

XRO LIMITED
DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
31 DECEMBER 1998



XRO LIMITED

DIRECTORS' REPORT

The Directors present their Report and Accounts for the year ended 31 December, 1998.

The comparative figures for the Profit and Loss account are for the six month period to 31 December, 1997.

PRINCIPAL ACTIVITIES

XRO Limited acts as an intermediate holding company for Xerox Corporation's interests in Europe and parts of Africa and Asia.

BUSINESS REVIEW

The profit for the year on ordinary activities after charging taxation was £K23,999 (1997: £K63,699).

DIVIDENDS

Dividends totalling £K24,000 were received by the Company (1997: £K63,699) and dividends totalling £K24,000 were declared and paid in the year (1997: £K63,699).

FIXED ASSETS

Details of fixed asset investments are shown in note 4 to the accounts.

DIRECTORS

The following were Directors of the Company:

During the year:-

C P Gilliam
D N Maw (appointed 3/12/1998)
R Y Okasako (resigned 14/5/1999)
M R Smart (resigned 30/6/1999)
C Shephard (resigned 21/5/1999)

Subsequently appointed:-

N Mackintosh (appointed 30/6/1999)
M J Barrett (appointed 21/5/1999)

PERSONNEL

The company had no employees during the year.

AUDITORS

The auditors, KPMG Audit Plc, have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

By Order of the Board

M J Barrett
Secretary



Date: 20 September 1999

Registered Office
6 Connaught Place
London W2 2EZ

XRO LIMITED

DIRECTORS' REPORT
(continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state that all applicable accounting standards have been followed, save as disclosed in the notes to the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF XRO LIMITED

We have audited the financial statements on pages 4 to 13.

Respective responsibilities of directors and auditors

As described on page 2 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 of 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 Company'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 the Company's affairs at 31 December, 1998 and of the profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

Date: *7 October 1998*

XRO LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 1998

	<u>Note</u>	<u>1998</u> <u>12 months to</u> <u>31 December</u>	<u>1997</u> <u>6 months to</u> <u>31 December</u>
		£'000	£'000
OPERATING LOSS			
Continuing operations	2	(1)	-
Loss		(1)	-
Income from shares in group undertakings		24,000	63,699
Profit on ordinary activities before taxation		23,999	63,699
Tax on profit on ordinary activities		-	-
Profit on ordinary activities after taxation		23,999	63,699
Dividends proposed and paid (including non-equity dividends)	3	(24,000)	(63,699)
Retained loss for the period		(1)	-
Retained profit brought forward		1,140,338	1,140,338
Retained profit carried forward		1,140,337	1,140,338

There have been no recognised gains or losses other than the above profit for the period.

The notes to the accounts are on pages 7 to 13.

XRO LIMITED

BALANCE SHEET AT 31 DECEMBER, 1998

	<u>Note</u>	<u>1998</u> <u>31 December</u>	<u>1997</u> <u>31 December</u>
		£'000	£'000
FIXED ASSETS			
Investments	4	1,571,488	931,738
CURRENT ASSETS			
Debtors: Amount due from parent undertaking		884,164	884,164
Cash at bank		10	1
		884,174	884,165
CREDITORS - Amounts falling due within one year:			
Amounts owed to group undertakings		(1,752)	(1,742)
Other creditors	5	(7,512)	(7,512)
		(9,264)	(9,254)
NET CURRENT ASSETS		874,910	874,911
TOTAL ASSETS LESS CURRENT LIABILITIES		2,446,398	1,806,649
NET ASSETS		2,446,398	1,806,649
CAPITAL AND RESERVES			
Called up share capital	6	171,552	136,163
Share premium account	6	1,133,222	528,861
Other reserves:			
Capital redemption reserve		1,287	1,287
Profit and loss account		1,140,337	1,140,338
Shareholders funds	7	2,446,398	1,806,649

XRO LIMITED

BALANCE SHEET AT 31 DECEMBER, 1998
(continued)

	<u>Note</u>	<u>1998</u> <u>31 December</u>	<u>1997</u> <u>31 December</u>
		£'000	£'000
ANALYSIS OF SHAREHOLDERS' FUNDS			
Equity interests		2,239,167	1,599,418
Non-equity interests		207,231	207,231
SHAREHOLDERS' FUNDS	7	2,446,398	1,806,649

These accounts were approved by the Board of Directors on *20 September '99* and signed on their behalf by:

Director



D.N. Maw

The notes to the accounts are on pages 7 to 13.

XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998

1. Accounting policies

(i) **Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and on a basis consistent with the previous year.

(ii) **Investments**

Investments in subsidiaries are held at cost, less any provisions required where there has been an impairment in the value of the investments.

(iii) **Group accounts exemption**

The Company is a wholly owned subsidiary of Xerox Investments (Europe) BV (formerly Xerox Investments (Nederland) BV), the ultimate parent within the European Union, which prepares publicly available consolidated financial statements. Consequently, under Section 228 of the Companies Act 1985, the Company is exempt from the requirement to prepare Group Accounts. Accordingly, these accounts present information about the Company as an individual undertaking and not about its group.

(iv) **Cash flow statement**

Under Financial Reporting Standard 1 (revised 1996) – Cash Flow Statements, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

(v) **Related parties**

Under Financial Reporting Standard 8 – Related Party Transactions, the Company is exempt from the requirement to disclose transactions with other entities within the group headed by Xerox Corporation.

2. Operating loss - continuing operations

	<u>1998</u> 12 months to <u>31 December</u>	<u>1997</u> 6 months to <u>31 December</u>
	£'000	£'000
Administrative expenses	(1)	-
	<hr/>	<hr/>
	(1)	-
	<hr/>	<hr/>

XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998

(continued)

3. Dividends paid or proposed

	<u>1998</u> <u>12 months to</u> <u>31 December</u> £'000	<u>1997</u> <u>6 months to</u> <u>31 December</u> £'000
Equity	16,268	56,002
Non-equity	7,732	7,697
	24,000	63,699

4. Investments

<u>Principal subsidiary</u> <u>undertakings</u>	<u>Principal activities</u>	<u>Holding of share capital</u>	
		<u>Class</u>	<u>Percentage</u>
XRI Limited	Investment Holding Company	Ordinary	100%
XRI Limited	Investment Holding Company	5% Pref	100%
RRXH Limited	Investment Holding Company	Ordinary	100%

All shareholdings are directly held, except for RRXH Limited, 50% of which is held indirectly via XRI Limited. During the year the Company increased its investment in RRXH Limited and XRI Limited to enable RRXH Limited to acquire 40% of RRXIL Limited from Xerox Overseas Holdings Limited and to enable RRXIL Limited to acquire Xerox Corporation's holdings in Xerox Limited, Xerox Holding (Nederland) BV, Xerox Holdings (Bermuda) Limited and Xerox Investments (Bermuda) Limited.

<u>Cost of investments in subsidiary undertakings:</u>	<u>Shares at</u> <u>cost</u> £'000
Balances at 31 December, 1997	931,738
Acquired during year	639,750
Balances at 31 December, 1998	1,571,488

XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998
(continued)

5. Other creditors

	<u>1998</u>	<u>1997</u>
	£'000	£'000
<u>Amounts falling due within one year:</u>		
Accrued dividend payable	7,511	7,511
Other	1	1
	<hr/>	<hr/>
	7,512	7,512
	<hr/> <hr/>	<hr/> <hr/>

6. Authorised and called up share capital

	<u>1998</u>	<u>1997</u>
	£'000	£'000
<u>Authorised share capital:</u>		
2,400,000,000 Ordinary shares of 10p each (1997: 1,087,500,000)	240,000	108,750
300,000,000 Convertible Redeemable Preference shares of 20p each	60,000	60,000
2,400,000,000 US\$ Preferred Ordinary shares of 1 cent each (see below)	14,213	5,890
500,000,000 US\$ Convertible Cumulative Preference shares of 1 cent each (see below)	2,945	2,945
	<hr/>	<hr/>
	317,158	177,585
	<hr/> <hr/>	<hr/> <hr/>
	<u>\$'000</u>	<u>\$'000</u>
US Dollars:		
2,400,000,000 Preferred Ordinary shares of 1 cent each(1997: 1,000,000,000)	24,000	10,000
500,000,000 Convertible Cumulative Preference shares of 1 cent each	5,000	5,000
	<hr/>	<hr/>
	29,000	15,000
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XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998
(continued)

6. Authorised and called up share capital(continued)

	£'000	£'000
<u>Called up share capital:</u>		
Sterling:		
Allotted, called up, issued and fully paid: 1,172,378,553(1997: 838,340,334) Ordinary shares of 10p each	117,238	83,834
227,552,614 Convertible Redeemable Preference shares of 20p each	45,512	45,512
US\$ Preferred Ordinary shares (see below)	7,346	5,361
US\$ Convertible Cumulative Preference Shares	1,456	1,456
	<u>171,552</u>	<u>136,163</u>
	\$'000	\$'000
US Dollars:		
1,172,378,553(1997: 838,340,334) Preferred Ordinary shares of 1 cent each	11,724	8,383
227,552,614 Convertible Cumulative Preference shares of 1 cent each	2,276	2,276
	<u>14,000</u>	<u>10,659</u>

Sterling Convertible Redeemable Ordinary Preference shares of 20p each

- The shares carry no fixed dividend entitlement. In respect of any dividend declared attributable to Ordinary Preference shares 0.25% is deemed attributable to the Sterling Ordinary shares.
- Redeemable by Company at 1p per share in July 2007.

US\$ Preference shares

- The Convertible Preference share fixed dividend is paid in two equal instalments on 31st January and 31st July at 5.54 cents.
- The Preferred Ordinary shares carry no fixed dividend entitlement. Any dividend declared attributable to Ordinary shares are deemed 99.75% attributable to the US\$ Preferred Ordinary shares.

XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998

(continued)

6. Authorised and called up share capital(continued)

Share capital and share premium account

	<u>Share capital</u>		<u>Total</u>	<u>Share premium account</u>
	<u>Ordinary</u> £'000	<u>Preference</u> £'000	£'000	£'000
Balance at 31st December, 1997	83,834	52,329	136,163	528,861
Issued during the year	33,404	1,985	35,389	604,361
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31st December, 1998	117,238	54,314	171,552	1,133,222
	<hr/>	<hr/>	<hr/>	<hr/>

Departure from FRS4

During 1996 the Company became a wholly owned subsidiary. As part of a capital restructuring the redemption value of the Sterling Redeemable Ordinary Preference shares of 20p each in July 2007 has been reduced from £1 to 1p each as a result of a resolution passed at the Extraordinary General Meeting on 12th September 1996. Following this change, the accrued redemption premium at 1st January 1996 of £11 million has been credited as an appropriation to the profit and loss account. This is a departure from FRS4 which would require the difference in the current carrying value and new redemption value to be taken as financing credits over the period to redemption.

The Directors consider that the treatment required by FRS4 would not give a true and fair view as it would involve the inclusion of a credit to profit and loss each year until 2007 of approximately £17 million per annum as the shareholding until the redemption is held entirely by another group company. The Directors also consider that the non-equity shares should be attributed a share of net assets equivalent to the amount to be repaid on redemption.

During the year the authorised and issued share capital of the Company was increased in order to enable the Company to increase its investment in RRXH Limited and XRI Limited as described in note 4.

XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998

(continued)

7. Reconciliation of movements in shareholders' funds

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Profit on ordinary activities after tax	23,999	63,699
Dividend paid	(24,000)	(63,699)
Net reduction in shareholders funds	<u>(1)</u>	<u>-</u>
Increase in called up share capital	639,750	-
Opening shareholders' funds	1,806,649	1,806,649
Closing shareholders' funds	<u>2,446,398</u>	<u>1,806,649</u>

8. Directors and employees

The Directors received no remuneration in the period (1997: Nil). There were no employees of the Company during the period (1997: Nil).

M. R. Smart, a director of the Company until his resignation on 30th June, 1999, and several of the other holding companies, has an interest-free loan from Xerox Limited, a subsidiary of the Company, of which £130,000 was outstanding at the beginning of 1998 and £82,000 was outstanding at the end of the year. No amounts have been provided for or written off in respect of the loan.

9. Provisions for liabilities and charges

There are no liabilities for deferred taxation which have not been fully provided for.

10. Contingent liabilities

There are contingent liabilities amounting to £15m (1997: £15m) in respect of indemnities.

As a result of the scheme of arrangement following which The Rank Group Plc acquired 100% of the issued share capital of The Rank Organisation Plc on 7th October 1996, it is possible that further liabilities other than those provided for in these accounts may arise. No provision has been made for these liabilities at 31 December, 1998 as, in the opinion of the Directors, it is unlikely that they will occur.

XRO LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER, 1998
(continued)

11. Ultimate parent undertaking

The company's ultimate parent undertaking is Xerox Corporation which is incorporated in the United States of America.

The largest group in which the results of XRO Limited are consolidated is that of Xerox Corporation. Copies of these financial statements are available to the public and may be obtained from:

The Investor Relations Department
Xerox Corporation
PO Box 1600
Stamford
Connecticut 06904
USA

The smallest group in which the results of XRO Limited are consolidated is that of Xerox Investments (Europe) BV (formerly Xerox Investments (Nederland) BV), which is registered in The Netherlands. Copies of the Xerox Investments (Europe) BV Annual Report and Accounts are available from:-

Xerox Investments (Europe) BV,
Gondel 1,
1186 MJ Amstelveen,
The Netherlands.