

5/15/89

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 October 1988

DIRECTORS

Chairman
D T Kearns *

Managing Director and Chief Executive Officer
R E G Magnin

P A Allaire *
H C Debuisser
B Fournier
M B Gifford
W F Glavin *
L Gonzalez-Camino
R A Holmes

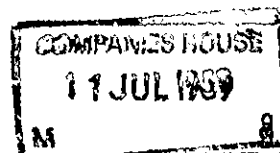
D P Hornby
C P McColough *
J R Milligan
D R Myerscough
S B Ross *
D A Thompson
D M Yates

* USA

Secretary and Registered Office
C J Payne
Parkway
Marlow
Buckinghamshire SL7 1YL

Bankers
National Westminster Bank PLC

Auditors and Consultant Accountants
Peat Marwick McLintock



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Directors' report

Rank Xerox Limited

1 Financial statements

The Directors present the balance sheet of the Company and consolidated balance sheet as at 31 October 1988, together with the consolidated profit and loss account and consolidated statement of source and application of funds for the year ended on that date.

The profit of the Group on ordinary activities after taxation and outside shareholder interests was £137.9m.

A dividend of £0.1m is proposed on the 'E' shares but on no other class of shares.

Dividends amounting to £46.8m paid during 1988 relate to prior years.

Transfers to reserves were £137.8m, of which £42.8m was transferred to non-distributable reserves (note 19 to the financial statements).

2 Principal activities

The Company and its subsidiaries are in the office equipment business throughout the world outside North, Central and South America and certain related territories. Within that business, reprographics consists of the development, manufacture, marketing and maintenance of xerographic copiers and duplicators. The Company also engages in financing activities through its leasing subsidiaries for the sales of xerographic office equipment.

Other principal activities includes the related marketing of paper as well as the manufacture and marketing of toner and other supplies. Information systems consists of the development, manufacture, marketing and maintenance of electronic, impact and electrostatic printers, information processing products and systems, electronic typewriters, facsimile transceivers and related supplies.

3 Business review

Continued progress was achieved in two of our primary Corporate goals:

Customer Satisfaction

Satisfying the needs of customers remains the number one company priority. Our objective is to be recognised by our customers as the best supplier in each business area in the market by 1990. This is a position which has been achieved already in many business areas in a number of countries, but our efforts will continue until we have fully achieved our objective.

At the start of 1988, we announced that merit rises for our senior executives would be related to improved customer satisfaction levels, thereby demonstrating the priority we place on meeting the needs of our customers.

We are pleased to report that this scheme has been successful and will be extended in 1989 to a wider range of staff.

Market Share Increase

Product placements grew in all sectors of the business during 1988

In the high volume copier sector, there was very good growth with the 1090 continuing to lead sector placements. In mid-volume copiers, similar growth was experienced. In the low volume sector, the 5007, our first entry into the personal copier sector, allowed substantial placements to be achieved. Very significant results were achieved both in the electronic printing sector, helped by our 4020 colour ink-jet printer and also in facsimile placements. Sales of electronic typewriters and office systems networks were satisfactory.

4 Directors

The Directors shown on page 1 are in office at the date of this report.

Messrs. R F Reiser, E H van der Beugel and J H Duerden resigned from the Board on 4 January 1988, 19 May 1988 and 30 September 1988 respectively, and Mr S B Ross was appointed a Director on 4 January 1988.

The remaining Directors served throughout the year under review.

5 Tangible fixed assets

The additions to tangible fixed assets of the Company and its subsidiaries during the year amounted to £182.2m, the principal categories being:

	<u>£m</u>
Equipment on or for rental	125.4
Factories, warehouses, offices and plant in the United Kingdom	26.8
Factories, warehouses, offices and plant overseas	30.0

Land and buildings are included in the balance sheet at net book values (note 11 to the financial statements). The Directors are of the opinion that at 31 October 1988 the aggregate of the open market values of land and buildings exceeded net book values by approximately £66.9m for the Group, and open market values of land and buildings exceeded net book values by £9.8m for the Company.

6 Research and development

Research and development into new copier products for the mid-volume sector continued at Welwyn Garden City. In Cambridge, Rank Xerox EuroPARC was officially opened in June 1988 in new facilities. Its commission is to study human-computer interaction, with the aim of making office systems more easily understood and usable. Permanently linked to other Rank Xerox, Xerox and external academic centres of excellence throughout Europe, EuroPARC represents a significant contribution to European research and development.

7 Charitable and political contributions

During the year the Group made charitable donations of £0.6m, including £0.3m made within the United Kingdom. No political contributions were made by the Group during the year.

8 Employment policies

a Employee involvement

In 1988 Rank Xerox completed the training and development of its employees in "Leadership Through Quality", which is a total quality process, focusing the efforts of every person throughout the organisation on meeting customer requirements. Based on the "Family Group" concept, teams at each level of management have worked to identify their mission, customer requirements, supplier specifications and outputs. They have used problem solving techniques, competitive bench-marking and the concept of cost of non-conformance to customer requirements as the key features within this quality process.

Information on company performance and progress is given to all employees at regular communications meetings and through a series of in-house magazines and reports. These meetings are based on senior management briefings given by the Managing Director of Rank Xerox Limited and his key executives. Each attendee of these briefings is required to carry out a follow-up meeting with his or her staff, at which similar information is passed on and employees are encouraged to ask questions and provide feedback.

During 1988, selected employees throughout the company have been invited to participate in management behaviour surveys. These have enabled employees to express their views confidentially on the practices of their managers in the specific area of "Leadership Through Quality" and general areas of management such as internal communications and career planning.

b Employment of the disabled in the United Kingdom

It is specified in Rank Xerox Personnel Policies and in the procedures to be followed by all employees involved in staff recruitment, that the ability of a candidate to perform the job is the paramount criterion for selection. Discrimination on the grounds of disability is specifically forbidden, except in the rare instances where the nature of the work cannot be adapted either to meet the specific disability of the candidate, or to be carried out in accordance with health and safety legislation.

Rank Xerox continues to face unusual difficulty in attracting disabled candidates, due to the level of qualification in advanced systems required for many jobs and the relatively few vacancies being recruited for at any time. The company is taking positive action in the training of the disabled, through its Information Technology Centre (ITEC) at Coinbrook, Slough. This is a facility for training up to six disabled people at any one time in the Information Technology skills relevant to industry's needs.

9 Auditors

Peat Marwick McLintock, having signified their willingness to continue in office, will be proposed for re-appointment as auditors at the Annual General Meeting.

By order of the Board

C J Payne
Secretary

27 January 1989

Financial statements for the year ended
31 October 1988
Rank Xerox Limited and subsidiaries

Consolidated profit and loss account

For the year ended 31 October 1988

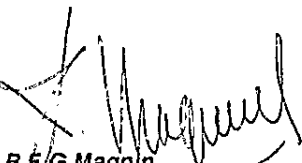
	1988 £m	1987 £m
Turnover (note 3)	2363.2	2280.3
Cost of revenue (note 4)	1458.0	1393.7
Gross profit	905.2	886.6
Distribution costs (note 5)	471.0	486.7
Administrative expenses (note 6)	243.4	260.8
Income from shares in associated companies (note 12)	(108.8)	(78.4)
Interest receivable and similar income (note 7)	(89.5)	(66.0)
Interest payable and similar charges (note 7)	54.8	44.5
Xerox Corporation charges (note 8)	80.2	55.4
	651.1	703.0
Profit on ordinary activities before taxation	254.1	183.6
Tax on profit on ordinary activities (note 9)	115.2	83.6
Profit on ordinary activities after taxation	138.9	100.0
Dividends paid and proposed (note 10)	0.1	34.3
Outside shareholders' interests	1.0	0.7
Retained profit for the year (note 19)	137.8	65.0

The notes on pages 14 to 35 form part of the financial statements

Balance sheets

At 31 October 1988

	Group 31 October 1988 £m	Group 31 October 1987 £m	Company 31 October 1988 £m	Company 31 October 1987 £m
Fixed assets				
Tangible assets (note 11)	400.3	392.3	86.6	85.9
Investments (note 12)	356.5	294.6	82.5	76.5
	<u>756.8</u>	<u>686.9</u>	<u>169.1</u>	<u>162.4</u>
Current assets				
Stocks (note 13)	312.4	281.5	161.1	111.7
Debtors (note 14)	1309.1	1052.4	360.7	186.0
Cash at bank and in hand	64.4	157.3	1.2	28.3
	<u>1685.9</u>	<u>1491.2</u>	<u>523.0</u>	<u>326.0</u>
Creditors: Amounts falling due within one year (note 15)	<u>906.3</u>	<u>732.0</u>	<u>392.8</u>	<u>278.3</u>
Net current assets	<u>779.6</u>	<u>759.2</u>	<u>130.2</u>	<u>47.7</u>
Total assets less current liabilities	<u>1536.4</u>	<u>1446.1</u>	<u>299.3</u>	<u>210.1</u>
Creditors: Amounts falling due after more than one year (note 16)	<u>275.2</u>	<u>316.4</u>	<u>55.4</u>	<u>69.5</u>
Provisions for liabilities and charges (note 17)	<u>94.8</u>	<u>94.4</u>	<u>1.7</u>	<u>1.6</u>
	<u>1166.4</u>	<u>1035.3</u>	<u>242.2</u>	<u>139.0</u>
Capital and reserves				
Called up share capital (note 18)	29.9	29.9	29.9	29.9
Share premium account (note 18)	3.0	3.0	3.0	3.0
Other reserves (note 19)	358.0	322.4	(1.2)	(1.2)
Profit and loss account (note 19)	768.4	673.4	210.5	107.3
	<u>1159.3</u>	<u>1028.7</u>	<u>242.2</u>	<u>139.0</u>
Outside shareholders' interests	<u>7.1</u>	<u>6.6</u>	<u>-</u>	<u>-</u>
	<u>1166.4</u>	<u>1035.3</u>	<u>242.2</u>	<u>139.0</u>


R E G Magnin
 Managing Director


J R Milligan
 Director, Finance & Control

Approved by the Board of Directors on 27 January 1989

The notes on pages 14 to 35 form part of the financial statements

Consolidated statement of source and application of funds

For the year ended 31 October 1988

	1988 £m	1987 £m
SOURCE OF FUNDS		
<i>Funds from operations</i>		
Profit on ordinary activities before taxation	254.1	183.6
less profit before taxation retained by associated companies	98.2	74.2
	<u>155.9</u>	<u>109.4</u>
add depreciation and other items not involving the movement of funds	79.5	161.2
Total funds from operations	235.4	270.6
<i>Other sources</i>		
Disposal of fixed assets at net book value	53.8	54.0
Increase in creditors falling due after more than one year	-	32.9
	<u>289.2</u>	<u>357.5</u>
APPLICATION OF FUNDS		
Additions to fixed assets	182.2	178.3
Taxation paid	45.7	51.9
Dividends paid	46.8	43.4
Decrease in creditors falling due after more than one year	41.2	-
	<u>315.9</u>	<u>273.6</u>
Net (application)/source of funds as represented by change in working capital	(26.7)	83.9

The notes on pages 14 to 35 form part of the financial statements

	1988 £m	1987 £m
ANALYSIS OF CHANGE IN WORKING CAPITAL		
Increase/(Decrease) in stocks	30.9	(16.3)
Increase in debtors	264.4	252.9
Increase in creditors falling due within one year	(51.8)	(102.9)
	<u>243.5</u>	<u>133.7</u>
(Decrease) in net liquid funds:		
Cash at bank and in hand	(92.9)	(47.1)
Bank overdrafts and acceptances	(177.3)	(2.7)
	<u>(270.2)</u>	<u>(49.8)</u>
(Decrease)/Increase in working capital	<u>(26.7)</u>	<u>83.9</u>

The currency impacts arising from the translation to current rates of exchange of the opening balances on fixed assets and current and deferred taxation, and those relating to the Group's associated companies, have been eliminated from the movements shown in the above statement.

The notes on pages 14 to 35 form part of the financial statements

Notes to financial statements

Figures in £millions (except where otherwise indicated)

1 Principles of consolidation and accounting policies

The Group's major accounting policies are summarised below.

a Accounting convention

The financial statements are prepared under the historical cost accounting rules.

b Basis of consolidation

The financial statements incorporate the financial statements of Rank Xerox Limited and its subsidiaries, after elimination of intra-group transactions and the profits thereon.

c Translation of foreign currencies

The Group has adopted Statement of Financial Accounting Standards No 52 issued by the United States Financial Accounting Standards Board relating to the translation of foreign currencies. There is no material difference, so far as the Group's financial statements are concerned, between the requirements of this Statement and those of Statement of Standard Accounting Practice No 20, issued by the United Kingdom Accounting Standards Committee.

Foreign Currency Transactions: Monetary assets and liabilities arising from a Group company's foreign currency transactions are translated into that company's local currency at the rates ruling at 31 October 1988. Profit and loss items are converted at rates approximating to the rates ruling when the transactions occurred. The resulting exchange differences, together with gains and losses which have arisen throughout the year on settlement of foreign currency transactions, are dealt with in the profit and loss account of the company concerned (note 6).

Discounts and premiums on forward exchange contracts are amortised on a straight line basis over the lives of the contracts.

Foreign Currency Financial Statements: On consolidation, balance sheets of individual Group companies that are denominated in foreign currencies are translated into Sterling at the rates ruling at 31 October 1988. Profit and loss items are translated at rates approximating to the rates ruling when the transactions occurred and

unrealised profits on intra-group transfers are eliminated at the rates ruling when such profits arose. Translation differences, which principally represent the gain or loss arising on overseas net assets as a result of changes in exchange rates during the year, are dealt with in the currency translation account (note 19).

Gains and losses on loans to subsidiaries that represent a long-term investment by the Group are dealt with in the currency translation account.

d Deferred Taxation

Deferred taxation is computed under the liability method on differences arising when items of income and expenditure are included in the financial statements in periods which differ from those in which they are included in taxation computations.

Provision for such differences is made to the extent that it is probable that a liability or asset will crystallise. No provision is made where it is probable that an asset or liability will not crystallise (note 14).

The Group has a large deferred tax asset comprising tax on unrealised intra-group profits (note 1g).

e Tangible fixed assets

These are carried at cost adjusted for depreciation (on a straight line basis) at rates intended to write off the cost over the estimated useful lives of the respective assets, which for this purpose are in the main as follows:

Freehold buildings	40-100 years
Leasehold land and buildings	Term of lease
Plant and machinery	12-13 years
Fixtures and fittings	10-20 years
Vehicles	3-5 years
Rental equipment	2-5 years

Freehold land is not depreciated.

The cost of rental equipment in course of manufacture consists of direct materials and labour, together with an appropriate proportion of overheads.

Expenditure on tools, jigs and machine fixtures is deferred and recovered as part of the manufacturing cost of a predetermined volume of equipment and spare parts. (Equipment for this

purpose includes both products intended for resale and products intended for capitalisation as rental equipment within the Group.)

Interest is capitalised on long term construction projects where the amounts involved are material (note 11).

f Pension costs

Contributions to the Group's various schemes are determined on the basis of independent actuarial advice and any relevant local statutory requirements.

The amounts charged to the profit and loss account are designed to reflect the full actuarial cost attributable to the period.

For defined benefit plans the actuarial cost and the pension expense is calculated in accordance with Statement of Financial Accounting Standards No 87 issued by the United States Accounting Standards Board.

There is no material difference, so far as the Group's financial statements are concerned, between the requirements of this Statement and those of Statement of Standard Accounting Practice No 24, issued by the United Kingdom Accounting Standards Committee.

Provisions for pensions and similar obligations in certain overseas subsidiaries are reflected in the consolidated balance sheet (note 17).

g Unrealised intra-group profits

Profits arising on the sale of equipment and supplies between Group companies, and on similar sales to the associated companies, are deferred in the consolidated balance sheet along with the related taxation paid or payable on them. The unrealised element of profit is deducted from the carrying value of equipment and supplies, while the related taxation is carried forward as a component of the deferred taxation balance (note 14). Deferred profits, and the taxation attributable to them, are recognised in the profit and loss account when realised; for equipment and sold supplies, this is at the time of sale, for service parts, this is at the time of usage/expense of the materials, and for rental equipment, this is evenly over its estimated useful life.

h Development expenditure

Expenditure on product development is written off to profit and loss account as incurred.

i Stocks

These are stated at the lower of cost and net realisable value on bases consistent with the previous year. Cost includes, where appropriate, a proportion of overheads, and, in the case of stock that has been shipped across national boundaries, normally includes import duties, insurance and freight costs up to the point of customs clearance. Subsequent local carriage costs are normally expensed as incurred (note 13).

j Leasing arrangements

The Group has adopted lease accounting policies in compliance with Statement of Financial Accounting Standards No 13 issued by the United States Financial Accounting Standards Board. There is no material difference, so far as the Group's financial statements are concerned, between the requirements of this Statement and those of Statement of Standard Accounting Practice No 21, issued by the United Kingdom Accounting Standards Committee.

As lessor: sales revenue is recognised when assets are leased either directly to customers under agreements classified as sales-type leases, or under finance leases. The present value of the minimum lease payments is recorded as sales revenue; the cost or carrying value of the leased assets, less any residual value, is charged to cost of revenue.

Interest income, which represents the difference between the gross value and the present value of the minimum lease payments (including any residual value), is allocated to accounting periods so as to provide a constant rate of return on the net investment in the leases (note 21).

The amount of the net investment in leases (ie. the total of lease payments receivable net of deferred interest but including any residual value) is included in Debtors (note 14).

Any charges made under such leases for equipment maintenance and service are recognised in the profit and loss account as earned.

All other lease agreements with customers are classified as operating leases. Rentals receivable from customers under operating leases are recognised in the profit and loss account as earned, and associated costs are charged to cost of revenue as incurred (note 4).

As lessee: assets employed under capital leases are recorded as tangible fixed assets at the lower of (a) the present value of the minimum lease

payments when the lease begins, and (b) market value at that date. The corresponding obligations are classified as long terms loans within creditors.

Each lease payment is allocated between reduction of the obligation and interest expense so as to provide a constant rate of interest on the outstanding amount of the obligation (note 7).

Depreciation is charged on a straight line basis over the lease term, or, if title will ultimately pass to the Group as lessee, the estimated useful life of the asset.

Rentals payable under operating leases are charged against profits as incurred.

2 Consolidated financial statements

a These statements include the results of a significant volume of transactions, covering equipment, goods and services, between the Rank Xerox Limited Group and the Rank Xerox Holding BV Group. Rank Xerox Holding BV is a Dutch company directly owned by Xerox Corporation and The Rank Organisation Group.

b No profit and loss account for Rank Xerox Limited ('The Company') is presented in these statements.

3 Turnover

a This consists of revenue earned in the year from the rental and sale of equipment, from the sale of paper and supplies and from the provision of service and maintenance. Turnover includes sales to the Group's associated companies (note 1g).

b Turnover is analysed by geographic markets as follows:

	1988	1987
Europe	2187.6	2070.9
Other	175.6	209.4
Total	<u>2363.2</u>	<u>2280.3</u>

The category 'Other' includes the Group's operations in Africa, Australia, New Zealand and South-East Asia.

4 Cost of revenue

The prescribed format for the profit and loss account in the Companies Act uses the term 'Cost of Sales'. The Group's turnover, as described in note 3 above, contains significant income from equipment rentals and service contracts, and, in the opinion of the Directors, is more meaningfully described by the term 'Cost of Revenue'.

5 Distribution costs

These include staff costs and overheads attributable to distribution centres in the Group's manufacturing locations, and salaries, commissions, support costs and other marketing expenses related to the Group's salesforce.

6 Administrative expenses

Administrative expenses are stated after taking into account foreign exchange impacts on transactions (note 1c) which in 1988 represented a loss of £0.4m (1987 gain of £1.4m), and costs of £10.9m (1987 - £7.7m) in respect of redundancy programmes.

7 Interest

a Interest receivable and similar income comprises:

	1988	1987
Short term deposits and loans to banks	9.2	16.0
Sales-type leases and credit sale agreements	74.5	45.0
Rank Xerox Holding BV and subsidiaries (net)	3.6	2.7
Other sources	2.2	2.3
	<u>89.5</u>	<u>66.0</u>

b Interest payable and similar charges comprises:

	1988	1987
Loans, other than from banks, not fully repayable within five years	3.0	2.9
Bank loans and other loans repayable within five years	49.7	39.7
Capital leases	2.1	1.9
	<u>54.8</u>	<u>44.5</u>

8 Xerox Corporation charges

Since 1 November 1976, the Group has been charged with a proportion of research and development and corporate overhead expenses incurred by its ultimate holding company, Xerox Corporation. These charges reflect the benefits that the Group receives from these activities, and amounted to £80.2m for the year ended 31 October 1988 (1987 - £55.4m).

9 Taxation

a Tax on profit on ordinary activities comprises:

	1988	1987
Rank Xerox Limited and subsidiaries (note 9 <i>b</i>)	57.6	39.1
Associated companies	57.6	44.5
	<u>115.2</u>	<u>83.6</u>

b The Group provision for the year is calculated as follows:

	1988	1987
United Kingdom Corporation tax:		
Current tax at 35% (1987 - 35%) (£67.9m before double taxation relief: 1987 - £34.4m)	4.5	(9.0)
Deferred	28.7	1.4
	<u>33.2</u>	<u>(7.6)</u>
Overseas:		
Current	43.2	59.9
Deferred	(0.5)	(11.7)
Prior year adjustments:		
Current	(2.0)	(3.5)
Deferred	(16.3)	2.0
	<u>57.6</u>	<u>39.1</u>

During 1988, unrelieved overseas tax in respect of dividends amounted to £21.5m. (1987 - £10.7m).

10 Dividends paid and proposed

	1988	1987
Interim - paid	-	24.8
Interims - proposed	-	1.9
Special - paid	-	5.2
Final - proposed	0.1	2.4
	<u>0.1</u>	<u>34.3</u>

A dividend of £79,041 (1987 - £56,317) is proposed on the 'E' shares.

11 Fixed assets - tangible assets

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Assets in course of construction	Rental equipment	Total
<i>a Group</i>						
Cost:						
<i>At 1 November 1987</i>	172.6	73.8	263.0	6.3	446.0	961.7
Additions	13.9	8.8	27.8	6.3	125.4	182.2
Transfers	2.3	0.8	6.0	(4.9)	(4.2)	-
Disposals	(3.3)	(2.7)	(19.1)	(0.2)	(165.4)	(190.7)
Currency translation	(5.7)	(1.5)	(8.3)	(0.2)	(15.4)	(31.1)
<i>At 31 October 1988</i>	<u>179.8</u>	<u>79.2</u>	<u>269.4</u>	<u>7.3</u>	<u>386.4</u>	<u>922.1</u>
Depreciation provision:						
<i>At 1 November 1987</i>	40.4	40.5	135.3	-	353.2	569.4
Charge for period	6.3	5.4	44.6	-	53.9	110.2
Transfers	-	-	(11.4)	-	11.4	-
Disposals	(2.1)	(1.6)	(12.6)	-	(120.6)	(136.9)
Currency translation	(1.7)	(0.8)	(4.9)	-	(13.5)	(20.9)
<i>At 31 October 1988</i>	<u>42.9</u>	<u>43.5</u>	<u>151.0</u>	<u>-</u>	<u>284.4</u>	<u>521.8</u>
Net book value:						
<i>At 31 October 1988</i>	<u>136.9</u>	<u>35.7</u>	<u>118.4</u>	<u>7.3</u>	<u>102.0</u>	<u>400.3</u>
<i>At 31 October 1987</i>	<u>132.2</u>	<u>33.3</u>	<u>127.7</u>	<u>6.3</u>	<u>92.8</u>	<u>392.3</u>

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Assets in course of construction	Rental equipment	Total
o Company						
Cost:						
At 1 November 1987	41.1	15.7	49.9	0.7	1.1	108.5
Additions	4.1	4.8	9.4	0.4	0.8	19.5
Transfers	0.5	0.1	0.3	(0.7)	(0.2)	-
Disposals	(0.7)	(0.4)	(5.2)	(0.3)	(0.9)	(7.5)
At 31 October 1988	<u>45.0</u>	<u>20.2</u>	<u>54.4</u>	<u>0.1</u>	<u>0.8</u>	<u>120.5</u>
Depreciation provision:						
At 1 November 1987	4.0	4.5	13.3	-	0.8	22.6
Charge for period	0.8	1.9	9.5	-	0.2	12.4
Transfers	-	-	(0.2)	-	0.2	-
Disposals	(0.2)	(0.1)	(0.2)	-	(0.6)	(1.1)
At 31 October 1988	<u>4.6</u>	<u>6.3</u>	<u>22.4</u>	<u>-</u>	<u>0.6</u>	<u>33.9</u>
Net book value:						
At 31 October 1988	<u>40.4</u>	<u>13.9</u>	<u>32.0</u>	<u>0.1</u>	<u>0.2</u>	<u>86.6</u>
At 31 October 1987	<u>37.1</u>	<u>11.2</u>	<u>36.6</u>	<u>0.7</u>	<u>0.3</u>	<u>85.9</u>

- c
- i Rental equipment consists of xerographic and other equipment on or available for rental to customers under operating leases. In view of the material amounts involved, it has been disclosed separately.
 - ii Rental equipment of the group includes £8.7m (1987 - £3.5m) representing equipment in the course of manufacture.
 - iii Rental equipment disposals and additions include equipment transferred to and from remodelling centres within the Group and in the Rank Xerox Holding BV Group.
 - iv The cost of fixed assets includes £5.5m (1987 - £5.5m) in respect of interest capitalised on completed long term construction projects.
 - v Land and buildings of the Group includes £24.0m (1987 - £20.9m) of assets which are not depreciated.

d Land and buildings includes, at net book value, the following amounts:

	Group 1988	Group 1987	Company 1988	Company 1987
Freehold	99.8	95.0	31.0	27.7
Long leasehold	8.4	7.3	4.1	4.1
Short leasehold	28.7	29.9	5.3	5.3
	<u>136.9</u>	<u>132.2</u>	<u>40.4</u>	<u>37.1</u>

Long leasehold property is defined as leases having more than 50 years unexpired at the balance sheet date.

12 Fixed assets - investments

a These comprise:

	Group 1988	Group 1987	Company 1988	Company 1987
Shares in Group companies (note c)	-	-	45.9	44.8
Loans to Group companies	-	-	22.9	18.8
Associated companies (note b)	352.4	231.5	10.6	9.8
Other loans (note d)	3.1	3.1	3.1	3.1
Goodwill (note e)	1.0	-	-	-
	<u>356.5</u>	<u>294.6</u>	<u>82.5</u>	<u>76.5</u>

b Associated companies

There are no related companies, within the terms of the Companies Act, other than those dealt with as associates under Statement of Standard Accounting Practice No 1 issued by the United Kingdom Accounting Standards Committee.

The Group's share of the net assets of associated companies increased by £60.9m. Of this, £40.6m represented retained profits, whilst the effects of currency translation increased net assets by £20.3m.

The principal associated company is Fuji Xerox Co., Ltd., incorporated in Japan, in which the Company owns 50 per cent of the issued ordinary share capital. Fuji Xerox Co., Ltd. manufactures and markets xerographic equipment and related supplies in Japan and the Far East and prepares its accounts to 20 October in each financial year. Transactions between 20 October and 31 October, the Group's balance sheet date, are not material. There are various minority interest joint ventures with finance companies and distributors in several countries which are not material.

The Company's balance sheet reflects the Company's investment at cost in associated companies. The Group's share of the net assets of associated companies is reflected in the consolidated balance sheet and translated from overseas currencies in accordance with the principles stated in note 1c.

Dividends receivable from the associated companies for the period were £10.6m (1987 - £4.2m). No provision has been made for any additional taxation which would arise if the investments in those companies were disposed of at their balance sheet values, or if their retained profits, treated as non-distributable reserves in note 19, were subject to distribution.

The summarised financial information set out below is based on the audited consolidated financial statements of Fuji Xerox Co., Ltd. for the years ended 20 October 1988 and 20 October 1987.

	1988	1987		1988	1987
Turnover	1998.0	1808.5	Rental equipment and other non-current assets	711.4	583.4
Depreciation and amortisation	151.7	163.2	Net current assets	206.4	175.1
Profit on ordinary activities before taxation	212.1	154.6		<u>917.8</u>	<u>758.5</u>
			Capital and reserves	714.1	573.4
			Creditors falling due after more than one year	203.7	185.1
				<u>917.8</u>	<u>758.5</u>

c Group companies

The principal subsidiaries of Rank Xerox Limited at 31st October 1988 are as follows

	Country of incorporation	Percentage of ordinary share capital owned		
		Direct	Indirect	Total
Rank Xerox (Copy Bureaux) Limited	England	-	100	100
Rank Xerox Equipment Services Limited	England	100	-	100
Rank Xerox Exports Limited	England	100	-	100
Rank Xerox Finance Limited	England	-	100	100
Rank Xerox (Ireland) Limited	England	100	-	100
Rank Xerox Leasing International Limited	England	100	-	100
Rank Xerox (Management) Limited	England	100	-	100
Rank Xerox (Overseas) Limited	England	100	-	100
Rank Xerox (R & S) Limited	England	-	100	100
Rank Xerox (UK) Limited	England	100	-	100
Rank Xerox (Australia) Pty Limited	Australia	-	100	100
Rank Xerox (Finance) Limited	Australia	-	100	100
Rank Xerox Austria GmbH	Austria	-	100	100
Rank Xerox Vertriebs GmbH	Austria	-	100	100
NV Rank Xerox Credit SA	Belgium	-	100	100
NV Rank Xerox SA	Belgium	-	100	100
Rank Xerox A/S	Denmark	100	-	100
Rank Xerox Finans A/S	Denmark	-	100	100
Rank Xerox Oy	Finland	-	100	100
Xerobail SA	France	-	100	100
Burofinance SA	France	-	66	66
Office de Transformation Papetiere SA	France	-	100	100
Rank Xerox SA	France	100	-	100
Societe Industrielle Rank Xerox SA	France	-	73.6	73.6
Rank Xerox GmbH	Germany	-	100	100
Rank Xerox Leasing GmbH	Germany	-	100	100
Rank Xerox Greece SA	Greece	55.2	44.8	100
Rank Xerox (Hong Kong) Limited	Hong Kong	-	100	100
Rank Xerox SpA	Italy	-	100	100
Rank Xerox Kenya Limited	Kenya	100	-	100
Rank Xerox (Nederland) BV	The Netherlands	100	-	100
Rank Xerox Finance (Nederland) BV	The Netherlands	100	-	100
Rank Xerox Leasing International Finance BV	The Netherlands	-	100	100
Rank Xerox Rentalease BV	The Netherlands	-	100	100
Rank Xerox Finance Limited	New Zealand	-	100	100
Rank Xerox New Zealand Limited	New Zealand	100	-	100
Rank Xerox (Nigeria) Limited	Nigeria	60	-	60
Rank Xerox A/S	Norway	-	100	100
Rank Xerox Portugal Equipamentos de Escritorio Limitada	Portugal	-	100	100
Rank Xerox (Singapore) Pte Ltd	Singapore	-	100	100
Rank Xerox Espanola SA	Spain	100	-	100
Rank Xerox de Financiacion SA	Spain	-	100	100
Rank Xerox AB	Sweden	100	-	100
Rank Xerox Credit AB	Sweden	-	100	100
Rank Xerox AG	Switzerland	-	100	100
Rank Xerox Finance AG	Switzerland	-	100	100
Rank Xerox Uganda Limited	Uganda	-	100	100

- (i) The Group also has branches operating outside the UK, principally in Angola, Malaysia and Mozambique.
- (ii) Rank Xerox AB (Sweden) Rank Xerox A/S (Denmark) and Rank Xerox (Nederland) BV became directly owned subsidiaries of Rank Xerox Limited in November 1987.
- (iii) Rank Xerox (Ireland) Limited operates in the Republic of Ireland.

d Other loans consist of advances from the Group to the trustees of the Rank Xerox Share Purchase Scheme to enable them to acquire 'E' shares in the Company. The loans do not currently bear interest. The gross amount of loans outstanding at 31 October 1988 was £11.4m for both the Group and the Company (1987 - £11.4m) against which provision of £8.3m (1987 - £8.3m) has been made.

e Goodwill arises on the acquisition of Diablo Systems GmbH by Rank Xerox GmbH as a result of the purchase consideration exceeding net assets acquired.

13 Stocks

a The Group's principal activities include both sale and rental of document processing equipment to customers. Equipment on, or intended for, rental (including equipment held by the Company) is accordingly held as fixed assets in the Group balance sheet, while equipment intended for resale is held as stock. Rental equipment in the process of manufacture is also classified with fixed assets.

The Company's principal activity is the manufacture and sale of xerographic equipment to subsidiary companies.

b Stocks comprise:

	Group 1988	Group 1987	Company 1988	Company 1987
Raw materials and consumables	16.4	16.0	7.6	3.9
Work in progress	23.5	22.6	23.5	27.9
Finished goods and goods for resale:				
Consumables, spares and paper	121.1	110.4	32.4	30.8
Equipment	151.4	132.5	97.6	49.1
	312.4	281.5	161.1	111.7

c Stocks are valued in accordance with the principles stated in note 17, and include costs of distribution up to the point of customs clearance for finished goods that have been transported across national boundaries. The Group follows Statement of Standard Accounting Practice No 9, issued by the United Kingdom Accounting Standards Committee, which includes in its definition expenditure in the normal course of business in bringing a product or service to its present location and condition. If the requirements of the Companies Act 1985 were followed in excluding distribution costs, the effect would have been to reduce the balance sheet value of stocks by £9.7m (1987 - £10.4m) and to reduce distribution costs in the profit and loss account by £0.7m (1987 - £4.9m).

14 Debtors

a These comprise:

	Group 1988	Group 1987	Company 1988	Company 1987
Due within one year:				
Trade debtors	322.9	327.0	22.6	25.2
Finance lease receivables	215.7	153.0	0.8	-
Owed by the Rank Xerox Holding BV Group	-	-	18.1	2.3
Owed by Xerox Corporation & Subsidiaries	29.2	17.4	9.9	4.3
Amounts owed by Group companies:				
Dividends	-	-	65.0	41.4
Other	-	-	157.1	82.3
Amounts owed by associated companies	19.6	13.3	19.2	11.5
Other debtors	7.7	8.4	2.1	1.3
Prepayments and accrued income	142.6	154.2	11.0	12.9
Deferred taxation (notes c, d and e)	14.4	22.1	-	-
Pension prepayments (note 17b)	45.1	-	40.0	-
	<u>797.2</u>	<u>695.4</u>	<u>345.8</u>	<u>181.2</u>
Due in more than one year:				
Finance lease receivables	429.5	248.3	1.4	-
Owed by fellow subsidiaries	50.5	56.4	-	-
Other debtors (note b)	31.9	52.3	13.5	4.8
	<u>511.9</u>	<u>357.0</u>	<u>14.9</u>	<u>4.8</u>
	<u>1309.1</u>	<u>1052.4</u>	<u>360.7</u>	<u>186.0</u>

b Other debtors include a loan of £15,000 (1987 - £10,000) to an officer of the Company.

c Deferred taxation shown above comprises:

	Group 1988	Group 1987	Company 1988	Company 1987
Deferred taxation (note d)	(13.7)	(6.8)	-	-
less taxation on unrealised intra-Group profits (note 1g):				
Stocks and rental equipment	27.5	25.3	-	-
Other tangible fixed assets	0.6	3.6	-	-
	<u>14.4</u>	<u>22.1</u>	<u>-</u>	<u>-</u>

The deferred tax asset of £0.6m (1987 - £3.6m) has arisen from the sale of fixed assets by Rank Xerox Limited to a United Kingdom subsidiary.

d The deferred taxation balance at 31 October comprises

	1988 Potential liability	1987 Provision in accounts	1987 Potential liability	1987 Provision in accounts
Group				
Timing differences:				
Fixed assets	(10.4)	3.2	1.6	0.5
Sales-type leases	64.7	8.4	53.1	5.9
Other	16.7	2.1	5.4	0.4
	<u>71.0</u>	<u>13.7</u>	<u>60.1</u>	<u>6.8</u>
Company				
Timing differences:				
Fixed assets	1.6	-	4.2	-
Sales-type leases	(0.3)	-	0.1	-
Other	2.2	-	(3.3)	-
	<u>3.5</u>	<u>-</u>	<u>1.0</u>	<u>-</u>

e Movements on the deferred taxation provision were as follows:

	Group	Company
Balance at 1 November 1987	22.1	-
Profit and loss account	(11.9)	-
Currency translation	4.2	-
Balance at 31 October 1988	<u>14.4</u>	<u>-</u>

15 Creditors: amounts falling due within one year

a These comprise	Group 1988	Group 1987	Company 1988	Company 1987
<i>Bank loans and overdrafts:</i>				
Overdrafts and acceptances (note b)	204.4	27.1	20.3	5.7
Long term loans due within one year (note 16a)	148.3	134.4	8.1	2.9
Trade creditors	110.4	101.8	43.1	35.5
Amounts owed to Xerox Corporation and subsidiaries	31.6	18.2	18.0	4.3
Amounts owed to Rank Xerox Holding BV and subsidiaries	115.1	97.4	2.8	2.5
Amounts owed to Group companies	-	-	249.4	137.0
Amounts owed to Associated companies	4.6	1.9	-	-
Other creditors including taxation and social security (note c)	63.9	124.5	14.3	54.3
Accruals and deferred income	228.0	226.7	36.8	36.1
	<u>906.3</u>	<u>732.0</u>	<u>392.8</u>	<u>278.3</u>

b Included in overdrafts and acceptances are amounts which relate to interest rate swaps for the Group's Leasing Operations.

c Other creditors including taxation and social security includes dividends payable of £7.5m (1987 - £54.3m) for both the Group and the Company, and current taxation payable of £28.5m for the Group (1987 - £36.6m) and of £6.8m for the Company (1987 - nil).

16 Creditors: amounts falling due after more than one year

a These comprise:	Group 1988	Group 1987	Company 1988	Company 1987
<i>Long term loans (note b):</i>				
Debenture loans	101.0	117.3	-	-
Bank loans and overdrafts	150.5	173.7	1.0	-
Other loans (note c)	23.7	25.4	13.1	20.7
Amounts owed to Group companies	-	-	41.3	48.8
	<u>275.2</u>	<u>316.4</u>	<u>55.4</u>	<u>69.5</u>

b Long term loans include £19.9m (1987 - £86.1m) and £12.7m (1987 - £16.1m) for the Group and the Company respectively, of amounts not fully repayable within 5 years. Of these loans, amounts repayable by instalments were £19.9m (1987 - £21.4m) for the Group and £12.7m (1987 - £16.1m) for the Company. Aggregate instalments due after more than 5 years totalled £13.1m (1987 - £14.0m) for the Group and £8.2m (1987 - £7.0m) for the Company.

c The aggregate amount of secured loans was £3.0m (1987 - £3.9m) for the Group. There were no secured loans to the Company. Such loans to Group companies are generally secured on land and buildings. The category 'Other Loans' also includes certain amounts (note 21a) in respect of obligations under capital leases, which are specifically secured on the leased assets involved.

d Repayments are due in the following years after the balance sheet date.

	Group 1988	Group 1987	Company 1988	Company 1987
First year	148.3	134.4	8.1	2.9
Second year	111.2	113.9	2.0	7.8
Third year	57.8	77.0	43.0	51.4
Fourth year	55.3	33.5	1.1	2.2
Fifth year	37.8	44.8	1.1	1.1
Sixth to tenth years	11.5	45.5	8.2	7.0
Thereafter	1.6	1.7	-	-
	<u>423.5</u>	<u>450.8</u>	<u>63.5</u>	<u>72.4</u>

e Loans are denominated in the following currencies:

	Group Interest rate (At 31 October 1988)	Group 1988	Group 1987	Company 1988	Company 1987
Loans and capitalised leases not fully repayable within 5 years:					
All currencies	10.1%	19.9	86.1	12.7	16.1
		<u>19.9</u>	<u>86.1</u>	<u>12.7</u>	<u>16.1</u>
Loans and capitalised leases fully repayable within 5 years:					
Sterling	10.9%	126.7	150.9	49.4	56.0
German marks	6.1%	93.9	64.4	-	-
Dutch guilders	7.4%	69.9	66.3	-	-
French francs	8.9%	53.4	4.8	-	-
Other currencies	10.8%	59.7	78.3	1.4	0.3
		<u>423.5</u>	<u>450.8</u>	<u>63.5</u>	<u>72.4</u>

17 Provisions for liabilities and charges

a These comprise

	Group 1988	Group 1987	Company 1988	Company 1987
Pensions and similar obligations (note b)	70.0	74.4	-	-
Other provisions (note c)	24.8	20.0	1.7	1.6
	<u>94.8</u>	<u>94.4</u>	<u>1.7</u>	<u>1.6</u>

b Pensions and similar obligation comprise:

i The funded status of the Group's pension schemes which have adopted Statement of Financial Accounting Standards No 87 for the year ended 31 October 1988 is as follows.

	Group 1988
Funded status at 31 October 1988:	
Projected benefit obligation	(412.8)
Plan assets at fair market value	521.0
Excess of plan assets over projected benefit obligation	108.2
Add: Items not in financial statements:	
Unrecognised net transition assets at date of initial application of SFAS 87	(126.4)
Unrecognised net loss	12.6
Accrued pensions costs under SFAS 87	(5.6)
Accrued pension scheme costs not subject to SFAS 87	(19.3)
Balance at 31 October 1988	<u>(24.9)</u>
Comprising:	
Pension accrual (note a)	(70.0)
Pension prepayment (note 14a)	45.1
Balance at 31 October 1988	<u>(24.9)</u>

The actuarial present value of the accumulated benefit obligation was £323.0m at 31 October 1988.

ii The components of the net pension credit for the Group's pension schemes for year ended 31 October 1988 is as follows:

	<u>Group 1988</u>
Pension schemes subject to SFAS 87:	
Benefits earned from current years service	22.9
Interest on projected benefit obligation	30.8
Return on plan assets	(57.6)
Net amortisation of transition assets	<u>(15.7)</u>
Net pension credit for the year	(19.6)
Costs of pension schemes not subject to SFAS 87	<u>3.1</u>
Net credit to the profit and loss account for 1988	<u>(16.5)</u>

iii The projected benefit obligation was determined using discount rates varying from 4.5% to 10% and long term rates of return on plan assets varying from 5% to 10%.

c Movements on the other provisions were as follows:

	<u>Group</u>	<u>Company</u>
Balance at 1 November 1987	20.0	1.6
Additions charged to the profit and loss account	13.4	2.4
Utilised during the period	(7.6)	(2.3)
Currency translation	(1.0)	-
Balance at 31 October 1988	<u>24.8</u>	<u>1.7</u>

18 Called up share capital and share premium account.

a The Company's share capital consists of shares of £1 each, divided into classes as follows

	Authorised	Issued and fully paid	
		1988	1987
'A' shares	7.6	7.4	7.4
'B' shares	7.6	7.4	7.4
'C' shares	7.8	7.5	7.5
'D' shares	7.6	7.5	7.5
'E' shares	0.1	0.1	0.1
	<u>30.7</u>	<u>29.9</u>	<u>29.9</u>

b The share premium account of £3.0m (1987 - £3.0m) is wholly attributable to the 'E' shareholders in the event of a winding up of the Company.

19 Other reserves and profit and loss account

a Other reserves in the balance sheet comprise:

	Group 1988	Group 1987	Company 1988	Company 1987
Non-distributable reserves:				
Group companies	61.4	59.2	-	-
Associated companies	216.7	176.1	-	-
Currency translation account (note b)	79.9	87.1	(1.2)	(1.2)
	<u>358.0</u>	<u>322.4</u>	<u>(1.2)</u>	<u>(1.2)</u>

b Movements in reserves during the year were as follows:

i Currency translation account:

	Group 1988	Group 1987	Company 1988	Company 1987
At 1 November 1987	87.1	122.5	(1.2)	(3.0)
Movement in year	(7.2)	(35.4)	-	1.8
At 31 October 1988	<u>79.9</u>	<u>87.1</u>	<u>(1.2)</u>	<u>(1.2)</u>

Other reserves and profit and loss account	Profit and loss account	Non-distributable reserves		Profit and loss account
	Group	Group companies	Associated companies	Company
At 1 November 1987	673.4	59.2	176.1	107.3
Retained profit for the year	137.8	-	-	103.2
Transfers	(42.8)	2.2	40.6	-
At 31 October 1988	<u>768.4</u>	<u>61.4</u>	<u>216.7</u>	<u>210.5</u>

c The profit and loss account and non-distributable reserves have been allocated, in accordance with the Company's Articles of Association, as follows:

	Profit and loss account	Non-distributable reserves		Profit and loss account
	Group	Group companies	Associated companies	Company
'A' shares reserves	21.1	0.5	1.8	5.3
'B' shares reserves	21.1	0.5	1.8	5.8
General reserves	726.2	60.4	213.1	198.9
	<u>768.4</u>	<u>61.4</u>	<u>216.7</u>	<u>210.5</u>

d The Group profit after taxation includes a profit of £103.3m (1987 - profit of £123.2m) attributable to the shareholders of Rank Xerox Limited which has been dealt with in the financial statements of the Company.

In the event of the distribution of the retained profit and loss account balances reflected in the consolidated financial statements, withholding and other taxes would become payable by certain overseas subsidiaries and associated companies. The sums retained have been invested locally in trading assets, and the Company has no intention of taking any action to cause the payment of such additional taxes.

20 Directors and employees

a The average number of persons employed by the Group (including directors) during the year was:

	1988 Number	1987 Number
Manufacturing operations	3,291	2,740
Marketing operations	25,130	25,112
	<u>28,421</u>	<u>27,852</u>

The aggregate payroll costs of these persons were as follows:

	1988	1987
Wages and salaries	472.4	475.9
Social security costs	52.8	51.5
Other pension costs	4.3	21.8
	<u>529.5</u>	<u>549.2</u>

b Remuneration of directors and senior employees was as follows:

i Remuneration of directors of Rank Xerox Limited

	1988 £000's	1987 £000's
Emoluments for services as executives	2767	2274
Ex gratia payments	-	83
	<u>2767</u>	<u>2357</u>

Emoluments of individual directors

	1988 £	1987 £
Chairman: D. T. Kearns	27,261	24,715
Highest paid director	592,334	381,166

Other directors	1988 Number	1987 Number
Nil	6	4
£1- £5,000	1	2
£20,001- £25,000	-	3
£25,001- £30,000	2	-
£30,001- £35,000	-	1
£95,001- £100,000	-	1
£105,001- £110,000	1	-
£110,001- £115,000	1	-
£125,001- £130,000	-	1
£130,001- £135,000	1	-
£165,001- £170,000	-	1
£190,001- £195,000	-	1
£250,001- £255,000	-	2
£260,001- £265,000	1	-
£270,001- £275,000	-	1
£290,001- £295,000	1	-
£295,001- £300,000	-	1
£315,001- £320,000	1	-
£340,001- £345,000	1	-
£405,001- £410,000	1	-

ii Remuneration of employees, excluding directors, receiving more than £30,000.

	1988 Number	1987 Number
£30,001- £35,000	83	62
£35,001- £40,000	55	37
£40,001- £45,000	20	11
£45,001- £50,000	12	1
£50,001- £55,000	2	6
£55,001- £60,000	3	7
£60,001- £65,000	7	1
£65,001- £70,000	2	5
£70,001- £75,000	4	2
£75,001- £80,000	2	-
£85,001- £90,000	-	1
£90,001- £95,000	1	-

Financial statements - Rank Xerox Limited and subsidiaries

c Directors interests

The only interests of the directors of Rank Xerox Limited (including family interests) in the shares or debentures of Xerox Corporation were as follows:

		Common stock par value \$1.00 holding	Common stock par value \$1.00 options	Class 'B' stock par value \$1.00	6% convertible subordinated debentures due 1995
P A Allaire	a	7,739	55,440	-	-
	b	4,260	36,919	-	-
L Gonzalez-Camino	a	-	2,500	-	-
	b	-	-	-	-
H C Debuisser	a	-	2,300	-	-
	b	-	-	-	-
B Fournier	a	-	7,600	-	-
	b	-	-	-	-
W F Glavin	a	10,365	40,534	2,500	-
	b	7,685	43,054	2,500	-
R A Holmes	a	-	7,750	-	-
	b	-	13,070	-	-
D P Hornby	a	-	4,530	-	-
	b	-	5,370	-	-
D T Kearns	a	30,372	78,255	9,250	-
	b	21,003	99,891	5,210	-
R E G Magnin	a	-	14,200	-	-
	b	-	8,200	-	-
C P McColough	a	7,405	12,855	-	\$2,200
	b	4,339	20,894	-	\$3,200
J R Milligan	a	3,574	13,635	-	-
	b	2,641	12,015	-	-
D R Myerscough	a	-	13,955	-	-
	b	-	14,235	-	-
S B Ross	a	1,584	15,255	-	-
	c	1,718	10,839	-	-
D A Thompson	a	-	2,500	-	-
	b	-	-	-	-

a Holding at 31 October 1988

b Holding at 1 November 1987

c Holding at date of appointment

The Company has a share purchase scheme for the provision by the Company and certain participating subsidiaries of financial assistance for the subscription and sale to their employees (including Executive Directors) of fully paid 'E' Shares in the Company to be held and eventually sold to the Trustees of the Scheme. In addition, D T Kearns had a holding of 9,400 Return On Equity units in Xerox Financial Services Inc. at 31 October 1988.

Apart from the interests set out above, no Director in office at 31 October 1988 had any interest in the shares or debentures of the Company, Xerox Corporation or other Group Companies during the year under review.

ii In April 1988 Mr D P Hornby, a Director of the Company and Mrs S Hornby jointly acquired from the Company a freehold property for the sum of £365 000.

21 Leasing arrangements

a As lessee

The Group leases certain tangible assets under capital and operating leases, which expire over varying periods up to 2016. Rentals under operating leases charged against profits amounted to £59.3m (1987 - £48.7m) for the Group and £8.3m (1987 - £2.8m) for the Company. Hire of plant and machinery amounted to £5.6m (1987 - £0.2m) for the Group, and nil for the Company (1987 - nil). Future minimum lease payments required under capital leases, and operating leases with more than one year to run before expiry, are summarised below:

Year ending 31 October:	Group capital leases	Group operating leases	Company capital leases	Company operating leases
1989	7.7	46.2	4.2	8.4
1990	4.7	37.4	3.7	8.3
1991	3.7	27.2	3.2	8.1
1992	2.1	20.5	1.8	7.1
1993	2.1	14.4	1.8	4.2
Later years	19.4	81.0	17.9	4.1
Total minimum lease payments	39.7	226.7	32.6	40.2
Less:				
Executory costs	2.8		2.8	
Interest element	15.6		13.9	
	18.4		16.7	
Present value of net minimum payments	21.3		15.9	

b As lessor

The Group leases equipment to customers under both operating leases and finance leases. Rentals payable under operating leases normally include maintenance, service and parts, and may also include the provision of supplies such as toner and paper. Total rentals receivable in 1988 amounted to £235.9m (1987 - £321.7m) of which £93.4m (1987 - £124.1m) represented contingent rentals for equipment usage in excess of the contractual minimum.

The net investment in finance leases at 31 October 1988 consisted of minimum lease payments due in the following years after the balance sheet date:

	Group 1988	Group 1987	Company 1988	Company 1987
First year	291.0	176.0	0.9	-
Second year	232.8	148.0	0.8	-
Third year	161.7	106.8	0.6	-
Fourth year	88.9	60.2	0.3	-
Fifth year	29.7	20.5	0.2	-
Thereafter	2.5	1.5	-	-
Total minimum lease payments receivable	806.6	513.8	2.8	-
Unguaranteed residual values	9.7	1.9	-	-
	816.3	515.7	2.8	-
Less:				
Executory costs included in rentals	1.1	1.3	-	-
Deferred interest income	155.8	104.6	0.5	-
Allowance for doubtful debts	14.2	8.5	0.1	-
	171.1	114.4	0.6	-
Net investment in sales-type leases	645.2	401.3	2.2	-

22 Capital expenditure

No provision has been made in the financial statements for the following capital expenditure, which excludes acquisitions of rental equipment in the ordinary course of business:

	Group 1988	Group 1987	Company 1988	Company 1987
Expenditure contracted for	7.4	12.1	1.0	2.8
Expenditure authorised but not committed	4.0	8.2	0.3	2.8
	11.4	20.3	1.3	5.6

23 Contingent liabilities

a The Group

There are contingent liabilities, arising from the ordinary activities of the Group, which amount to approximately £28.5m (1987 - £21.3m) in respect of bills discounted, guarantees and other liabilities.

b The Company

Loans and bank overdrafts of Group companies have been guaranteed by the Company up to a maximum of £212.2m (1987 - £286.8m). At 31 October 1988, £113.0m (1987 - £172.7m) was outstanding.

24 Remuneration of auditors

	1988 £000's	1987 £000's
Rank Xerox Limited	262	269
Subsidiaries	945	1027
	<u>1207</u>	<u>1296</u>

25 Ultimate holding company

The Company's ultimate holding company is Xerox Corporation, which is incorporated in the United States of America.

Report of the Auditors
To the members of Rank Xerox Limited

We have audited the financial statements on pages 10 to 35 in accordance with Auditing Standards.
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 October 1988 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Peat Marwick McLintock
Chartered Accountants
London

Paul Marshall McLintock

27 January 1989

Five year financial summary

Rank Xerox Limited and subsidiaries

	1988 £m	1987 £m	1986 £m	1985 £m	1984 £m
Consolidated profit and loss account					
Turnover	2363.2	2280.3	1968.7	1654.2	1789.7
Income from ordinary activities other than associates	225.5	160.6	95.6	93.9	86.2
Income from associated companies	108.8	78.4	57.6	54.1	54.9
Profit on ordinary activities before Xerox charges and taxation	334.3	239.0	153.2	148.0	141.1
Xerox Corporation charges	80.2	55.4	43.5	39.2	28.9
Profit on ordinary activities before taxation	254.1	183.6	109.7	108.8	112.2
Tax on profit on ordinary activities	115.2	83.6	62.1	73.3	34.7
	138.9	100.0	47.6	35.5	77.5
Dividends paid and proposed	0.1	34.3	70.6	19.9	18.4
	138.8	65.7	(23.0)	15.6	59.1
Outside shareholders' interests	1.0	0.7	0.5	1.2	0.5
Amount set aside to reserves	137.8	65.0	(23.5)	14.4	58.6
Consolidated balance sheet					
Fixed assets	756.8	686.9	728.0	634.4	758.1
Net current assets	779.6	759.2	647.0	511.0	343.9
	1536.4	1446.1	1375.0	1145.4	1102.0
Creditors falling due after more than one year	275.2	316.4	283.5	208.3	159.4
Provisions for liabilities and charges	94.8	94.4	86.7	63.0	53.6
	1166.4	1035.3	1004.8	874.1	889.0
Share capital and premium	32.9	32.9	32.9	32.9	32.9
Other reserves	358.0	322.4	319.4	145.1	174.8
Profit and loss account	768.4	673.4	646.8	688.5	670.9
	1159.3	1028.7	999.1	865.5	878.6
Outside shareholders' interests	7.1	6.6	5.7	7.6	10.4
	1166.4	1035.3	1004.8	874.1	889.0