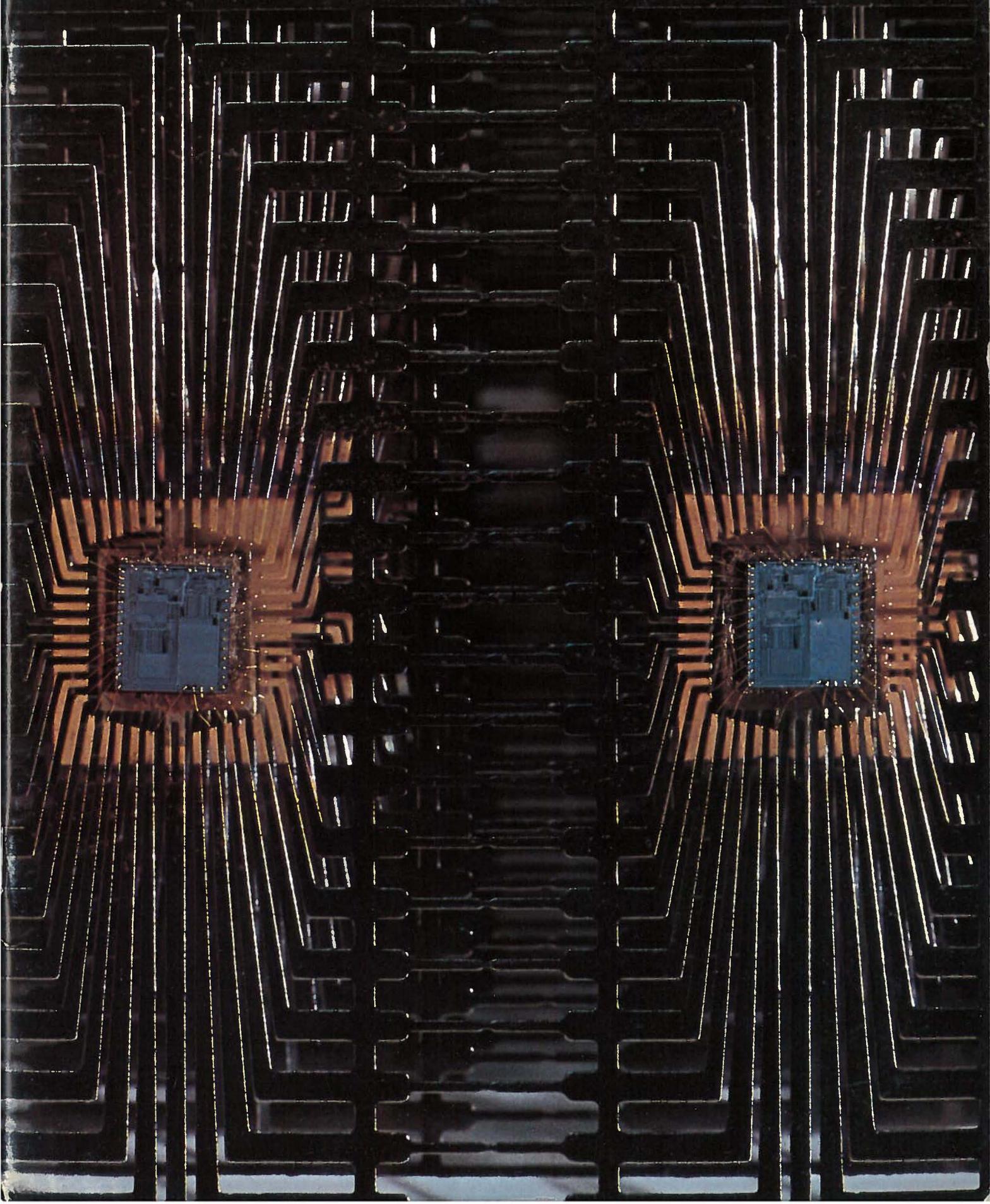


XEROX

Rank Xerox 1977



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**Cover**

At the heart of electronic information processing is the tiny integrated-circuit "chip", like these designed and made by Xerox in California. Only  $\frac{3}{16}$ ths of an inch square within their radiating connectors, their microscopic circuits provide thousands of "if this, then that" logic-path options to implement the intelligence programmed into a processing device.

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## **Change: A special report**

Worldwide, Xerox and its subsidiaries and affiliates are in significant transition in technology, products and in relation to the marketplace.

We are changing of necessity. More and more, the office is turning to electronics—to the speed and efficiencies of digital impulses that act and respond in thousandths of a second. This is happening because of the constantly growing information load, because it is becoming economic to do so, and because it is becoming uneconomic not to.

We must help this process.

We are changing by design. For a long time we've known that copiers and duplicators alone do not define our function or our purpose. We've recognized that we are in fact in the information business, with whatever that may require in the way of new disciplines, new technologies, new performance of our own.

In size and scope and potential, information is an economic area second only to the energy business.

And we are changing by choice. We are a company raised and nurtured by innovation. We have sought at every level people who are as questioning as they are purposeful, as imaginative as they are practical. We are accustomed to earning leadership by best anticipating change for our customers and ourselves.

This is why we are working in three separate but interrelated information environments:

— Our constantly advancing world of copiers and duplicators—so familiar yesterday and today.

— The new realm of digital and electronic systems products, marking today and tomorrow.

— The office of the future. This is the fast-approaching day-after-tomorrow, already taking tangible shape in our research and experimentation.

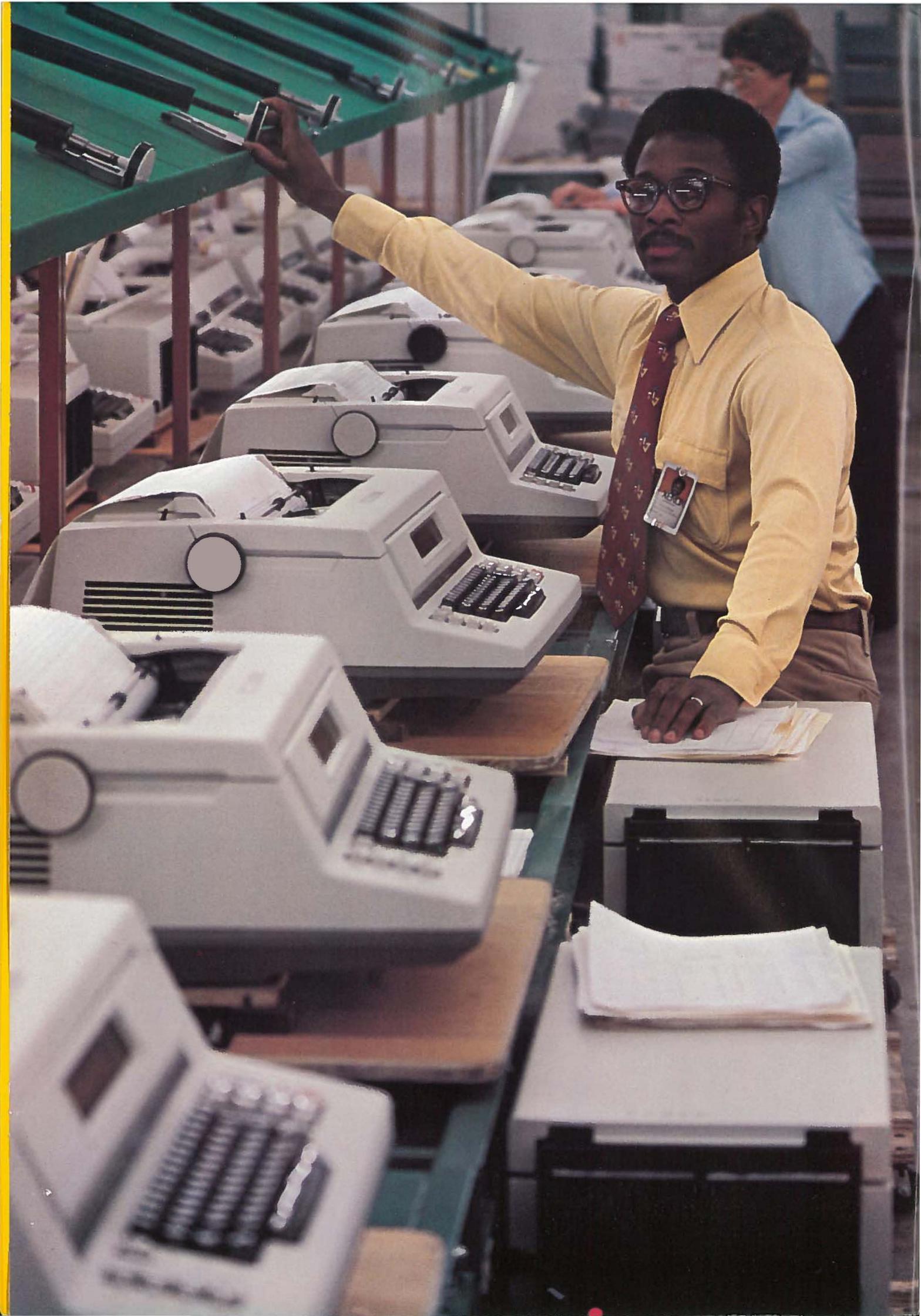
While our efforts toward the office of the future may appear more rapid and obvious in the U.S., they are no less important in Rank Xerox markets. The requirements of an office in Milan or Sydney will be no different than the requirements in Boston or Detroit. We must be prepared for the change that is bound to come.

There is no entry line for "change" on our balance sheet or operating statements. Yet this aspect of our business is as meaningful as any item you will find there.

Neither does fundamental change happen in neat 12-month installments. The changes that mark Xerox and Rank Xerox today were in the making in 1970, when I first spoke publicly of the pressing need to "bring order and discipline to information".

We have come a long way on our new road in the interval. What we report here, then, is both a review of 1977 and a progress report on the way we are changing and creating change as of this moment in 1978.

C. Peter McColough



## Xerox worldwide results 1977

(Dollars in thousands, except per share data)	1977	1976	% Change
Total Operating Revenues	\$5,076,900	\$4,417,682	+14.9
Income before Income Taxes	\$ 917,430	\$ 807,883	+13.6
Income Taxes	\$ 441,500	\$ 377,700	+16.9
Income before Outside Shareholders' Interest	\$ 475,930	\$ 430,183	+10.6
Outside Shareholders' Interest	\$ 69,303	\$ 68,500	+ 1.2
Net Income	\$ 406,627	\$ 361,683	+12.4
<hr/>			
Average Common Shares Outstanding	80,343	80,343	—
Net Income per Common Share	\$5.06	\$4.50	+12.4
<hr/>			
Income before Income Taxes to Total			
Operating Revenues	18.1%	18.3%	
Income before Income Taxes to Average Assets	19.3%	17.8%	
Net Income to Average Shareholders' Equity	17.5%	17.7%	
Long-Term Debt to Total Capitalization	24.2%	28.7%	
Current Assets to Current Liabilities	1.9	1.9	
<hr/>			
Depreciation of Rental Equipment and			
Buildings and Equipment	\$ 620,452	\$ 623,363	— 0.5
Research and Development Expenses	\$ 269,090	\$ 225,973	+19.1
Capital Expenditures	\$ 719,841	\$ 596,676	+20.6
Dividends Declared per Common Share	\$1.50	\$1.10	+36.4
Shareholders at Year End	125,549	129,077	— 2.7
Employees at Year End—Continuing Operations	103,977	97,558	+ 6.6

< *The Xerox 850 electronic display typing system (opposite) is one of five major new products introduced in 1977 in the U.S. Machines with self-contained 24-character line display (just above keyboard) undergo final performance check at Carrollton, Texas, assembly plant; model with full-page, free-standing display is also produced there. Ike Henderson is production supervisor; Doris Collier assists.*

## To Rank Xerox People

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### A personal word

A key indication of the basic strength of Xerox Corporation worldwide is that—despite intensifying competition—we continue to set records both in profits and in revenue. The year just past was the best in our history and Rank Xerox made a significant contribution. We expect worldwide results in 1978 to be even better.

Our success in 1977 was largely the result of the outstanding and often-proved ability of our people worldwide to anticipate and adapt to the changing conditions of the marketplace.

One basic change in our copying/duplicating business is a far greater emphasis on outright sale of equipment—especially in the low end of that market. Many customers now prefer to own their copying machines—rather than rent them, as in the past. This has been a continuing trend in most countries of the world over the last several years, and our people have responded well. So it should come as no surprise that in 1977 we sold outright more machines than in any previous year. We expect the trend to continue, and later on we expect that many customers who have already purchased machines will be buying replacement units.

We are pleased that rental revenue also increased during the period in which the outright sale of copiers and duplicators reached an all-time high. Rental revenue on a worldwide basis was up about 6 per cent over the previous year.

During 1977, we strengthened our copying/duplicating business even further by adding three new machines to our already extensive line. The 3400, the 5400 and the 9400 were greeted enthusiastically by our sales organization in the U.S. and have had excellent acceptance in the marketplace.

We anticipate the same enthusiasm and acceptance for these exciting new products when they are introduced in Rank Xerox markets this year.

The total number of copies made on our machines increased again in 1977 with a substantial gain over the previous year. We were also encouraged by record placements of the 9200 in the fourth quarter. Placements were almost double the rate we had been experiencing.

We have often referred to our copying/duplicating business as the source for the capital required to develop new machines and systems that will meet other needs of the office environment. In 1977, we introduced the 850 display typing system into the word processing market in the U.S., and we demonstrated the sophistication of our 9700 electronic printing system to the digital printing market. The 850 will be available to Rank Xerox customers in 1978.

Revenues from non-U.S. operations, including those of Rank Xerox, were a very substantial 44 per cent of our worldwide total in 1977, about the same percentage as 1976.

We are a changing organization. In some places, change is occurring at a rapid pace. In others, change will be more deliberate, but just as inevitable. And everywhere our people are doing business in this world—be it in France, or Brazil or Australia—they will increasingly be asked to adapt to change—significant change—in the way they go about their jobs.

This year the Xerox Annual Report for Shareholders focused on these changes. Because of the importance of the changes, copies of The Xerox Corporation Annual Report were sent to every Xerox employee in the United States.

With this publication, we are making the same information on change available to employees in other parts of the world as well. Additionally, this report includes a financial review of Rank Xerox companies.

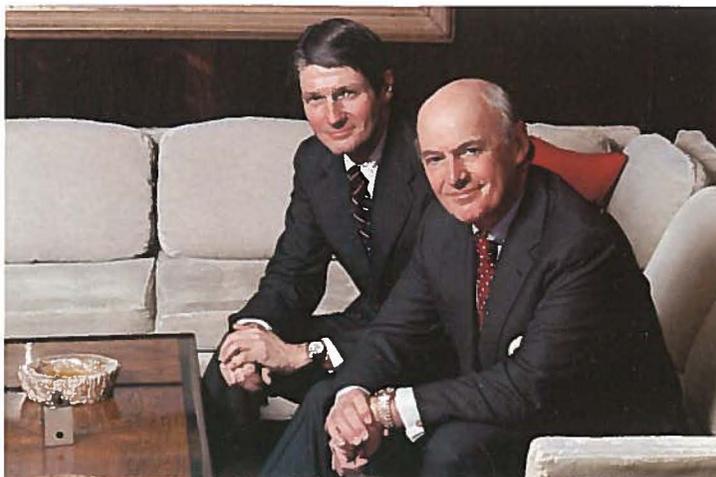


C. Peter McColough  
Chairman and Chief Executive Officer  
Xerox Corporation

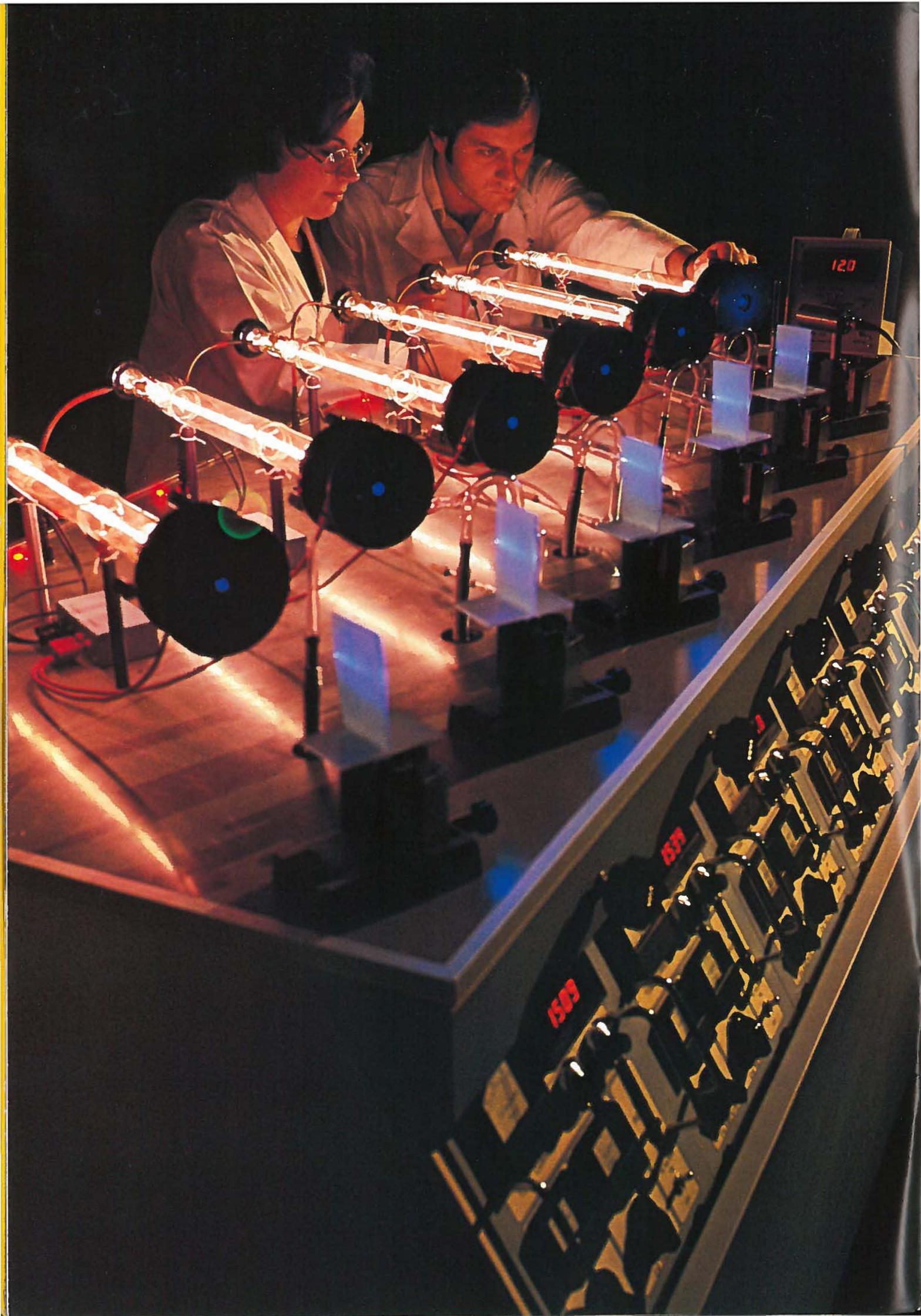


David T. Kearns  
President and Chief Operating Officer  
Xerox Corporation

April 17, 1978



David T. Kearns and C. Peter McColough



## **Xerox 1978: across the new frontier**

The office today is an economic frontier, as the factory and farm once were.

The typical office is slow, poorly organized, wasteful and expensive. Productivity depends more on numbers of people than on equipment or systems. Money wisely invested in power and automation and systems can deliver significant bottom-line returns.

In the United States, on a per capita basis, more than \$54,000 worth of agricultural machinery backs up each farm worker. In industry, the capital expenditure per worker is over \$31,000. For the office worker, the figure is \$2,300.

Pressure for change builds from the rising sea of recorded information in which business operates—or fails to. In the United States, business maintains information in a ratio of four file drawers, containing some 18,000 documents, for each of its 18 million white-collar employees. That's 72 million files, 324 billion documents. This awesome accumulation is increasing at the rate of 4,000 documents—or nearly one file drawer—per employee per year.

And the gain is being spurred—throughout the world—by governmental planning, regulation, and monitoring of more and more aspects of personal, community and business life. It's stimulated further by the growing bureaucracies of business itself as companies become bigger and more complex.

Technology, fortunately, is coming to the rescue. The integrated circuit—the tiny chip that packs the power of a floor-model computer of a dozen years ago—continues to grow more dense, more capable, and less expensive. Tiny enough and cheap enough to make its way into your watch, pocket calculator, ignition, phone, TV—and your children's toys.

The fact that so much information exists and can be retrieved and processed economically puts a premium on doing so. Whether the goal is better medicine or better government, more efficient production or more competitive marketing, the effective use of information is an increasingly important operating asset.

It's hardly surprising that need and technology together have begun to package information handling capacity into many new office machines.

Including a lengthening list made by Xerox.

Open the cabinets, lift the covers, look inside. Some use lasers. Some contain microprocessors to do the work or for self-diagnostics. Some "capture the key strokes" into a digital memory, or read them out of a memory onto paper or a visual display—or both.

Machines with Xerox labels on them that create documents, that communicate information, that store and retrieve information electronically, that change information and work with it and process it in digital form.

Machines that say much about the future of the office—and Xerox.

*< Xerox Electro Optical Systems in Pasadena, California, designed and makes the special blue lasers, being tested there by Darlene Mailliard and Bob Zimmer, for the new Xerox 9700 electronic printing system.*



## **Copiers and duplicators: A very young old business**

Somewhere off in the future there must be a limit to what you can do technically with a stand-alone copier or duplicator that represents added value customers will be willing to pay for.

Wherever that is, we are still a long way from it. Continual changes that improve performance and enhance value for the customer extend from design and technology to marketing and service.

Of five major new products launched by Xerox in 1977, three were stand-alone, optical xerographic machines. And considerable advances in the state of the art; market response acknowledged that.

Active research and product development programs for other new copiers and duplicators are proceeding on specific time schedules that already reach well into the middle of the next decade.

### *The Xerox Approach*

Our newest machines are proof that there is nothing static in the Xerox approach to product development.

The Xerox 3400 is the first small, mobile copier to offer continuous automated document handling and an automatic sorter. Microprocessor controls, dual paper trays and electronic self-diagnostics are other features not combined before in a machine this size.

The higher-capacity Xerox 5400 qualifies as a copier/duplicator at 45 copies a minute from a seven-second start. Stream-feed the originals: the machine positions them exactly, floats them to the platen on a stream of air, then stacks them out—all automatically. One-side or two-side copies—automatically. Automatic sorting, and at the same speed. Plus microprocessor controls that finish the job correctly after any interruption, and sophisticated self-diagnostics.



< *Marketing tactics being discussed by Guus Post (opposite), Product Manager for the Xerox 9200 at Rank Xerox (Nederland) BV, and Ton van de Ven, Marketing Manager, Rank Xerox (Nederland) BV. Left: Tony LoCicero, Xerox Launch Manager for the 9400, and Laurie Swetman of the 9400 staff.*

The new Xerox 9400 is a highly automated duplicator for heavy workloads in general offices or in centralized printing departments, where it is a valuable alternative to offset equipment. It delivers two sheets a second—7,200 copies an hour—in a virtually unlimited number of automatically collated sets. It has an automatic two-sided copying feature.

#### *A Variety of Machines*

This combination of new machines is another reminder that Xerox uniquely has strengths across the entire spectrum of our customers' copying and duplicating needs.

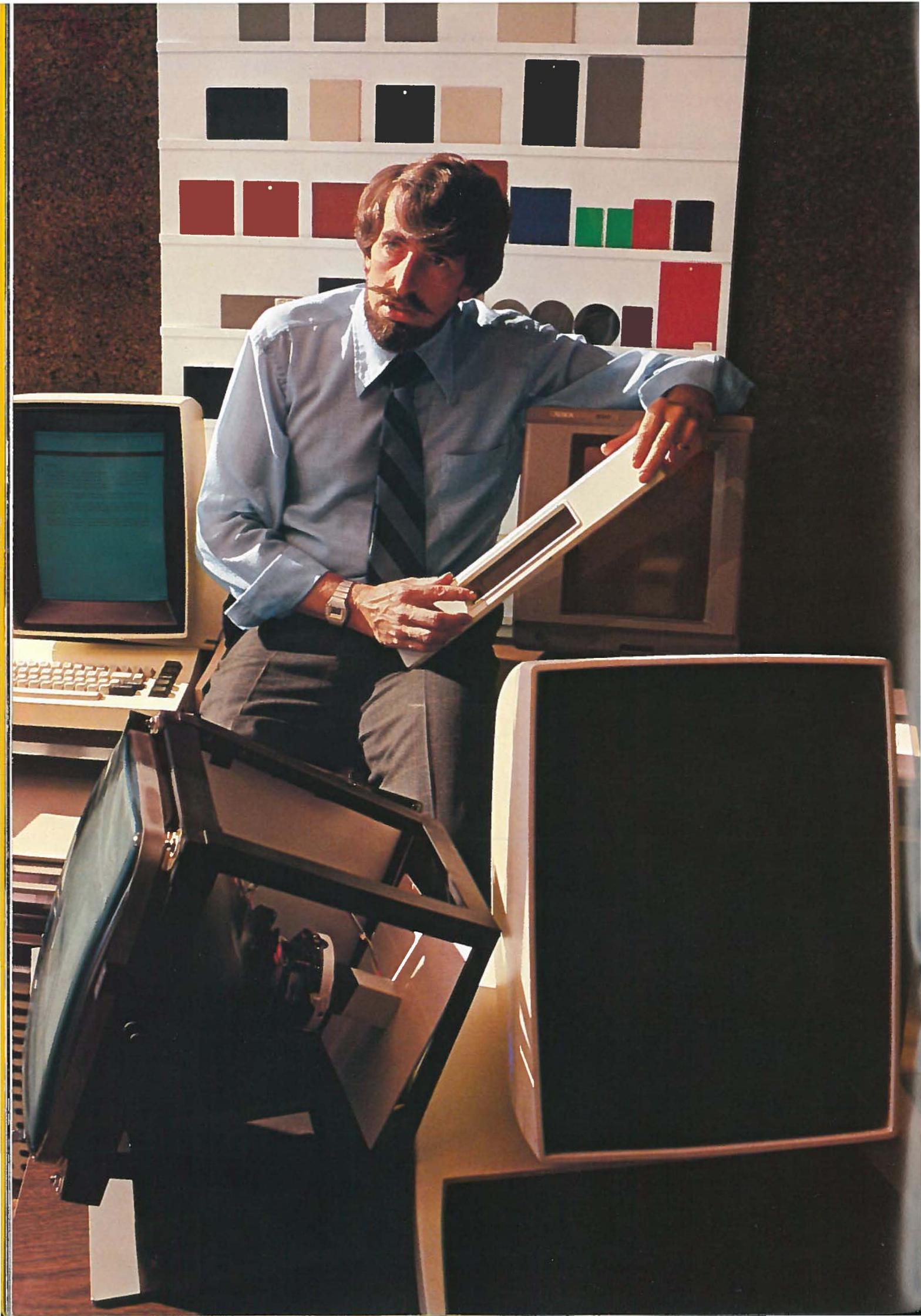
These latest machines join literally dozens of others marketed by Xerox—familiar models busy in offices around the world, adaptations made to meet the power sources or paper size preference of particular countries, specialized models that copy huge engineering drawings or visualize X-ray plates or read and print microfiche records. New or old, none represents an ultimate product design, an eternal format of features, in the Xerox philosophy. Not so long as advancing technology and customer needs invite change.

Even in this “old” area of stand-alone optical copiers and duplicators then, there is a determination to achieve constant renewal. The Xerox copying and duplicating machines customers will find so useful tomorrow will be new generations of equipment: concepts and applications now perceived and others that are still to come.



> *The Xerox 5400 copier is being made at Mitcheldean, Gloucestershire, England. (Opposite) Dennis Wadley, Gordon Smith and Richard Wood discuss finite details. Left: Sharon Van Duser of Xerox displays both the Xerox 5400 and the conveniently mobile Xerox 3400.*





## The electronic office: Open for business

In the electronic office emerging from the new technologies, Xerox begins where the conventional typewriter stops—and keeps going.

Our 800 electronic typing system was introduced in 1974 and is now hard at work in thousands of offices throughout the world.

It is a typewriter that types—but it also enters each character and each format instruction as digital information on a magnetic-memory cassette or card. Work can be corrected in the memory merely by spot retyping, then produced automatically and error-free at the rate of a page a minute.

For its characters, the 800 ETS uses the “daisy” print wheel developed by Diablo Systems, a Xerox company since 1972. It can deliver 45 characters per second on a carriage able to type from right to left as well as left to right to save time. The daisy wheel has quickly become the high-speed standard of the industry.

Now Xerox has added to this base the Xerox 850 display typing system, pictured in these pages, with its advanced word and text processing.

And we've gone further still in high-volume word processing with the introduction last November of the Visual Type III by Daconics, a company acquired in 1975. VT III's powerful memory and processing components accommodate up to ten keyboard and display work stations.

Document communication is a critical function in its own right. Xerox has led this field since the introduction of its first Telecopier transceiver in 1965. The latest model sends images over telephone circuits as usual but has a laser-activated imaging system that transmits a full page in just two minutes. In Japan, where an alphabet of thousands of characters puts a premium on image transmission, a Fuji Xerox unit offers a page speed of 15 seconds.



< *Technology and its applications, no matter how magical, are not ends in themselves. Human factors were a prime concern of U.S. design manager Robin Kincaid (opposite) in developing screen colours, image resolution standards and display formats for the new Xerox 850 display typing system. Left: Xerox 850 system components surround Xerox office systems training specialist Gabriella Ciceran.*

### *Digital Printing Capability*

Digital printing is a fertile field for Xerox. In 1973 we introduced the pioneering Xerox 1200 computer printing system. Skipping conventional impact-printing of the large, unwieldy computer fanfold forms altogether, the 1200 applies digitally-generated characters directly to the Xerographic process to print letter-size pages on plain paper.

In 1977 we added the Xerox 9700 electronic printing system. Combining laser, computer and xerographic technologies, it delivers a great range of images and formats at 18,000 lines a minute—or two pages a second.

Digital printing also includes the high-speed terminals made by Diablo for the 800, 850 and VT III, and others sold by the thousands to makers of competing word-processing and text-editing systems.

And digital printing includes the machines produced by Versatec, also acquired by Xerox in 1975. These combine digital and electrostatic technology to produce line or halftone images of extremely high resolution and fidelity—images up to 72 inches wide and, on roll-fed paper, of virtually any length, either same size or in vast electronic magnification.

That isn't all. Diablo is a leading producer of large-capacity memory-disc drives, not only for Xerox but the industry generally, where tens of thousands are in place. The acquisition of Shugart Associates last December adds equal capability in the smaller "floppy discs" used in the Xerox 850 and by the industry in countless processor applications.

Machines that create, communicate, print, store and retrieve information, the intelligence programmed into them and the systems that link them—these now are all part of the ways in which Xerox serves the office.



> *The Xerox 850's "floppy disc" stores 280 pages of text. Using a micro-processor, Elizabeth Clark (opposite) tests the disc drive unit during assembly at Carrollton, Texas, plant. Left: Nationwide performance back-up for the new Xerox 9700 electronic printing system is based in El Segundo, California. Al Interian is manager of Data Systems Service Support, and Julie Maher is on the National Field Service staff.*





## **Xerox research: The creation of change**

Innovation and invention, whether of new physical technologies or new concepts of how people could or will work in offices, are not achieved either by luck or by sheer force of will.

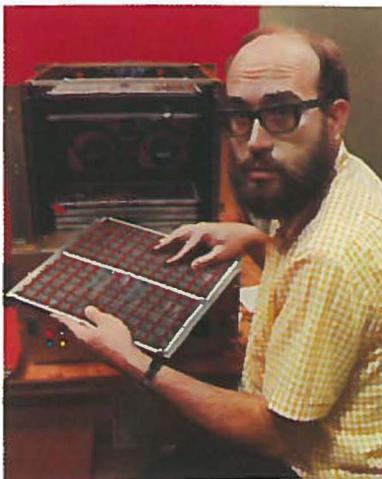
The prescription is time-honored: an enduring combination of people, money, and the hard work we sum up as research.

In 1977, we devoted more than a quarter of a billion dollars—some five percent of total revenue—to research and engineering. We expect that this level of investment in the company's future will be maintained.

Xerox research covers an exhaustive range of disciplines, from fundamental physical investigations to behavioral and social studies. For many years, of course, it concentrated on the practical development of xerography in increasingly sophisticated copiers and duplicators. This involved deep research in the physics and chemistry of metals and alloys and a host of compounds, into optics on one hand and the biology of perception on the other, into the surface chemistry and physics of the tiny particles that form the xerographic image, into highly intricate electrical charge controls and transference with which an image is put on and removed from a photoreceptor, and many other arcane subjects.

Our field of research has greatly broadened as Xerox has built new technologies into its copiers and duplicators. Microprocessors for controls and diagnostics, laser-produced images, pioneering work in color reproduction, and operating speeds now up to 7,200 pages an hour have required and continue to demand rigorous and innovative research programs.

As Xerox became increasingly involved in information processing and digital equipment, programs and facilities were needed that could specialize in these areas. In 1971, the Palo Alto Research Center was established in that northern California heartland of data-processing sciences and scientists. More than 200 professional people from many countries conduct the studies that are essential to the company's development of digital equipment and office methods for the future.



< *Laser research at the Xerox Palo Alto Research Center involves growing super-pure crystals in a vacuum more complete than that of outer space. Physicist Bob Bachrach (opposite) uses the machine that provides the vacuum. Left: Ed McCreight holds a circuit board that does the liaison work with the disc memory of a digital processor.*

The Palo Alto Center does fundamental research in such matters as new information-storing substances and technologies, new memory formats, fiber optics, laser input and output scanning, new integrated circuit technologies, and many more. At the same time, many members of the staff are studying the intelligence and behavior components of experimental information processing equipment and systems, duplicating the tasks and functions of various offices of the future.

*Prototype System Developed*

A prototype information system involving linked, interactive machines is in productive and routine use at the Palo Alto Center now. Parts of the system have been used experimentally by children in a nearby public school system, even in the elementary grades, to draw pictures and compose music and do other things according to the instructions devised for the machines by the children themselves. Certain other tests will begin this year in a local Xerox branch office.

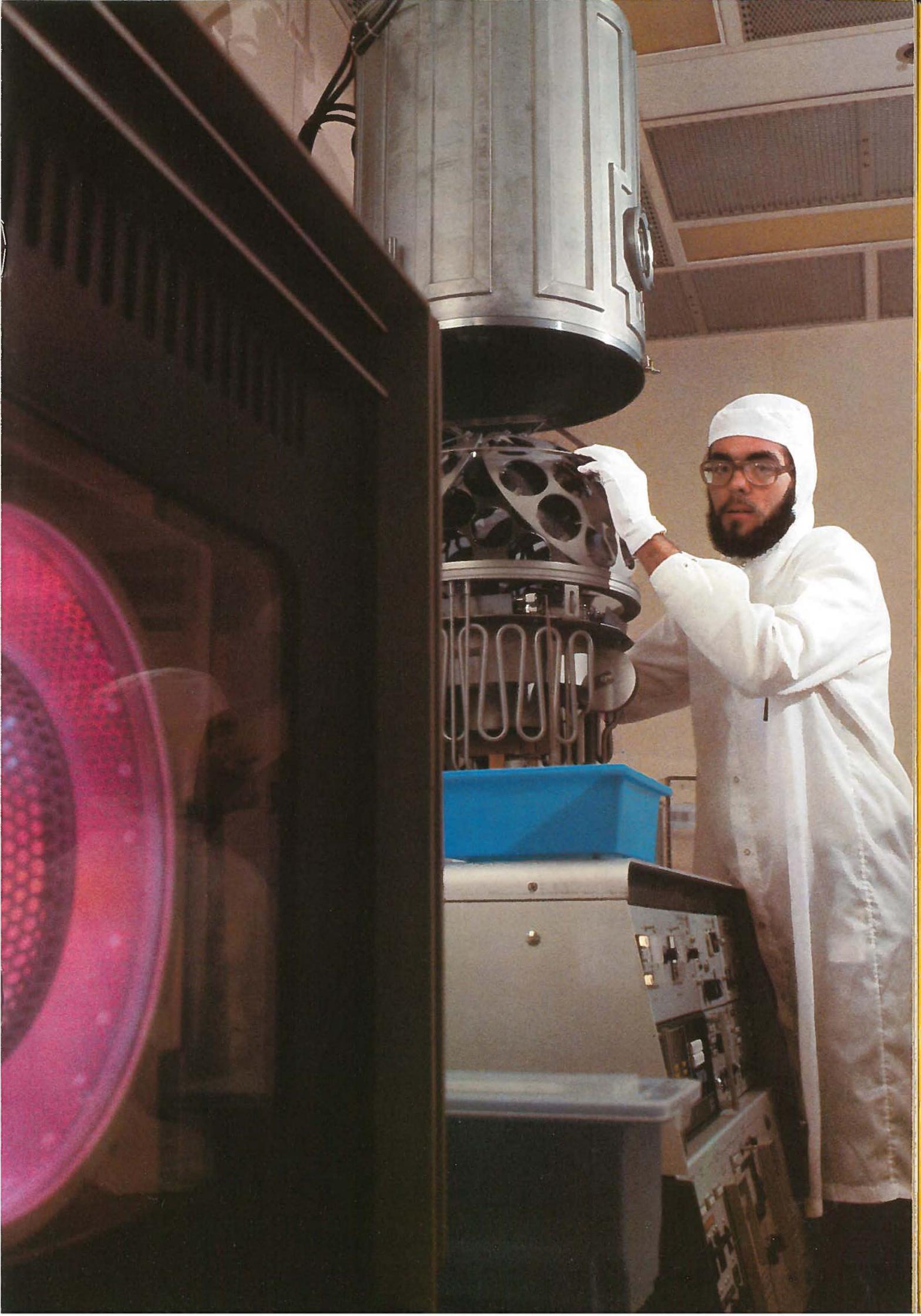
Individual research programs are also conducted in facilities of Rank Xerox Limited and Fuji Xerox Co., Ltd. and in the Xerox Research Center in Canada, both to serve specific product and customer needs and to make valuable contributions to the corporate research program.

The purpose of research at Xerox is to facilitate change. That is at once an entirely open-ended and extremely precise assignment.

Xerox means to continue to create and believe and shape.



> In a "Class 100" clean room at the Microelectronics Center in El Segundo, California (opposite), Doug Switz loads circular silicon wafers into a vacuum vessel for coating with aluminium during integrated-circuit chip processing. Left: Lynn Conway is manager of the Large Scale Integration Systems Area at the Palo Alto Research Center.



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## **Perspective: Shaping tomorrow**

In a matter of years—20 or 15 or perhaps even ten—the methods and working environment of the conventional office will be quite unconventional by today's norms.

Basic changes will have taken place in the way the office handles all its major functions.

Information will be recorded or transformed into that great common denominator—digital impulses—as a matter of routine. Once in that form it will be processed electronically with the speed, complexity, automatic performance, precision and efficiency we take for granted in number processing today.

Before a hard copy is finally made, memory and logic systems, phone lines and display screens will perform many functions accomplished on paper now.

Great changes will also take place in the way people in the office get their work done. Managers, clerks, technicians, secretaries, administrative and professional people—all are likely to have new equipment to work with. As a result, they will have new capabilities and new ways to relate to each other.

There is more than one way to approach this office of the future. Many companies now seek a market there; each one operates out of its own origins and interests. There is a point of view rooted in communications, for example, and this aspect of work becomes the influential spine for a structure of equipment and logic.

There is a point of view based in computer technology. The extraordinary capacity of vast memories and massive processing engines give form to their outposts in the office.

### *People in the Office*

These approaches are not characteristic of Xerox. As a matter of tradition, philosophy and preference, we work from the point of view of the people in the office. Our concern is with the “work station”: each individual as an individual, at a desk or typewriter or file, and his or her personal potential on that job.

Our starting point is no more—and no less—than this: what equipment, what automation, what technology, what system can we provide to that single individual to make his or her work better? To make the position and the person more productive and efficient? To make the job more valuable and satisfying?

And how can this be done for universal, cost-effective application in an endless variety of offices, each with its unique and specific operating requirements?

This is not an approach that subordinates the individual to technology or a machine. It doesn't subordinate the office to the rigidities of an arbitrarily imposed system, or to a protocol arrived at to maintain the productivity of large-scale equipment.

It puts the power and efficiency of technology to work at exactly the function an office is organized to perform: applying the thinking and imagination and judgment of individual human beings to large quantities of information.

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To Xerox, there is a harmony here with the effort of our time to restore a sense of human scale in industry, to provide working conditions that match the rising educational level, aspirations, and feelings of individuality of the people employed. It would seem something less than wise, at a moment of opportunity, to engineer such considerations out of the office.

This philosophy gives specific guidance to Xerox in designing products for the office of the future.

Our machines must be multi-functional. They must display as well as capture, communicate as well as record, process as well as print. They must magnify as many as possible of the abilities of the mind at that work station.

They must be interactive. That is to say they must respond to the individual using them—with the proper questions, the appropriate instructions, the right options, the correct participation in the process. This is a function of the intelligence committed to their programming by Xerox.

The machines must be flexible, adaptable, accommodating. They must do what the individual wants them to do to get the job done the way the individual wants to do it. The way a clerk wants work filed, the way an executive wants mail handled and documents created and reproduced, the way a designer wants diagrams designed, the way a lawyer wants leases drawn. In sum, they must make an office function the way the managers of that office choose to run it.

The machines must be compatible with others—those that now exist, others that will follow. And not just those made by Xerox. Reality says that whole companies and offices will not be re-equipped in one fell swoop, nor will equipment come to market that way. Good business practice says that Xerox customers should always retain all their options.

#### *“Friendly” Machines*

And the machines must be “friendly”—made for real people in a real world. This means they must be simple and satisfying to use, easy to learn, comfortable to live with. They must contribute, not demand.

Those aren't simple requirements to impose on lasers and integrated circuits and cathode rays and magnetic memory discs and photoreceptors. But those are our goals and our guides for continuing growth and profit growth in the hard competitive environment we anticipate.

Today we are arriving at the answers and beginning to test them in practice. Our products will be in place on that day-after-tomorrow. They will be in the marketplace—and in the office of the future.

## Rank Xerox Financial review

For the financial year ended October 31, 1977 revenues of Rank Xerox companies (Rank Xerox Limited and Rank Xerox Holding B.V.) reached \$1,644.8 million, an increase of 17 per cent over 1976. Income, before tax and before the Xerox charges described below, reached \$394.7 million, an improvement of 10 per cent over 1976.

The charges for research and development and international headquarters costs of Xerox followed a new agreement signed during the year between Xerox, The Rank Organisation, and some of their subsidiaries. After deducting this contribution of \$72.4 million, our profits amounted to \$322.3 million.

Our results would have been even better had it not been for the movements of currencies during the year. These movements had a considerable effect, reducing our dollar profits growth between the two years by \$51.6 million. Had it not been for currency effects our dollar profits would have risen by 25 per cent over the previous year.

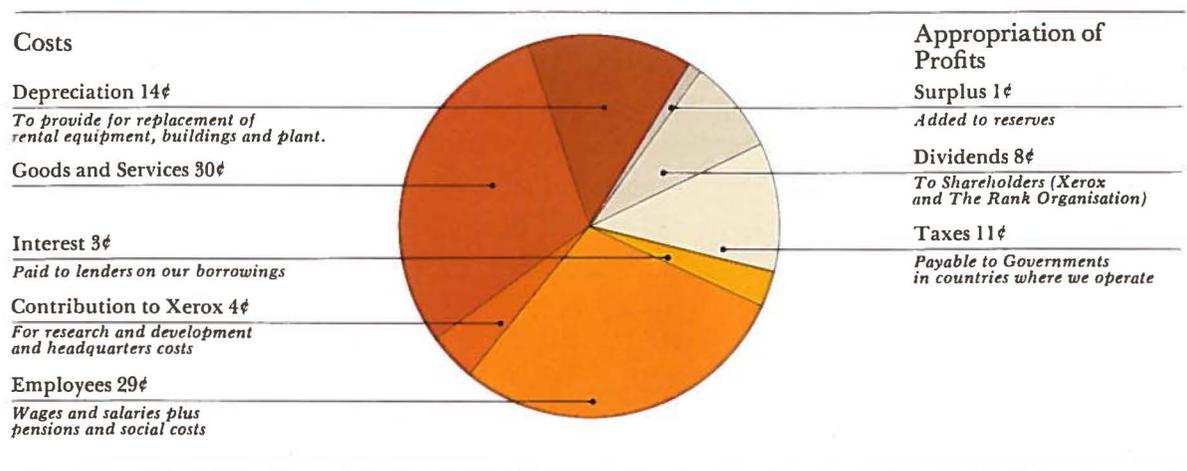
Although, as a group, we use U.S. dollars as the "common language" between all the units around the world, we also produce our results in pounds sterling, for inclusion in the annual report and accounts of The Rank Organisation.

Our results in sterling were considerably different from our dollar results, because the movement of the pound against major currencies during the year had the opposite effect to that of the dollar movement.

Our sterling revenues reached £960.6 million, an increase of 27 per cent over 1976. Our profits (before tax and before the Xerox charges) reached £315.0 million, a rise of 79 per cent over 1976. After the Xerox charges of £39.3 million, our profits were £275.7 million, a rise of 57 per cent. This strong growth includes the favourable impact of exchange rate effects which accounts for £86.0 million of the profit increase between the two years.

**Figure 1: Income and Expenditure 1977**

For each \$1 we received in revenues, we spent:



The figures are derived from the financial statements on page 29 after making adjustments to show separately employees' costs and depreciation.

## Market conditions

Rank Xerox markets its products in some 80 countries. In general, economic growth in these countries was slow—a fact reflected in high rates of unemployment. Against this background our growth was all the more remarkable.

Yet the problems of inflation are still present. With inflation rates, on average, of 10.5 per cent and in some markets exceeding 20 per cent, we would need to substantially increase our prices just to keep up with rising costs. But there are two reasons why it is difficult for us to increase prices.

Firstly, many governments maintain strict control over price increases in an effort to stem inflation. Second, competition in the reprographics market has introduced and maintained lower market prices.

As a result, we have made strenuous efforts to control our costs and efficiency in all aspects of our business, from manufacturing and supply, to selling, servicing, and administration.

The actions we took to increase our revenues were also successful. A new rental pricing plan was introduced in 1976 to reduce unit copying costs for customers who increased the volume of work on our installed equipment. This helped to increase the number of copies made on our rented machines, and therefore our rental revenues.

In 1976 we began to sell machines as well as rent them, to meet the needs of some of our customers and to address competitive pressures. This policy has produced excellent results and in 1977 sales of machines accounted for about 7 per cent of total revenues against 3 per cent in 1976.

**Figure 2: The Balance Sheet**

October 31, 1977

We own:

Land, Buildings,  
Plant, etc. \$351M

Machines rented  
to customers \$576M

Investment in  
Fuji Xerox \$63M

Other long term  
assets \$58M

Working Capital \$80M

Current Assets

*Inventories (or stocks)* 181

*Money at Banks etc.* 144

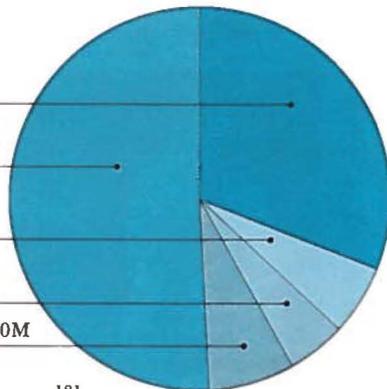
*Receivables (or debtors)* 435

760

Less Current Liabilities

*Payables (or Creditors) etc.* 680

\$ 80M

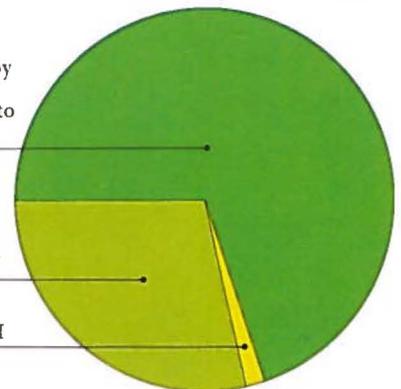


Financed by:

Capital provided by  
shareholders,  
plus profits added to  
reserves \$792M

Borrowings \$321M

Outside  
Shareholders \$15M



## Products

Most of our machine sales were made at the lower end of the market, where competition from Japanese manufacturers is very active. Our most popular machines were the Rank Xerox 660 model and the Xerox 3100 family of mobile copiers.

During 1977 we enlarged this family with the addition of the Xerox 3107. This is our first low-volume copier that enables copies to be made in reduced sizes for easier filing and handling. Demand for this product is very encouraging. This is important to us because a lot of our new business comes from the low volume end of the market—a sector that is growing at a rapid pace.

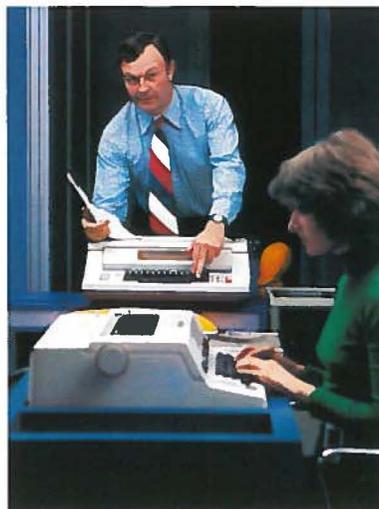
The other market sector which produced a lot of new business for us in 1977 was high copy volume duplicating. And it was the Xerox 9200 which achieved this for us. Demand for this machine is very satisfying. Copy volume on the 9200 exceeded our expectations. The resulting increase in our rental revenues has been impressive.

Over a third of the 9200 placements has been with completely new customers, and even in cases where existing customers have used the 9200 to replace installed Rank Xerox equipment rather than to augment it, there has been a very significant increase in copy volume.

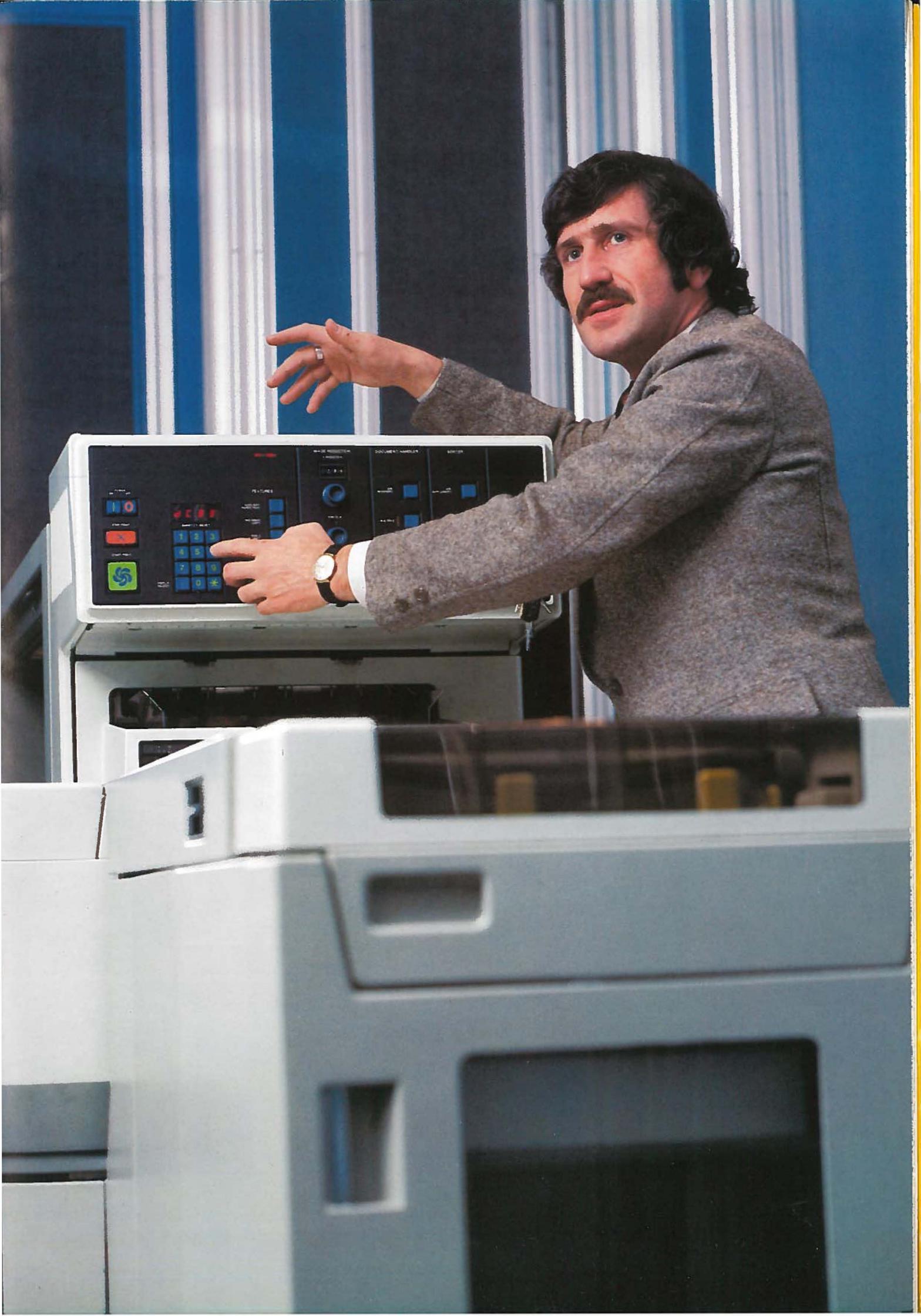
We also added to our range of word-processing machines in 1977. The Xerox 800C communicating typing system can transmit information at high speed between machines using telephone lines. This feature has created a great deal of interest and vastly improves the flexibility of our range of Xerox 800 electronic typing systems.

Word processing at present accounts for a small proportion of our revenues. But as this market expands in Europe and the rest of the “Rank Xerox world”, it will become an increasingly important part of our total business.

In 1978 we will be introducing a number of new Xerox machines into Rank Xerox markets. The new copiers will be produced at our manufacturing plants in the U.K. and Holland.



> *The Xerox 9400 duplicator and its Rank Xerox Product Manager, Geoff Skinner. The Xerox 3107 copier (far left) is shown here with Rank Xerox Product Manager, Mohan Chopra. The Xerox 850 (left) and Rank Xerox Product Manager, Harry Taylor, with Angela Day.*





## Manufacturing

The Rank Xerox group has five manufacturing centres, producing the full range of our copier-duplicator machines, accessories and supplies. Highlights of the year are as follows:

*Mitcheldean* in the west of England: production of the Xerox 9200 remains a very high priority. Additional production facilities for new products in 1978 and beyond were installed.

*Welwyn Garden City* outside London: the \$12 million (£7 million) facility to produce the 9200 photoreceptor came on stream. Further investments were made in the manufacturing and testing of printed circuit boards.

*Venray* in the Netherlands: production of the Xerox 3107 started alongside manufacture of the Xerox 3100 and Xerox 3103 machines. Output for the 9200 sorter was increased.

*Lille* in France: European remanufacturing activities were extended to meet demand.

*Coslada* in Spain: a programme was launched to expand production of toner.



< *Stringent quality control standards are a central part of our production programmes. The Xerox 3400 copier (opposite) is being tested by Pieter Glaudemans and Toon Bardoel at the Rank Xerox plant in Venray. Left: Peter Townley is Mitcheldean's training officer for the Xerox 9400 and is seen here with trainee, Alan Barnett.*

## Rank Xerox people

The number of people employed in 1977 rose by 2,376 to bring the total to 35,296.

Our Social Service Leave Scheme enables a number of us to be released on full pay for a period of up to six months to do social work of our choice.

In the Italian company, which took part in the scheme for the first time, one of the leave-takers made a study of the problems of abandoned children and his report was published with the help of a grant from the company's charitable funds.

One U.K. leave-taker set up and managed a toy-making co-operative in London, to provide work for unemployed young people.

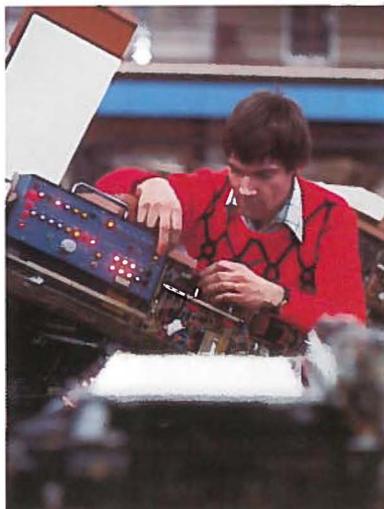
Rank Xerox, in common with other companies, was asked by the British Government to publish details concerning employment of workers in South Africa. We believe that our publication *Rank Xerox in South Africa—A Progress Report 1977* shows that we follow fair and progressive policies in South Africa and that we have unified wage and benefit structures irrespective of race.

Our policy of contributing to selected charities in the countries in which we work has continued. During the year, some 340 social, medical, educational and cultural causes were given support.

### *Prospects*

The future will not be easy. Competition continues to intensify, any reduction in inflation seems likely to be limited, and indications are that economic recovery in most of our markets will continue to be slow. In these circumstances, it is even more essential than in past years that we give high priority to cost control and to productivity since these are fundamental to our continuing success. However, excluding exchange rate effects, we are confident of continuing good growth in our profits in the coming year.

We believe that we have the resources, in people and products, to meet all the challenges we face. Looking further ahead, we feel that our planned growth in the reprographics market together with our progressive diversification into office information systems will provide an exciting and rewarding future for us all as employees, and for our shareholders and customers alike.



< Andre Peperkamp (far left) assembling a Xerox 3107 copier at Venray. Electronics is forming an increasingly greater part of our machines. Here Helen Cosgrove (left) is assembling a cable harness at Mitcheldean.

## Consolidated Statements of Income

Rank Xerox Limited and Subsidiaries and Rank Xerox Holding BV and Subsidiaries

Year Ended October 31 (US Dollars in thousands)	1977	1976
<b>Operating Revenues</b>		
Rentals	\$1,313,139	\$1,221,033
Sales	<u>331,653</u>	<u>179,301</u>
Total operating revenues	<u>1,644,792</u>	<u>1,400,334</u>
<b>Costs and Expenses</b>		
Cost of rentals	294,923	257,641
Cost of sales	148,826	116,114
Research and development expenses	23,348	21,378
Selling, service, administrative and general expenses	<u>729,214</u>	<u>643,672</u>
Total costs and expenses	<u>1,196,311</u>	<u>1,038,805</u>
<b>Operating Income</b>	448,481	361,529
<b>Other Income</b>	19,862	57,734
<b>Other Deductions</b> (includes interest: 1977—\$50,119; 1976—\$59,254)	<u>73,653</u>	<u>61,139</u>
	394,690	358,124
<b>Xerox Corporation Charges</b>	* 72,407	—
<b>Income before Income Taxes</b>	322,283	358,124
<b>Income Taxes</b>	<u>172,146</u>	<u>163,667</u>
<b>Income before Outside Shareholders' Interests</b>	150,137	194,457
<b>Outside Shareholders' Interests</b>	<u>1,072</u>	<u>1,905</u>
<b>Net Income</b>	149,065	192,552
<b>Dividends Paid and Payable</b>	126,210	75,286
<b>Capitalisation of Reserves</b>	<u>6,907</u>	—
	15,948	117,266
<b>Balance at Beginning of Year</b>	<u>685,456</u>	<u>568,190</u>
<b>Balance at End of Year</b>	<u>\$ 701,404</u>	<u>\$ 685,456</u>

\*Shown separately for comparability with 1976

The accompanying notes on pages 34 to 37 are an integral part of the consolidated financial statements.

## Consolidated Balance Sheets

Rank Xerox Limited and Subsidiaries and Rank Xerox Holding BV and Subsidiaries

Assets October 31 (US Dollars in thousands)	1977	1976
<b>Current Assets</b>		
Cash	\$ 32,990	\$ 22,018
Bank time deposits, interest bearing	107,534	75,010
Marketable securities, at cost which approximates market	4,093	1,431
Trade receivables (less allowance for doubtful receivables: 1977—\$9,547; 1976—\$12,285)	283,187	258,581
Accrued rentals	80,410	60,713
Inventories, at lower of average cost or market	180,808	174,041
Prepaid expenses and other current assets	71,266	44,810
<b>Total current assets</b>	<u>760,288</u>	<u>636,604</u>
<b>Rental Equipment and Related Inventories</b>		
At cost (less accumulated depreciation: 1977—\$918,426; 1976—\$887,839)	576,096	599,256
<b>Land, Buildings and Equipment</b>		
At cost (less accumulated depreciation: 1977—\$128,189; 1976—\$111,487)	351,555	331,690
<b>Investment in Fuji Xerox Co., Ltd., at equity</b>	63,188	65,592
<b>Assets of Discontinued Operations, at estimated realizable value</b>	2,169	2,678
<b>Other Assets</b>		
Deferred income taxes	10,899	—
Other	44,550	38,392
<b>Total other assets</b>	<u>55,449</u>	<u>38,392</u>
<b>Total Assets</b>	<u>\$1,808,745</u>	<u>\$1,674,212</u>

The accompanying notes on pages 34 to 37 are an integral part of the consolidated financial statements.

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**Liabilities and Shareholders' Equity** October 31  
(US Dollars in thousands)

1977

1976

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**Current Liabilities**

Notes payable	\$ 93,938	\$ 48,973
Payments due within one year on long-term debt	19,853	50,927
Accounts payable	92,560	120,584
Due to Xerox Group Companies	83,612	21,424
Salaries, profit sharing and other accruals	139,711	84,741
Income taxes	138,972	140,329
Dividends payable	103,099	61,478
Deferred rentals and subscriptions	8,753	8,534
Total current liabilities	<u>680,498</u>	<u>536,990</u>

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**Deferred Income Taxes**

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— 15,631**Long-Term Debt**

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321,423 340,848**Outside Shareholders' Interests in Equity of Subsidiaries**

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15,014 13,283

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**Shareholders' Equity**

Common stock	83,110	74,708
Additional paid-in capital	7,296	7,296
Retained earnings	<u>701,404</u>	<u>685,456</u>
Total shareholders' equity	<u>791,810</u>	<u>767,460</u>

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**Total Liabilities and Shareholders' Equity**

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\$1,808,745

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\$1,674,212

## Consolidated Statements of Changes in Financial Position

Rank Xerox Limited and Subsidiaries and Rank Xerox Holding BV and Subsidiaries

Year Ended October 31 (US Dollars in thousands)	1977	1976
<b>Working Capital Provided by</b>		
<b>Operations</b>		
Net income	\$149,065	\$192,552
Charges (credits) not affecting working capital		
Depreciation of rental equipment	184,148	178,997
Depreciation of buildings and equipment	47,074	42,090
Outside shareholders' interests in income	1,072	1,905
Noncurrent deferred income taxes	(26,530)	(18,383)
Other	<u>22,821</u>	<u>(29,245)</u>
Working capital provided by operations	377,650	367,916
New long-term debt	87,539	84,713
Other	<u>23,530</u>	<u>22,378</u>
Working capital provided	<u>488,719</u>	<u>475,007</u>
<b>Working Capital Used for</b>		
Additions to rental equipment and related inventories	190,055	160,102
Additions to land, buildings and equipment	68,065	54,365
Payments made or due within one year on long-term debt	123,631	154,917
Dividends declared—Proforma Group shareholders	126,210	75,286
Dividends declared—outside shareholders	582	28
Reclassification of discontinued operations'		
current assets to noncurrent assets	<u>—</u>	<u>1,815</u>
Working capital used	<u>508,543</u>	<u>446,513</u>
<b>Working Capital Increased (Decreased)</b>	(19,824)	28,494
<b>Working Capital at Beginning of Year</b>	<u>99,614</u>	<u>71,120</u>
<b>Working Capital at End of Year</b>	<u>\$ 79,790</u>	<u>\$ 99,614</u>

The accompanying notes on pages 34 to 37 are an integral part of the consolidated financial statements.

Year Ended October 31  
(US Dollars in thousands)

1977

1976

---

**Working Capital**

The increase (decrease) in working capital shown in the consolidated statements of changes in financial position consists of:

Increases (decreases) in current assets

Cash	\$10,972	\$(10,997)
Bank time deposits	32,524	40,522
Marketable securities	2,662	1,431
Trade receivables	24,606	(5,931)
Accrued rentals	19,697	(17,751)
Inventories	6,767	10,884
Prepaid expenses and other current assets	26,456	(2,337)

Net increase in current assets

123,684                      15,821

Increases (decreases) in current liabilities

Notes payable	44,965	(13,180)
Payments due within one year on long-term debt	(31,074)	(12,001)
Accounts payable	(28,024)	1,466
Due to Xerox Group Companies	62,188	7,568
Salaries, profit sharing and other accruals	54,970	51
Income taxes	(1,357)	(7,216)
Dividends payable	41,621	9,549
Deferred rentals and subscriptions	219	1,090

Net increase (decrease) in current liabilities

143,508                      (12,673)

Working capital increased (decreased)

\$(19,824)                      \$28,494

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## Notes to Consolidated Financial Statements

Rank Xerox Limited and Subsidiaries and Rank Xerox Holding BV and Subsidiaries

### Principles of Consolidation and Accounting Policies

A summary of the major accounting policies followed by the Group in preparation of these accounts is set forth below.

#### Basis of Consolidation

The consolidated financial statements incorporate the accounts of Rank Xerox Limited and its subsidiaries and Rank Xerox Holding B.V. and its subsidiaries (the Proforma Group, referred to as the Group) after elimination of all material inter- and intra-group transactions and the profits thereon.

Rank Xerox Limited owns 50% of the outstanding stock of Fuji Xerox Co. Ltd.; this investment is accounted for by the equity method.

#### Translation of Overseas Accounts

The financial statements of Group companies have been translated into U.S. dollars at exchange rates applied as follows:

- (a) Current assets (other than inventories) and current liabilities at rates approximating to the mid-market rates ruling at October 31.
- (b) Inventories and non-monetary assets (including fixed assets and related depreciation) at rates ruling at the time the assets were acquired; deferred taxation is likewise translated at historic rates.
- (c) Long-term debt at rates approximating to the mid-market rates ruling at October 31.
- (d) Income and expense items at rates applicable to the periods to which they relate.

Exchange differences resulting from the foregoing procedures are charged or credited to income.

The above translation policies are in compliance with Standard No. 8 of the United States Financial Accounting Standards Board.

#### Depreciation

The cost of rental equipment, buildings and equipment is depreciated over the estimated useful lives of the assets (4 to 5 years for rental equipment) on a straight line basis. Significant improvements are capitalized; maintenance and repairs are charged to income. The cost and accumulated depreciation of assets retired or otherwise disposed of are eliminated from the accounts and any resulting gain or loss is credited or charged to income.

#### Unrealised Intra-Group Profits

These profits arise on sales of equipment and supplies by certain companies to other Group companies. Such profits, and taxation attributable thereto, are dealt with in the statements of income as regards supplies when realised and as regards equipment evenly over the estimated useful life of such equipment. Accordingly, the unrealised element of profit has been deducted in arriving at the value at which such equipment and supplies are carried in the consolidated balance sheets and taxation paid or payable on such profit has been carried forward.

#### Capital Leases

The Group has adopted capital lease accounting procedures in compliance with Standard No. 13 issued by the United States Financial Accounting Standards Board in November 1976.

Under these procedures assets held under capital leases entered into after October 31, 1976 are capitalised in the accounts at the lower of (a) the present value of the rental payments at the beginning of the lease term and (b) market value at that date, adjusted for depreciation (on a straight line basis) at rates intended to write off the capitalised amount over the terms of the lease. The corresponding liabilities are included in long-term debt or current liabilities as appropriate. The adoption of this policy resulted in a decrease in profit of \$58,000 for the year ended October 31, 1977 compared with the former method.

#### Income and Expense

- (a) With effect from November 1, 1976 the Group is charged with a proportion of Xerox Corporation's research and development and corporate overhead costs in order to reflect the benefits that the Group receives from these activities. These charges for the year to October 31, 1977 were \$72,407,000 (\$52,593,000 for research and development and \$19,814,000 for corporate overhead costs) (1976—nil).
- (b) The consolidated statements of income include aggregate exchange losses of \$22,245,000 in 1977 and exchange gains of \$40,531,000 in 1976 attributable principally to the revaluation of monetary assets and liabilities.
- (c) In the consolidated statements of income, other income includes Rank Xerox Limited's share of Fuji Xerox Co., Ltd.'s net income of \$4,026,000 in 1977 (\$6,397,000 in 1976).

## Inventories

Inventories consist of:

(US Dollars in thousands)	1977	1976
Finished products	\$142,172	\$132,214
Work in process	15,179	18,783
Raw materials and supplies	23,457	23,044
Total inventories	<u>\$180,808</u>	<u>\$174,041</u>

## Land, Buildings and Equipment

A summary of land, buildings and equipment and accumulated depreciation follows:

(US Dollars in thousands)	Estimated Useful Lives	1977	1976
Assets			
Land		\$ 19,065	\$ 16,820
Buildings and building equipment	50 years	104,235	96,760
Leasehold improvements	Term of lease	50,626	45,436
Plant machinery	13 years	149,391	123,158
Office furniture and fixtures	20 years	56,597	50,363
Other	3 to 5 years	84,522	86,179
Construction in progress		15,308	24,461
Total		<u>479,744</u>	<u>443,177</u>
Less accumulated depreciation		128,189	111,487
Net land, buildings and equipment		<u>\$351,555</u>	<u>\$331,690</u>

Assets recorded under capital leases included in the above summary amounted to \$7,643,000 at October 31, 1977.

## Notes Payable

Notes payable generally represent short-term borrowings principally from banks, in local currencies.

A summary of information relating to notes payable follows:

(US Dollars in thousands)	1977	1976
Maximum amount outstanding at any month end	\$120,971	\$159,288
Month-end average balance	\$ 98,087	\$117,131
Weighted average interest rate at year end	12.29%	12.89%
Weighted monthly average interest rate	12.96%	11.12%

At October 31, 1977 the Group had unused lines of credit aggregating \$179,600,000 in various currencies at the best available interest rates.

## Retirement and Pension Plans

The cost of contributions to retirement and pension plans amounted to \$22,231,000 and \$16,573,000 for 1977 and 1976 respectively.

Retirement benefits for employees are normally provided through separate plans, controlled by trustees, to which the Group contributes the major part, or all, of the cost.

The market value of pension funds as of October 31, 1977 exceeded the actuarially computed value of vested benefits. Past service costs are substantially funded.

## Income Taxes

Income tax expense consists of the following:

(US Dollars in thousands)	1977	1976
Current	\$185,208	\$190,083
Deferred	(13,062)	(26,416)
Total income taxes	<u>\$172,146</u>	<u>\$163,667</u>

As a result of the tax effects of timing differences between financial statement and tax reporting, income taxes currently payable exceeded the amount charged to income by \$13,062,000 in 1977 and \$26,416,000 in 1976.

The nature and tax effects of timing differences (computed under the deferral method) follow:

(US Dollars in thousands)	1977	1976
U.K. inventory allowance deducted for tax purposes not included in financial statements	\$ (2,297)	\$ 33,198
Depreciation and amortization provided for tax purposes in excess of amounts in financial statements	26,538	(11,955)
Profits in intra-group sales included in tax returns and deferred in financial statements	(37,116)	(27,794)
Other	(187)	(19,865)
Total	<u>\$ (13,062)</u>	<u>\$ (26,416)</u>

The effective income tax rate in 1977 was 53.4% (45.7% in 1976). The increase in rate was principally due to non-deductible exchange losses in 1977 compared to non-taxable exchange gains in 1976.

Deferred income taxes have not been provided on the undistributed earnings of subsidiaries and Fuji Xerox Co., Ltd. The Group has reinvested these earnings and does not plan to initiate any action which will precipitate the payment of income taxes thereon.

### Long-Term Debt

A summary of long-term debt follows:

(US Dollars in thousands)	1977	1976
6½% to 12½% notes (1976—5¾% to 9¼%) due at various dates to 1981—payable in US dollars (c)	\$ 38,700	\$ 91,878
5% to 8½% notes and mortgages (1976—7% to 15%) due at various dates to 1996—payable in pounds sterling	32,880	86,144
7½% to 10% notes and mortgages (1976—6¼% to 10%) due at various dates to 1990—payable in Dutch guilders	86,209	108,741
5% to 16% notes (1976—8½% to 12½%) due at various dates to 1986—payable in French francs (c)	21,405	22,256
7⅞% to 15⅞% notes and mortgages (1976—7⅞% to 21%) due at various dates to 1986—payable in Italian lire (c)	18,437	4,283
7½% to 11% notes and mortgages (1976—6¼% to 13¼%) due at various dates to perpetuity—payable in other currencies (c)	14,859	19,726
	<u>212,490</u>	<u>333,028</u>
Liabilities under capitalised leases	7,294	—
Total	<u>219,784</u>	<u>333,028</u>
Less: Payments due within one year	19,853	50,927
	<u>199,931</u>	<u>282,101</u>
Add: 5½% to 11% (1976—6% to 11%) loans from Xerox Group Companies (c)	121,492	58,747
Long-term debt	<u>\$321,423</u>	<u>\$340,848</u>

- (a) Rank Xerox Limited has borrowed \$13,848,000 (1976—\$11,932,000) in sterling from a third party the consideration for which was a dollar loan of an equivalent amount, the funds for which were provided by a loan from Xerox Corporation. The loan from Xerox Corporation has subsequently been transferred to a subsidiary of Rank Xerox Limited. Although the loans are repayable in 1984, Rank Xerox Limited and the third party each has the right in December 1979 to require repayment. In this case Xerox Corporation has the right to require repayment of its loan.
- (b) Payments due on long-term debt (excluding capitalised leases and loans from Xerox Group Companies) for the next five years are:  
1978—\$18,501,000; 1979—\$22,498,000; 1980—\$34,365,000; 1981—\$43,622,000 and 1982—\$14,899,000.
- (c) The interest rates on notes are subject to periodic adjustment.
- (d) Interest on long-term debt amounted to \$35,605,000 in 1977 and \$44,718,000 in 1976. Interest expense for 1977 and 1976 is net of \$1,240,000 and \$1,513,000 respectively, of interest income on amounts loaned under parallel loan agreements.

## Leasing Arrangements

### As Lessee

Total rent expense under operating leases amounted to \$40,108,000 in 1977 and \$37,021,000 in 1976. Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of October 31, 1977 are: 1978—\$28,607,000; 1979—\$23,796,000; 1980—\$19,783,000; 1981—\$16,633,000; 1982—\$15,953,000; and in the aggregate—\$267,544,000.

In accordance with Statement No. 13 of the Financial Accounting Standards Board, assets and obligations relating to leases entered into on or after November 1, 1976 which meet the capital lease criteria are recorded in the balance sheet. Certain leases in existence at October 31, 1976 are classified and accounted for as operating leases but meet the criteria for classification as capital leases. The following information relates to such leases which were not required to be recorded in the balance sheet as capital leases for 1977 reporting purposes:

(US Dollars in thousands)	1977	1976
Land, buildings and equipment	\$59,264	\$59,607
Less accumulated depreciation	15,067	10,389
Net land, buildings and equipment	<u>\$44,197</u>	<u>\$49,218</u>
Obligations under capital leases		
Due within one year	\$ 4,088	\$ 4,346
Due after one year	45,632	47,180
Total	<u>\$49,720</u>	<u>\$51,526</u>

Net income for 1977 would have decreased \$3,215,000 had these leases been accounted for as capital leases.

### As Lessor

Principal lease arrangements include maintenance, service and parts, but not supplies such as toner and paper which are sold separately. Lease terms vary from one to thirty six months. Minimum future rental revenue on noncancelable operating leases are: 1978—\$713,000; 1979—\$237,000; 1980—\$88,000; 1981—\$24,000; and in the aggregate—\$1,062,000.

## Report of the Auditors

to the Directors of **Xerox Corporation**  
and **Rank RX Holdings Limited**

We have examined the combined financial statements of Rank Xerox Limited and Subsidiaries and Rank Xerox Holding BV and Subsidiaries ("The Proforma Group") set out on pages 29 to 37 for the year ended October 31, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated balance sheet, consolidated statement of income and consolidated statement of changes in financial position together with the notes thereon present fairly the financial position of the Proforma Group at October 31, 1977 and the results of operations and changes in financial position in conformity with U.S. generally accepted accounting principles for the year ended that date.

London  
January 20, 1978

**Peat, Marwick, Mitchell & Co.**  
Chartered Accountants

