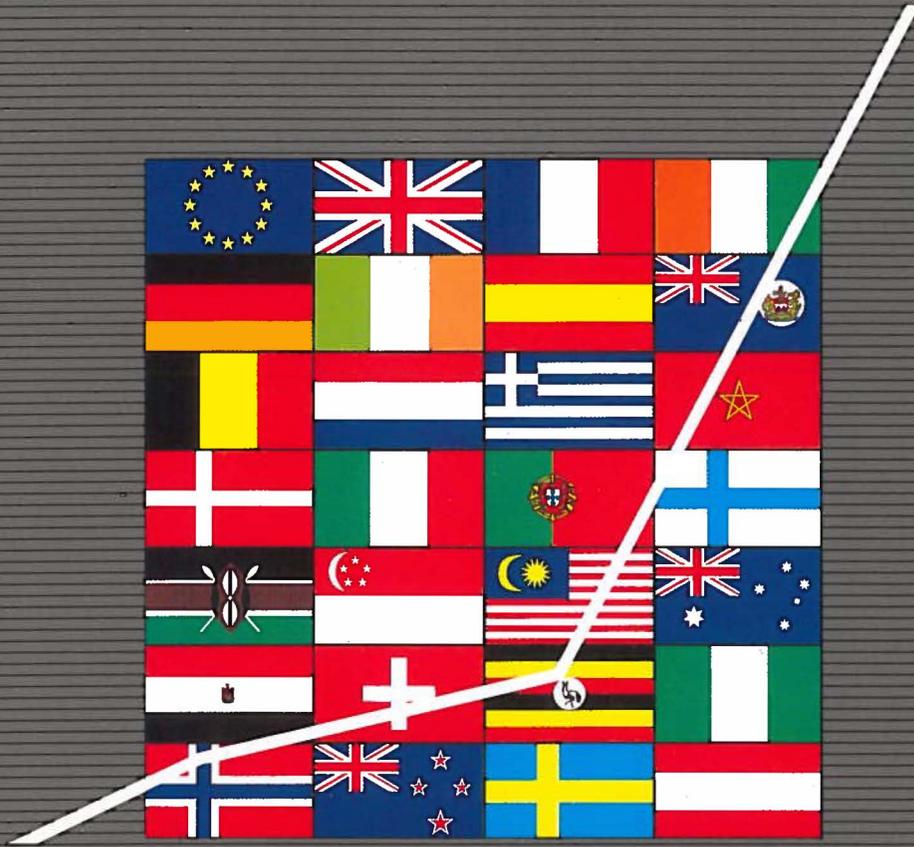


1989
INTERNATIONAL
REPORT





The flags on the front cover are those of the many countries in which Rank Xerox has its principal subsidiaries together with the flag of the European Community where Rank Xerox has its strongest presence. The graph represents the increase over the last five years in profits before taxation and Xerox Corporation charges from £163 million to £415 million.

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Rank Xerox is a leading supplier of document processing equipment in over 80 countries in the Eastern Hemisphere. A complete range of products and services is provided to meet customers' needs in the creation, printing, copying, distribution, filing and publishing of paper and electronic documents.

Rank Xerox has one of the largest sales and service organisations in any industry, operating through direct marketing organisations in 30 countries and complemented by numerous distributors, agents and dealers. Our distribution network is generally acknowledged as the foremost in the sector.

It is in the European Community that Rank Xerox has its strongest presence and makes its largest contribution. All of our wholly owned manufacturing operations are in the Community as well as our research, development and engineering activities.

REVIEW OF THE YEAR



Roland Magnin
Managing Director and Chief
Executive Officer

I am pleased to report a strong increase in profits for Rank Xerox for the year ended October 31, 1988.

Profits before tax (and before our contribution to Xerox research and development and central overhead costs) increased by 31 per cent to £415.2 million. Revenues rose by 4 per cent to £2.3 billion. Excluding £118 million of year on year currency impact, the increase was 9 per cent.

The growth in profits during each of the past five years – when there has been intense competitive pressure – reflects the success of the products and services we have brought to the market, our dedication to satisfying the needs of customers, our control of costs and our commitment to achieving our objectives.

We achieved the strong increase in profits despite the lower growth in revenue because we maintained our gross margins and continued to control costs.

Placements of our products continued to increase and there was particularly strong growth in sales of electronic printers and facsimile.

Our traditional copier/duplicator activity was outstanding in the high and mid-volume sectors of the market. At the high end, where competition is from copiers and offset machines, we out-paced our main plain paper copier competitor in the sector, Kodak, and in the mid-volume sector we increased our market share for the third successive year.

There was a substantial increase in the total number of centralised electronic printing products installed and in decentralised electronic printing significant numbers of the Xerox 4045 and the Xerox 4046 were placed through bulk orders, demonstrating that both are outstanding products in a distributed printing environment.

The revenue produced by the office systems business improved slightly compared with last year in spite of the difficult market in electronic typewriters. Although our results are below expectations we have increased our market share.

Our leasing business continues to be extremely successful with an increase of 70 per cent in profit.

The launch at Dusseldorf in November 1988 of so many new and powerful additions across our product range is a bold statement to our competitors and a firm commitment to our customers. It is a strong position from which to start the new year. The Rank Xerox range of products and services in document processing is the widest in the industry and we are the acknowledged leader in many areas. We are determined to maintain and improve this leadership.

CUSTOMER SATISFACTION

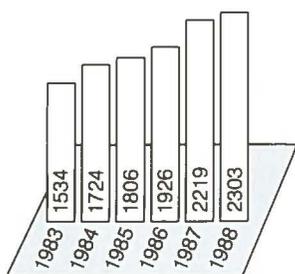
Satisfying the needs of customers remains the number one company priority. In Rank Xerox it is not a spectator sport. Every single employee plays his or her part in achieving customer satisfaction. The results we have attained here are a direct outcome of Leadership Through Quality. The progress and change made in our attitude and culture to become more customer-oriented has been tremendous.

Our objective is to be recognised by our customers as the best supplier in each of our business areas by 1990. This is a situation which has been achieved already in many business areas in a number of countries but our efforts will continue.

At the start of 1988 I announced that merit rises for our senior executives would depend on customer satisfaction and customer loyalty. This demonstrated the priority which we place on meeting the needs of customers. The scheme was successful and for 1989 it will be extended to a wider range of staff in international headquarters and the operating companies.

INTERNATIONAL REPORT

This report focuses on several important aspects of Rank Xerox operations rather than trying to review every part of the company's activity. It is therefore organised as a series of articles.



Revenues (£ms)
Revenues continued steady
growth in 1988

The first article summarises the range of services which Rank Xerox offers and shows how we have unrivalled capability to provide customers with solutions to their document processing needs. Over recent years we have developed our services to the extent that we believe that no other supplier can match our ability to help customers create, edit, print, transmit and store documents, whether electronic or paper. In 1989 a number of new products will be launched which will add further to our capability and help to maintain our leadership in the industry.

The rapid growth of Rank Xerox in its early years was based on leadership in the technology of plain paper copying. The technological base of the industry is now much wider and encompasses areas such as electronics and systems. Rank Xerox makes a considerable investment in design and development in Europe to ensure that the company keeps its position at the forefront of the industry. This is reviewed in the second article.

An area of strong competitive pressure has been manufacturing. Increased efficiency has reduced the cost of manufacture throughout the industry while at the same time the technology has become much more advanced. Rank Xerox has set the pace in manufacturing and an article looks at this together with the advanced distribution system which the company has introduced. We look particularly at Venray in the Netherlands where the company's European Logistics Centre is located with a major manufacturing site.

CHINA AND INDIA

Rank Xerox operates throughout the Eastern hemisphere where there are many countries with great potential for economic growth. China and India are two examples. As the most populous countries on earth both are keen to expand their economies and obtain access to Western technology. This report summarises how Rank Xerox has developed business in China and India and is meeting their special needs.

THE ENVIRONMENT

Recent years have seen a substantial increase in worldwide concern for the environment. People have become more aware of the potential effects of man's activities on the well-being of the planet. Xerox and Rank Xerox have long shared this concern and have spent considerable sums of money and management time implementing and monitoring environmental policies. Rank Xerox policy is reviewed in an article.

THE EUROPEAN COMMUNITY

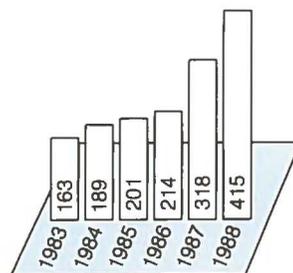
Rank Xerox operates in many countries but it is in the European Community that it has its strongest presence and makes its largest contribution. The final two articles examine this. The first summarises Rank Xerox's commitment to Europe, our investment and activity. The second describes how Rank Xerox is preparing for the creation of a single European market in 1992. This historic development will create the most populous single market in the world and Rank Xerox is preparing to deal with the challenges and opportunities this presents.

CONCLUSION

In 1988 Rank Xerox entered a new phase of growth. Our period of recovery has ended and we are now aiming to be regarded as the best supplier in each area of our business in every country. We have the commitment, the technology, the manufacturing and marketing skills and the range of services to achieve this aim. We intend to do so.

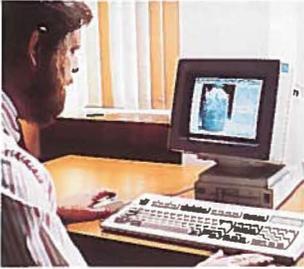


Roland Magnin
Managing Director and Chief Executive Officer
February 1989



Profits (£ms) before tax and Xerox recharges.
Profit grew by over 30 per cent in 1988

DOCUMENT SOLUTIONS



Xerox Ventura Publisher is the world's leading desktop publishing software.

It is estimated that in offices in Western Europe alone, two and a half billion pages of information are generated every day. They can take many forms but at least 40 per cent are intended to be used as decision making aids by managers and professionals. However, research has shown that less than half of the pages are read or assimilated. People do not have the time to absorb and understand so much information and a large part of the information is presented in a manner which limits the ability of people to use and thus add value to it.

The natural way for people to handle information is to have text, data, graphics and images in a document.

The document is the essential currency of today's workplace. It is the window into the enormous database that exists in the office. It is the medium by which work is exchanged, sales proposals are made, contracts are agreed, policies are recorded. It is the lifeblood of a business.

The way in which information is structured and presented in a document is of key importance to the quality of decisions and the quality of decision making is the key factor differentiating successful and unsuccessful enterprises. The ability to structure information into a document is the major strength that Rank Xerox offers to the market. Rank Xerox provides Document Solutions.

A document is dynamic. Whether in electronic form or on paper, a document that is an output from one system can be input to another. In the process it can be captured, edited, augmented, included, communicated, printed, published. Data capture is achieved by origination in an electronic typewriter, by extraction from computer files, by document access using a workstation or by scanning a paper document. Capture plus editing and

inclusion can be carried out at a workstation, using an environment such as Xerox ViewPoint. Linking it to a network system adds the ability to communicate it to others, locally or worldwide. High quality printing can be achieved by making the receiving station a laser printer.

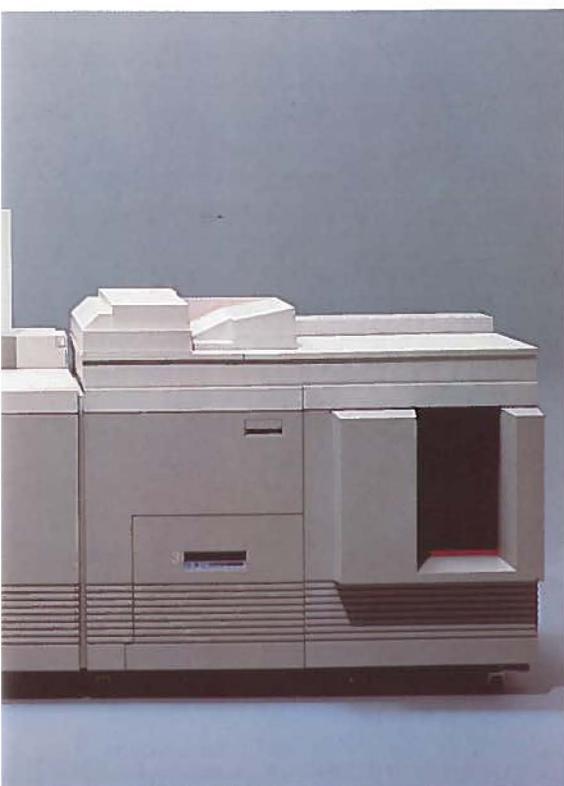
Rank Xerox is the leader in providing Document Solutions. It offers the widest range of options in the industry and is the acknowledged leader in a number of areas.

The first of these is high volume copying. Reprographics was the base on which the success of Rank Xerox was built and no other supplier can match Rank Xerox in this field.





The Xerox 9790 electronic printer provides fast, quality laser printing, handling up to 120 A4 pages per minute. It is easy to operate through a simple keyboard and colour screen.



Heading the new 50 series family, the Xerox 5090 establishes a new top speed of 135 copies per minute and new benchmarks for copy quality, productivity and operating simplicity. It is also the first xerographic production duplicator to enlarge as well as reduce.

The second is the electronic printing of mainframe computer output. Rank Xerox' ability to print electronic data processing output is superior to that of any other supplier.

Thirdly Rank Xerox, through its research centre at Cambridge, England, leads the way in the development of technologies to improve the human interface with computers.

Xerox has also set standards in local area networks with Ethernet and with Xerox Network Services in general and is the leader in desktop publishing where Xerox Ventura Publisher is the world's leading desktop publishing software.

Rank Xerox is determined to maintain this leadership and will do so by continuing to work at the forefront of technology.

For example, a significant development in 1988 was the alliance between Xerox and Sun Technology to allow the exchange of network and systems related technology.

The Rank Xerox commitment to maintain its leadership does not stop when the product arrives at the customer. Rank Xerox has one of the largest capabilities for customer support including service, consumables supply, and comprehensive training tailored to meet individual customer's needs.

This leadership was demonstrated in November 1988 at an international press conference in Dusseldorf, West Germany. At this event Rank Xerox showed three different office environments, each demonstrating aspects of document processing and the solutions which Rank Xerox offers.

Included in the event were several outstanding new products which add to the quality and range of capabilities offered by Rank Xerox. In 1989 the range of Document Solutions offered by Rank Xerox will continue to increase.



The Xerox 4090 Laser Printing System was introduced to Europe in November 1988. With a print speed of up to 92 pages per minute, the 4090 enables data centres to cost-effectively produce high quality reports and complex documents, incorporating graphics, forms, logos, signatures and a wide variety of fonts.

THE IMPORTANCE OF RESEARCH

The need for co-operation in research in Europe is clear. For example, Europeans invested almost ECU 10 billion in the development of sophisticated digital switching systems for telecommunications, ending up with nine different systems. Americans invested ECU 5 billion and the Japanese invested ECU 4 billion to produce fewer systems but with many times the market potential of the European equivalents, which had been designed for the home markets.

If European business is to compete on a world scale, the co-operative aspects of research need to be fully exploited. Only a total European dimension of the market will provide the competitiveness on a world scale already taken for granted by Japan and the USA.



Cambridge University in the UK. One of the recipients of advanced hardware and software under the Rank Xerox University Grant Programme.

EUROPARC

Rank Xerox recognises the importance of European co-operation in research, as was demonstrated by the opening in 1988 of the new building for EuroPARC in Cambridge, England. EuroPARC was first announced by Rank Xerox in 1986.

EuroPARC, Rank Xerox' European research centre, has a charter to carry out basic research in the area of human-computer interaction. Its research mission is to make systems more useful and usable by understanding how people go about designing them, and how systems are evolved through application and redesign. EuroPARC is geared to utilise some of the unique contributions which Europeans can offer.

In order to gain as broad a view as possible, EuroPARC's staff are drawn from several countries and a wide range of disciplines, including social science and anthropology. A number of groups work on a variety of projects



Rank Xerox EuroPARC in Cambridge, England. The European centre for research into human-computer interaction.

which interweave with each other. For example, one of the research groups is looking at the support needed for collaboration and communication using computer-based systems. There are close links with several universities.

The work of the centre adds to the level of expertise in Europe. By the time that academic staff seconded to EuroPARC return to their careers in education they have had full use of the most advanced technology available.

EuroPARC is part of Xerox' and Rank Xerox' commitment to research. The company sees its technological future growing out of direct participation in world science.

SYSTEMS ENGINEERING

Based at Welwyn Garden City in the UK is the Rank Xerox Systems Business Division Engineering (SBD-E) group. This group is the European product delivery team and is responsible for the provision of technical expertise for the development, launch and enhancement of a wide range of products within the document processing businesses.

Among its many activities, SBD-E ensures

that new systems products meet the requirements of multiple European national markets and cultural environments. In addition the group completes the preparations for products to be launched in Rank Xerox, provides solutions to systems software problems, develops new applications to improve customers' productivity and works with marketing units to develop systems solutions for major accounts.

Rank Xerox has made particular progress in allowing customers to operate products in many different languages. The Xerox ViewPoint multi-language software is unique in its ability to process many of the world's most strategic business languages and to incorporate any or all of these with any supported applications in a single document using graphs, charts and the like. The languages include Japanese, Chinese, Arabic, Persian, and all the languages of Europe and the Soviet Union.

With almost two hundred software and systems engineers, specialists and supporting staff, SBD-E is responsible for a wide range of products including electronic typewriters, network systems, professional workstations, electronic publishing, electronic printing, and facsimile products and systems.

SBD-E provides technical support to the manufacture of electronic typewriters and supplies at Lille, France, to the production of electronics for systems products at Welwyn Garden City in the UK, and to several European university sites including the nine participating in the Rank Xerox University Grant Programme.

INVESTMENT IN DESIGN

Rank Xerox differs from many other international companies in the document processing business in the extent of its investment in design and development in

Europe. While many companies carry out their technological development in their home country and only assemble in other parts of the world, Rank Xerox has ensured the exchange of technology between Europe and the other major economic blocs and it conducts a significant proportion of research and development for the corporation as a whole.

At Welwyn Garden City in the UK, Rank Xerox carries out the development of systems products printers and mid range copiers for the whole of Rank Xerox and Xerox including Modi Xerox in India. A significant portion of Xerox worldwide revenues are generated from this sector.

1988 was another significant year for the unit. The Xerox 5046 copier, launched at the start of the year after being designed at Welwyn, continues to meet the needs of many customers with its wide range of features. This was followed closely by the Xerox 5052 which was designed at Welwyn in response to customer requests.

Close attention to the needs of customers also resulted in the development of the Xerox 5042, a copier which is designed specifically to copy from bound volumes. A team at Venray in the Netherlands collaborated in the development of this product. Even though the product adapted existing technology, significant changes in software were needed and over 140 new parts had to be designed. One of the key features of the 5042 is that special sensors ensure that dark patches on the copy are considerably reduced when the original is smaller than A4 and the platen cover is raised.

The 5042 was demonstrated with great success at the American Library Association Conference in New Orleans and the Archive '88 Exhibition in Paris and is available from early 1989.



The Xerox 5046 copier was designed and developed in the UK for use around the world.



Roland Magnin, managing director and chief executive officer and Joe Marino, vice president and general manager, Mid Range Products and Systems Business Unit, present Customer and Service Education representatives Roger Cousins, Ken Lippiatt and Paula Taylor with the Welwyn Garden City 1988 Teamwork Award for their contribution to the remote service training development team.

ANOTHER YEAR OF PROGRESS

The mission of the Rank Xerox Manufacturing Operations in Europe is to manufacture and deliver products which customers recognise satisfy their requirements better than competitive products, whose acquisition and ownership costs are competitive with the best and are on delivery schedules that are as short as those of the best.

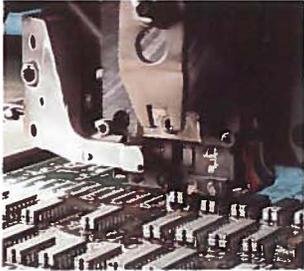
In 1988 further progress was made against all of these aims and production volumes grew strongly.

At Mitcheldean in the UK, another very successful year saw the production of the Xerox 5046, 5028 and 5018 copiers. Demand for these products was so strong that some 350 supplementary staff were recruited during the course of the year.

The manufacturing site at Welwyn Garden City in the UK also experienced strong growth in the volume and scope of production output within their three manufacturing sectors of electronics, photoreceptors, and final assembly. All three units were required to run on three shifts.

Manufacturing operations at Welwyn were involved in the launch of ten new products in 1988, including the Xerox 5046 and 5052 copiers. With strong demand for all Rank Xerox products and several new contracts for outside customer business there has been a steady demand throughout the year to expand the workforce and an additional 200 staff have been recruited.

The costs of manufacturing Rank Xerox products have been maintained at very competitive levels. This has been achieved by many actions, notably the introduction of manufacturing for customers outside the Xerox group and investment such as the acquisition for £3 million of state-of-the-art electronics manufacturing and test equipment at Welwyn.



The production of printed wiring board assemblies is highly automated.

The microprocessor revolution in the electronics industry and the growth in demand has led to rapid changes in electronics manufacturing plants around the world. Rank Xerox is at the leading edge of these developments. For example, Rank Xerox at Welwyn bought its first Surface Mounted Technology (SMT) line in 1986, making it one of the most advanced printed wiring board assembly plants in Europe. A fourth assembly line is now planned which will give Welwyn the capability of assembling over 600,000 miniaturised components per day.

VENRAY

This year's report takes a special look at the Rank Xerox plant in Venray, the Netherlands.

Rank Xerox has been at Venray since 1965 and has a number of operations there, principally Manufacturing Operations and the European Logistics Centre (ELC).

Venray is the second largest manufacturing operation in Xerox worldwide. It is responsible for the production of mid-volume copiers for use throughout Xerox and Rank Xerox, the production of major sub-assemblies and electronics, and the production of special materials such as toner and developer.

In 1988 there was continued strong demand for the mid-range Xerox 10-series copiers, such as the Xerox 1050. Production volumes at Venray of the 1050 and 1040 rose respectively by 30 per cent and 100 per cent more than anticipated. Production was also started of the new Xerox 5052 processor and a module for the new Xerox 5028 copier announced in Dusseldorf in November 1988. The 5052 has been so successful that production demand was 30 per cent higher than anticipated in 1988. Strong growth is expected throughout 1989.

Venray is a model plant in terms of quality, costs, delivery and service. This position has



Rank Xerox at Venray in the Netherlands is the largest single Xerox site located outside the United States.

been achieved by considerable restructuring and by substantial reduction of costs over a period of several years. For example a fully automated system for acquiring and controlling materials was developed and implemented and yielded major benefits. In addition, a team of 20 staff from Venray work at Welwyn Garden City in the UK with the product development team in order to prepare for the smooth transfer of products to Venray for production.

In order to meet the increased demand in 1989 a number of actions are being taken which are increasing efficiency even further.

The production capacity has been extended by 20 per cent and the storage and movement of small parts is being handled automatically by unmanned machines. Using bar codes, the machines locate the parts in 25,000 locations and take them to where they are needed on the assembly line.

Work has also started on robot welding of frames, and a number of other projects which will help increase effectiveness.

Apart from these actions Rank Xerox Venray has also started to carry out work on behalf of customers outside the Xerox group to ensure that the maximum possible use is made of its capacity.

EUROPEAN LOGISTICS CENTRE

An increasingly important activity at Venray is the work of the European Logistics Centre (ELC) which is the hub of the Rank Xerox distribution operation.

The ELC concentrates the full range of components and consumables used in Rank Xerox equipment on a single site, close to 70 per cent of the Rank Xerox customer base and placed strategically close to excellent transport facilities by air, road and sea.

The Centre serves outlets in over 80 countries from Northern Europe to the Middle

East, Africa, Asia, and the Americas. Within a couple of hours of an order being received at the ELC a consignment can be on its way to any part of the world.

'JUST IN TIME' DISTRIBUTION

Rank Xerox has made considerable progress over the last few years in manufacturing efficiency, quality, and costs. Substantial progress is also being made in distribution using the same principles to achieve 'just in time' distribution.

For example, in 1982 only 70 per cent of the Venray plant's inbound shipments arrived on time. After close attention to Rank Xerox systems and the effectiveness of suppliers the situation has been turned around to the extent that in 1988 some 98 per cent of inbound deliveries arrived precisely at the time expected and 70 per cent arrived just in time, that is within an hour of their being needed. The quality, reliability and cost of inbound parts was also improved greatly over the same period.

An outbound 'just in time' distribution system is now being designed and implemented. Such a network will eliminate most of the remote stocking locations in Europe and ship parts and finished products on a 'just in time' basis directly to service engineers in the field and to customers. This could reduce distribution cost by as much as 30 per cent.

It is planned that in five years time all Rank Xerox products will be delivered directly to customers from the ELC and that most spare parts will be delivered directly to engineers.

The Centre is ideally placed to help Rank Xerox take advantage of the opportunities presented by the internal market in 1992 which will allow the free movement of goods in the European Community.



Quality is the top priority at Venray.

CHINA AND INDIA: MARKETS WITH GREAT POTENTIAL

Rank Xerox operates throughout the Eastern Hemisphere. This contains many economies which have great potential and which present a wide variety of challenges.

Two of the largest potential markets in the world are China and India. Their combined populations total almost half that of the world. As their economies develop, the demand for office equipment will grow accordingly.

CHINA: A LONG JOURNEY BEGINS

China is developing very rapidly. Over the next 20 to 30 years it is projected to have one of the highest economic growth rates in the world. Rank Xerox and Xerox intend to be in a position to take advantage of the markets offered by this growth.

China also represents an opportunity for the company to have a source of low cost components, parts and products in the future, to export to the rest of the world. To make sure that this happens the company is investing in China today.

Xerox equipment has been in use in China since the early 1970s. Since 1980 Xerox has had an operating company dedicated to this vast country, the most populous on earth.

MARKETING

The marketing company, Xerox Limited, is headquartered in Hong Kong. A representative office was opened in the Chinese capital city of Beijing in 1983.

Equipment at work in the People's Republic of China ranges from Xerox 1025 and 1065 copiers to a variety of facsimile machines and engineering copiers.

Service is provided by a network of service

centres that have been set up with Chinese organisations. These divide the vast country into four service territories with centres in Beijing, Shanghai, Canton and Chengdu in the Sichuan province. The network provides not only service but parts and supplies.

In 1987 a service training centre was opened in Shenzhen, a special economic zone in South China. As well as training engineers the centre trains customers with more sophisticated products such as engineering copiers and electronic printing systems.

MANUFACTURING

Since early 1988 Xerox has been manufacturing in the People's Republic through an equity joint venture called Xerox Shanghai which is owned by Xerox, Shanghai SMPIC Corporation and the Chinese Bank of Communications.

Located in Minhang, a special economic development zone near Shanghai, it assembles low volume copiers from imported parts and sub-assemblies. Within five years it expects to secure nearly 70 per cent of its parts requirements from local manufacturing sources.

In addition to the assembly plant there are plans for another to manufacture photo-receptors and one to make toner and developer.

When the three plants are completed they will have the capacity to produce machines and consumables for up to 30,000 copiers per year. Some of these products will eventually be available for export as well as use in China.

Export is an important objective for the People's Republic. The export of parts, components and machines to worldwide markets will earn valuable foreign exchange for the country.



Window glass at entrance to the Xerox Electronic Printing Centre reflects the myriad bicycles of a Beijing street scene.

LASER PRINTING COMES TO CHINA

Early in 1987 the Beijing Xerox Electronic Printing Centre was opened. This contains document creation, transmission and printing equipment worth \$1.4 million and is the most advanced and complete facility for document processing in China.

The Beijing Centre is unique among foreign joint ventures in China as it is a high technology venture but is not aimed at producing a profit for the foreign partner. Any operating profit from the Centre is turned over to Chinese computer research organisations to help develop new Chinese character software which is sorely

needed if computer usage is to expand in the People's Republic.

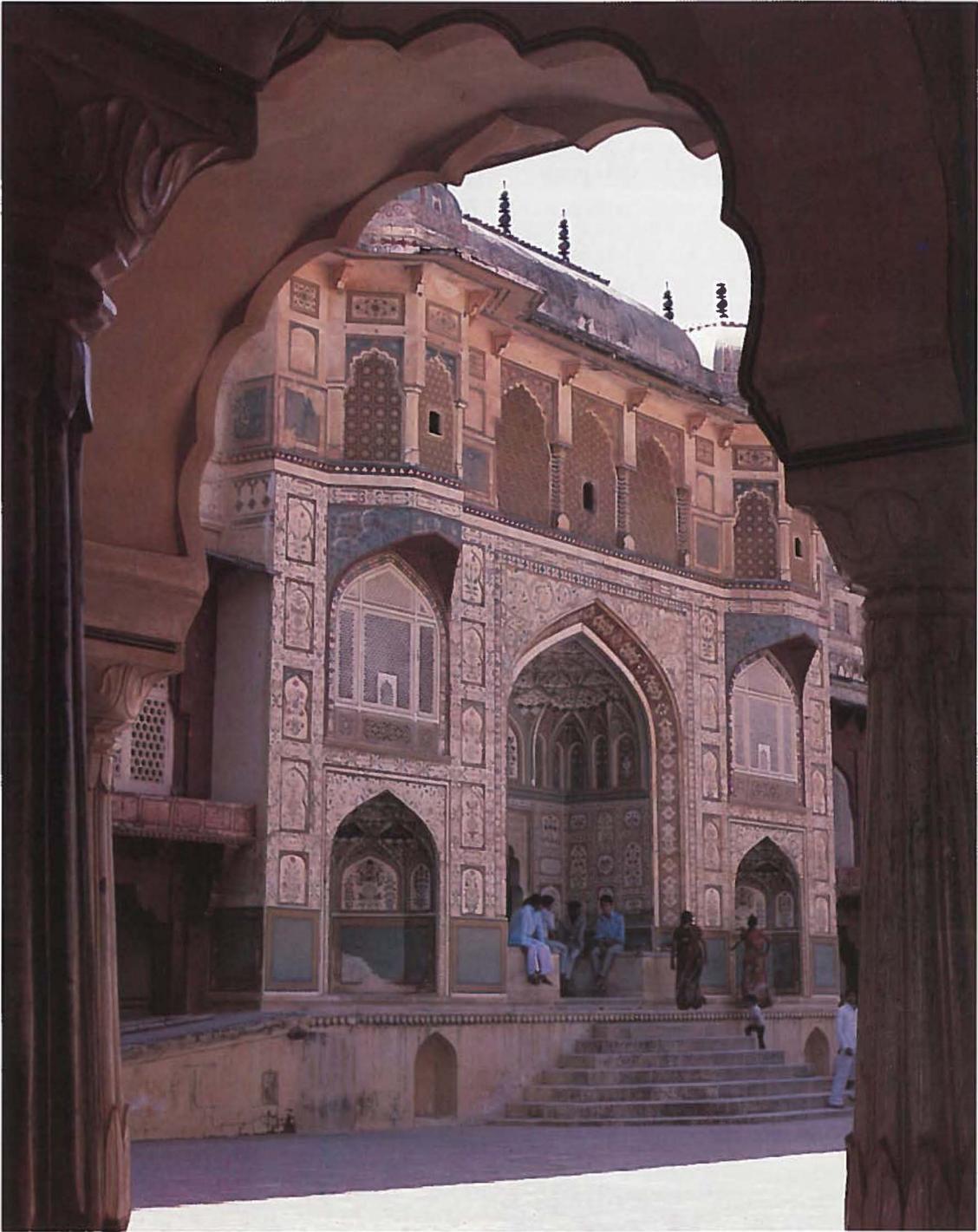
It also provides an excellent way for potential customers to see Xerox equipment in use. For example, the Centre has Xerox 4045 laser desktop printers which are used in conjunction with the Chinese-made Great Wall Personal Computer and with Xerox 6085 workstations.

Considerable progress has been made by Xerox in China in just a few years but the vast potential means that many more exciting developments can be anticipated through the 1990s.



Lions and fire-crackers. The way the Chinese celebrate important events such as the opening of the Beijing Xerox Electronic Printing Centre.

CHINA AND INDIA: MARKETS WITH GREAT POTENTIAL



India, a country with vast potential.

INDIA - A MARKET OF EXTREMES

India is one of the most difficult but potentially most rewarding of the world's developing markets. It is a market of extremes. It has put its own satellites in space yet much of India still moves on bullock carts. It has nuclear power stations yet much of it continues to cook on dung fires.

It is a market which is slowly being opened up to international competition. Foreign investment is now officially welcomed because the government recognises the need to boost its technology, its quality and its international competitiveness.

RULES FOR INVESTMENT

India is not alone in wanting to unlock its vast potential. International companies such as Rank Xerox are increasingly willing to offer technology in return for a foothold in India.

The rules for investment are fairly clear. The maximum overseas equity investment in a joint venture is normally 40 per cent and an obligation to export is almost invariably imposed on all new ventures.

There is also great emphasis on technology transfer. In considering proposals, the Indian government looks carefully at plans for the absorption of technology. Royalties are permitted, as are technical know-how payments, but there is encouragement of local sourcing of materials in order to conserve the outflow of foreign exchange.

THE RANK XEROX EXPERIENCE

The Rank Xerox domestic operation in India is Modi Xerox. This is a joint venture with the Modi group to which Rank Xerox has transferred, or licensed, state-of-the-art copier technology. It is an Indian company of which Rank Xerox owns 40 per cent with the balance being held by the Modi group and the Indian public.

The two key planks on which the Indian government approved this joint venture were a manufacturing plan incorporating local sourcing and an obligation to export.

The five year manufacturing plan increases the use of local components in the finished product so that there will be 80 per cent local components five years after commencement of local production. The export obligation is that Modi Xerox must export 30 per cent of its production over a five year period.

MARKET LEADER

Modi Xerox is now the market leader in copiers. It has earned this position because of its commitment to the customer and to the economy. As well as a full manufacturing programme at the plant at Rampur, 100 miles north east of Delhi, Modi Xerox has a fully dedicated service force, a factor which is unusual in India.

Modi Xerox employs around 1,200 people and has branches in 22 cities throughout India. Its performance has been very satisfying. Over 10,000 machines were placed with customers by the end of 1988 and profit break even was achieved as planned by 1987/8.

CHALLENGES OF THE FUTURE

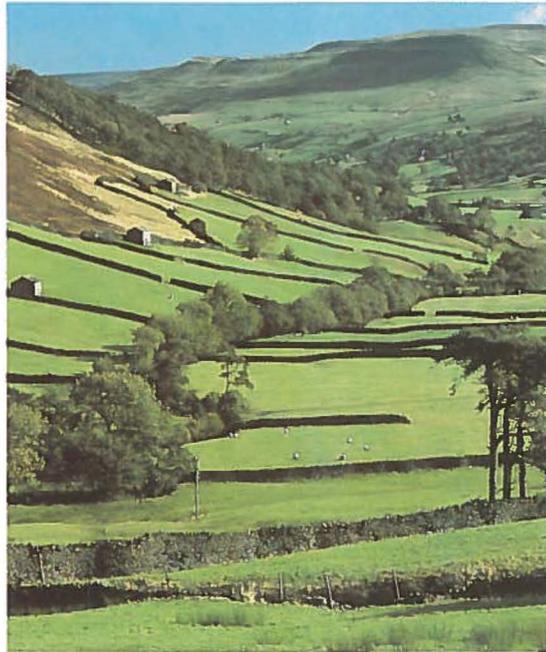
There are three main challenges for the future. The first is to source components at a cost and quality that compares favourably with European sources. This has proved more difficult than anticipated. The second, which is partly a consequence of this, is to continue to meet the export obligation. The third is to grow the market in India and thus the financial return to Rank Xerox. Although this will be determined greatly by economic circumstances Modi Xerox is doing much to influence the market awareness of its products and to further improve the economics of doing business.



The Modi Xerox sales team in Vashi, New Bombay, discuss a new campaign.

PROTECTING THE ENVIRONMENT

Care for the environment is one of the concerns of Rank Xerox.



Recent years have seen a substantial increase in concern for the environment. More and more people are becoming aware of the potential effects of man's activities on the well-being of the planet.

Xerox and Rank Xerox have long shared this concern and have always taken stringent steps to ensure that the company's activities are environmentally sound. In 1987 a major programme was started to review again all of the company's possible impacts on the environment.

Rank Xerox policy has always gone well beyond legislative requirements. As well as following environmental health and safety laws, Rank Xerox is committed to supplying products which are safe to operate and service, and a work environment and work processes which are safe for employees and which have no impact on the company's neighbours or the environment.

MANUFACTURING

It is in a company's manufacturing operations that the greatest potential for environmental damage exists. Rank Xerox policy here is quite specific. It states:

- Air emissions are controlled within levels posing no threat to public health and welfare.
- Water discharge quality is controlled at levels designed to maintain the chemical, physical and biological integrity of the receiving waters.
- Liquid and solid waste disposal of hazardous or toxic material is conducted in a manner designed to promote the protection of health and the environment and to conserve valuable material and resources.

These are high standards and Rank Xerox commits considerable sums of money and management time to ensure that they are applied.

REGULAR MONITORING

Regular monitoring takes place to make sure that Rank Xerox meets these standards. In the last few years extensive sampling of the soil has taken place at each of the five European manufacturing sites. Outside experts have dug bore holes to check the contents of the soil and ground water for pollution. Without exception the company policy is to clean up any potentially hazardous materials and eliminate any future possibility of further leakage. Where this has been necessary on any Rank Xerox site the actions have either taken place already or are underway.

For example, at the manufacturing and engineering site at Welwyn Garden City in the UK a small quantity of waste materials was found underground in a clay basin. This was removed totally and infilled early in 1988.

Examples of such materials are the

chlorinated solvents used for de-greasing. At none of the Rank Xerox sites has the public water supply been affected by any of these materials but Rank Xerox continues to monitor all aspects including any possible migration of materials onto the sites from external sources.

In all of this work Rank Xerox follows the most stringent guidelines available and will continue to do so even if these prove to be more demanding than the standards which will eventually be agreed by the European Community.

WORK PROCESSES

The company's concern for the environment also encompasses its working processes. For example, the process for removing accumulated dirt from equipment to be refurbished was changed so that halogenated hydrocarbons were replaced with a water soluble degradable product which leaves no residue. Previously this sort of process had to use a chemical but the new process is completely free of any such substance.

OFFICE ENVIRONMENT

A less publicised but very important aspect of the environment is the office environment. Rank Xerox products are in offices in many different parts of the world. While they have always been environmentally acceptable, more attention is now being paid by customers to the potential environmental obtrusiveness of products. Environmental acceptability and safety continues to be a top priority for Rank Xerox.

During the last few years substantial advances have been made in this respect, particularly with regard to noise. Noise in the office is becoming a more important consideration as the quantity of electronic equipment increases and as people's expectations of their working environment grow. Rank Xerox products are already among the quietest on the market. During 1989 Rank Xerox will announce new products that will set new standards in quietness.



One of the main design features at Rank Xerox headquarters was energy efficiency. Surplus heat from any office is recycled for use elsewhere in the building.



Rank Xerox products are designed to provide a better working environment in the office.



Rank Xerox international headquarters at Marlow was designed to provide the optimum balance between people and technology. Natural light is provided to each individual office.

THE EUROPEAN COMMUNITY

The European Community is the largest single developed market in the world. By the year 2000 the EC will have a population of 328 million, against a population of 239 million in the United States and 126 million in Japan.

Rank Xerox operates in many countries throughout the world but it is in the European Community that it has its strongest presence and makes its largest contribution. Around 80 per cent of its revenue is generated in the European Community.

All of Rank Xerox' wholly owned manufacturing operations are in the EC countries as well as its research, development and engineering activities. Unlike many other multinational companies, all of the general managers of its marketing companies in the Community and its managing director and chief executive officer are EC nationals.

EMPLOYMENT AND TRAINING

Rank Xerox generates employment in the Community directly through the people it employs and indirectly through the purchase of materials and supplies as well as through a network of dealerships, agencies and joint ventures. It is estimated that 19,500 jobs are supported indirectly.

Rank Xerox also has a range of pioneering and imaginative programmes in the Community to encourage the establishment and growth of small businesses and to assist the unemployed, especially school leavers, in obtaining work.

For example, at the manufacturing site in Mitcheldean buildings have been refurbished to provide work space at nominal rents for small businesses. Over 90 small business units have been created, providing employment for some 240 people.



The offices of the European Commission in Brussels.

SKILLS SHORTAGE

The increasing shortage of skills in its sector is a major issue to Rank Xerox and its competitors. Within the Community there is a growing demand for people with skills in information processing, office systems and electronics, which the supply is unable to satisfy. This could have a damaging effect on European competitiveness and prosperity.

The need to improve skills is most obvious at three levels: amongst school leavers, at universities and amongst Rank Xerox employees. School leavers very often have insufficient understanding of information processing and the nature of office work. Universities have insufficient courses in computer science and information technology to satisfy the demand from industry. Employees in the industry need constant re-training to stay up-to-date with the latest technology and techniques.

Rank Xerox is active in all of these areas in the Community. It supports the production of educational material for schools and has school liaison programmes. It sponsors a number of academic appointments in the area of information technology. Employees benefit from over £20 million a year expenditure on direct training and from the extensive use of the latest office technology. On average staff spend just under 4 per cent of their time in training. Knowledge and skills are acquired and improved by training at the time of recruitment and by continual refresher training with considerable emphasis on systems.

Training is also extended to Rank Xerox production suppliers. For example, in the last few years all of these major suppliers have been trained in statistical process control techniques.



Rank Xerox staff make extensive use of the latest office technology.

Many have been trained in 'Just in Time' manufacturing techniques and in 'Total Quality Control'. All of this activity is geared to increasing the competitiveness of European Community suppliers and thereby to strengthening the European industry, of which Rank Xerox is very much a part.

RESEARCH, DEVELOPMENT AND ENGINEERING

Rank Xerox makes a considerable contribution to the strength of European technology, and therefore to the creation of employment prospects, by carrying out basic research in the Community, exchanging technology with the USA and Japan, and developing European solutions in the research field. The base of research knowledge in Europe is increased as staff work with the most advanced technology available. Research and development expenditure in the Community is in the order of £60 million per year.

In addition, Rank Xerox supports a number of university research programmes in Europe.

As well as arrangements with a number of universities for collaboration on research a further £6 million worth of advanced workstations, together with network servers and communications equipment has been supplied to several universities in Europe to encourage research into the use of a range of Xerox software development environments and to develop applications in networks, document processing, and artificial intelligence.

FINANCIAL COMMITMENT

The financial contribution of Rank Xerox in the Community demonstrates the size of its commitment and the importance of the

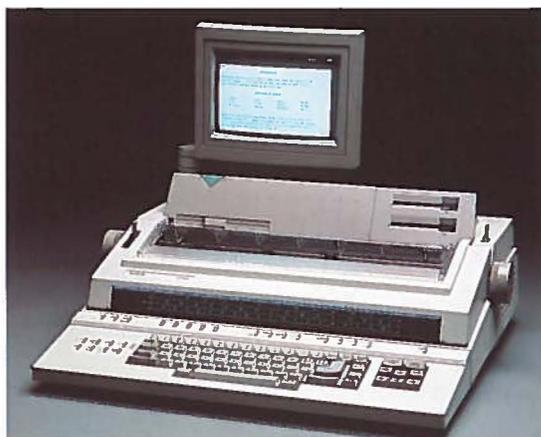
Community to Rank Xerox.

Rank Xerox assets in the Community are worth more than £1,500 million. Exports beyond the Community are in the region of £280 million each year. In addition to capital expenditure, over £368 million is spent annually within the Community on components, materials and facilities and over £450 million per year on direct salaries and benefits.

Annual payments of corporation tax, income tax on profits, value added tax and customs duties exceed £300 million.

CONDITIONS OF FAIR TRADE

Rank Xerox has supported efforts to ensure fair trading conditions in the European Community primarily through its membership of CECOM (the Committee of European Copier Manufacturers) and CETMA (the Committee of European Typewriter Manufacturers) who were formed to bring complaints against dumping by Japanese exporters. Detailed investigations by the EC Commission were followed by the imposition of anti-dumping duties.



Rank Xerox electronic typewriters, assembled at the plant in Lille, France, contain a high proportion of parts made in the Community.



By 1992 people will be able to move freely within the European Community.

In 1987 the Single European Act came into force, which is aimed at ensuring that by the end of 1992 the European Community operates as one single market without any barriers. This internal market will comprise 320 million people, which is about 50 per cent larger than the United States and two and a half times the size of the Japanese market.

This historic development presents Rank Xerox with many challenges and opportunities for which it is preparing already.

THE FOUR FREEDOMS

The internal market is based on what is known as the 'four freedoms'. These are the freedom of movement of goods, the freedom of movement of people, the freedom to provide services, and the freedom of movement of capital.

These four freedoms are intended to ensure that the European Community will be a dynamic and expanding market with the flexibility to allow resources to flow into the areas of greatest economic advantage.

FREEDOM TO MOVE GOODS

The freedom of movement of goods means that there will be no barriers to moving goods within the market. The fact that after 1992 there will be no border controls will bring considerable benefits.

The most significant is that the removal of border controls will lead to faster transportation which will mean lower cost and quicker movement of supplies, a major boost for any company marketing in the Community.

To gain most benefit from the free movement of goods the Community is working towards the removal of existing technical barriers. This will

lead to international standards in many areas. For example, electronic products distributed throughout Europe have to match 17 different sockets at present. With European standards there will probably be only three. This reduction from 17 to three will allow manufacturers to increase their economies of scale.

Another technical barrier being removed is product certification. Until very recently if a product were to be launched in Europe, certification had to be gained in several member states each with its own testing and administrative procedures.

The mutual recognition of testing and certification procedures will dramatically shorten future product launch cycles and enable products to be made available to the market far more rapidly.

FREEDOM OF MOVEMENT FOR PEOPLE

Although most people in the European Community can today work where they want, this does not apply to certain professions such as doctors or tax consultants. It is intended that there will be mutual recognition of qualifications in most areas and this will allow all people to move freely.

There will be substantial benefits to be derived in particular from the free movement of scientists, researchers and design specialists. For Rank Xerox it presents the opportunity to gather together people such as top software developers and systems engineers and will allow greater collaboration to take place. In general the increased freedom of movement of people will present Rank Xerox and its competitors with a wider market of labour into which to tap and will increase the range of prospects for those willing to work abroad.

This will be helped considerably if more people develop greater fluency in other languages. There will also need to be easier transfer of social security benefits such as pensions and health insurance.

FREEDOM TO PROVIDE SERVICES

The freedom to provide services across Europe will mean that services can be provided across borders. In Rank Xerox this is likely to have most effect on financial and other specialist services.

FREEDOM TO MOVE CAPITAL

The freedom to move capital will allow money to be moved from low to high interest areas. This has obvious benefits although it is likely that market forces could harmonise interest rates quite quickly.

MARKETING IMPLICATIONS

Rank Xerox' customers are also preparing for 1992. A company that is now a major account in several countries could well wish to deal with Rank Xerox on a Europe-wide basis. This would bring about more 'European' accounts. To meet the needs of these customers Rank Xerox will need to be able to negotiate at a European level and perhaps offer harmonised major account contracts and price structures.

Public procurement will be opened up. By the end of 1992 all public procurement programmes over 180,000 ECU's will be open to tender from any country. This will allow Rank Xerox, and its competitors, to bid for these contracts more easily and steps are being taken to prepare for this.

OPTIMISING DISTRIBUTION

It is estimated that transport in the United States moves three times as fast as in Europe. The elimination of border controls by 1992 will mean that Rank Xerox can further increase the utilisation of its European Logistics Centre at Venray in the Netherlands. Rank Xerox is well placed in this respect since the ELC is located at a central point in the Community and Rank Xerox has been operating a Europe-wide distribution system for some time.

OPPORTUNITY

1992 offers major opportunities for Rank Xerox. All of them are being acted on by the company between now and 1992.

There already are project teams, following the Leadership Through Quality principles, which are determining many of the company's actions over the next four years and beyond. In preparing for 1992 Rank Xerox will be in a strong position to maintain and reinforce its leadership in the market-place.

Greater fluency in languages will be needed if full advantage is to be taken of these opportunities. For example, English is the common company language in Rank Xerox but as soon as staff deal with customers they usually need to speak the local language.

Language is a key factor that distinguishes the European Community from the internal markets of the United States and Japan. America and Japan each have one principal language. The European Community has nine. The development of fluency in other languages is a top priority for individuals and for companies if they are to make the most of the four freedoms.



The European Logistics Centre at Venray places Rank Xerox in a strong position to take advantage of the elimination of border controls.



Dr Michel Odelga, formerly general manager of Rank Xerox in Germany, has been appointed to coordinate Rank Xerox preparations for 1992.

PRINCIPAL LOCATIONS

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PT Astra-Graphia
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