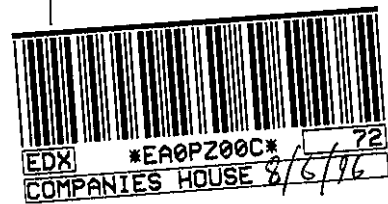


RANK XEROX LIMITED
AND SUBSIDIARIES

575914

**DIRECTORS' REPORT
AND FINANCIAL
STATEMENTS**

FOR THE 14 MONTHS ENDED
31 DECEMBER 1995



DIRECTORS OF RANK XEROX LIMITED

AS AT 31 DECEMBER 1995

Chairman

P.A. Allaire

Managing Director

B.D. Fournier

M.B. Gifford
W.R. Goode
O.P.M. Grouès
L.L. Haddon
R.T. Orrico
G. Rabbat
A.B. Rand
B.D. Romeril
S.K. Singh
N.V. Turnbull
D.M. Yates

Secretary

C. Shephard

Registered Office

Parkway, Marlow
Buckinghamshire SL7 1YL

Registered Auditors

KPMG, London

Registered Number

575914

DIRECTORS' REPORT

Financial Statements

The Directors present the balance sheet of the Parent Company, Rank Xerox Limited ('the Company') and the consolidated balance sheet as at 31 December 1995, together with the consolidated profit and loss account, consolidated cash flow statement and statement of total recognised gains for the 14 months ended on that date, for the Company and its subsidiaries ('the Group').

The profit for the financial period of the Group was £331 million.

Interim dividends of £81.7m were proposed and paid during the financial period on the 'A', 'B' and 'D' shares of the Company (note 8 to the Financial Statements).

A final dividend of £7.8m is proposed on the 'A', 'B', 'C', 'D' and 'E', shares of the Company.

Retained profits for the period were £242m. Transfers to non-distributable reserves in the period were £50m (note 18 to the Financial Statements).

Principal Activities

The business of the Group and its associates is research, development, manufacture, marketing and maintenance of document processing systems and equipment. This is supported by a portfolio of document services. The Group is also active in financing through its leasing operations.

Document processing encompasses a wide range of equipment, including copiers and duplicators, laser printers, scanners, facsimile machines, workstations, networks, production publishing systems and software.

Other Group activities include the marketing of paper and the manufacture and marketing of toner and related supplies.

Business Review

A summary of the Proforma Group's business during 1995 can be found in the Operating and Financial Review on page 22.

Xerox Acquires Greater Financial Interest

On 28th February 1995, Xerox Corporation and The Rank Organisation Plc concluded an agreement for Xerox to acquire 40 percent of The Rank Organisation's financial interest in the Group (and other members of the Rank Xerox Proforma Group).

Under the terms of the agreement, Xerox paid The Rank Organisation £620 million, in cash, thereby increasing the Xerox financial interest in the participation profit of the Rank Xerox Proforma Group to about 80 percent, from 67 percent. The transaction has no effect on the operations of the Rank Xerox Proforma Group.

Lille Manufacturing Activity

On 15 December 1995, Rank Xerox Limited announced that it had entered into negotiations with The Cerplex Group Inc of the USA, with the intent to transfer the Rank Xerox Neuville-en-Ferrain activity and site, located in northern France, near the city of Lille. The arrangement under negotiation provides that Cerplex will hire the entire workforce of approximately 670 staff and Rank Xerox will commit to provide Cerplex with certain levels of activity for four years. The transfer is scheduled to close in the first quarter of 1996, subject to satisfactory negotiation and completion of all necessary formalities.

No significant profit or loss impact is expected to result from this transaction.

Corporate Governance

The report of the Cadbury Committee

DIRECTORS' REPORT

on the Financial Aspects of Corporate Governance is aimed primarily at listed companies. Rank Xerox is a private company with two shareholders, Xerox Corporation of the USA and The Rank Organisation Plc of the UK; representatives of both shareholders constitute the Board of Directors of Rank Xerox Limited. Xerox Corporation, the majority shareholder, satisfies US requirements for corporate governance, many of which foreshadowed the Cadbury requirements and, in practice, applies these to Rank Xerox.

Internal controls are fundamental to Corporate Governance, and a comprehensive Internal Control Management Process, first introduced in 1984, has been refined and improved over the last decade. There are formal policies in place, control systems are documented and there is continuing evaluation and verification of the effectiveness of those control systems by a pervasive internal audit function. The formal system currently in place has been specifically designed to safeguard assets, to identify and address material risks, and to provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information. The status of controls in Rank Xerox is also regularly reviewed by established audit committees within Rank Xerox and at Xerox Corporation.

Directors

The Directors shown on page 36 were in office for the period under review. Mr. S.K. Singh resigned on 1 February 1996. Mr. G. Rabbat has announced his resignation with effect from 1 March 1996. Mr. P. Ponchon was appointed on 1 February 1996.

The Directors and Officers are covered by a Directors' and Officers' Liability

Insurance policy taken out and maintained by Xerox Corporation.

Tangible Fixed Assets

Changes in tangible fixed assets for the period are shown in note 10 on page 48 of this document.

The Directors are of the opinion that at 31 December 1995 the aggregate of the open market values of land and buildings exceeded net book values by approximately £38m for the Group, and by approximately £4m for the Company.

Research and Development

The Rank Xerox Research Centre (RXRC), under the directorship of Dr. Hervé Gallaire, is composed of three parts – the research laboratory in Grenoble, the Cambridge research laboratory and an Advanced Technology and Systems department, whose primary objective is the validation of technology through partnerships in Europe. RXRC is also involved in EU funded projects. A new Technology Show-room has been opened in 1995 for the benefit of Rank Xerox customers and employees.

The new Rank Xerox Technical Centre building at Welwyn Garden City was officially opened on 21 April 1995.

The Technical Centre will continue to provide advanced customer services and support and product development activities, utilising our expertise in document software and hardware design, to deliver integrated document systems, consistent with the way people work.

Charitable and Political Contributions

During the period the Group made charitable donations of £0.3m, including £0.2m made within the

DIRECTORS' REPORT

United Kingdom. No political contributions were made by the Group during the period.

Employment Policies

Employment of disabled persons

It is Rank Xerox policy to give full and fair consideration to applications for employment by disabled persons. Rank Xerox is a board member of the Employers Forum on Disability, which seeks new ways of encouraging the employment of people with a disability.

Employee Involvement

Rank Xerox believes that employees must be informed about the state of the business and involved in the issues that affect their working environment.

Information is given to employees regularly through management 'information cascade' meetings, through in-house magazines and journals and through informal two-way communications sessions held by Directors and senior management with groups of employees.

Involvement is an everyday working practice focussed, by the Company's Leadership Through Quality processes, on customer satisfaction.

Employee motivation and satisfaction remains a key business objective, with many employees involved in resolving workplace issues. The Company has introduced and is continuing to promote self-directed work groups.

Health and Safety

The Company aims to ensure that all employees work in a safe and healthy environment, free from accident, illness and injury whilst at work.

Pensions

The Company has made an external appointment to the Board of Trustees of its pension schemes in the UK, to

act along with employee, pensioner and management members. The appointee, who performs the role of 'Independent Trustee' is the independent trustee company, BEST Trustees. BEST Trustees are represented on the Board of Trustees by Clive Gilchrist, its Managing Director, who was previously vice president of the National Association of Pension Funds Council and a past member of its Investment Council.

Change of Accounting Reference Date

Following a resolution by the Board of Directors to change the Company's Accounting Reference Date to 31 December, these accounts are for the 14 months to 31 December 1995.

Auditors

On 6 February 1995, our auditors changed the name under which they practice to KPMG and, accordingly, have signed their report in their new name. Furthermore, KPMG have indicated that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution for the appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



C. Shephard

Secretary

23 February 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE 14 MONTHS ENDED 31 DECEMBER 1995

	<i>Note</i>	1995 14 months to 31 December £m	1994 12 months to 31 October £m
Turnover	2	4139	3309
Cost of revenue	2	(2426)	(2016)
Gross profit		1713	1293
Operating expenses (1994 includes restructuring costs of £175m)	3	(1153)	(1065)
Xerox Corporation charges	4	(143)	(122)
Income from associates*	11D	172	135
Operating profit	5	589	241
Net interest expense	6	(19)	(20)
Profit on ordinary activities before tax		570	221
Tax on profit on ordinary activities	7	(238)	(121)
Profit on ordinary activities after tax		332	100
Equity minority interests after tax		(1)	(1)
Profit for the financial period		331	99
Dividends paid and proposed	8	(89)	(32)
Retained profit for the period	18B	242	67

Turnover and Operating Profit derive entirely from continuing operations. The notes on pages 44 to 64 form part of these financial statements.

*Income from associates is primarily the Rank Xerox share of Fuji Xerox profits. These are included above for the twelve months to 20 October 1995, rather than for fourteen months, since Fuji Xerox has not changed its year end.

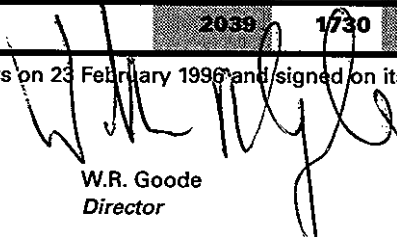
BALANCE SHEETS

AT 31 DECEMBER 1995

	Note	Group 1995 31 December £m	Group 1994 31 October £m	Company 1995 31 December £m	Company 1994 31 October £m
Fixed assets					
Intangible assets	9	7	8	-	-
Tangible assets	10	349	337	109	107
Investments	11	734	683	137	129
Total fixed assets		1090	1028	246	236
Current assets					
Stocks	12	353	357	272	280
Debtors					
Due within one year	13A	1616	1426	638	565
Due after more than one year	13B	1616	1447	69	63
Deposits and cash		12	24	1	5
Total current assets		3597	3254	980	913
Creditors due within one year					
Borrowings	14A	825	913	101	64
Other creditors	14B	725	657	499	610
Net current assets		2047	1684	380	239
Total assets less current liabilities		3137	2712	626	475
Creditors due after more than one year					
Borrowings	15	782	684	27	4
Provisions for liabilities and charges	16	336	298	38	26
Net assets		2039	1730	561	445
Capital and reserves					
Called up share capital	17A	30	30	30	30
Share premium account	17C	7	7	7	7
Other reserves	18A	947	830	-	-
Profit and loss account	18B	1052	860	524	408
Equity shareholders' funds		2036	1727	561	445
Equity minority interests		3	3	-	-
Total capital employed		2039	1730	561	445

Approved by the Board of Directors on 23 February 1996 and signed on its behalf by


B.D. Fournier
Managing Director


W.R. Goode
Director

Rank Xerox Limited & Subsidiaries - Balance Sheets 1995

CONSOLIDATED CASH FLOW STATEMENT

FOR THE 14 MONTHS ENDED 31 DECEMBER 1995

	Note	1995 14 months to 31 December £m	1994 12 months to 31 October £m
Net cash inflow from operating activities before finance lease receivables	22A	406	263
Increase in finance lease receivables		(84)	(149)
Net cash inflow from operating activities		322	114
Returns on investments and servicing of finance			
Net interest expense		(19)	(20)
Dividends received from associates		22	22
Dividends paid to shareholders		(81)	(32)
Distributions to minorities		(1)	(1)
Net cash (outflow) from returns on investments and servicing of finance		(79)	(31)
Tax paid		(44)	(20)
Investing activities			
Purchase of tangible fixed assets		(136)	(128)
Sale of tangible fixed assets		43	75
Net cash (outflow) from investing activities		(93)	(53)
Net cash inflow before financing		106	10
Financing			
Net cash (outflow) from financing	22B	(4)	(148)
Increase/(decrease) in cash and cash equivalents	22C	102	(138)

SUPPLEMENTARY INFORMATION

FOR THE 14 MONTHS ENDED 31 DECEMBER 1995

Statement of Total Recognised Gains	1995 14 months to 31 December £m	1994 12 months to 31 October £m
Profit for the financial period	331	99
Currency translation movement on foreign currency net investments	65	23
Total recognised gains for the period	396	122

Reconciliation of Movements in Shareholders' Funds		
Profit for the financial period	331	99
Dividends paid and proposed	(89)	(32)
Retained profit for the period	242	67
Currency translation movement on foreign currency net investments	65	23
Other movements	2	—
Net addition to shareholders' funds	309	90
Opening shareholders' funds	1727	1637
Closing shareholders' funds	2036	1727

Historical Cost Profit and Loss

All assets are stated in the financial statements at historical cost. Accordingly, there are no adjustments required to the reported profit which is stated on an unmodified historical cost basis.

NOTES TO FINANCIAL STATEMENTS

1. Principles of Consolidation and Accounting Policies

The Group's major accounting policies are summarised below.

(A) Accounting convention

The financial statements are prepared on an unmodified historical cost basis and in accordance with applicable United Kingdom Accounting Standards.

(B) Basis of consolidation

These statements incorporate the financial statements of Rank Xerox Limited and all of its subsidiary undertakings, ('Rank Xerox Limited and Subsidiaries'), after elimination of intra-group transactions and the profits thereon.

(C) Translation of foreign currencies

On consolidation, balance sheets of individual subsidiaries that are denominated in foreign currencies are translated into Sterling at the rates ruling at the balance sheet date. Profit and loss items are translated at rates approximating to the rates ruling when the transactions occurred and unrealised profits on intra-group transactions 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 18) and reported on the balance sheet within 'Other reserves'. Gains and losses arising from foreign currency transactions are dealt with in the profit and loss account of the subsidiary concerned (note 3C). Subsidiaries operating in hyper-inflationary economies report their financial results using a stable currency as the functional currency of operation.

(D) Intangible fixed assets - Goodwill

Purchased goodwill arising from any acquisitions is capitalised and amortised through the profit and loss account over its useful economic life (note 9).

(E) Tangible fixed assets

These are carried at cost and adjusted for depreciation, on a straight line basis, at rates intended to write off the cost, less estimated residual value, over the estimated useful life of the respective assets, as follows:

Freehold land	Not depreciated
Freehold buildings	40 - 100 years
Leasehold land and buildings	Term of lease
Plant and machinery	5 - 13 years
Fixtures and fittings	10 - 20 years
Vehicles	3 - 5 years
Rental equipment	2 - 5 years

(F) Stocks

Stocks are stated at the lower of cost and net realisable value (note 12).

(G) Unrealised intra-group profits

Profits arising on the sale of equipment and supplies between Group companies, and on similar sales to associates, are deferred in the consolidated balance sheet along with the related tax, until realised. The unrealised element of profit is deducted from the carrying value of equipment and supplies, while the related tax is included within the deferred tax balance (note 16C).

(H) Leasing arrangements

As lessor: sales revenue is recognised when assets are leased to customers under finance lease agreements (which include sales-type lease agreements). The present value of the minimum lease payments is recorded as sales revenue; the cost or carrying value of the leased assets, less the present value of any residual, plus any related interest payable is charged to cost of revenue. Lease interest income is allocated to accounting periods so as to provide a constant rate of return on the net investment in the leases (note 19). The net investment in leases is included in Debtors (note 13). All other lease agreements with customers are classified as operating leases. Rental income from customers under operating leases is recognised in the profit and loss account as earned, and associated costs are charged to cost of revenue as incurred.

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-term loans within Creditors (notes 14 and 15). Depreciation is charged to the profit and loss account on a straight line basis. All other leases are classified as operating leases and the rentals payable under such agreements are charged against profits as incurred.

(I) Pension costs

The actuarial cost and the pension expense for defined benefit plans are calculated in accordance with the Statement of Standard Accounting Practice No. 24 – Accounting for Pension Costs (note 20).

Prepayments relating to funded defined benefit pension schemes are included within Debtors (note 13). Provisions relating to unfunded pension schemes in certain overseas subsidiaries are included within Provisions for Liabilities and Charges (note 16).

The pension cost of the Group's defined contribution schemes represents contributions paid to these schemes during the year.

(J) Deferred tax

Deferred tax 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 tax computations. Provision for such differences is made to the extent that it is probable that a liability or asset will crystallise (note 16C). No provision is made where it is probable that an asset or liability will not crystallise. The Group has a deferred tax asset comprising tax on unrealised intra-group profits.

(K) Research and development

Expenditure on product research and development is charged to the profit and loss account as incurred.

(L) Company profit and loss account

As provided for by section 230 of the Companies Act 1985, no profit and loss account for Rank Xerox Limited is presented in these statements.

2. Turnover and Cost of Revenue

(A) Content of turnover

This consists of revenue earned in the period from the sale and rental of document processing equipment, the sale of paper and supplies, the provision of service and maintenance, and interest income from leasing operations. Turnover includes sales to the Group's associates.

(B) Segmental information

In accordance with the exemption allowed under Statement of Standard Accounting Practice No. 25 – Segmental Reporting, no disclosure of segmental information is included in these Financial Statements as, in the opinion of the Directors, such disclosure would be seriously prejudicial to the interests of the Group.

(C) Treatment of Leasing Operations

Interest and other income from finance leases and credit sale agreements and the related interest expense within leasing operations are an integral part of the marketing strategy of the Group and, in accordance with section 262 of the Companies Act 1985, fall within the Group's ordinary activities. Accordingly, leasing income and interest expense have been included within turnover and cost of revenue respectively.

3. Operating Expenses

<i>(A) Operating expenses</i>	<i>Note</i>	1995 £m	1994 £m
Distribution costs	3B	682	552
Administrative expenses	3C	471	513
Operating expenses		1153	1065

(B) Distribution costs

Distribution costs 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.

(C) Administrative expenses

Administrative expenses of £471m (1994 – £513m) include the following (profit)/cost items:

Research and development expenditure		21	22
Sale of surplus facilities		(2)	(6)
Foreign exchange impacts on transactions	1C	–	–
Restructuring Costs		–	175
Auditors remuneration for audit work		1.5	1.3
Other services provided by KPMG in the UK		0.2	0.4

4. Xerox Corporation Charges

The Group is charged with a proportion of research and development and corporate overhead expenses incurred by its ultimate parent company, Xerox Corporation. These charges reflect the benefits that the Group receives from these activities, and amounted to £143m for the period ended 31 December 1995 (1994 – £122m).

In the opinion of the Directors, separate disclosure of this item on the face of the Consolidated Profit and Loss Account assists in giving a true and fair view of the Group's results.

5. Operating Profit

The Group's document processing business includes associated operations in the Far East and South Pacific region; accordingly, as allowed under Accounting Standard FRS3 – Reporting Financial Performance, paragraph 39, income from associates has been included within operating profit.

6. Net Interest Expense

Analysis of Group interest for the period	Note	1995 £m	1994 £m
Bank loans and other loans repayable within five years		140	128
Loans, other than from banks, not fully repayable within five years		13	11
Capital leases		2	2
		155	141
Less leasing interest expense included within cost of revenue		(130)	(115)
Interest expense		25	26
Interest income			
Short-term deposits and loans to banks		(2)	(2)
Fellow subsidiaries (net) and other sources		(4)	(4)
Net interest expense		19	20

Interest income from finance leases and credit sale agreements within leasing operations of £301m (1994 – £246m) has been included in turnover.

7. Tax

Analysis of Group tax charge for the period

United Kingdom corporation tax			
Current tax at 33% (1994 – 33%)		107	21
Double tax relief		(68)	(20)
Total current tax		39	1
Deferred tax		8	35
Total United Kingdom corporation tax		47	36
Overseas tax	current	53	31
	deferred	53	13
Prior year adjustments	current	(11)	3
	deferred	1	10
		143	93
Associates (predominantly Fuji Xerox Co., Ltd)	11D	95	77
Restructuring tax relief		–	(49)
Tax on profit on ordinary activities		238	121

During 1995, unrelieved overseas tax in respect of dividends amounted to £15m (1994 – £6m).

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

8. Dividends Paid and Proposed

	1995 £m	1994 £m
Interim	81.7	31.4
Final - proposed	7.8	0.4
	89.5	31.8

Total dividends attributable to each class of share comprise: A £4.5m (1994 – £1.6m), B £4.5m (1994 – £1.6m), C £5.5m (1994 – nil), D £74.9m (1994 – £28.5m) and E £0.1m (1994 – £0.1m).

9. Intangible Fixed Assets – Goodwill

Capitalised goodwill is being amortised on a straight line basis over 20 years. There were no additions in the period.

10. Fixed Assets – Tangible Assets

(A) Group

	Land and Buildings	Plant and Machinery	Fixtures Fittings Tools and Equipment	Assets in Course of Construction	Rental Equipment	Total £m
Cost						
At 1 November 1994	180	88	294	25	126	713
Additions	7	6	58	3	70	144
Disposals and transfers	7	(5)	(39)	(25)	(72)	(134)
Net stock transfers	–	–	(6)	–	(2)	(8)
Currency translation	11	4	18	–	14	47
At 31 December 1995	205	93	325	3	136	762
Depreciation Provision						
At 1 November 1994	58	55	185	–	78	376
Charge for period	9	7	51	–	48	115
Disposals	(10)	(4)	(24)	–	(47)	(85)
Net stock transfers	–	–	(14)	–	–	(14)
Currency translation	4	3	5	–	9	21
At 31 December 1995	61	61	203	–	88	413
Net book value at 31 December 1995	144	32	122	3	48	349
Net book value at 31 October 1994	122	33	109	25	48	337

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

(B) Analysis of net book value of Land and Buildings	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Freehold	117	95	59	39
Short leasehold	20	22	3	-
Long leasehold	7	5	-	1
	144	122	62	40

(C) Company

	Land and Buildings	Plant and Machinery	Fixtures Fittings Tools and Equipment	Assets in Course of Construction	Total £m
Cost					
At 1 November 1994	46	38	78	23	185
Additions	3	3	13	2	21
Disposals and transfers	21	(1)	(4)	(24)	(8)
At 31 December 1995	70	40	87	1	198
Depreciation Provision					
At 1 November 1994	6	21	51	-	78
Charge for period	2	4	11	-	17
Disposals	-	(1)	(5)	-	(6)
At 31 December 1995	8	24	57	-	89
Net book value at 31 December 1995	62	16	30	1	109
Net book value at 31 October 1994	40	17	27	23	107

(D) Additional fixed asset data

Rental equipment consists of document processing equipment on rental to customers under operating leases.

Land and buildings of the Group includes £30m (1994 - £30m) of land which is not depreciated.

Net book value for the Group includes assets held under finance leases of £19m (1994 - £23m).

11. Fixed Assets – Investments

(A) Group

	Note	Fuji Xerox	Other Associates and loans	Total £m
At 1 November 1994		668	15	683
Retained income for the period	11D, 11E	49	1	50
Other movements (net)		5	(4)	1
At 31 December 1995		722	12	734

(B) Company

	Subsidiaries	Associates and loans	Total £m
At 1 November 1994	116	13	129
Net additions in the period	10	(2)	8
At 31 December 1995	126	11	137

(C) Associates

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

No provision has been made for any additional taxation which would arise if the investments in associates were disposed of at their balance sheet values, or if their retained profits, treated as non-distributable reserves in note 18, were subject to distribution.

(D) Income from associates

	Note	Group 1995 £m	Group 1994 £m
Income before tax		172	135
Tax	7	(95)	(77)
Income after tax		77	58
Dividends		(27)	(22)
Transfer to non-distributable reserves	18B	50	36

(E) Fuji Xerox Co., Ltd.

The principal associate is Fuji Xerox Co., Ltd, incorporated in Japan, in which the Company owns 50 percent of the issued ordinary share capital. Fuji Xerox Co., Ltd manufactures and markets document processing equipment and related supplies in Japan, the Far East and in the South Pacific region.

Fuji Xerox Co., Ltd prepares its accounts to 20th October in each financial year; accordingly, these financial statements include the results for the years ended 20th October 1995 and 20th October 1994. Between 20th October 1995 and 31st December 1995, there have been no operational or financial changes which materially affect the view given by the Group's financial statements.

Summarised financial information, based on the audited consolidated financial statements of Fuji Xerox Co., Ltd, for the year ended 20 October 1995 is set out below.

Balance Sheet – Extracts	1995	1994
	£m	£m
Fixed assets	1958	1862
Net current assets	486	492
Total assets less current liabilities	2444	2354
Creditors due after more than one year	(844)	(863)
Net assets	1600	1491
Attributable to the Group		
Group's share of net assets	800	745
Dividends	(24)	(20)
Intercompany eliminations	(54)	(57)
Group's share of net assets in Fuji Xerox	722	668
Profit and Loss Account – Extracts		
Turnover	5370	4751
Depreciation and amortisation	401	291
Early retirement programme	-	36
Profit on ordinary activities before tax	324	265
Attributable to the Group		
Group's share of income	162	132
Intercompany adjustment	4	-
Income before tax	166	132
Tax	(93)	(76)
Dividends	(24)	(20)
Fuji Xerox transfer to non-distributable reserves	49	36

Fuji Xerox year end remains unchanged at 20 October.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

(F) Subsidiaries

The principal subsidiaries of Rank Xerox Limited at 31 December 1995 were as follows:

		Country of incorporation	Percentage of ordinary share capital owned		
			Direct	Indirect	Total
Rank Xerox Austria GmbH		Austria	100	–	100
Rank Xerox Office Supplies 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 Bulgaria		Bulgaria	100	–	100
Rank Xerox Czech Republic s.r.o.		Czech Republic	100	–	100
Rank Xerox A/S		Denmark	100	–	100
Rank Xerox Finans A/S	*	Denmark	–	100	100
Rank Xerox Capital (Europe) plc	**	England	100	–	100
Rank Xerox Finance Limited	*	England	–	100	100
Rank Xerox (Ireland) Limited		England	100	–	100
Rank Xerox Office Supplies Limited		England	–	100	100
Rank Xerox (R&S) Limited		England	–	100	100
Rank Xerox (UK) Limited		England	100	–	100
Rank Xerox Oy		Finland	100	–	100
Xerobail SA	*	France	–	100	100
Burofinance SA	*	France	–	66	66
Office de Transformation Papetière SA		France	–	100	100
Rank Xerox – The Document Company SA		France	100	–	100
Rank Xerox GmbH		Germany	100	–	100
Rank Xerox Leasing GmbH	*	Germany	100	–	100
Rank Xerox Greece SA		Greece	100	–	100
Xerox (Hong Kong) Limited		Hong Kong	100	–	100
Rank Xerox Hungary Trading Limited		Hungary	100	–	100
Rank Xerox SpA		Italy	100	–	100
Rank Xerox Noleggi 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 (Nigeria) Limited		Nigeria	60	–	60
Rank Xerox AS		Norway	100	–	100
Rank Xerox Poland Sp.zo.o.		Poland	100	–	100
Rank Xerox Portugal Equipamentos de Escritorio Limitada		Portugal	74	26	100
Creditex – Aluguer de Equipamentos SA	*	Portugal	–	100	100
Rank Xerox (Romania) S. R. L.		Romania	100	–	100
Rank Xerox (C.I.S.)		Russian Federation	100	–	100
Rank Xerox Slovenija d.o.o.		Slovenia	100	–	100
Rank Xerox Española SA		Spain	100	–	100
Rank Xerox de Financiacion SA	*	Spain	–	100	100
Rank Xerox AB		Sweden	100	–	100
Finansaktiebolaget Rank Xerox Credit	*	Sweden	100	–	100
Rank Xerox Nordic AB		Sweden	100	–	100
Rank Xerox AG		Switzerland	100	–	100
Rank Xerox Finance AG	*	Switzerland	100	–	100
Xerox Büro Araçları Ticaret ve Servis AS		Turkey	100	–	100
Rank Xerox (Ukraine) Ltd		Ukraine	99	1	100

Subsidiaries marked * are involved solely with the leasing of document processing equipment.

Subsidiaries marked ** are involved solely with the raising of funds for general corporate purposes, including supporting the Group's leasing arrangements.

All of the subsidiaries, as defined by section 258 of the Companies Act 1985, are included in the Group consolidation.

The principal activities of the above subsidiaries are the development, manufacture, marketing, maintenance and leasing of document processing equipment or associated office supplies.

12. Stocks

	Note	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Finished goods and goods for resale					
Equipment		179	187	150	165
Spares, consumables and paper		137	143	85	88
Raw materials, consumables and work in progress		37	27	37	27
		353	357	272	280

13. Debtors

(A) Due within one year

Finance lease receivables	19B	809	695	-	-
Trade debtors		454	437	43	39
Accrued income		164	102	2	-
Prepayments and other debtors		110	80	60	26
Amounts owed by					
Associates		35	39	34	39
Xerox Corporation and subsidiaries		32	33	32	30
Fellow subsidiaries		-	33	2	17
Group companies – dividends		-	-	142	134
Group companies – other		-	-	311	273
Current tax		12	7	12	7
		1616	1426	638	565

(B) Due after more than one year

Finance lease receivables	19B	1438	1292	-	-
Pension prepayments	20	159	142	62	59
Other debtors	13C	19	13	7	4
		1616	1447	69	63

(C) Other debtors

Other debtors, due after more than one year, include advances to the trustees of the Rank Xerox Share Purchase Scheme, to enable them to acquire 'E' shares in the Company. Since the Trust is wholly funded by the Parent Company, there is no third party liability to be recognised in these financial statements. The scheme is currently dormant.

14. Creditors – Due within one year		Group	Group	Company	Company
(A) Borrowings	<i>Note</i>	1995	1994	1995	1994
		£m	£m	£m	£m
Bank loans and overdrafts					
Overdrafts and acceptances		445	555	99	61
Long-term loans	15D	380	358	2	3
	15B	825	913	101	64

(B) Other creditors

Accruals and deferred income		369	363	54	69
Trade creditors		128	117	36	36
Amounts owed to:					
Xerox Corporation and subsidiaries		46	42	38	32
Fellow subsidiaries		48	44	43	44
Group companies		–	–	287	411
Other creditors and social security		72	75	14	9
Current tax		54	16	19	9
Dividend payable		8	–	8	–
		725	657	499	610

15. Borrowings – Due after more than one year

(A) Analysis by category

Long-term loans					
Bank loans and overdrafts	15B	592	488	25	–
Public and private bond issues		159	182	–	–
Other loans	15C	11	14	2	4
	15D	762	684	27	4

(B) Short/long-term classification

Certain amounts repayable within one year, which are supported by committed bank facilities extending between one and five years, under which the loans can be refinanced on a continuing basis from the same group of lenders and on similar conditions, have been included in bank loans and overdrafts falling due after more than one year; £203m (1994 – £130m) of debt supported by committed facilities has been classified in this way.

(C) Secured and Other loans

The aggregate amount of secured loans was £nil (1994 – £4m) for the Group. As in 1994, there are no secured loans to the Company. The category 'Other loans' includes non-current capital lease obligations, which are specifically secured on the leased assets involved.

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

(D) Repayment profile of total long-term loans from balance sheet date	Note	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Due within one year	14A	380	358	2	3
Due after more than one year					
Second year		377	287	25	2
Third year		130	197	1	1
Fourth year		128	60	1	1
Fifth year		2	15	–	–
Sixth to tenth years*		125	125	–	–
Total due after more than one year	15A	762	684	27	4
		1142	1042	29	7

*£Nil is repayable by instalments.

(E) Currencies in which loans are denominated	Group interest rate*	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Loans and capitalised leases not fully repayable within five years					
Sterling	8.7%	125	125	–	–
Other currencies	–	–	2	–	–
Loans and capitalised leases fully repayable within five years					
Sterling	7.5%	220	175	29	7
German marks	6.6%	183	188	–	–
Dutch guilders	6.5%	140	115	–	–
French francs	7.9%	117	128	–	–
Danish kroner	8.1%	74	30	–	–
Italian lira	11.1%	64	50	–	–
Spanish pesetas	9.7%	64	76	–	–
Swiss francs	5.5%	52	59	–	–
Other currencies	9.1%	103	94	–	–
		1142	1042	29	7

*Based on rates ruling at 31 December 1995.

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

16. Provisions for Liabilities and Charges

(A) Composition

	Note	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Pensions and similar obligations	20	154	133	–	–
Restructuring provision	16B	55	114	–	–
Deferred tax	16C, 16D	115	42	36	21
Other provisions	16B	12	9	2	5
		336	298	38	26

(B) Utilisation

The utilisation of the restructuring and other provisions was solely for the purposes for which they were originally established.

(C) Deferred tax

		1995 Potential liability £m	1995 Provision in accounts £m	1994 Potential liability £m	1994 Provision in accounts £m
Group					
Fixed assets		(67)	–	(84)	(21)
Finance leases		285	107	239	43
Other		40	34	46	64
		258	141	201	86
Tax on unrealised intra-Group profits on stocks and rental equipment	1G	(26)	(26)	(16)	(16)
Tax on restructuring provision		–	–	(28)	(28)
Closing Balance		232	115	157	42
Company					
Fixed assets		2	–	–	–
Other		36	36	23	21
Closing Balance		38	36	23	21

(D) Movements on the deferred tax provision

	Group £m	Company £m
Balance at 1 November 1994	42	21
Profit and loss account	62	13
Currency translation	11	2
Balance at 31 December 1995	115	36

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries - Notes to Financial Statements 1995

17. Called Up Share Capital and Share Premium Account

(A) The Company's share capital Shares of £1 each divided into classes as follows	Authorised	Issued and fully paid 1995	Issued and fully paid 1994
	£m	£m	£m
'A' Shares	7.6	7.4	7.4
'B' Shares	7.6	7.4	7.4
'C' Shares	7.8	7.6	7.6
'D' Shares	7.6	7.6	7.6
'E' Shares	0.1	0.1	0.1
	30.7	30.1	30.1

(B) Rights of shares

All classes of shares are non-redeemable and are equity shares under the meaning of Accounting Standard FRS4 – Capital Instruments. The rights of each class are as follows

Class A and B shareholders each receive 5% of total dividends and are entitled to repayment of capital and premium on winding up, together with 5% of surplus assets in priority to C, D and E shareholders. They have no voting rights.

Class C shareholders receive a proportion, determined by the Directors, of the remaining 90% of total dividends and are entitled to repayment of capital and premium on winding up, together with a proportion of surplus assets as may be agreed, or otherwise in the proportion 2/3 to Class C shareholders and 1/3 to Class D shareholders. They have 21 votes for every block of 20 shares held.

Class D shareholders receive a proportion, determined by the Directors, of the remaining 90% of total dividends and are entitled to repayment of capital and premium on winding up (less £3.7m), together with a proportion of surplus assets as may be agreed, or otherwise in the proportion 2/3 to Class C shareholders and 1/3 to Class D shareholders. They have 20 votes for every block of 20 shares held.

E shareholders have no voting rights. In terms of dividend, they receive the greater of (i) one tenth of the nominal value of issued E shares divided by the total nominal value of issued C, D and E shares multiplied by the dividend payable of such C, D and E shares; and (ii) one ninth of the nominal value of the issued E shares divided by the nominal value of issued D and E shares multiplied by the dividend payable on such D and E shares. There is no entitlement to assets on winding up beyond repayment of capital and related premium in priority to C and D shareholders. All E shares are held by the trustees of the Rank Xerox Share Purchase Scheme which is no longer active.

(C) The Company's share premium account

Attributable as follows	Company 1995	Company 1994
	£m	£m
'C' Shares	2.6	2.6
'D' Shares	1.3	1.3
'E' Shares	3.0	3.0
	6.9	6.9

18. Other Reserves and Profit and Loss Account

(A) Analysis of other reserves

	<i>Note</i>	Group 1995	Group 1994
		£m	£m
Non-distributable reserves			
Group companies	18B	64	64
Associates	18B	459	407
Currency translation	18B	424	359
		947	830

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

(B) Movements in reserves

	Note	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Currency translation					
Opening Balance		359	336	—	(1)
Movement in period		65	23	—	1
Closing Balance		424	359	—	—

Of the Group currency translation reserve at 31 December 1995, £319m (1994 – £318m) relates to Fuji Xerox Co., Ltd.

	Note	Profit and loss account		Non-distributable reserves	
		Group	Company	Group	Associates
Other reserves and profit and loss account					
At 1 November 1994		860	408	64	407
Retained profit for the period		242	116	—	—
Transfers	11D	(50)	—	—	50
Unrealised gain		—	—	—	2
At 31 December 1995		1052	524	64	459

(C) Allocation of reserves

The profit and loss account and non-distributable reserves at 31 December 1995 have been allocated in accordance with the Company's Articles of Association, as follows

'A' Shares reserves	15	7	1	6
'B' Shares reserves	15	7	1	6
General reserves	1022	510	62	447
	1052	524	64	459

(D) Other reserve data

The Group profit after tax includes a profit of £205m (1994 – £119m) attributable to the shareholders of Rank Xerox Limited, which has been dealt with in the financial statements of that 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 associates.

19. Leasing Arrangements

(A) As lessee

The commitment at 31 December 1995 to make operating lease payments in the year to 31 December 1996 relates to leases which expire as follows

Group	1995		1994	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Leases expiring in				
One year	3	4	3	5
Years two to five	15	11	12	10
More than five years	17	1	17	1
	35	16	32	16
Company				
Leases expiring in				
One year	-	1	-	1
Years two to five	1	1	-	2
More than five years	1	-	2	-
	2	2	2	3

Rentals under operating leases charged against profits amounted to £71m (1994 - £68m) for the Group. Of this, hire of plant and machinery amounted to £1m (1994 - £4m).

(B) As lessor

The Group leases equipment to customers under both operating leases and finance leases. The net investment in finance leases at 31 December 1995 consisted of minimum lease payments due in the following years after the balance sheet date

	Note	Group 1995 £m	Group 1994 £m
First year		1047	901
Second year		724	652
Third year		496	473
Fourth year		286	278
Fifth year		115	114
Thereafter		33	21
Total minimum lease payments receivable		2701	2439
Unguaranteed residual values		79	66
Deferred interest income		(478)	(470)
Allowance for doubtful debts		(55)	(48)
Net investment in finance leases	13	2247	1987

There are no finance leases in the Company. Group operating lease income in the period was £120m (1994 - £102m).

20. Pensions

The Group operates various pension plans consisting of both defined benefit and defined contribution schemes, some of which are state sponsored. The majority of the defined benefit schemes are self administered and the schemes' assets are held independently of the Group's finances. Valuations of the defined benefit schemes operated by the Group are undertaken by qualified actuaries at least every three years using the projected unit method, and the annual contributions are paid in accordance with their recommendations.

Included in pension prepayments of £159 m (1994 – £142m), within Debtors (note 13), is £124m (1994 – £121m) relating to the United Kingdom Final Salary scheme, which is the Group's principal funded defined benefit pension scheme. Actuarial valuations of this scheme are carried out triennially, with the most recent valuation made as at 31 March 1995. This latest valuation showed that the market value of the assets of the scheme was £742m and that the actuarial value of those assets represented 124% of the benefits that had been accrued to members, after allowing for expected future increase in earnings. The excess funding is being spread over the average future working lives of members in equal capital instalments with an interest credit on the outstanding balance. The assumptions which have the most significant effect on the results of the valuations are the relationships between the rate of return on investments and the rates of increase in salaries and pensions. It has been assumed that the investment return would be 2.3% per annum higher than the rate of annual salary increases and 4.3% per annum higher than the rate of increase of present and future pensions and the rate of annual growth in equity dividends.

Acting on the advice of the actuaries, no further contributions by the Group are currently required to the United Kingdom scheme and none are likely to be required during the next financial year.

Included in pensions and similar obligations of £154m (1994 – £133m), within Provisions for liabilities and charges (note 16A), is £120m (1994 – £100m) relating to the German scheme, which is the Group's principal unfunded defined benefit plan. The significant assumptions used in accounting for the German scheme are a discount rate of 7.3%, future salary increases of 4%, and post retirement pension increases of 2%. The most recent actuarial valuation for this scheme was at 1 October 1994.

The net pension cost for the defined benefit schemes of the Group in 1995 was £6m (1994 – £10m). The 1995 charge is after including a benefit of £9m from curtailment gains in overseas pension schemes. The net pension cost for the defined contribution schemes and other schemes operated in accordance with local practice and legislation was £8m (1994 – £7m).

21. Directors and Employees

(A) The aggregate payroll costs were as follows

	1995 £m	1994 £m
Wages and salaries	714	591
Social security costs	147	104
Other pension costs	14	17
	875	712
	Number 000's	Number 000's
Average number of persons employed	22.0	23.1

(B) Remuneration of Chairman and Directors of Rank Xerox Limited

	£000's	£000's
Emoluments for services as Executives	3,684	3,271
Emoluments of individual Directors		
Highest paid Director	757	726
Chairman	51	49
	Number	Number
Nil	3	4
£ 35,001 – £ 40,000	–	1
£ 45,001 – £ 50,000	–	3
£ 50,001 – £ 55,000	3	–
£200,001 – £205,000	–	1
£215,001 – £220,000	1	–
£240,001 – £245,000	–	1
£265,001 – £270,000	1	–
£280,001 – £285,000	–	1
£300,001 – £305,000	1	–
£330,001 – £335,000	1	–
£375,001 – £380,000	–	1
£430,001 – £435,000	–	1
£545,001 – £550,000	–	1
£580,001 – £585,000	1	–
£720,001 – £725,000	1	–
£725,001 – £730,000	–	1
£755,001 – £760,000	1	–

1995 relates to 14 months to 31 December 1995; 1994 relates to 12 months to 31 October 1994.
Rank Xerox Limited & Subsidiaries – Notes to Financial Statements 1995

(C) Directors' interests

The interests of the Directors of Rank Xerox Limited in office as at 31 December 1995 (including family interests) in the stock of Xerox Corporation are as follows

		Common stock par value \$1.00 holding (units)	Deferred compensation in Xerox stock fund (\$)	Profit Sharing & Savings Plan – Xerox stock fund (units)	Series 'B' convertible preferred stock (units)
P.A. Allaire	a	42,787	–	–	346
	b	37,425	–	–	287
B.D. Fournier	a	3,603	–	–	–
	b	5,287	–	–	–
L.L. Haddon	a	900	–	–	–
	b	900	–	–	–
R.T. Orrico	a	546	–	1,415	321
	b	337	–	2,135	263
A.B. Rand	a	8,005	–	61,795	346
	b	4,089	–	61,795	287
B.D. Romeril	a	7,356	473,699	–	38
	b	705	473,699	–	–
S.K. Singh	a	100	–	–	211
	b	–	–	–	161

a Holding at 31 December 1995

b Holding at 1 November 1994

Options to subscribe for Xerox Corporation common stock, par value \$1.00, granted to and exercised by Directors in the period to 31 December 1995 are as follows

	Holding at 1 Nov 1994 (units)	Options granted (units)	Options exercised (units)	Holding at 31 Dec 1995 (units)
P.A. Allaire	282,732	167,517	(36,147)	414,102
B.D. Fournier	27,644	25,221	(24,044)	28,821
W.R. Goode	5,850	4,600	(2,600)	7,850
O.P.M. Grouès	6,050	2,000	(2,350)	5,700
L.L. Haddon	7,500	2,500	(6,250)	3,750
R.T. Orrico	3,900	2,000	(1,900)	4,000
G. Rabbat	2,700	1,500	(1,950)	2,250
A.B. Rand	29,244	53,088	(12,929)	69,403
B.D. Romeril	37,494	55,588	(34,294)	58,788
S.K. Singh	5,100	2,000	(3,500)	3,600

Apart from the interests set out above, no Director in office at 31 December 1995 had any interest in the shares or debentures of the Company, Xerox Corporation or other Group companies during the period under review.

22. Notes to Consolidated Cash Flow Statement

(A) Reconciliation of operating profit to net cash inflow before finance lease receivables	1995	1994
	£m	£m
Operating profit (1994 includes restructuring costs of £175m)	589	241
Income from associates	(172)	(135)
Depreciation and other items not involving the movement of cash	115	101
Net movement in working capital		
(Increase) in debtors	(122)	(8)
(Increase) in stocks	(2)	(64)
(Decrease)/increase in creditors and provisions	(6)	126
Effect of foreign exchange rate changes	4	2
Net cash inflow from operating activities before finance lease receivables	406	263

(B) Loan finance

Loan finance comprises		
Creditors – due within one year*	444	463
– due after more than one year	762	684
Debtors	–	(35)
	1206	1112
The movement in loan finance comprises		
Opening balance	1112	1235
Bank loans and overdrafts with original maturity over three months	36	(100)
Notes payable after three months	(38)	(76)
Bond issues, other loans and finance lease payments	(28)	(27)
Fellow subsidiary loans	26	55
Net (outflow) in loan finance in the period	(4)	(148)
Effect of foreign exchange rate changes	98	25
Closing balance	1206	1112

*Consists mainly of long term loans £380m (1994 – £358m) and those overdrafts and acceptances with original maturity over three months £42m (1994 – £76m).

(C) Cash and cash equivalents	1995	1994
	£m	£m
Deposits and cash	12	24
Creditors due within one year*	(403)	(479)
Total cash and cash equivalents	(391)	(455)
Increase/(decrease) in cash and cash equivalents	64	(140)
Adjust for the effect of foreign exchange rate changes	38	2
Net increase/(decrease) in cash and cash equivalents in the period, after currency	102	(138)

*Consists of overdrafts and acceptances with original maturity less than three months.

23. Capital Expenditure

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

	Group	Group	Company	Company
	1995	1994	1995	1994
	£m	£m	£m	£m
Contracted expenditure	7	3	3	1
Expenditure authorised but not committed	9	7	7	5
	16	10	10	6

24. Contingent Liabilities

(A) The Group

There are contingent liabilities, arising from the ordinary activities of the Group, which amount to approximately £14m (1994 – £19m) in respect of guarantees and other liabilities. Of this, £2m (1994 – £2m) relates to guarantees of loans and bank overdrafts of fellow subsidiaries.

(B) The Company

Loans and bank overdrafts of Group companies and fellow subsidiaries have been guaranteed by the Company; at 31 December 1995 £231m (1994 – £282m) was outstanding.

25. Ultimate Parent Company

The Company's ultimate parent company is Xerox Corporation, which is incorporated in the United States of America. Copies of the Xerox Corporation Annual Report and Accounts may be obtained from The Investor Relations Department, Xerox Corporation, 800 Long Ridge Road, PO Box 1600, Stamford, Connecticut 06904, U.S.A.; World Wide Web <http://www.xerox.com>

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group and to prevent and detect fraud and other irregularities.

In accordance with Corporate Governance Code of Best Practice, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing these financial statements.

Report of the Auditors

To the members of Rank Xerox Limited

We have audited the financial statements on pages 40 to 64.

Respective responsibilities of Directors and Auditors

As described above, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud, or other irregularity, or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1995 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG

Chartered Accountants

Registered Auditors

London

23 February 1996

FIVE YEAR FINANCIAL SUMMARY

Consolidated Profit and Loss Account	1995* 14 months £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	4139	3309	3161	2923	2766
Operating profit other than associates (1994 includes restructuring costs of £175m)	417	106	125	83	114
Income from associates	172	135	116	86	102
Operating profit	589	241	241	169	216
Net interest expense	(19)	(20)	(23)	(18)	(10)
Profit before tax	570	221	218	151	206
Tax	(238)	(121)	(108)	(70)	(89)
Profit after tax	332	100	110	81	117
Equity minority interests after tax	(1)	(1)	(1)	(2)	(2)
Profit for the financial period	331	99	109	79	115
Dividends paid and proposed	(89)	(32)	(72)	(68)	(55)
Retained profit for the period	242	67	37	11	60

Consolidated Balance Sheet

Fixed assets	1090	1028	1020	914	726
Net current assets	2047	1684	1524	1605	1386
Total assets less current liabilities	3137	2712	2544	2519	2112
Creditors due after more than one year	762	684	707	780	612
Provisions for liabilities and charges	336	298	197	172	129
Net assets	2039	1730	1640	1567	1371
Share capital and premium	37	37	37	37	33
Other reserves	947	830	773	710	505
Profit and loss account	1052	860	827	815	823
Equity shareholders' funds	2036	1727	1637	1562	1361
Equity minority interests	3	3	3	5	10
Total capital employed	2039	1730	1640	1567	1371

*The figures for 1995 are for the 14 month period to 31 December, all other figures are for the year to 31 October.

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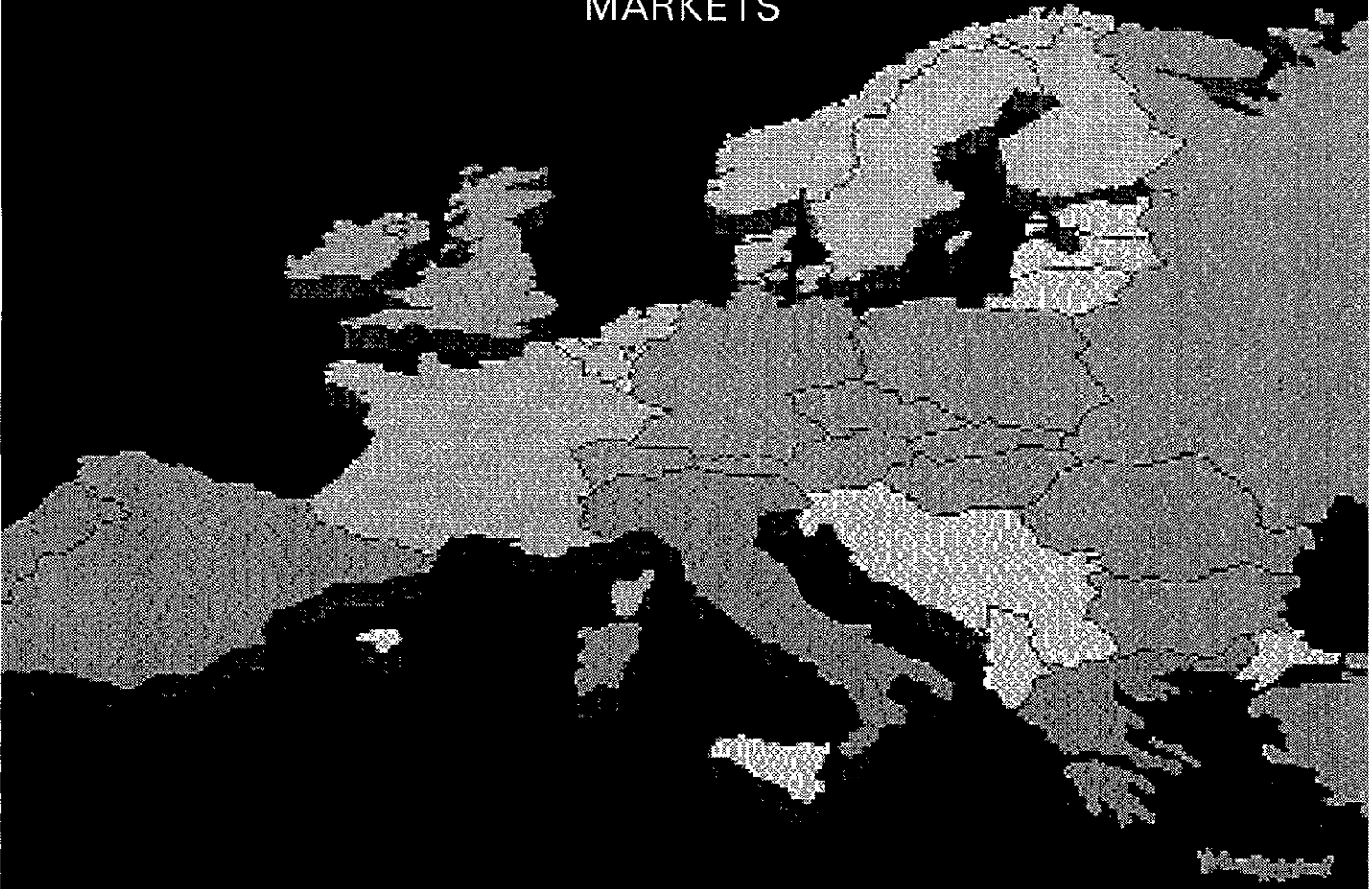
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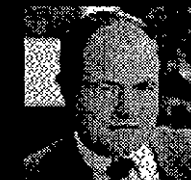
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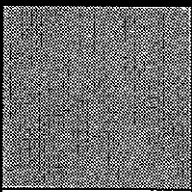
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