would have been entitled without application of Section 6F, reduced (but not below zero) to reflect the value of the benefit he or she received pursuant to Section 6G.

I. For purposes of Section 6G hereof, the present value of a benefit shall be calculated based upon the interest rate which would be used by the Pension Benefit Guaranty Corporation for purposes of valuing immediate annuities with respect to plans terminating on the date on which the change in control of the Company occurs and the 1983 GAM mortality table. For purposes of Section G hereof, notwithstanding a Participant's age and Years of Service at the time of a change in control of the Company, each Participant shall be treated as though he or she has reached retirement age for purposes of RIGP.

Section 7. Minimum Benefit

In no event shall the monthly retirement benefit payable to any Participant other than Mid-Career Executives under the Plan be less than an amount which, when added to the benefits payable under RIGP, 25% of the amount of the Social Security Benefit and the amounts described in Section 6F2 above, is equal to 25% of such Participant's Average Monthly Compensation as adjusted in Section 6F1 for Participants and Section 6B3 for Grandfathered Officers.

Section 8. Pre-Retirement Spouse's Benefit

The spouse of a Participant who dies after completing the appropriate age and number of Years of Service pursuant to Section 5 while still employed by the Company shall be entitled to a survivor benefit, commencing on the death of the Participant, in an amount equal to one-half of the retirement benefit to which the Participant would have been entitled under the Plan if the Participant had retired on the last day of the month coincident with or next following the date of the Participant's death.

Section 9. Form of Benefit

The normal form of benefit payable under the Plan shall be the same as to which the Participant is entitled under RIGP. Participant may convert such form of benefit into a different available form in the same manner and to the same extent as he/she can elect a different form of benefit under RIGP. Except as otherwise provided in Section 6G in no event is the benefit payable in a lump sum.

Section 10. Participant's Rights Unsecured

The benefits payable under this Plan shall be unfunded. Consequently, no assets shall be segregated for purposes of the Plan and placed beyond the reach of the Company's general creditors. The right of any Participant to receive benefits under the provisions of the Plan shall be an unsecured claim against the general assets of the Company.

Section 11. Other Plan Provisions

Other Plan provisions necessary to determine any benefit under the Plan shall be the same as those described in RIGP.

Section 12. Duties of Administrator

The Plan shall be administered by the Administrator in accordance with its terms and purposes. The Administrator shall determine the amount and manner of payment of the benefits due to or on behalf of each Participant from the Plan and shall cause them to be paid by the Company accordingly. The Administrator shall be appointed by the Vice President, Human Resources of the

Company.

Section 13. Finality of Decisions

The decisions made by and the actions taken by the Administrator in the administration of the Plan shall be final and conclusive on all persons, and the Administrator shall not be subject to individual liability with respect to the Plan.

Section 14. Amendment and Termination

It is the intention of the Company to continue the Plan indefinitely. The Company expressly reserves the right to amend the Plan at any time and in any particular manner, provided that any such amendment shall be made in accordance with ERISA. Such amendments, other than amendments relating to termination of the Plan or relating to benefit levels under Section 6 of the Plan, may be effected by (i) the Board of Directors, (ii) a duly constituted committee of the Board of Directors, or (iii) the Vice President of the Company responsible for Human Resources or a representative thereof. In the event such office is vacant at the time the amendment is to be made, the Chief Executive Officer of the Company shall approve such amendment or appoint a representative. Amendments relating to termination of the Plan or relating to benefit levels under Section 6 of the Plan shall be effected pursuant to a resolution duly adopted by the Board of Directors of the Company, or a duly constituted committee of the Board of Directors of the Company, in accordance with the Business Corporation Law of the State of New York.

Any amendment, alteration, modification or suspension shall be set forth in a written instrument executed by any Vice President of the Company and by the Secretary or an Assistant Secretary of the Company.

Section 15. No Employment Rights

Nothing contained in the Plan 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.

Section 16. Assignment

The benefits payable under this Plan may not be assigned or alienated.

Section 17. Law Applicable

This Plan shall be governed by the laws of the State of New York.

Restatement adopted and approved as of December 9, 1996.

EXHIBIT 10(l)

As amended through December 9, 1996

XEROX CORPORATION

1989 DEFERRED COMPENSATION PLAN FOR EXECUTIVES

1993 AMENDMENT AND RESTATEMENT

Preamble. This Plan is a private unfunded nonqualified deferred compensation arrangement for executives and all rights shall be governed by and construed in accordance with the laws of New York, except where preempted by federal law. It is intended to provide a vehicle for setting aside funds for retirement.

Section 1. Effective Date. The original effective date of the Plan is January 1, 1989. The effective date of this amendment and restatement is October 1, 1993.

Section 2. Eligibility. Any employee of Xerox Corporation (the "Company"), and any employee of a wholly owned subsidiary of the Company which has adopted this Plan with the approval of the Company's Board of Directors or the Executive Committee of the Company's Board of Directors ("Participating Subsidiary"), who is at Corporate Grade 19 (or its equivalent) or above, and such additional group or groups of employees of the Company or of a Participating Subsidiary as designated from time to time by the Administrator, are eligible to participate in the Plan. A participant who terminates an election to defer receipt of compensation is not eligible to participate again in the Plan until twelve months after the effective date of such termination.

Section 3. Deferred Compensation Account. There shall be established for each participant a deferred compensation account.

Section 4. Amount of Deferral. A participant may elect to defer receipt of all or a specified part, expressed either in terms of a fixed dollar amount or a percentage, of the compensation for services (in excess of the applicable social security tax base for old age, survivor and disability benefits) as an employee of the Company or a Participating Subsidiary otherwise payable to the participant in the form of cash. Any amount deferred is credited to the participant's deferred compensation account on the date such amount is otherwise payable.

Section 5. Time of Election of Deferral. An election to defer compensation must be made by a participant prior to the year in which the participant would otherwise have an unrestricted right to such compensation. When an employee first becomes eligible to participate in the Plan, he may elect to defer any compensation to which he or she has yet to have an unrestricted right to payment. An election to totally terminate future deferrals may be made at any time prior to the relevant payment date.

Section 6. Hypothetical Investment. Deferred compensation is assumed to be invested, without charge, in the Balanced Fund, Income Fund, U. S. Stock Fund, International Stock Fund, Small Company Stock Fund or Xerox Stock Fund (the "Funds") established under the Profit Sharing Plan as elected by the participant; provided, however, that the Administrator, as hereinafter defined, shall have the right from time to time, without adversely affecting participants' accruals in deferred compensation accounts, to substitute for the Income Fund other hypothetical fixed return investments for the deferred compensation.

Elections to make hypothetical investments in any one or more of the Funds shall be subject to administrative rules adopted by the Administrator from time to time.

No shares of Xerox stock will ever actually be issued to a participant under the Plan.

Section 7. Value of Deferred Compensation Accounts and Installment Payments. The value of each participant's deferred compensation account shall reflect all amounts deferred, and gains and losses from the hypothetical investments, and shall be determined on the last day of each month (the "Valuation Dates"). Hypothetical investments in the Profit Sharing Plan shall be valued as of the valuation date under such Plan coincident with or last preceding the Valuation Date under this Plan. The value of hypothetical investments not made under the Profit Sharing Plan shall be determined as of each Valuation Date by the best information available to the Administrator.

Section 8. Manner of Electing Deferral. A participant may elect to defer compensation by giving written notice to the Administrator on a form provided by the Company, which notice shall include (1) the amount and/or percentage to be deferred; (2) if more than one is offered under the Plan, the hypothetical investment applicable to the amount deferred; (3) the number of installments for the payment of the deferred compensation; and (4) the date of the first installment payment. An employee may elect a single method of payment for all circumstances, or separate elections covering the method of payment may be made with respect to any of the following events: (A) Normal retirement at or after age 65; (B) early retirement at age 60-64; (C) early retirement at age 55-59; (D) voluntary termination of employment; (E) involuntary termination of employment; (F) termination of employment due to disability; (G) death; or (H) while still employed by the Company. The Administrator may adopt rules of general applicability regarding commencement and duration of payments under the Plan which may be elected by participants.

Section 9. Payment of Deferred Compensation. No withdrawal may be made from the participant's deferred compensation account, except as provided under this Section and Sections 10 and 11.

The value of a participant's deferred compensation account is payable in cash in annual installments on February 15 or August 15 following the first occurrence of one of the events elected under Section 8 or following a fixed period after one of such events based on the value of the participant's deferred compensation account as of the second preceding Valuation Date.

Unless otherwise elected by a participant with the written approval of the Administrator, payments of deferred compensation shall be made pursuant to the following formula: the amount of the first payment shall be a fraction of the value of the participant's deferred compensation account on the second preceding Valuation Date, the numerator of which is one and the denominator of which is the total number of installments elected, and the amount of each subsequent payment shall be a fraction of the value on the second Valuation Date preceding each subsequent payment date, the numerator of which is one and the denominator of which is the total number of installments elected minus the number of installments previously paid. There shall be added to each payment determined in accordance with the foregoing, imputed interest for a period of one month at the same annual rate credited to accounts invested in the Income Fund under the Profit Sharing Plan for the month of December or June, as the case may be. Any other payment method selected with the written approval of the Administrator must in all events provide for payments in substantially equal installments.

Section 10. Acceleration of Payment. (a) For Hardship. Upon written approval from the Company's Chief Executive Officer (the Company's Board of Directors, in the case of a request from the Chief Executive Officer), a participant may be permitted to receive all or part of his accumulated benefits if, in the discretion of the Chief Executive Officer (or the Board, if applicable), it is determined that an emergency event beyond the participant's control exists and which would cause such participant severe financial hardship if the payment of his benefits were not approved. Any such distribution for hardship shall be limited to the amount needed to meet such emergency. A participant who makes a hardship withdrawal cannot reenter the Plan for twelve months after the date of withdrawal.

(b) Upon a Change in Control. Within 5 days following the occurrence of a change in control of the Company (as hereinafter defined), each participant shall be entitled to receive a lump sum payment equal to the value of his deferred compensation account.

For purposes hereof, a "change in control of the Company" shall be deemed to have occurred if (A) any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; or (B) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, including for this purpose any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in this Section) whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof.

Section 11. Other Penalized Withdrawals. Notwithstanding the provisions of Sections 9 and 10, a participant may be permitted to receive all or part of his accumulated benefits at any time provided that (A) the Administrator approves such distribution in his or her sole discretion, and (B) the participant forfeits a portion of his account balance equal to a percentage of the amount distributed. The percentage reduction shall be the greater of (A) six percent, or (B) a percentage equal to one-half of the prime interest rate, as determined by the Administrator.

Section 12. Time Of Hypothetical Investment. The amount in the participant's deferred compensation account as of each Valuation Date which has not been previously deemed invested shall be deemed invested in a hypothetical investment on such date, based on the value of the hypothetical investment on such date.

Section 13. Participant's Rights Unsecured. The benefits payable under this Plan shall be unfunded. Consequently, no assets shall be segregated for purposes of this Plan and placed beyond the reach of the Company's general creditors. The right of any participant to receive future installments under the provisions of the Plan shall be an unsecured claim against the general assets of the Company.

Section 14. Statement of Account. Statements will be sent to each participant during February and August and more frequently if the Administrator so determines as to the value of their deferred compensation accounts as of the end of December and June, respectively.

Section 15. Assignability. No right to receive payments hereunder shall be transferable or assignable by a participant, except by will or by the laws of descent and distribution.

In the event of a participant's death without having an election under Section 8 (B) in effect regarding payment of his account after death, the value of the participant's deferred compensation account shall be determined as of the Valuation Date coincident with or immediately following death and such amount shall be paid in a single payment to the participant's estate (a) the first January 15 or July 15 following such Valuation Date, or (b) if such payment cannot be made at the time specified in (a), it shall be made within 30 days after the participant's death. There shall be added to such payment, interest for the full calendar months elapsed following such Valuation Date to the payment date at the same annual rate credited to accounts invested in the Income Fund under the Profit Sharing Plan for the month of such Valuation Date.

In the event of a participant's death after installment payments have commenced to be paid, the balance of the deferred compensation account shall be paid to the participant's estate.

Section 16. Business Days. In the event any date specified herein falls on a Saturday, Sunday or legal holiday, such date shall be deemed to refer to the next business day thereafter.

Section 17. Administration. The Plan shall be administered by the Vice President of the Company having responsibility for human resources (the "Administrator"). The Administrator shall have the authority to adopt rules and regulations for carrying out the plan, and interpret, construe and implement the provisions of the Plan.

Section 18. Amendment. The Plan may at any time or from time to time be amended, modified or terminated by the Board of Directors or the Executive Committee of the Board of Directors of the Company. Upon termination the Administrator in his or her sole discretion may pay out account balances to participants. No amendment, modification or termination shall, without the consent of a participant, adversely affect such participant's accruals in his/her deferred compensation account.

Computation of Net Income Per Common Share

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

I. Primary Net Income (Loss) Per Common Share

Income (loss) from continuing operations
Accrued dividends on ESOP preferred stock, net
Accrued dividends on redeemable preferred stock
Call premium on redeemable preferred stock
Adjusted income (loss) from continuing operations
Discontinued operations
Change in accounting principles
Adjusted net income (loss)

Average common shares outstanding during the period
Common shares issuable with respect to common
stock equivalents for stock options, incentive and
exchangeable shares
Adjusted average shares outstanding for the period

Primary earnings (loss) per share:
Continuing operations
Discontinued operations
Change in accounting principles
Primary earnings (loss) per share

II. Fully Diluted Net Income (Loss) Per Common Share

Income (loss) from continuing operations
Accrued dividends on ESOP preferred stock, net
Accrued dividends on redeemable preferred stock
Call premium on redeemable preferred stock
ESOP expense adjustment, net of tax
Interest on convertible debt, net of tax
Adjusted income (loss) from continuing operations
Discontinued operations
Change in accounting principles
Adjusted net income (loss)

Average common shares outstanding during the period
Common shares issuable with respect to:
Stock options, incentive and exchangeable shares
Convertible debt
ESOP preferred stock
Adjusted average shares outstanding for the period

Fully diluted earnings (loss) per share:
Continuing operations
Discontinued operations
Change in accounting principles
Fully diluted earnings (loss) per share *

* Fully diluted discontinued operations net loss per share for the year ended December 31, 1995 is computed by dividing adjusted net loss of $(1,646) by the adjusted average shares outstanding for the period of 331,692 used in the computation of primary net income per common share. This computation is necessitated by the anti-dilutive nature of convertible debt and ESOP preferred stock which would otherwise decrease fully diluted net loss per share for this period.

EXHIBIT 11

1996	1995	1994	1993	1992
$ 1,206	$ 1,174	$ 794	$ (193)	$ 562
(43)	(42)	(41)	(38)	(39)
(1)	(3)	(12)	(23)	(23)

-	-	(11)	-	-
1,162	1,129	730	(254)	500
-	(1,646)	-	67	(818)
-	-	-	-	(764)
$ 1,162	$ (517)	$ 730	$ (187)	$ (1,082)
324,462	322,087	316,275	300,141	283,272
8,234	9,605	9,003	4,062	8,229
332,696	331,692	325,278	304,203	291,501
$ 3.49	$ 3.40	$ 2.24	$ (.83)	$ 1.72
-	(4.96)	-	.22	(2.81)
-	-	-	-	(2.62)
$ 3.49	$ (1.56)	$ 2.24	$ (.61)	$ (3.71)
$ 1,206	$ 1,174	$ 794	$ (193)	$ 562
-	-	-	(38)	(39)
(1)	(3)	(12)	(23)	(23)
-	-	(11)	-	-
(3)	(9)	(7)	-	(8)
3	4	3	-	4
1,205	1,166	767	(254)	496
-	(1,646)	-	67	(818)
-	-	-	-	(764)
$ 1,205	$ (480)	$ 767	$ (187)	$ (1,086)
324,462	322,087	316,275	300,141	283,272
8,641	9,687	9,003	4,062	8,394
2,643	2,643	2,643	-	2,643
27,981	28,663	29,310	-	29,856
363,727	363,080	357,231	304,203	324,165
$ 3.31	$ 3.21	$ 2.15	$ (.83)	$ 1.53
-	(4.96)	-	.22	(2.81)
-	-	-	-	(2.62)
$ 3.31	$ (1.75)	$ 2.15	$ (.61)	$ (3.90)

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges

Year ended December 31 (in millions)	1996	1995	1994	1993*	1992
Fixed Charges:					
Interest expense	$ 592	$ 603	$ 520	$ 540	$ 627
Rental expense	140	142	170	180	187
Total fixed charges before capitalized interest	732	745	690	720	814
Capitalized interest	-	-	2	5	17
Total fixed charges	$ 732	$ 745	$ 692	$ 725	$ 831
Earnings available for fixed charges:					
Earnings**	2,067	$1,980	$1,602	$ (193)	$1,183
Less undistributed income in minority owned companies	(84)	(90)	(54)	(51)	(52)
Add fixed charges before capitalized interest	732	745	690	720	814
Total earnings available for fixed charges	$2,715	$2,635	$2,238	$ 476	$1,945
Ratio of earnings to fixed charges (1)(2)	3.71	3.54	3.23	0.66	2.34

(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, and one-third of rent expense as representative of the interest portion of rentals. 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 and Other Financial Services businesses and its real-estate development and third-party financing 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)	1996	1995	1994
Revenues			
Sales	$ 9,285	$ 8,750	$ 7,823
Service and rentals	7,078	6,830	6,255
Finance income	1,015	1,008	1,006
Total Revenues	17,378	16,588	15,084
Costs and Expenses			
Cost of sales	5,132	4,984	4,668
Cost of service and rentals	3,591	3,442	3,028
Equipment financing interest	513	507	502
Research and development expenses	1,044	949	895
Selling, administrative and general expenses	5,074	4,719	4,363
Gain on affiliates' sales of stock, net	(11)	--	--
Other, net	91	138	114
Total Costs and Expenses	15,434	14,739	13,570
Income before Income Taxes, Equity Income and Minorities' Interests	1,944	1,849	1,514
Income Taxes	700	615	595
Equity in Net Income of Unconsolidated Affiliates	123	131	88
Minorities' Interests in Earnings of Subsidiaries	161	191	213
Income from Continuing Operations	1,206	1,174	794
Discontinued Operations	--	(1,646)	--
Net Income (Loss)	$ 1,206	$ (472)	$ 794
Primary Earnings (Loss) per Share			
Continuing Operations	$ 3.49	$ 3.40	$ 2.24
Discontinued Operations	--	(4.96)	--
Primary Earnings per Share	$ 3.49	$ (1.56)	$ 2.24
Fully Diluted Earnings (Loss) per Share			
Continuing Operations	$ 3.31	$ 3.21	$ 2.15
Discontinued Operations	--	(4.96)	--
Fully Diluted Earnings per Share	$ 3.31	$ (1.75)	$ 2.15

The accompanying notes on pages 48 to 67 are an integral part of the consolidated financial statements.

Summary of Total Company Results

Document Processing revenues grew 6 percent on a pre-currency basis to $17.4 billion in 1996, driven by 10 percent growth in equipment sales and 47 percent growth in document outsourcing. Service and rental revenues were essentially unchanged from 1995. The strong equipment sales growth is the direct result of our investments in sales coverage and marketing support, and excellent customer acceptance of our new digital products. Revenues increased 7 percent on a pre-currency basis to $16.6 billion in 1995 and 7 percent to $15.1 billion in 1994.

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

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

(In millions)	1996	1995	1994
Document Processing before Brazil tax gain	$ 1,206	$ 1,076	$ 794
Brazil tax gain	--	98	--
Continuing operations	1,206	1,174	794
Discontinued operations	--	(1,646)	--
Net Income (Loss)	$ 1,206	$ (472)	$ 794
Fully Diluted EPS			
Document Processing before Brazil tax gain	$ 3.31	$ 2.94	$ 2.15
Brazil tax gain	--	.27	--
Continuing operations	3.31	3.21	2.15
Discontinued operations	--	(4.96)	--
Fully Diluted EPS	$ 3.31	$ (1.75)	$ 2.15

Document Processing income increased in 1996 by 12 percent and in 1995 by 36 percent, both before a $98 million gain from a reduction in the Brazilian tax rate in 1995.

Fully diluted earnings per share for continuing operations increased 13 percent in 1996 and 37 percent in 1995, both before the Brazilian tax gain. The earnings per share have been adjusted to reflect the 3 for 1 stock split effective June 6, 1996.

Quarterly results of operations for 1996 and 1995 are shown on page 68.

The results for discontinued operations in 1996 were charged to reserves previously established for such purposes and did not affect our reported net income. Discontinued operations had a loss of $1.646 billion in 1995 compared with break-even results in 1994. The 1995 results include fourth quarter after-tax charges of $1.546 billion as a result of the discontinuance of the Insurance segment. These charges consisted of a non-cash loss of $978 million and $568 million primarily to cover additional insurance loss reserves and all estimated future expenses associated with excess of loss reinsurance coverage.

[CHART APPEARS HERE]

Continuing Operations Fully Diluted Earnings Per Share*

1994	$2.15
1995	$2.94
1996	$3.31

* Before special items

Document Processing

Underlying 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 "underlying growth."

[Pictured here is a flat panel display]

dpiX flat-panel display

Malcolm J. Thompson, Gayathri Sundaresan and Pedro Goncalves, dpiX, with a dpiX flat-panel display that shows lifelike computer images and text as sharp as the output from a laser printer. A new Eagle-5 cockpit avionics display gives fighter aircraft a tactical edge with video and high resolution infrared imagery.

dpiX, a Xerox New Enterprise company, designs and manufactures high-performance products for image capture and display. dpiX has produced advanced flat-panel displays that provide image resolution of 300 dots per inch over an area the size of an 8.5-inch by 11-inch page. These displays are being used for detail-critical applications, such as mapping, image analysis, avionics and high-end computer graphics.

dpiX FlashScan X-ray image sensors replace X-ray film in medical imaging systems, enabling a fully digital system for faster patient diagnosis. X-ray images are captured in a fraction of a second and can be analyzed immediately on a computer screen.

dpiX image capture-and-display products are an example of our effort to capitalize on the most promising technological breakthroughs from our research organizations. dpiX is part of Xerox New Enterprises, 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. In 1996, we concluded two successful Initial Public Offerings to launch Documentum and Document Sciences as publicly traded companies.

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 major European currencies, the U.S. dollar was on average approximately 2 percent stronger in 1996, 10 percent weaker in 1995 and 2 percent stronger in 1994. As a result, foreign currency translation had an unfavorable impact of 1 percentage point on total revenues in 1996, a favorable impact of 3 percentage points on revenues in 1995, and an unfavorable impact of 1 percentage point in 1994.

Revenues denominated in currencies where the local currency is the functional currency are not hedged for purposes of translation into U.S. dollars.

Revenues by Product Category

	Underlying Growth		
	1996	1995	1994
Total Revenues	6%	7%	7%
Digital products	23	17	20
Light lens copiers	(1)	2	4
Paper and other products	--	14	3

Revenues from digital products, composed of production publishing, color copying and printing, data center printing, multifunction products and network printing, represented 30 percent of total revenues in 1996, 25 percent in 1995 and 22 percent in 1994. Revenues from light lens copying represented 56 percent of total revenues in 1996, 59 percent in 1995 and 63 percent in 1994. The revenues from paper and other products were 14 percent of total revenues in 1996, 16 percent in 1995 and 15 percent in 1994.

Total revenues from the DocuTech family of production publishing products reflected excellent growth to approximately $1.8 billion in 1996 from $1.4 billion in 1995 and $1.1 billion in 1994. Revenues from color products reflected excellent growth to approximately $1.0 billion in 1996, $600 million in 1995 and $400 million in 1994.

The DocuColor 40 and the Document Centre Systems family contributed 3 percentage points to the

digital product revenue growth of 23 percent in 1996. 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. Document Centre Systems products, which were introduced in late 1995, can print, scan, fax and copy documents for workgroups, with all operations managed over the network from each user's personal computer or on a walk-up basis. Revenues from these products accelerated throughout 1996 and contributed 6 percentage points to the digital product revenue growth of 26 percent in the fourth quarter.

The decline in light lens copier revenue growth reflects several important factors, including price pressures and difficult economic environments in Europe and a number of emerging markets. Over time, digital products will take an increasing share of total revenues. The fluctuations in other products revenues were principally due to swings in paper prices and OEM sales.

Revenues by Geography

Geographically, the underlying revenue growth rates were:

	Underlying Growth		
	1996	1995	1994
Total Revenues	6%	7%	7%

United States	6	3	7
Rank Xerox	1	8	7
Other Areas	10	16	7
Memo: Fuji Xerox	12	10	5

United States revenues were 49 percent of total revenues in 1996 which is consistent with prior years. Revenues of Rank Xerox Limited and related companies (Rank Xerox), which manufacture and market our products in eastern hemisphere countries, were 31 percent of total revenues. Revenues of Other Areas, which primarily include operations principally in Latin America and Canada, were 20 percent of total revenues.

Revenue growth in the United States was driven by excellent growth in equipment sales of digital products and good growth in equipment sales of light lens copiers. The decline in U.S. revenue growth in 1995 principally reflects disruption in the sales force.

[Pictured here is a Xerox copier]

X Team members (left to right) are: Tony Jalali, Steven Lee, Kamran Rahbaran and Karen LaPointe. What's an X Team? It is the Xerox designation for the highest level of team achievement for an empowered team.

The decline in revenue growth in Rank Xerox in 1996 reflects weak economic environments principally in France, Germany, the U.K. and Spain.

The strong revenue growth in the Other Areas reflects excellent growth in Brazil, strong growth in Canada and Mexico, and revenue declines in the rest of Latin America and China due to difficult economic environments. The improved revenue growth in the Other Areas in 1995 is attributable, in part, to a strong demand in Brazil, partially offset by a significant revenue decline in Mexico due to currency and the continuing economic disruption following devaluation of the Mexican peso in December 1994. Our revenues in Brazil were approximately $1.6 billion in 1996, $1.3 billion in 1995 and $0.9 billion in 1994.

Fuji Xerox Co., Ltd., an unconsolidated joint venture between Rank Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan and other areas of the Pacific Rim, Australia and New Zealand. The strong revenue growth in 1996 and 1995 reflects excellent growth in the Asia Pacific countries and strong growth in Japan driven by excellent growth in digital product sales.

[Pictured here are two Fuji Xerox employees]

No. 1 In Color

Fuji Xerox continues to focus on networked color and multifunction products in all global business areas. It achieved a No. 1 ranking in domestic market share in terms of the number of shipped units of digital color copiers.

[CHART APPEARS HERE]

Equipment Sales Growth (Pre-currency)	Non-Equipment Revenue Growth (Pre-currency)	Total Xerox Revenue Growth (Pre-currency)

1994	10%	5%	7%
1995	6%	7%	7%
1996	10%	4%	6%

Revenues by Type

	Underlying Growth		
	1996	1995	1994
Total Revenues	6%	7%	7%
Equipment sales (excluding OEM)	10	6	10
Non-equipment revenues	4	7	5
Supplies	6	9	11
Paper	(7)	39	4
Service	--	2	4
Rentals	--	1	(1)
Document outsourcing*	47	46	34
Finance income	1	(4)	(4)

* Excludes outsourcing contracts that are accounted for as equipment sales.

The improvement in equipment sales revenue growth (excluding OEM sales) in 1996 from 1995 was due to a significant acceleration in sales of production publishing and color copying and printing products, particularly in the U.S. The lower growth in equipment sales in 1995 principally reflected disruption in the U.S. sales force. The growth in 1994 reflected excellent growth in production publishing and a near doubling of color copier and printer equipment sales.

Non-equipment revenues from supplies, paper, service, rentals, document outsourcing and income from customer financing represented 66 percent of total revenues in 1996, and 67 percent in 1995 and 1994. Growth in these revenues is primarily a function of the growth in our installed population of equipment, usage and pricing.

Supplies: Good growth was maintained in 1996, although at a lower rate than 1995. The decline in growth is due principally to customer preference for document outsourcing and weak economic environments in some countries in Europe and Latin America.

Paper: The decline in 1996 is the result of lower wholesale prices which were partially offset by volume increases. The significant improvement in the growth rate in 1995 is primarily due to higher prices after several years of declining prices. Our strategy is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor.

Service: The declining growth reflects the substitutive impact of customer preference for document outsourcing as well as competitive price pressures.

[Pictured here is Xerox recycled paper and a Xerox employee]

Revenues from the sale of paper and related equipment supplies continue to contribute to overall revenues and profit growth. Customers continue to look to Xerox for their media needs and equipment supplies to insure maximum performance and output quality with their equipment. Photographed here with Xerox recycled paper is Lisa Miura, Printing Systems Operations.

Rental: Outside the U.S., rental revenues have declined reflecting the long-term trend to increasing equipment sales. This decline has been offset by strong growth in the U.S. where there has been an increasing trend toward cost-per-copy rental plans, which adversely affects up-front equipment sales, as well as service revenues and finance income.

Document Outsourcing: The excellent growth reflects the trend of customers to focus on their core businesses and outsource their document processing requirements to Xerox. In part, this has the effect of diverting revenues from up-front equipment sales as well as supplies, service and finance income. This trend reduces current period total revenues but increases revenues in future periods.

Finance income: In 1996, the strong growth in the financing of equipment sales in Latin America offset the impact on financing contracts of the continuing decline in interest rates and the increasing customer preference for document outsourcing rather than purchase and finance. Approximately 80 percent of customers finance purchases of equipment through Xerox in the U.S. and 75 percent in Western Europe. Our strategy for financing equipment sales 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.

Restructuring

The activities associated with the 1993 restructuring program have reduced employment by 14,000. We have achieved our restructuring program objectives with pre-tax cost reductions of approximately $350 million in 1994, $650 million in 1995 and $770 million in 1996. A portion of the savings is being reinvested to reengineer business processes, to support the expansion in growth markets and to mitigate pricing pressures.

Worldwide employment increased by 800 in 1996 to 86,700 as hiring to increase the sales force and to support our fast-growing document outsourcing business more than offset reductions in other areas.

[CHART APPEARS HERE]

Selling, Administrative and General Expenses (Percent of Revenues)

1994	28.9%
1995	28.4%
1996	29.2%

[Pictured here is a AAA Triptik(R) routing map]

AAA Triptik(R) routing map printed on Xerox equipment

The American Automobile Association uses Xerox highlight color printers to produce Triptiks or customized routing maps for millions of travelers who tour the U.S. each year. The printers produce about 80 Triptiks per hour; the average size is 30 pages per booklet.

Costs and Expenses

Gross profit increased 6 percent in 1996 and 11 percent in 1995 as a result of increased volume and an improvement in gross margins.

The gross margins by revenue stream were as follows:

	Gross Margins		
	1996	1995	1994
Total	46.9%	46.1%	45.7%
Sales	44.7	43.0	40.3
Service and rentals	49.3	49.6	51.6
Finance income	49.5	49.7	50.1

The improvement in sales gross margins has been principally due to productivity driven cost reductions, favorable product and geographic mix, principally Brazil, partially offset by pricing pressures. The erosion in service and rentals gross margins has been largely due to pricing pressures, partially offset by productivity improvements.

Research and development (R&D) expense increased 10 percent in 1996 and 6 percent in 1995 reflecting increased investment in future product introductions. We will continue to invest in technological development to maintain our premier position in the rapidly changing document processing market and we expect to introduce a stream of new, technologically innovative products in the coming months. Xerox R&D is strategically coordinated with that of Fuji Xerox, which invested $537 million in R&D in 1996.

Selling, administrative and general expenses (SAG) increased 8 percent in 1996 on an underlying basis, 5 percent in 1995 and declined 1 percent in 1994. SAG as a percent of revenues was 29.2 percent in 1996, 28.4 percent in 1995 and 28.9 percent in 1994. The increase in the ratio in 1996 was primarily due to investments in sales coverage and marketing support. The improvement in 1995 was due to productivity initiatives and expense controls partially offset by investments to increase worldwide sales effectiveness. We expect the ratio to decline in 1997 due to improved productivity resulting from prior year investments and ongoing expense controls.

Gain on affiliates' sales of stock, net reflects our proportionate share of the increase in equity of certain small affiliated companies as a result of recent sales of additional equity by these affiliates.

Other expenses, net, were $91 million in 1996, $138 million in 1995 and $114 million in 1994. The reduction of $47 million in 1996 reflects reduced interest expense due to lower rates, higher interest income and the non-recurrence of several one-time charges in 1995. The increase in Other expenses, net, of $24 million in 1995 reflects higher interest expense and

[Pictured here is a computer laboratory]

University Network

Hokkaido University uses an information network system designed and constructed by Fuji Xerox to connect numerous academic departments, research centers, hospitals, libraries, offices and other facilities as well as community printing centers.

goodwill amortization, principally resulting from our increased financial interest in Rank Xerox, and the non-recurrence of one-time gains in 1994, partially offset by lower foreign currency losses from balance sheet translation in our Brazilian operations.

Income Taxes, Equity in Net Income of Unconsolidated Affiliates, and Minorities' Interests in Earnings of Subsidiaries before Special Items

Income before special items and income taxes was $1,944 million in 1996, $1,849 million in 1995 and $1,514 million in 1994.

In 1995, we recognized a $98 million benefit from the favorable revaluation of the deferred tax liability due to a change in the Brazilian statutory income tax rate. Excluding this gain, the effective tax rates were 36 percent in 1996, and 39 percent in 1995 and 1994. The decline in the 1996 tax rate was primarily due to the lower Brazilian tax rate.

Equity in the Net Income of Unconsolidated Affiliates is principally the Rank Xerox share of Fuji Xerox income as well as investments in several smaller companies. Total equity in income in 1996 declined 6 percent to $123 million principally due to one-time declines in income from smaller investments. The Rank Xerox 50 percent share of Fuji Xerox income increased 4 percent to $116 million in 1996 from $112 in 1995. The excellent underlying growth in Fuji Xerox income was largely offset by the weakening of the Japanese yen against the U.S. dollar. Total equity in income grew 49 percent in 1995 to $131 million as Fuji Xerox income increased 31 percent due to strong underlying growth and the strengthening of the yen. The Rank Xerox 50 percent share of Fuji Xerox income was $86 million in 1994.

Minorities' Interests in Earnings of Subsidiaries, principally The Rank Group Plc share of Rank Xerox profits, were $161 million in 1996, $191 million in 1995 and $213 million in 1994. In 1996, minorities' interests declined primarily due to lower Rank Xerox profits.

[Pictured here are two Xerox employees who are included in the Guardian Angel program]

Programa Anjo Da Guarda Coloca "Clientes Em Primeiro Lugar" no Brasil
Guardian Angels put "Customers First" in Brazil

Our Guardian Angel program was started by Xerox do Brasil. Employees are assigned customers to call periodically to find out if the customers are satisfied with our equipment. If they are not, that same Guardian Angel is responsible for solving the problem from beginning to end. Jose Carlos and Daniela Oliveira appeared in a Xerox videotape on the program.

Consolidated Balance Sheets

December 31 (in millions)	1996	1995
Assets		
Cash	$ 104	$ 136
Accounts receivable, net	2,022	1,914
Finance receivables, net	4,386	4,069
Inventories	2,676	2,656
Deferred taxes and other current assets	964	1,095
Total Current Assets	10,152	9,870
Finance receivables due after one year, net	6,986	6,406
Land, buildings and equipment, net	2,256	2,105
Investments in affiliates, at equity	1,282	1,314
Goodwill	623	627
Other assets	1,121	876
Investment in discontinued operations	4,398	4,810
Total Assets	$ 26,818	$ 26,008

Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 3,536	$ 3,274
Accounts payable	577	578
Accrued compensation and benefits costs	761	731
Unearned income	208	228
Other current liabilities	2,122	2,216
Total Current Liabilities	7,204	7,027
Long-term debt	8,424	7,867
Postretirement medical benefits	1,050	1,018
Deferred taxes and other liabilities	2,429	2,437
Discontinued operations liabilities - policyholders' deposits and other	2,274	2,810
Deferred ESOP benefits	(494)	(547)
Minorities' interests in equity of subsidiaries	843	755
Preferred stock	721	763
Common shareholders' equity	4,367	3,878
Total Liabilities and Equity	$ 26,818	$ 26,008

Shares of common stock issued and outstanding at December 31, 1996 were (in thousands) 325,902 and 323,681, respectively. Shares of common stock issued and outstanding at December 31, 1995 were (in thousands) 325,029.

The accompanying notes on pages 48 to 67 are an integral part of the consolidated financial statements.

The 1995 decrease was due to our increased financial interest in Rank Xerox, partially offset by excellent growth in Rank Xerox income, reflecting good revenue growth and productivity benefits.

Income

In 1996, Document Processing income of $1,206 million grew 12 percent compared with $1,076 million of income in 1995 before the Brazilian tax gain. 1995 income on the same basis grew 36 percent from $794 million in 1994.

[Pictured here is a map of Peru]

Impresion Electronica

Electronic Printing

Banco de Credito, Peru's largest bank, shipped half of the pages it printed to branch offices, some of which were in remote locations. The bank faced rising print-and-distribute shipping costs. A distributed printing solution connected Xerox laser printers in the branch offices to the bank's network and reduced costs and eliminated delivery problems.

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 the net income of unconsolidated affiliates divided by average ROA assets. These assets are Document Processing assets less investments in affiliates and Xerox equipment financing debt.

ROA, as defined above, was 17.8 percent in 1996, 18.5 percent in 1995 and 16.1 percent in 1994.

1994 Antitrust Lawsuit Settlement

In January 1994, we reached agreement to settle a 1992 antitrust lawsuit. Under the settlement, we agreed to sell service parts to independent service organizations, and $225 million of discount certificates were provided for use over a three-year period as partial payment for Xerox products. Through 1996, $180 million of certificates were applied against purchases.

Additional Financial Interest in Rank Xerox

On February 28, 1995, we paid The Rank Group Plc $972 million to increase our financial interest in Rank Xerox to 80 percent from 67 percent. Minorities' interests in earnings of subsidiaries have declined by approximately 40 percent as a result of the transaction. These savings were partially offset by an increase in interest expense related to the funding of the transaction and annual goodwill amortization of $16 million.

Rank Xerox and Latin American Fiscal-Year Change in 1995

Effective January 1, 1995, we changed Rank Xerox and Latin American operations to calendar-year financial reporting. The 1994 fiscal year ended on October 31 for Rank Xerox and on November 30 for Latin American operations. The results that occurred between the 1994 and 1995 fiscal years (the stub period) were accounted for as a direct charge to equity.

Capital Resources and Liquidity

Total debt, including ESOP and discontinued operations debt not shown separately in our consolidated balance sheets, increased to $12,448 million at December 31, 1996 from $11,794 million in 1995 and $10,955 million in 1994.

The following table summarizes the changes in total equity during 1996, 1995 and 1994:

	Total Equity		
(In millions)	1996	1995	1994
Balance as of January 1	$ 5,396	$ 6,042	$ 5,882
Income from continuing operations	1,206	1,174	794
Loss from discontinued operations	--	(1,646)	--
Change in unrealized gains (losses) on investment securities	--	432	(439)
Shareholder dividends paid	(438)	(389)	(395)
Change in minorities' interests	88	(276)	177
Purchase of treasury stock	(306)	--	--
Exercise of stock options	84	109	76
All other, net	(99)	(50)	(53)
Balance as of December 31	$ 5,931	$ 5,396	$ 6,042

We manage the capital structure of our non-financing operations separately from that of our more highly leveraged captive financing activities. The following table summarizes the ratios of earnings to fixed charges and interest expense; and debt, equity and total capital for our non-financing and financing activities for the three-year period ended December 31, 1996:

(Dollars in millions)	1996	1995	1994
Non-Financing:			

Ratio of Earnings to Fixed Charges	4.67x	3.79x	3.59x
Ratio of Earnings to Interest Expense	6.65x	5.17x	5.75x
Debt	$ 2,960	$ 3,012	$ 2,667
Equity	4,565	4,045	4,742
Total Capital	$ 7,525	$ 7,057	$ 7,409
Debt-to-Capital Ratio	39.3%	42.7%	36.0%
Financing:			
Debt	$ 9,488	$ 8,782	$ 8,288
Equity	1,366	1,351	1,300
Total Capital	$10,854	$10,133	$ 9,588
Debt-to-Equity Ratio	7.0x	6.5x	6.4x
Ratio of Earnings to Fixed Charges	1.66x	1.71x	1.81x

[Pictured here is a Xerox employee and a color laser printer]

The XPrint Plus family of color laser printers is the first of several Xerox printers capable of printing resident Chinese fonts used in the People's Republic of China. It uses Adobe's PostScript interpreter with simplified Chinese fonts from Changzhou SinoType Technology Co. Inc. Pictured here is Xiao Ping Sun, Desktop Printers Unit.

As a result of retained earnings growth, the 1996 debt-to-capital ratio for non-financing operations, including ESOP debt and discontinued operations debt, was 39.3 percent or 3.4 points below its year-end 1995 level. Conversely, the 1995 ratio increased by 6.7 points versus year-end 1994 as proceeds from the sales of Constitution Re Corporation, Viking Insurance Holdings, Inc. and the Xerox Financial Services Life Insurance Company and related companies were more than offset by the purchase of the increased financial interest in Rank Xerox and non-cash charges in connection with the sales of remaining Talegen units.

With respect to our financing operations, we "match fund" by arranging fixed-rate liabilities with maturities similar to the underlying customer financing assets. Our guideline debt-to-equity ratio for the financing operations is 7.0 to 1, up from 6.5 to 1 at year-end 1995, reflecting both the high credit quality of the underlying assets and the excellent financial returns from our captive financing businesses.

The following table summarizes the principal causes for changes in consolidated indebtedness for the three-year period ended December 31, 1996:

(In millions)	1996	1995	1994
Total Debt* as of January 1	$ 11,794	$ 10,955	$ 10,084
Non-Financing Businesses:			
Document Processing operations	(678)	(543)	(989)
Increased financial interest in Rank Xerox	--	972	--

Yen financing repayment	--	--	116
ESOP	(53)	(49)	(45)
Discontinued businesses	47	(399)	605
Non-Financing	(684)	(19)	(313)
Financing Businesses, net	706	494	650
Shareholder dividends	438	389	395
Equity redemption and other changes	194	(25)	139
Total Debt* as of December 31	$ 12,448	$ 11,794	$ 10,955

* Including discontinued operations

[Pictured here is a Document Centre System 35]

London book publisher HarperCollinsPublishers finds that its 12 Document Centre systems in the London office and five in Scotland help workers optimize their productivity by managing document production from the desktop. Photographed here are Jonathan Edwards, Amanda Abernethy and Simon McMurdy, Rank Xerox, with Mike Naylor, group purchasing director, HarperCollinsPublishers.

Non-Financing Operations

The following table summarizes 1996, 1995 and 1994 Document Processing non-financing operations cash generation and borrowing:

	Cash Generated/(Borrowed)		
(In millions)	1996	1995	1994
Document Processing Non-Financing:			
Income	$ 1,004	$ 970	$ 565
Depreciation and amortization:			
Buildings and equipment	372	376	446
Other	343	343	203
Capital expenditures	(510)	(438)	(389)
Assets sold	40	90	220
Restructuring payments	(197)	(331)	(423)
Working capital/other	(374)	(467)	367
Net Cash Generation	$ 678	$ 543	$ 989

1996 cash generation of $678 million was $135 million greater than in 1995 as higher income, and lower restructuring payments and inventory growth more than offset higher capital spending and tax payments. 1995 cash generation was $446 million below the 1994 level due to higher capital spending and lower fixed asset sales, inventory growth and 1994 profit sharing paid in 1995 which together more than offset 1995 net income growth and lower restructuring payments.

Discontinued businesses used $47 million of cash in 1996 and generated $399 million of cash in 1995. This year-over-year change primarily reflects 1995 cash proceeds relating to the sales of Constitution Re Corporation, Viking Insurance

Holdings, Inc. and the Xerox Financial Services Life Insurance Company and related companies.

Financing Businesses

Financing business debt grew by $706 million in 1996 or $212 million more than in 1995 due to higher growth in equipment sales revenue and the modest increase to our leverage guideline. Financing debt growth of $494 million in 1995 was $156 million less than in 1994 due to lower equipment sales revenue growth and the effects of translating foreign currencies into U.S. dollars.

Debt related to discontinued third-party financing and real estate investments, which is included in Financing Business debt, totaled $223 million in 1996 and $231 million in 1995 and 1994. Sales of third-party financing assets and portfolio run-off in 1996 more than offset growth in reported debt caused by our

[Pictured here are four Xerox employees in front of the Senate building in Brasilia]

Solucao de impressao Xerox
para o Senado Brasileiro

Xerox printing solution for Brazilian Senate

The information and data processing center for the Federal Senate of Brazil relies on 150 Xerox printers to handle Senate printing. Photographed here in front of the Senate building in Brasilia are the members of the Xerox team: Joao Inacio, Renato Furtado, Flavio Peixoto Gomes and Francisco Rincon.

decision to fund the retirement of certain debt of our discontinued real estate business with lower cost Company borrowing. Portfolio run-off in 1995 was offset by timing differences related to tax payments resulting in no net change when compared with year-end 1994.

Funding Plans for 1997

Non-financing debt levels will be significantly reduced by expected sales of the remaining Talegen insurance operating units including the announced sale of Coregis to a subsidiary of GE Capital Corporation. However, the reduction will be partially offset by borrowings related to repurchases of our common stock. In January 1997, to provide future financial flexibility, a special purpose subsidiary of the Company completed the sale to investors of 650,000 shares of 8 percent Capital Securities thereby generating net proceeds of $643 million.

Customer financing-related debt is planned to increase in line with 1997 sales growth while third-party financing-related debt is expected to continue to decline.

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. Xerox and Xerox Credit Corporation (XCC) have a $5.0 billion revolving credit agreement with a group of banks, which expires in 2000. This facility is unused and available to provide back-up to Xerox and XCC commercial paper borrowings, which amounted to $3.1 billion and $2.8 billion at December 31, 1996 and 1995, respectively. In addition, our foreign subsidiaries have unused committed long-term lines of credit aggregating $2.1 billion, in various currencies at prevailing interest rates, that are used to provide back-up to short-term indebtedness.

At December 31, 1996, Xerox and XCC had domestic shelf capacity of $850 million and $450 million, respectively. In addition, a $2 billion Euro-debt facility is available to both the Company and XCC of which $1.397 billion remained unused at December 31, 1996.

[Pictured here is a Xerox employee and a pie chart depicting the investors in a long-term financing]

Doug Mahoney, North American Capital Markets, discusses one of several attractive long-term financings arranged in 1996.

Decisions in 1997 regarding the size and timing of any new term debt financing will be made based on cash flows, match funding needs, refinancing requirements and capital market conditions.

Hedging Instruments

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 suppliers, or a forward exchange contract to fix the dollar value of a foreign currency-denominated loan. In addition, when cost-effective, currency derivatives are also used to hedge balance sheet exposures.

Revenues denominated in currencies where the local currency is the functional currency are not hedged.

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 resulting from adverse changes in the interest rate environment. 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 commercial paper or LIBOR 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

[Pictured here is a DocuTech 135 advertisement in Brazil]

Brazil printer Grafica Tullio Samorini features the DocuTech in its advertising. We now have 350 DocuTechs installed in Brazil.

Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	1996	1995	1994
Cash Flows from Operating Activities			
Income from Continuing Operations	$ 1,206	$1,174	$ 794
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization	715	719	649
Provision for doubtful accounts	259	235	202
Provision for postretirement medical benefits, net of payments	38	40	54
Charges against 1993 restructuring reserve	(197)	(331)	(423)
Minorities' interests in earnings of subsidiaries	161	191	213
Undistributed equity in income of affiliated companies	(84)	(90)	(54)
Increase in inventories	(422)	(663)	(472)
Increase in finance receivables	(1,220)	(701)	(887)
Increase in accounts receivable	(180)	(173)	(266)
Increase in accounts payable and accrued compensation and benefit costs	63	179	205
Net change in current and deferred income taxes	293	263	258
Other, net	(308)	(244)	206
Total	324	599	479
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(510)	(438)	(389)
Proceeds from sales of land, buildings and equipment	40	90	220
Net change in payables to Discontinued Operations	(51)	(57)	(124)
Proceeds from sale of Constitution Re and Viking	--	526	--
Purchase of additional interest in Rank Xerox	--	(972)	--
Total	(521)	(851)	(293)
Cash Flows from Financing Activities			
Net change in debt	990	766	550
Yen financing repayment	--	--	(116)
Dividends on common and preferred stock	(438)	(389)	(395)
Proceeds from sale of common stock	95	111	74
Repurchase of preferred and common stock	(316)	(41)	(229)
Dividends to minority shareholders	(68)	(86)	(97)
Proceeds received from (returned to) minority shareholders	32	20	(32)
Total	295	381	(245)
Effect of Exchange Rate Changes on Cash	(6)	(5)	(78)
Cash Provided (Used) by Continuing Operations	92	124	(137)
Cash Provided (Used) by Discontinued Operations	(124)	(29)	106
Increase (Decrease) in Cash	(32)	95	(31)
Cash at Beginning of Year	136	41	72
Cash at End of Year	$ 104	$ 136	$ 41

The accompanying notes on pages 48 to 67 are an integral part of the consolidated financial statements.

address this risk by arranging swaps exclusively 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 1996, 1995 and 1994 approximated 6.9 percent, 7.7 percent and 7.5 percent, respectively.

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.

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, including growth in finance receivables, generated positive cash flows in each of the past three years. Cash generation of $324 million in 1996 was below that of 1995 and 1994 due to higher finance receivables associated with improved equipment sales performance.

Investing activities resulted in net cash usage in all three years. Net usage in 1996 was $521 million, $330 million less than in 1995 but $228 more than in 1994. Lower 1996 usage versus the prior year is mainly the result of the 1995 payment to the Rank Group Plc which increased our financial interest in Rank Xerox and was only partially offset by proceeds from the sales of certain Talegen units. The lower level of investing in 1994 was primarily due to asset sales related to our information management outsourcing initiative.

Financing activities generated $295 million and $381 million of cash in 1996 and 1995, respectively, but used $245 million of cash in 1994. Included within financing activities is borrowing related to the repurchase of common and preferred stock.

Overall, continuing operations provided $92 million and $124 million of cash in 1996 and 1995, respectively, and used $137 million in 1994.

Discontinued operations used $124 million and $29 million of cash in 1996 and 1995, respectively, and generated $106 million in 1994.

On a combined basis, continuing and discontinued operations produced $32 million of growth in cash balances during the three years ended December 31, 1996.

Discontinued Operations - Insurance and Other Financial Services

In January 1993, we announced our decision to sell or otherwise disengage from the Insurance and Other Financial Services (IOFS) businesses. IOFS consists of our Insurance, Other Financial Services, and Third-Party Financing and Real-Estate segments. In connection with this decision, during 1995 we sold Xerox Financial Services Life Insurance Company, Constitution Re Corporation (CRC) and Viking Insurance Holdings, Inc. (Viking) and in 1996 we sold the remaining portion of First Quadrant Corp.

In January 1996, we announced agreements to sell all of our "Remaining" insurance companies, which includes Coregis Group, Inc. (Coregis), Crum & Forster Holdings, Inc. (CFI), Industrial Indemnity Holdings, Inc. (II), Westchester Specialty Group, Inc. (WSG), The Resolution Group, Inc. (TRG) and three insurance-related service companies, to investor groups led by Kohlberg Kravis Roberts & Co. (KKR) and Talegen/TRG management. In connection with the transactions, we recorded a $1,546 million after-tax charge in 1995.

On September 11, 1996, Xerox and KKR announced that they had mutually agreed to terminate the transactions. No additional charges are considered necessary as a result of the termination of the KKR transactions. In September 1996, the Board of Directors of Xerox formally approved a plan of disposal under which we have retained investment bankers to assist us in the

simultaneous marketing of each of the remaining insurance and service companies.

During the disposal process, we will continue to be subject to all business risks and rewards of the insurance businesses. Although we believe that the disposal of the Remaining insurance companies will be either fully or substantially completed by the end of 1997, and that the proceeds received from such disposals will be consistent with our net carrying value of these businesses, until such Remaining insurance companies are actually sold, no assurances can be given as to the ultimate impact the Remaining insurance companies will have on our total results from operations.

Our objective is to continue to maximize value from our Insurance investments. The ultimate value will depend on the success of operational improvements, timing, the level of interest rates and the relative value of insurance properties.

In January 1997, we announced an agreement to sell the Coregis insurance unit to a subsidiary of GE Capital Corporation for $375 million in cash and the assumption of $75 million in debt. The selling price is in excess of book value and is consistent with the estimated value for the unit when we discontinued the insurance operations in 1995. The transaction is subject to customary closing conditions and regulatory approvals. In 1996, Coregis had gross written premiums of $423 million and at December 31, 1996, policyholders surplus of $271 million.

Also in January 1997, in an unrelated transaction, Andersen Consulting agreed to acquire certain assets of Apprise Corp., one of Talegen's insurance-related service companies, and enter into separate multi-year information technology service agreements with each of the Remaining insurance companies. The financial terms of this transaction were not material.

The net investment in the discontinued IOFS businesses totaled $2,124 million at December 31, 1996, compared with $2,000 million and $3,710 million at December 31, 1995 and 1994, respectively. The increase in 1996 over 1995 primarily includes scheduled funding of reinsurance coverage for the Talegen companies by Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt, partially offset by asset sales and run-off activity associated with the Third-Party Financing and Real-Estate segment. A discussion of the discontinued businesses follows.

Status of Insurance

In 1993, Talegen completed a restructuring that established and capitalized the following seven insurance operating groups as independent legal entities: CRC, Coregis, CFI, II, Viking, WSG and TRG. The insurance segment now includes Talegen, which is the holding company of Coregis, CFI, II and WSG and three insurance-related service companies; TRG, a former Talegen company, primarily involved in run-off activities, collection of reinsurance and management of latent exposure claims; Ridge Re; and that portion of the Xerox Financial Services, Inc. (XFSI) headquarters costs and interest expense associated with the insurance business activities.

In connection with the restructuring of Talegen, XFSI agreed that support would be provided to the seven insurance operating groups in the form of aggregate excess of loss reinsurance. This reinsurance protection is provided through XFSI's single purpose, wholly-owned reinsurance company Ridge Re, which was established in 1992.

XFSI is obligated to pay annual premium installments of $49 million, plus finance charges, for 10 years, for coverage totaling $1,245 million, which is net of 15 percent coinsurance. A total of six annual premium installments remain to be paid as of December 31, 1996 and Xerox has guaranteed the payment by XFSI of all such premiums. Xerox has also guaranteed Ridge Re's performance under a $400 million letter of credit facility required to provide security with respect to aggregate excess of loss reinsurance obligations under contracts with the Remaining insurance companies.

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. In addition, XFSI has guaranteed to the Remaining insurance companies that Ridge Re will meet all of its financial obligations under the foregoing excess of loss reinsurance issued to them.

Sale of Talegen Insurance Companies

In April 1995, CRC was sold to EXOR America Inc. for a purchase price of $421 million in cash. In July 1995, Viking was sold to Guaranty National Corporation for approximately $103 million in cash plus future upward price adjustments based on loss reserve development. The purchase price of both transactions approximated book value. The proceeds of both transactions were primarily used to retire debt.

Insurance Operating Results

Operating results for the discontinued Insurance segment are summarized below:

(In millions)	Year-ended December 31, 1996	1995	1994
Total Insurance Revenue1	$ 2,143	$ 2,106	$ 2,069
Insurance Pre-Tax Income (Loss):			
Underwriting	$ (515)	$ (751)	$ (229)
Investment income	438	405	353
Net realized capital gains	4	60	12
Interest expense	(203)	(228)	(218)
Ridge Re related and other	44	(501)	(23)
Pre-Tax Loss From Operations	(232)	(1,015)	(105)
Loss on disposal	--	(978)	--
Total Insurance Pre-Tax Loss1	$ (232)	$(1,993)	$ (105)
After-Tax Income (Loss):			
Insurance	$ (135)	$(1,641)	$ (48)
Dispositioned companies	--	(5)	48
Total After-Tax Income (Loss)2	$ (135)	$(1,646)	$ --

1 Revenue and pre-tax income excludes the results of CRC and Viking, which were sold in 1995. The results of those units are shown on an after-tax basis under the caption "Dispositioned companies."

2 The 1996 total Insurance after-tax loss of $135 million was charged against reserves established for this purpose and, therefore, does not impact our earnings.

Revenues for 1996 totaled $2,143 million, a growth of 2 percent from 1995 due to improvements in both earned premiums and investment income.

The 1996 Insurance pre-tax loss of $232 million declined by $1,761 million compared with 1995, primarily due to the provision in the fourth quarter of 1995 as a result of the discontinuance of the Insurance segment. The 1995 after-tax provision consisted of a non-cash loss of $978 million (including a goodwill write-off of $245 million), reserve strengthening at the Remaining insurance companies of $176 million, and Ridge Re related and other accruals of $392 million to cover all estimated future expenses associated with the excess of loss reinsurance coverage to Talegen and TRG. Other items impacting the year-over-year results include improvements in investment income, lower interest expense and lower Ridge Re related and other expenses, partially offset by lower net realized capital gains due to the portfolio repositioning in the third quarter of 1995 and strengthening of TRG's latent exposure reserves in 1996.

The net investment in the discontinued Insurance segment at December 31, 1996 totaled $1,846 million compared with $1,678 million and $3,212 million at December 31, 1995 and 1994, respectively. The increase in 1996 over 1995 is primarily due to contractual payments to Ridge Re for annual premium installments and associated finance charges and interest on the assigned insurance debt that will continue until the Remaining insurance companies are sold.

Property and Casualty Operating Trends

The industry's profitability can be significantly affected by 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 and other changes in the investment environment (which affect market prices of insurance companies' investments, the income from those investments and inflationary pressures that may tend

to affect the size of losses). Talegen's and TRG's operating results have historically been influenced by these industry trends, as well as by their exposure to uncollectible reinsurance, which had been greater than most other insurers.

Latent Exposures

Claims resulting from asbestos, environmental and other latent exposures have provided unique and difficult challenges to the insurance industry and to certain of the Remaining insurance companies due to their historical writings. The possibility that these claims would emerge was often not contemplated at the time the policies were written and traditional actuarial reserving methodologies have not been useful in accurately estimating ultimate losses.

Prior to 1995, the Remaining insurance companies established case and incurred but not reported (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 have been and continue to be determined by a specialized claim and legal staff. Building on methodologies first published in the third quarter of 1994 by the Casualty Actuarial Society and utilizing data from policyholders and third parties such as the Environmental Protection Agency, Talegen initiated a project in 1995 to create and implement comprehensive, sophisticated costing methodologies to provide estimates of aggregate ultimate losses for asbestos and environmental exposures. During 1996 and 1995, results of the costing methodologies led the Remaining insurance companies to strengthen their gross asbestos reserves by $525 million and gross environmental reserves by $549 million. Additionally, case development and IBNR reserve strengthening led to an increase in gross other latent exposure reserves of $223 million during 1996 and 1995.

The development of costing methodologies for asbestos, environmental and other latent exposures is considered by management to be substantially complete. However, additional liabilities and reinsurance recoverables could arise as judicial patterns emerge through the appellate process and remove or add to uncertainties surrounding these latent exposure areas, as new claim information is received and assessed, and as refinements to the costing methodologies are made. The Remaining insurance companies do not believe that liabilities associated with incurred latent exposure claims will have a material adverse effect on their future liquidity or financial position. However, given the complexity of coverage and other legal issues, and the significant assumptions necessarily used in estimating such exposures, actual results could significantly differ from current estimates.

Reserves for the Remaining Insurance Companies

Gross and net unpaid losses and loss expenses for the Remaining insurance companies as of December 31, 1996 and 1995, in total and for each latent exposure area are summarized in the following table:

Unpaid Losses and Loss Expenses

(In millions)	Gross Reserves	Net Reserves
December 31, 1996 in total:	$8,496	$5,619
Latent exposure areas1		
Asbestos	$ 710	$ 235
Environmental	690	381
Other latent exposures	296	106
Total	$1,696	$ 722
December 31, 1995 in total:	$8,478	$5,650
Latent exposure areas1		
Asbestos	$ 498	$ 224
Environmental	530	253
Other latent exposures	211	48
Total	$1,239	$ 525

1 Net latent exposure reserves have not been reduced for recoverables from Ridge Re because the Ridge Re contract is an aggregate excess of loss contract covering all lines of business for the Remaining insurance companies. Additionally, the net latent exposure reserves presented do not include reserves for uncollectible reinsurance.

Gross loss and loss expense reserves attributable to prior accident year losses for the Remaining insurance companies were strengthened by $421 million and $913 million in 1996 and 1995, respectively. After consideration of losses ceded to reinsurers, other than Ridge Re, and uncollectible reinsurance, net unpaid loss and loss expense reserves were strengthened by $334 million and $769 million in 1996 and 1995, respectively. The aggregate 1996 and 1995 net strengthening was comprised of additions to latent exposure reserves, non-latent exposure reserves and the reserve for uncollectible reinsurance of $647 million, $113 million and $343 million, respectively. The strengthening of net reserves excludes pre-tax cessions to Ridge Re of $103 million and $476 million in 1996 and 1995, respectively, which, while beneficial to Talegen and TRG, cessions to Ridge Re do not result in a benefit to the consolidated Xerox accounts.

Other Financial Services

Other Financial Services (OFS), which were discontinued in 1993, had no after-tax income in the full year 1996, 1995 and 1994. The net investment in OFS at December 31, 1996 was $101 million compared to $114 million and $232 million at December 31, 1995 and 1994, respectively. The decrease in 1996 over 1995 primarily reflects the sale of the remaining portion of First Quadrant Corp.

On June 1, 1995, XFSI completed the sale of Xerox Financial Services Life Insurance Company and related companies (Xerox Life Companies) to a subsidiary of General American Life Insurance Company. After the sale, the Xerox Life Companies names were changed to replace the name "Xerox" in the corporate titles with the name "Cova" (Cova Companies). OakRe Life Insurance Company (OakRe), an XFSI subsidiary formed in 1994, has assumed responsibility for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life via coinsurance agreements (Coinsurance Agreements). The Coinsurance Agreements include a provision for the assumption (at their election) by the Cova 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 by the Cova Companies. 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 Cova Companies.

As a result of the Coinsurance Agreements, at December 31, 1996, OakRe retained approximately $2.0 billion of investment portfolio assets ($3.2 billion transferred from the Xerox Life Companies at June 1, 1995) 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. The Xerox Life Companies' 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, 1996. 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, 1996, 1995 and 1994 totaled $450 million, $489 million and $547 million, respectively. The proceeds from the asset sales and run-off activity were consistent with the amounts contemplated in the formal disposal plan.

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.

Rank Xerox Limited, Rank Xerox Holding BV, Rank Xerox Investment Limited, R-X Holdings Limited and their respective subsidiaries, and the other subsidiaries owned by the Company and The Rank Group Plc are referred to as Rank Xerox.

Investments in which we have a 20 to 50 percent ownership interest are 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 January 1, 1995, we changed the reporting periods of Rank Xerox 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. As a result of our decision to sell our Insurance operations, see Note 10 on Page 52, we now 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. Primary earnings per share are based on net income less preferred stock dividend requirements divided by the average common shares outstanding during the period and common equivalent shares related to dilutive stock options and Xerox Canada Inc. exchangeable Class B stock. Fully diluted earnings per share assume 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. Accumulated amortization at December 31, 1996 and 1995 was $41 and $25, respectively.

Accounting Changes. Effective January 1, 1996, we adopted Statement of Financial Accounting Standards (SFAS) No. 121 - "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires companies to review assets for possible impairment and provides guidelines for recognition of impairment losses related to long-lived assets, certain intangibles and assets to be disposed of. The impact of the adoption of SFAS No. 121 was immaterial.

Effective January 1, 1996, we adopted SFAS No. 123 - "Accounting for Stock-Based Compensation." SFAS No. 123 allows companies to elect to recognize compensation cost for stock-based employee compensation arrangements or to disclose in the notes to the consolidated financial statements the impact on net income and earnings per share as if the fair value based compensation cost had been recognized. See Note 17 on Page 66 for such disclosures.

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 7 on Page 51.

Classification of Commercial Paper and Bank Notes Payable. It is our policy to classify as long-term debt that portion of commercial paper and bank 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 11 on Page 56.

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 our subsidiaries, primarily those in Latin America, which conduct their business in U.S. dollars or operate in hyperinfla-tionary economies. A combination of current and historical exchange rates are used in remeasuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in income. Aggregate foreign currency losses were $27, $18, and $136 in 1996, 1995, and 1994, respectively, and are included in Other, net in the consolidated statements of income. The decline in currency losses in 1996 and 1995 from prior years is primarily due to the relative stabilization of exchange rates in Brazil commencing after July 1, 1994.

Reclassifications. Effective with 1996 reporting, our China operations are fully consolidated. Prior years' financial statements have been restated to reflect this change and several other accounting reclassifications were made to conform with the 1996 presentation. The impact of these changes is not material and did not affect net income.

2 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.

3 Acquisition

On February 28, 1995, we paid The Rank Group Plc (RO) (pound)620 million, or approximately $972, for 40 percent of RO's financial interest in Rank Xerox. The transaction increased our financial interest in Rank Xerox to 80 percent from 67 percent. Our additional interest in the operating results of Rank Xerox 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.

4 1993 Restructuring Charge

In 1993, we recorded a restructuring charge which aggregated $1,195 relating to a restructuring program aimed at significantly reducing our cost base and at improving productivity. Our objectives were to reduce our worldwide work force by more than 10,000 employees and to close or consolidate a number of facilities.

Charges to the reserve for the three years ending December 31, 1996 follow:

	1996	1995	1994
Net charges to restructuring reserve	$222	$370*	$430
Reserve balance:			
Current	$131	$298	$429
Non-current	42	97	336
Total reserve balance	$173	$395	$765

* Includes $30 charged to the reserve during the stub period.

Management believes that the aggregate reserve balance of $173 at December 31, 1996 is adequate for completion of the restructuring program.

5 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, 1996, 1995 and 1994 follow:

	1996	1995	1994
Gross receivables	$ 13,916	$ 12,721	$ 12,135
Unearned income	(2,551)	(2,207)	(2,074)
Unguaranteed residual values	354	283	206
Allowance for doubtful accounts	(347)	(322)	(319)
Finance receivables, net	11,372	10,475	9,948
Less current portion	4,386	4,069	3,910
Amounts due after one year, net	$ 6,986	$ 6,406	$ 6,038

Contractual maturities of our gross finance receivables subsequent to December 31, 1996 follow:

1997	1998	1999	2000	2001	Thereafter
$5,492	$3,708	$2,626	$1,493	$507	$90

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.

6 Inventories

The components of inventories at December 31, 1996, 1995 and 1994 follow:

	1996	1995	1994
Finished goods	$1,570	$1,646	$1,458
Work in process	80	88	88
Raw materials	322	295	268
Equipment on operating leases, net	704	627	480
Inventories	$2,676	$2,656	$2,294

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, 1996, 1995 and 1994 amounted to $1,259, $1,065 and $824, respectively. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

1997	1998	1999	Thereafter
$446	$202	$101	$48

Total contingent rentals, principally usage charges in excess of minimum allowances relating to operating leases, for the years ended December 31, 1996, 1995 and 1994 amounted to $199, $190 and $197, respectively.

7 Land, Buildings and Equipment, net

The components of land, buildings and equipment, net at December 31, 1996, 1995 and 1994 follow:

	Estimated Useful Lives (Years)	1996	1995	1994
Land		$ 89	$ 85	$ 87
Buildings and building equipment	20 to 40	991	941	876
Leasehold improvements	Lease term	378	347	339
Plant machinery	4 to 12	1,862	1,907	1,843
Office furniture and equipment	3 to 10	1,231	1,161	1,245
Other	3 to 20	218	201	139

Construction in progress	250	231	227
Subtotal	5,019	4,873	4,756
Less accumulated depreciation	2,763	2,768	2,648
Land, buildings and equipment, net	$2,256	$2,105	$2,108

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, 1996, 1995 and 1994 amounted to $421, $425 and $502, respectively. Future minimum operating lease commitments that have remaining non-cancelable lease terms in excess of one year at December 31, 1996 follow:

1997	1998	1999	2000	2001	Thereafter
$311	$241	$179	$144	$119	$406

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 $27 at December 31, 1996.

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:

1997	1998	1999	2000	2001	Thereafter
$336	$300	$261	$233	$222	$485

8 Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we have a 20 to 50 percent ownership interest at December 31, 1996, 1995 and 1994 follow:

	1996	1995	1994
Fuji Xerox	$1,173	$1,223	$1,183
Other investments	109	91	95
Investments in affiliates, at equity	$1,282	$1,314	$1,278

Rank Xerox, 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. Condensed financial data of Fuji Xerox for its last three fiscal years ended October 20, follow:

	1996	1995	1994
Summary of Operations			
Revenues	$8,091	$8,500	$7,235
Costs and expenses	7,546	7,989	6,829
Income before income taxes	545	511	406
Income taxes	313	287	235
Net income	$ 232	$ 224	$ 171
Rank Xerox' equity in net income	$ 116	$ 112	$ 86
Xerox' equity in net income	$ 93	$ 88	$ 57
Balance Sheet Data			
Assets			
Current assets	$3,008	$3,518	$3,428
Non-current assets	3,168	3,085	3,038
Total assets	$6,176	$6,603	$6,466
Liabilities and Shareholders' Equity			
Current liabilities	$2,546	$2,675	$2,567
Long-term debt	427	594	658
Other non-current liabilities	850	884	871
Shareholders' equity	2,353	2,450	2,370
Total liabilities and shareholders' equity	$6,176	$6,603	$6,466

9 Geographic Area Data

Revenues and assets of Rank Xerox are substantially attributable to European operations; their consolidated operations in Africa, Asia and the Middle East together comprise less than two percent of our consolidated amounts. The Other Areas classification includes operations principally in Latin America and Canada.

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.

Geographic area data for our continuing operations follow:

	Year ended December 31,		
	1996	1995	1994
Revenues from Unrelated Entities:			
United States	$ 8,583	$ 8,068	$ 7,822
Rank Xerox	5,501	5,495	4,566
Other Areas	3,294	3,025	2,696
Total	$ 17,378	$ 16,588	$ 15,084

Intercompany Revenues:			
United States	$ 1,377	$ 1,376	$ 1,291
Rank Xerox	230	226	262
Other Areas	425	463	362
Total	$ 2,032	$ 2,065	$ 1,915
Total Revenues:			
United States	$ 9,960	$ 9,444	$ 9,113
Rank Xerox	5,731	5,721	4,828
Other Areas	3,719	3,488	3,058
Less intercompany revenues	(2,032)	(2,065)	(1,915)
Total	$ 17,378	$ 16,588	$ 15,084
Net Income (Before Intercompany Eliminations):			
United States	$ 444	$ 370	$ 436
Rank Xerox	432	409	218
Other Areas	375	364	193
Total	$ 1,251	$ 1,143	$ 847
Net Income (After Intercompany Eliminations):			
United States	$ 414	$ 418	$ 386
Rank Xerox	431	408	215
Other Areas	361	348	193
Total	$ 1,206	$ 1,174	$ 794
Assets:			
United States	$ 10,354	$ 9,876	$ 9,133
Rank Xerox	7,844	7,566	7,171
Other Areas	4,222	3,756	3,070
Subtotal	22,420	21,198	19,374
Investment in discontinued operations	4,398	4,810	7,904
Total	$ 26,818	$ 26,008	$ 27,278

10 Discontinued Operations

In January 1993, we announced our intent to sell or otherwise disengage from our Insurance and Other Financial Services businesses. Since that time, we have disposed of a number of these businesses through sale and run-off collection activities. At December 31, 1996, 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. The Insurance business consists of Talegen Holdings, Inc. (Talegen), The Resolution Group, Inc. (TRG), Ridge Reinsurance Limited (Ridge Re) and headquarters costs and interest expense associated with the insurance activities of Xerox Financial Services, Inc. (XFSI).

In January 1996, we announced agreements to sell all of the remaining insurance and insurance-related service companies of Talegen and TRG (the Remaining companies), for approximately $2.7 billion, to investor groups led by Kohlberg Kravis Roberts & Co. (KKR) and Talegen/TRG management. However, in September 1996, KKR and the Company mutually agreed to terminate these agreements. As a result, the Board of Directors formally approved a plan of disposal under which we have retained investment bankers to assist us in simultaneously marketing each of the Remaining companies. We expect our strategy of exiting the Insurance business to be either fully or substantially completed by the end of 1997.

In connection with the announced sale of the Remaining companies to KKR, we recorded a $1,546 loss on disposal in the fourth quarter of 1995. Based on current estimates of the value of the Remaining companies, no additional charges are required as a result of the terminated agreements.

Insurance. In 1993, 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., Industrial Indemnity Insurance Holdings, Inc., TRG, Viking Insurance Holdings, Inc. (Viking) and Westchester Specialty Group, Inc.

In connection with the restructuring of Talegen, XFSI agreed that support would be provided in the form of aggregate excess of loss reinsurance. This reinsurance protection

is provided through XFSI's single purpose, wholly owned reinsurance company Ridge Re, which was established in 1992. Commencing in 1993, XFSI became obligated to pay Ridge Re annual premium installments of $49, plus finance charges, for 10 years, for coverage totaling $1,245, which is net of 15 percent coinsurance. The XFSI premium payments have been guaranteed by us. We have also guaranteed Ridge Re's performance under a $400 letter of credit facility required to provide security with respect to aggregate excess of loss reinsurance obligations under contracts with the Remaining companies. At December 31, 1996, Ridge Re recognized approximately $650 of the $1,245 excess of loss reinsurance coverage estimated to be required based on actuarial projections.

XFSI may also be required, under certain circumstances, to purchase up to $301 in redeemable preferred stock of Ridge Re. In addition, XFSI has guaranteed to the Remaining companies that Ridge Re will meet all of its financial obligations under all of the foregoing excess of loss reinsurance issued to them.

Sales of Talegen Insurance Operating Groups. In April 1995, CRC was sold for a purchase price of $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 transaction approximated book value. The proceeds of both transactions were used to retire debt.

In January 1997, we announced the sale of the Coregis insurance unit to a subsidiary of GE Capital Corporation for $450. The consideration, which is comprised of $375 in cash and $75 assumed debt, is in excess of book value and is consistent with the estimated value for the unit when we discontinued the Insurance operations in 1995. The transaction is subject to regulatory approvals and customary closing conditions and is expected to close in the second quarter of 1997. In 1996, Coregis had gross written premiums of $423 and a year-end policyholders surplus of $271.

Insurance Financial Information. Summarized operating results of Insurance for the three years ended December 31, 1996 follow:

	1996	1995	1994
Revenues			
Insurance premiums earned	$ 1,708	$ 1,888	$ 2,312
Investment and other income	435	464	437
Total Revenues	2,143	2,352	2,749

Costs and Expenses			
Insurance losses and loss expenses	1,667	2,031	1,769
Insurance acquisition costs and other operating expenses	557	619	777
Interest expense	203	231	212
Administrative and general expenses	(48)	556	47
Total costs and expenses	2,379	3,437	2,805
Realized capital gains	4	60	12
Income (loss) before income taxes	(232)	(1,025)	(44)
Income tax benefits	97	357	44
Net income (loss) from operations*	(135)	(668)	--
Loss on disposal	--	(978)	--
Income (loss) from Insurance	$ (135)	$(1,646)	$ --

* The 1995 amount includes $568 of after-tax reserves.

The 1996 total insurance after-tax loss of $135 was charged to reserves established for this purpose and, therefore, did not impact our earnings.

The net assets at December 31, 1996, 1995 and 1994 of the Insurance businesses included in our consolidated balance sheets as discontinued operations are summarized as follow:

	1996	1995	1994
Insurance Assets			
Investments	$ 7,889	$ 7,871	$ 8,384
Reinsurance recoverable	2,458	2,616	3,063
Premiums and other receivables	1,082	1,191	1,276
Deferred taxes and other assets	1,201	1,450	1,743
Total Insurance assets	$12,630	$13,128	$14,466
Insurance Liabilities			
Unpaid losses and loss expenses	$ 8,572	$ 8,761	$ 8,809
Unearned income	812	859	1,066
Notes payable	215	372	425
Other liabilities	1,185	1,458	954
Total Insurance liabilities	10,784	11,450	11,254
Investment in Insurance, net	$ 1,846	$ 1,678	$ 3,212

At December 31,1996 and 1995, intercompany receivables aggregating approximately $414 and $465, 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 remaining Talegen and TRG sales are completed.

The Investments caption consists mainly of short-term investments as shown below. At December 31, 1996, approximately 96 percent of the fixed maturity investments are investment grade securities. The amortized cost and fair value of the investment portfolio at December 31, 1996 follow:

	Amortized Cost	Fair Value
Fixed maturities	$3,097	$3,121
Equity securities	2	3
Short-term investments	4,765	4,765
Total investments	$7,864	$7,889

Activity related to unpaid losses and loss expenses for the three years ended December 31, 1996 follow:

	1996	1995	1994
Unpaid Losses and Loss Expenses			
Gross unpaid losses and loss expenses, January 1	$ 8,761	$ 8,809	$ 9,684
Reinsurance recoverable	2,290	2,391	2,935
Net unpaid losses and loss expenses, January 1	6,471	6,418	6,749
Incurred related to:			
Current year accident losses	1,364	1,461	1,748
Prior year accident losses	303	570	21
Total incurred	1,667	2,031	1,769
Paid related to:			
Current year accident losses	407	427	486
Prior year accident losses	1,215	1,203	1,577
Total paid	1,622	1,630	2,063
Sale of CRC and Viking	--	(769)	--
Other adjustments	(189)	421	(37)
Net unpaid losses and loss expenses, December 31	6,327	6,471	6,418
Reinsurance recoverable	2,245	2,290	2,391
Gross unpaid losses and loss expenses, December 31	$ 8,572	$ 8,761	$ 8,809

The increase in 1995 incurred prior year accident losses compared to prior years relates to reserve strengthening including the recording of Ridge Re aggregate excess loss reserves.

Other Financial Services. In 1995, we completed the sale of Xerox Financial

Services Life Insurance Company (Xerox Life) for approximately $104 before settlement costs and capital funding of OakRe Life Insurance Company (OakRe), a single-purpose XFSI subsidiary formed in 1994. 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, 1996 and 1995, we have retained on our consolidated balance sheet approximately $2.0 and $2.5 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, 1996. 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 six 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, 1996, we received net cash proceeds of $359 ($36 in 1996, $64 in 1995 and $259 in 1994) 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. Accordingly, we expect that the wind-down of the portfolio will be slower during 1997 and in future years, as it was in 1995 and 1996, compared with prior years.

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, 1996, 1995 and 1994 was $226, $255 and $246, respectively.

Summarized information of discontinued operations for the three years ended December 31, 1996 follow:

	1996	1995	1994
Summary of Operations			
Income (loss) before income taxes	$ --	$(1,025)	$ (44)
Income tax benefits	--	357	44
(Loss) on disposal	--	(978)	--
Net income (loss)	$ --	$(1,646)	$ --
Balance Sheet Data			
Assets			
Insurance			
Investment, net	$ 1,846	$ 1,678	$ 3,212

Other Financial Services			
Investments	1,991	2,508	3,604
Other assets, net	111	135	541
OFS assets	2,102	2,643	4,145
Third-Party Financing and Real-Estate			
Gross finance receivables	401	472	538
Unearned income and other	49	17	9
Investment, net	450	489	547
Investment in discontinued operations	$ 4,398	$ 4,810	$ 7,904
Liabilities			
OFS policyholders' deposits	$ 1,998	$ 2,528	$ 3,576
Other OFS liabilities	3	1	337
Assigned debt	273	281	281
Discontinued operations liabilities	$ 2,274	$ 2,810	$ 4,194

At December 31, 1996 and 1995, approximately $2.5 billion and $2.3 billion, respectively, of third-party indebtedness assigned to the Insurance operations is included in the consolidated balance sheet caption Long-term debt.

Our net investment in discontinued operations is approximately $2,124 and $2,000 at December 31, 1996 and 1995, respectively. 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.

11 Debt

Short-Term Debt. Short-term borrowings data at December 31, 1996 and 1995 follow:

	Weighted average interest rates at December 31, 1996	1996	1995
Bank notes payable	6.92%	$ 762	$ 893
Foreign commercial paper	4.88	864	--
Total short-term debt		1,626	893
Current maturities of long-term debt		1,910	2,381
Total		$3,536	$3,274

Bank 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, 1996 and 1995 follow:

	Weighted average interest rates at December 31, 1996	1996	1995
U.S. Operations:			
Xerox Corporation (parent company)			
Guaranteed ESOP notes			
due 1999-2004	7.63%	$ 494	$ 547
Notes due 1996	--	--	420
Notes due 1997	8.97	275	200
Notes due 1999	5.35	454	484
Notes due 2000	7.33	600	600
Notes due 2001	6.85	212	62
Notes due 2002	8.00	225	200
Notes due 2004	7.15	200	200
Notes due 2005	--	--	50
Notes due 2006	7.13	50	--
Notes due 2007	7.38	25	25
Notes due 2011	7.94	205	--
Notes due 2016	7.20	250	--
Notes due 2026	6.25	350	--
Other debt due 1996-2014	7.05	128	97
Capital lease obligations	6.85	4	5
Subtotal		3,472	2,890
Xerox Credit Corporation			
Notes due 1996	--	--	850
Notes due 1997	6.48	877	677
Notes due 1998	5.93	420	220
Notes due 1999	8.25	300	150
Notes due 2000	6.40	153	303
Notes due 2001	6.78	100	--
Notes due 2011	7.68	200	--
Floating rate notes due 2048	5.80	65	61
Other debt due 1997	10.00	9	18
Subtotal		2,124	2,279
XFSI Notes due 1996	--	--	135
Total U.S. operations		$5,596	$5,304

	Weighted average interest rates at December 31, 1996	1996	1995
International Operations:			
Various obligations, payable in:			
Canadian dollars due 1996-2007	10.83%	$ 192	$ 263
Dutch guilders due 1996-2000	5.33	108	216
French francs due 1996-1999	5.73	47	76
German marks due 1996-1999	6.47	146	280
Pounds sterling due 1996-2003	8.31	257	283
Swiss francs due 1996-2000	3.80	57	81
Italian lira due 1996-1998	8.70	113	99
U.S. dollars due 1996-1999	6.09	133	268

Other currencies due 1996-2001	6.70	274	363
Capital lease obligations	--	--	9
Total international operations		1,327	1,938
Other borrowings deemed long-term		3,684	3,287
Subtotal		10,607	10,529
Less current maturities		1,910	2,381
Total long-term debt		$ 8,697	$ 8,148

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

1997	1998	1999	2000	2001	Thereafter
$1,910	$803	$924	$873	$416	$1,997

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. Our domestic operations have a revolving credit agreement totaling $5.0 billion with a group of banks, which expires in 2000. This agreement is unused and is available to back commercial paper borrowings of our domestic operations, which amounted to $3.1 billion and $2.8 billion at December 31, 1996 and 1995, respectively. In addition, our foreign subsidiaries had unused committed long-term lines of credit used to back short-term indebtedness that aggregate $2.1 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, 1996, these operations had approximately $11.6 billion of net finance receivables, which will service approximately $9.5 billion of assigned short- and long-term debt, including $0.2 billion of debt assigned to discontinued third-party financing businesses.

Guarantees. At December 31, 1996, we have guaranteed the borrowings of our ESOP and $1,309 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 $871, $817 and $751, respectively, for the years ended December 31, 1996, 1995 and 1994.

Total Short- and Long-Term Debt. Our total indebtedness, excluding the direct indebtedness of Talegen, at December 31, 1996 and 1995 is reflected in the consolidated balance sheet captions as follows:

	1996	1995
Short-term debt and current portion of long-term debt	$ 3,536	$ 3,274
Long-term debt	8,424	7,867
Discontinued operations liabilities-policyholders' deposits and other	273	281
Total debt	$12,233	$11,422

A summary of changes in consolidated indebtedness for the three years ended December 31, 1996 follow:

	1996	1995	1994
Increase (decrease) in short-term debt, net	$ 989	$ 94	$ (146)
Proceeds from long-term debt	2,998	3,169	2,058
Principal payments on long-term debt	(2,989)	(2,497)	(1,555)
Subtotal	998	766	357
Less discontinued operations	8	--	(193)
Total change in debt of continuing operations	$ 990	$ 766	$ 550

12 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 involve 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 1996, two such agreements were cancelled in connection with the early retirement of two medium-term notes. The transactions performed within each of these three categories enable the cost-effective management of interest rate exposures. During 1996, the average notional amount of an interest rate swap agreement was $32.

At December 31, 1996 and 1995, the total notional amounts of these transactions, based on contract maturity, follow:

	1996	1995
Commercial paper/bank borrowings	$1,822	$1,784
Medium-term debt	4,000	3,906
Long-term debt	3,444	1,394
Total	$9,266	$7,084

For the three years ended December 31, 1996, 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, 1996 and 1995 follow:

	1996	1997	1998-2000	2001-2016	Total

1996	Pay fixed/receive variable	$ --	$1,224	$3,117	$1,750	$6,091
	Pay variable/receive variable	--	455	373	37	865
	Pay variable/receive fixed	--	143	510	1,657	2,310
	Total	$ --	$1,822	$4,000	$3,444	$9,266
	Memo:					
	Interest rate paid	--	6.21%	6.73%	5.98%	6.35%
	Interest rate received	--	5.90%	5.72%	6.49%	6.04%
1995	Pay fixed/receive variable	$1,466	$1,339	$2,196	$ --	$5,001
	Pay variable/receive variable	150	505	323	70	1,048
	Pay variable/receive fixed	168	37	150	680	1,035
	Total	$1,784	$1,881	$2,669	$ 750	$7,084
	Memo:					
	Interest rate paid	6.61%	6.39%	7.19%	6.44%	6.75%
	Interest rate received	6.69%	6.00%	5.99%	7.74%	6.35%

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, 1996 and 1995, we had outstanding forward exchange contracts of $2,259 and $1,474, respectively. Of the outstanding contracts at December 31, 1996, the largest single currency represented was the Japanese yen. Contracts denominated in Japanese yen, Brazilian reais, U.S.

dollars, French francs, Italian lira and Swiss francs 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, 1996, we had a net deferred loss of $26. 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 1996, the average notional amount of a forward exchange contract amounted to $8.

Foreign Currency Swap Agreements. During 1996, we entered into cross currency interest rate swap agreements, whereby we issued foreign currency denominated debt and swapped the proceeds with a counterparty. In return, we received and effectively denominated 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, 1996, cross currency interest rate swap agreements with an aggregate notional amount of $511 remained outstanding.

Fair Value of Financial Instruments. The estimated fair values of our financial instruments at December 31, 1996 and 1995 follow:

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value

Cash	$ 104	$ 104	$ 136	$ 136
Accounts receivable, net	2,022	2,022	1,914	1,914
Short-term debt	1,626	1,626	893	893
Long-term debt	10,607	10,766	10,529	10,864
Interest rate and currency swap agreements	--	(61)	--	(73)
Forward exchange contracts	--	19	--	(29)

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.

13 Employee Benefit Plans

Retirement Income Guarantee Plan (RIGP). Approximately 51,000 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, 1996, these domestic plans accounted for approximately 64 percent of our total pension assets and were invested as follows: domestic and international equity securities - 71 percent; fixed-income investments - 27 percent; and real estate - 2 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).

The transition asset and prior service cost are amortized over 15 years. 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 assumptions used in the accounting for the U.S. defined benefit plans follow:

	1996	1995	1994
Assumed discount rates	7.75%	7.25%	8.75%
Assumed rates for compensation			

increases	4.50	4.25	5.75
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 Rank Xerox pension plan in the United Kingdom is the largest international plan and accounted for approximately 24 percent of our total pension assets at December 31, 1996. It is primarily invested in marketable equity securities.

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 and the Rank Xerox 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, 1996 and 1995 follow:

	1996				1995			
	Over-funded	Under-funded	Non-funded	Total	Over-funded	Under-funded	Non-funded	Total
Accumulated benefit obligation	$5,549	$ 70	$ 252	$5,871	$5,066	$ 41	$ 240	$ 5,347
Effect of projected compensation increases	471	51	48	570	440	37	53	530
Projected benefit obligation (PBO)	6,020	121	300	6,441	5,506	78	293	5,877
Plan assets at fair value	6,706	65	--	6,771	5,830	38	--	5,868
Excess (deficit) of plan assets over PBO	686	(56)	(300)	330	324	(40)	(293)	(9)
Items not yet reflected in the financial statements:								
Unamortized transition obligations (assets)	(116)	17	10	(89)	(137)	19	12	(106)
Unrecognized prior service cost	40	--	(9)	31	48	--	(12)	36
Unrecognized net (gain) loss	(268)	30	29	(209)	49	(14)	31	66
Prepaid (accrued) pension cost recognized in the consolidated balance sheets at December 31	$ 342	$ (9)	$(270)	$ 63	$ 284	$ (35)	$ (262)	$ (13)

The components of pension cost for the three years ended December 31, 1996 follow:

	1996	1995	1994
Defined benefit plans			
Service cost	$ 164	$ 143	$ 150
Interest cost - change in PBO due to:			
Passage of time	201	186	171
Net investment income (loss) allocated to TRA accounts	586	624	(45)
Subtotal	787	810	126
Net investment (income) loss on:			
TRA assets	(586)	(624)	45
Other plan assets	(417)	(372)	(96)
Subtotal	(1,003)	(996)	(51)
Net amortization and deferrals	150	120	(144)
Settlement ad curtailment gains	(7)	(32)	(12)
Defined benefit plans - net pension cost	91	45	69
Defined contribution plans - pension cost	17	13	13
Total pension cost	$ 108	$ 58	$ 82

Plan assets consist of both defined benefit plan assets and assets legally allocated to the TRA accounts. The combined investment results of the assets are shown above 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 $4.0 billion and $3.4 billion at December 31, 1996 and 1995, 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 2 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 8.0 percent in 1996 and declines to 5.25 percent in 2002 and thereafter. A one percentage point increase in the medical inflation assumptions would increase the service and interest cost for these plans by $4 and the accumulated postretirement benefit obligation by $53.

The discount rate used to determine the funded status was 7.75 percent, 7.25 percent and 8.75 percent at December 31, 1996, 1995 and 1994, respectively.

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

	1996	1995	1994
Accumulated Postretirement Benefit Obligation:			
Retirees	$ 501	$ 506	$ 470
Fully eligible employees	183	251	205
Other employees	208	219	247
Total	892	976	922
Unrecognized net gain	158	42	84
Accrued cost recognized in the consolidated balance sheets	$1,050	$1,018	$1,006

The components of postretirement benefit cost for the three years ended December 31, 1996 follow:

	1996	1995	1994
Service cost	$ 26	$ 19	$ 27
Interest cost	63	70	66
Net amortization	(1)	(4)	--
Settlement gain	--	(8)	(25)
Total	$ 88	$ 77	$ 68

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, 1996 follows:

	1996	1995	1994
Interest on ESOP Borrowings	$42	$45	$49
Dividends declared on Convertible Preferred Stock	$58	$59	$61
Cash contribution to the ESOP	$36	$34	$32
Compensation expense	$37	$35	$32

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

14 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, 1996 consists of the following:

	1996	1995	1994
Domestic income	$ 781	$ 747	$ 713
Foreign income	1,163	1,102	801
Income before income taxes	$1,944	$1,849	$1,514

Provisions for income taxes from continuing operations for the three years ended December 31, 1996 consist of the following:

	1996	1995	1994
Federal income taxes			
Current	$ 210	$ 285	$ 160
Deferred	50	(21)	100
Foreign income taxes			
Current	205	178	88
Deferred	166	110	182
State income taxes			
Current	62	57	46
Deferred	7	6	19
Income taxes	$ 700	$ 615	$ 595

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, 1996 follow:

	1996	1995	1994
U.S. Federal statutory income tax rate	35.0%	35.0%	35.0%
Foreign earnings and dividends taxed at different rates	.5	2.2	2.1
Goodwill amortization	.3	.3	--
Tax-exempt income	(.5)	(.6)	(.7)
Effect of tax rate changes on deferred tax assets and liabilities	--	(5.3)	--
State taxes	2.3	2.2	2.7
Change in valuation allowance for deferred tax assets	(1.0)	(.8)	--
Other	(.6)	.3	.2
Effective income tax rate	36.0%	33.3%	39.3%

The 1996 effective tax rate of 36.0 percent is 2.7 percentage points higher than 1995. After excluding the 1995 Brazilian deferred tax benefit, the 1996 effective tax rate is 2.6 percentage points lower than 1995. This lower effective tax rate is primarily due to the lower statutory tax rate in Brazil and the mix of profits from our worldwide operations.

The 1995 effective tax rate of 33.3 percent is 6 percentage points lower than the 1994 rate. This lower 1995 rate is primarily caused by a decrease in Brazilian corporate tax rates, which created a deferred tax benefit. This benefit increased 1995 fourth quarter and full year net income by $98. Excluding the Brazilian tax benefit, the 1995 effective tax rate was 38.6 percent.

On a consolidated basis, including the effects of discontinued operations, we paid a total of $252, $182 and $163 in income taxes to federal, foreign and state income-taxing authorities in 1996, 1995 and 1994, respectively.

Total income tax expense (benefit) for the three years ended December 31, 1996 was allocated as follows:

	1996	1995	1994
Income from continuing operations	$ 700	$ 615	$ 595
Discontinued operations	(84)	(374)	(135)
Common shareholders' equity*	(15)	(15)	(19)
Total	$ 601	$ 226	$ 441

* For dividends paid on shares held by the ESOP; cumulative translation adjustments; tax benefit on non-qualified 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, 1996 was approximately $3.9 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 eferred taxes at December 31, 1996 and 1995 follow:

	1996	1995
Tax effect of future tax deductions:		
Depreciation	$ 397	$ 537
Postretirement medical benefits	405	393
Restructuring reserves	70	194
Other operating reserves	296	337
Deferred intercompany profit	83	109
Allowance for doubtful accounts	69	73
Deferred compensation	138	132
Tax credit carryforwards	122	101
Research and development	158	87
Other	108	75
Subtotal	1,846	2,038
Less valuation allowance	--	20
Total	$ 1,846	$ 2,018
Tax effect of future taxable income:		
Installment sales and leases	$(1,287)	$(1,309)
Leverage leases	(31)	(35)
Deferred income	(205)	(146)
Other	(163)	(189)
Total	$(1,686)	$(1,679)

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, 1996, 1995 and 1994 amounted to $473, $608 and $709, 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, 1996, we have tax credit carryforwards for federal income tax purposes of $29 available to offset future federal income taxes through 2000 and $93 available to offset future federal income taxes indefinitely.

15 Litigation

Continuing Operations. 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 $137 million. The Company has asserted counterclaims against the plaintiffs alleging patent and copyright infringement, misappropriation of Xerox trade secrets, conversion and unfair competition and/or false advertising. On December 11, 1995, the District Court issued a preliminary injunction against the parent company for copyright infringement. A trial date of March 31, 1997 has been set. The Company denies any wrongdoing and intends to vigorously defend these actions and pursue its counterclaims.

On August 5, 1996, the District Court dismissed the complaint of 20 different ISOs and the cross complaint of the Company against those 20 ISOs as a result of a settlement between the parties. The terms of the settlement had no material effect on the Company.

Discontinued Operations. Farm & Home Savings Association, now known as Roosevelt Bank, (Farm & Home) and certain Talegen insurance companies (Insurance Companies) entered into an agreement (Indemnification Agreement) under which the Insurance Companies are required to defend and indemnify Farm & Home from certain actual and punitive damage claims being made against Farm & Home relating to the Brio superfund site (Brio). In a number of lawsuits pending against Farm & Home in the District Courts of Harris County, Texas, several hundred plaintiffs seek both actual and punitive damages allegedly relating to injuries arising out of the hazardous substances at Brio. The Insurance Companies have been defending these cases under a reservation of rights because it is unclear whether certain of the claims fall under the coverage of either the policies or the Indemnification Agreement. The Insurance Companies have been successful in having some claims dismissed which were brought by plaintiffs who were unable to demonstrate a pertinent nexus to the Southbend subdivision. However, there are numerous plaintiffs who do have a nexus to the Southbend subdivision. The Insurance Companies have been in settlement discussions with respect to claims brought by plaintiffs who have or had a pertinent nexus to the Southbend subdivision. In addition, Farm & Home presently has pending motions for summary judgment which would dispose of many of the claims asserted. If not settled or resolved by summary judgment, one or more of these cases can be expected to be tried in 1997.

16 Preferred Stock

We have 22 million authorized shares of cumulative preferred stock, $1 par value. Outstanding preferred stock at December 31, 1996 and 1995 follow (shares in thousands):

	1996		1995	
	Shares	Amount	Shares	Amount
Redeemable Preferred Stock	--	--	500	$ 25
Convertible Preferred Stock	9,212	$ 721	9,435	738
Total	9,212	$ 721	9,935	$ 763

Redeemable Preferred Stock. During 1996, we redeemed the remaining 500,000 outstanding shares of our series of Ten-Year Preferred Stock at the sinking fund redemption price of $50 per share. Dividends amounted to $0, $3 and $7 in 1996, 1995 and 1994, respectively.

Our former series of Twenty-Year Preferred Stock was redeemed in 1994 for $184, including a premium of $11. Dividends amounted to $5 in 1994.

Convertible Preferred Stock. As more fully described in Note 13 on Page 61, 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-third of a preferred stock purchase right (Right) accompanies each share of outstanding common stock. Each Right entitles the holder to purchase from us one one-hundredth of a new series of preferred stock at an exercise price of $225.

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 $.05 per Right. The rights expire in April 1997.

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 million 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 statement of income. We have guaranteed the redemption value.

17 Common Shareholders' Equity

The components of common shareholders' equity and the changes therein for the three years ended December 31, 1996 follow:

	Common Stock		Additional		Net Unrealized Gain (Loss) on		Treasury Stock		
(Shares in thousands)	Shares	Amount	Paid-In Capital	Retained Earnings	Investment Securities	Translation Adjustments	Shares	Amount	Total
Balance at December 31, 1993	312,366	$ 318	$ 1,100	$ 2,793	$ 6	$ (245)	--	$ --	$3,972
Stock option and incentive plans	3,168	3	76	(3)					76
Xerox Canada Inc. exchangeable stock	1,959								
Convertible securities	486		16						16
Net income				794					794
Cash dividends declared									
Common stock ($1.00 per share)				(322)					(322)
Preferred stock (See Note 16 on Page 64)				(73)					(73)

Tax benefits on ESOP dividends				19					19
Call premium on preferred stock (See Note 16 on Page 64)				(11)					(11)
Net unrealized loss on investment securities					(439)				(439)
Translation adjustments - net of minority shareholders' interests of $93						145			145
Balance at December 31, 1994	317,979	321	1,192	3,197	(433)	(100)	--	--	4,177
Stock option and incentive plans	4,962	6	114	(11)					109
Xerox Canada Inc. exchangeable stock	1,365								
Convertible securities	723		28						28
Net loss				(472)					(472)
Net loss during stub period				(21)					(21)
Cash dividends declared									
Common stock ($1.00 per share)				(327)					(327)
Preferred stock (See Note 16 on Page 64)				(62)					(62)
Tax benefits on ESOP dividends				17					17
Net unrealized gain on investment securities					432				432
Translation adjustments - net of minority shareholders' interests of $17						(3)			(3)
Balance at December 31, 1995	325,029	327	1,334	2,321	(1)	(103)	--	--	3,878
Purchase of treasury stock							(6,493)	(306)	(306)
Stock option and incentive plans	596		(23)	(15)			2,428	122	84
Xerox Canada Inc. exchangeable stock	103						1,347		
Convertible securities	174		10				497	23	33
Net Income				1,206					1,206
Cash dividends declared									
Common stock ($1.12 per share)				(379)					(379)
Preferred stock (See Note 16 on Page 64)				(59)					(59)
Tax benefits on ESOP dividends				16					16
Translation adjustments - net of minority shareholders' interests of $(24)						(138)			(138)
Premiums from sale of put options			11						11
Tax benefits on stock options			21						21
Balance at December 31, 1996	325,902	$ 327	$ 1,353	$ 3,090	$ (1)	$ (241)	(2,221)	$ (161)	$4,367

Common Stock. We have 1.05 billion authorized shares of common stock, $1 par value. At December 31, 1996 and 1995, 20.9 and 7.8 million shares, respectively, were reserved for issuance under our incentive compensation plans. In addition, at December 31, 1996, 2.6 million common shares were reserved for the conversion of $53 of convertible debt and 27.6 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. As of December 31, 1996, we have repurchased 6.5 million shares for $306. Common shares issued for stock option exercises, conversion of convertible securities, and other exchanges are satisfied by reissuances of treasury shares.

Put Options. In connection with the share repurchase program, during 1996, we sold 2.8 million put options 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 have maturities ranging from six months to two years.

At December 31, 1996, 2.4 million put options remain outstanding with a weighted average strike price of $49.90 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.

During 1995, Xerox Canada Inc. established an executive rights plan, which grants participants at the executive level rights to acquire our common stock at the participants' option. The vesting, expiration, and exercise price of each right are the same as stock options in our long-term incentive plan.

At December 31, 1996 and 1995, 7.7 and 11.0 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:

	1996		1995	
(Options in thousands)	Stock Options	Average Option Price	Stock Options	Average Option Price
Outstanding at January 1	10,794	$ 33	9,726	$ 28
Granted	3,688	43	5,508	37
Canceled	(365)	38	(228)	34
Exercised	(2,939)	31	(4,092)	26
Surrendered for SARs	(75)	15	(120)	16
Outstanding at December 31	11,103	37	10,794	33
Exercisable at December 31, 1996	4,444			
Becoming exercisable in 1997	3,446			

The weighted average remaining life of outstanding options at December 31, 1996 is 4.2 years.

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:

	1996	1995
Net income (loss) - as reported	$ 1,206	$ (472)
Net income (loss) - pro forma	1,189	(482)
Primary Earnings (loss) per share - as reported	3.49	(1.56)
Primary Earnings (loss) per share -		

pro forma	3.44	(1.59)
Fully Diluted Earnings (loss) per share - as reported	3.31	(1.75)
Fully Diluted Earnings (loss) per share - pro forma	3.26	(1.78)

The pro forma effect on net income for 1996 and 1995 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995, nor does it consider the effect of the change in the vesting schedule for the Company's nonqualified stock options.

As reflected in the table above, the fair value of each option granted in 1996 and 1995 was $10.50 and $7.18, 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:

	1996	1995
Risk-free interest rate	5.7%	6.9%
Expected life in years	5.5	3.7
Expected volatility	22.0%	18.5%
Expected dividend yield	2.6%	2.7%

18 Subsequent Event

In January 1997, a subsidiary of ours issued 650,000 shares of 8% Capital Securities for net proceeds of $643. The proceeds were used to reduce parent company commercial paper. The principal will be included in minorities' interest in equity of subsidiaries and the dividends will be included in minorities' interests in earnings of subsidiaries in the consolidated financial statements. This stock is mandatorily redeemable on February 1, 2027 for $650 and pays dividends semiannually at the rate of 8% per annum. The redemption value is guaranteed by us.

Quarterly Results of Operations
(Unaudited)

(In millions, except per-share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
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 Net Income of Unconsolidated Affiliates	20	42	30	31	123
Minorities' Interests in Earnings of Subsidiaries	28	44	25	64	161
Income from Continuing Operations	237	293	250	426	1,206
Discontinued Operations	--	--	--	--	--
Net Income	$ 237	$ 293	$ 250	$ 426	$ 1,206
Primary Earnings per Share					
Continuing Operations	$ 0.68	$ 0.85	$ 0.71	$ 1.25	$ 3.49
Discontinued Operations	--	--	--	--	--
Primary Earnings per Share	$ 0.68	$ 0.85	$ 0.71	$ 1.25	$ 3.49
Fully Diluted Earnings per Share					
Continuing Operations	$ 0.65	$ 0.81	$ 0.68	$ 1.17	$ 3.31

Discontinued Operations	--	--	--	--	--
Fully Diluted Earnings per Share	$ 0.65	$ 0.81	$ 0.68	$ 1.17	$ 3.31
1995					
Revenues	$ 3,767	$ 4,054	$ 4,012	$ 4,755	$ 16,588
Costs and Expenses	3,400	3,642	3,597	4,100	14,739
Income before Income Taxes, Equity Income and Minorities' Interests	367	412	415	655	1,849
Income Taxes	142	160	160	153	615
Equity in Net Income of Unconsolidated Affiliates	13	51	38	29	131
Minorities' Interests in Earnings of Subsidiaries	51	49	37	54	191
Income from Continuing Operations	187	254	256	477	1,174
Discontinued Operations	(40)	(16)	(20)	(1,570)	(1,646)
Net Income (Loss)	$ 147	$ 238	$ 236	$ (1,093)	$ (472)
Primary Earnings (Loss) per Share					
Continuing Operations	$ 0.53	$ 0.74	$ 0.74	$ 1.39	$ 3.40
Discontinued Operations	(.12)	(.05)	(.06)	(4.73)	(4.96)
Primary Earnings per Share	$ 0.41	$ 0.69	$ 0.68	$ (3.34)	$ (1.56)
Fully Diluted Earnings (Loss) per Share1					
Continuing Operations	$ 0.51	$ 0.70	$ 0.70	$ 1.30	$ 3.21
Discontinued Operations	(.11)	(.05)	(.05)	(4.73)	(4.96)
Fully Diluted Earnings per Share	$ 0.40	$ 0.65	$ 0.65	$ (3.43)	$ (1.75)

1 The fully diluted earnings per share differs from full year amounts because of changes in the number of shares outstanding during the year.

Notes

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
Paul A. Allaire
Chairman of the Board and
Chief Executive Officer

/s/Barry D. Romeril
Barry D. Romeril
Executive Vice President and
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, 1996 and 1995, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1996. 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 26, 35, 42 and 48-67 present fairly, in all material respects, the financial position of Xerox Corporation and consolidated subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ KPMG PEAT MARWICK LLP
Stamford, Connecticut
January 23, 1997

Eleven Years In Review

(Dollars in millions, except per-share data)	1996	1995	1994	1993	1992	1991
Per-Share Data						
Earnings (loss) from continuing operations						
Primary	$ 3.49	$ 3.40	$ 2.24	$ (0.83)	$ 1.72	$ 1.24
Fully diluted	3.31	3.21	2.15	(0.83)	1.53	1.23
Dividends declared	1.12	1.00	1.00	1.00	1.00	1.00
Operations						

Revenues	$ 17,378	$ 16,588	$ 15,084	$ 14,229	$ 14,298	$ 13,438
Research and development expenses	1,044	949	895	883	922	890
Income (loss) from continuing operations	1,206	1,174	794	(193)	562	436
Net income (loss)	1,206	(472)	794	(126)	(1,020)	454
Financial Position						
Accounts and finance receivables, net	$ 13,394	$ 12,389	$ 11,759	$ 10,565	$ 10,250	$ 8,952
Inventories	2,676	2,656	2,294	2,162	2,257	2,091
Land, buildings and equipment, net	2,256	2,105	2,108	2,219	2,150	1,950
Investment in discontinued operations	4,398	4,810	7,904	8,841	8,652	9,164
Total assets	26,818	26,008	27,278	26,999	25,792	24,342
Consolidated capitalization						
Short-term debt	3,536	3,274	3,159	2,698	2,533	2,038
Long-term debt	8,697	8,148	7,355	7,386	8,105	7,825
Total debt	12,233	11,422	10,514	10,084	10,638	9,863
Deferred ESOP benefits	(494)	(547)	(596)	(641)	(681)	(720)
Minorities' interests in equity of subsidiaries	843	755	1,021	844	885	818
Preferred stock	721	763	832	1,066	1,072	1,078
Common shareholders' equity	4,367	3,878	4,177	3,972	3,875	5,140
Total capitalization	17,670	16,271	15,948	15,325	15,789	16,179
Selected Data and Ratios						
Common shareholders of record at year-end	55,908	54,262	56,414	65,820	68,877	71,213
Book value per common share1	$ 13.42	$ 11.83	$ 12.95	$ 12.56	$ 13.40	$ 18.14
Year-end common share market price	$ 52.63	$ 45.67	$ 33.00	$ 29.38	$ 26.42	$ 22.83
Employees at year-end	86,700	85,900	87,600	97,000	99,300	100,900
Working capital	$ 2,948	$ 2,843	$ 2,411	$ 2,357	$ 2,578	$ 2,282
Current ratio	1.4	1.4	1.4	1.4	1.5	1.5
Additions to land, buildings and equipment	$ 510	$ 438	$ 389	$ 470	$ 582	$ 467
Depreciation on land, buildings and equipment	$ 372	$ 376	$ 446	$ 437	$ 418	$ 397

* Data that conforms with the 1996 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.

Notes

1990	1989	1988	1987	1986
$ 1.81	$ 1.46	$ 0.38	$ 1.02	$ 0.91
1.74	1.45	0.38	1.02	0.91
1.00	1.00	1.00	1.00	1.00
$ 13,210	$ 12,095	$ 11,354	$ 10,537	$ 9,493
848	809	794	722	650
599	488	148	353	316
243	704	388	578	465
$ 8,016	$ 7,272	$ 6,109	$ 4,948	$ 3,887
2,148	2,413	2,558	2,286	2,459
1,851	1,781	1,803	1,639	1,491
9,695	*	*	*	*
24,116	*	*	*	*
1,828	1,482	1,174	*	*
8,726	9,247	6,675	*	*
10,554	10,729	7,849	5,771	4,343
(756)	(785)	--	--	--
832	715	806	655	565
1,081	1,081	296	442	442
5,051	5,035	5,371	5,105	4,687
16,762	16,775	14,322	11,973	10,037

74,994	78,876	84,864	86,388	90,437
$ 17.91	$ 17.86	$ 17.41	$ 17.00	$ 16.00
$ 11.83	$ 19.08	$ 19.46	$ 18.88	$ 20.00
99,000	99,000	100,000	99,200	100,400
$ 2,537	*	*	*	*
1.6	*	*	*	*
$ 405	$ 390	$ 418	$ 347	$ 328
$ 372	$ 370	$ 369	$ 320	$ 283

Dividends and Stock Prices

Consecutive Dividends Paid to Shareholders

The Company's Board of Directors, at a special meeting held January 22, 1997, declared a 10 percent increase in the Xerox common stock quarterly dividend to $.32 per share effective April 1, 1997. Xerox has declared dividends to its shareholders for 67 consecutive years and has paid consecutive quarterly dividends since 1948.

At its February 3, 1997 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 7.

On April 1, 1996, the Company redeemed all outstanding shares of the $3.6875 Ten-Year Sinking Fund Preferred stock at a price of $50. Dividends on the stock ceased to accrue on April 1, 1996. Notices of redemption were mailed to holders of the stock on February 26, 1996.

Xerox Common Stock Prices and Dividends

New York Stock Exchange Composite Prices		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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
1995	High	$ 40.17	$ 41.96	$ 44.92	$ 48.21
	Low	32.17	36.58	36.46	42.00
	Dividends Paid	.25	.25	.25	.25

Note: A three-for-one split of the Company's common stock became effective on June 6, 1996. Stock prices and dividends prior to that date have been adjusted to reflect the split.

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 and Philadelphia exchanges and in London, Basel, Berne, Geneva, Lausanne and Zurich.

EXHIBIT 21

Subsidiaries of Xerox Corporation

A. Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of February 1, 1997. 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	Ownership %
Xerox Canada Inc.	Ontario, Canada	94
Xerox Canada Finance Inc.	Ontario, Canada	100
Xerox Canada Ltd.	Ontario, Canada	65
Lyell Holdings Limited	Delaware	100
Xerox Business Equipment Limited	United Kingdom	100
Xerox Research (UK) Limited	United Kingdom	100
Xerox Business Equipment, Inc.	Delaware	100
Xerox Financial Services, Inc.	Delaware	100
OakRe Life Insurance Company	Missouri	100
Xerox Credit Corporation	Delaware	100
XCC Investment Corporation	Delaware	100
Talegen Holdings, Inc. (See Part B)	Delaware	100
Ridge Reinsurance Limited	Bermuda	100
The Resolution Group, Inc. (See Part C)	Delaware	100
Xerox do Brasil, Ltda.	Brazil	100
Xerox Mexicana, S.A. de C.V.	Mexico	100
Rank Xerox Investments Limited	Bermuda	66.7
Rank Xerox Limited	United Kingdom	51.2
Fuji Xerox Co., Ltd.	Japan	50
Rank Xerox (U.K.) Limited	United Kingdom	100
Rank Xerox (Ireland) Limited	United Kingdom	100
Bessemer Trust Limited	United Kingdom	100
Rank Xerox Espanola S.A.	Spain	100
Rank Xerox de Financiacion S.A.U., E.F.C.	Spain	100
Rank Xerox Finance (Nederland) BV	Netherlands	100
Rank Xerox Leasing International Finance BV	Netherlands	100
Rank Xerox Greece S.A.	Greece	100
NV Rank Xerox Credit S.A.	Belgium	100
Rank Xerox Finance AG	Switzerland	100
Rank Xerox Finance Limited	United Kingdom	100
Rank Xerox Leasing GmbH	Germany	100
Rank Xerox - The Document Company S.A.	France	100
Burofinance S.A.	France	66
Rank Xerox Exports Limited	United Kingdom	100
N.V. Rank Xerox S.A.	Belgium	100
Rank Xerox Austria GmbH	Austria	100
Rank Xerox Finans A/S	Denmark	100
Rank Xerox Oy	Finland	100

Name of Subsidiary	Incorporated In	Ownership %
Rank Xerox GmbH	Germany	100
Rank Xerox S.p.A.	Italy	100
Rank Xerox AG	Switzerland	100
Rank Xerox AS	Norway	100
Rank Xerox Management Services S.A.	Belgium	100
Rank Xerox Pensions Limited	United Kingdom	100
Rank Xerox A.B.	Sweden	100
Rank Xerox (Nederland) B.V.	Netherlands	100
Rank Xerox Holding B.V.	Netherlands	51.2

Rank Xerox Manufacturing (Nederland) B.V.	Netherlands	100
R-X Holdings Limited	Bermuda	66.7
Xerox Limited	Bermuda	100

B. Talegen Holdings, Inc.

The following entities are directly or indirectly owned by Talegen Holdings, Inc. in the percentages indicated:

Name of Subsidiary	Incorporated In	Ownership %
Coregis Group, Inc.	Delaware	100
Coregis Insurance Company	Indiana	100
Coregis Indemnity Company	Illinois	100
California Insurance Company	California	100
Coregis Managers Corporation (IL)	Illinois	100
Crum & Forster Holdings, Inc.	Delaware	100
United States Fire Insurance Company	New York	100
Southbend Properties, Inc.	Texas	100
The North River Insurance Company	New Jersey	100
Crum and Forster Insurance Company	New Jersey	100
Crum & Forster Underwriters Co. of Ohio	Ohio	100
Crum & Forster Indemnity Company	New York	100
Crum & Forster Custom Securities, Inc.	California	100
Industrial Indemnity Holdings, Inc.	Delaware	100
Industrial Indemnity Company	California	100
Industrial Indemnity Kihei Bay Surf Corporation	California	100
Claremont Holdings Limited	Bermuda	9.2
Claremont Insurance Limited	Bermuda	100
Industrial Indemnity Company of Alaska	Alaska	100
Industrial Indemnity Company of Idaho	Idaho	100 (1)
Industrial Indemnity Company of the Northwest	Washington	100
Industrial Insurance Company	California	100
Employers First Insurance Company	California	100
255 California Corporation	California	100
Industrial Indemnity Insurance Services, Inc.	California	100
American All Risk Group	California	40
Westchester Specialty Group, Inc.	Delaware	100
Westchester Fire Insurance Company	New York	100
Westchester Surplus Lines Insurance Company	Georgia	100
Industrial Underwriters Insurance Company	Texas	100
Westchester Specialty Insurance Services, Inc.	Nevada	100
Industrial Excess & Surplus Insurance Brokers	California	100
Talegen Properties, Inc.	Delaware	100
Infocus Employee Services, Inc.	Delaware	92.5
Filoli Information Systems Company	Delaware	78 (2)
Apprise Corp.	New Jersey	100
Crum & Forster of Canada Ltd.	Canada	100

(1) Includes qualifying shares held by directors.

(2) Preferred stock investment. Percentage represents approximate percentage owned on fully-diluted basis.

C. The Resolution Group, Inc.

The following entities are directly or indirectly owned by The Resolution Group, Inc. in the percentages indicated:

Name of Subsidiary	Incorporated In	Ownership %
International Insurance Company	Illinois	100
Resolution Credit Services Corp.	California	100
Resolution Reinsurance Services Corporation	Delaware	100
Envision Claims Management Corporation	New Jersey	100

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 Statements of Xerox Corporation on Forms S-8 (Nos. 2-81528, 2-86274, 2-86275, 33-18126, 33-44313, 33-44314, 33-65269 and 333-09821) and Forms S-3 (Nos. 2-82363, 33-9486, 33-32215, 33-49177, 33-54629 and 333-13179) of our reports dated January 23, 1997 relating to the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1996 and 1995, 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, 1996 which reports appear in or are incorporated by reference in the 1996 Annual Report on Form 10-K.

KPMG PEAT MARWICK LLP

Stamford, Connecticut
March 27, 1997

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX CORPORATION'S DECEMBER 31, 1996 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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