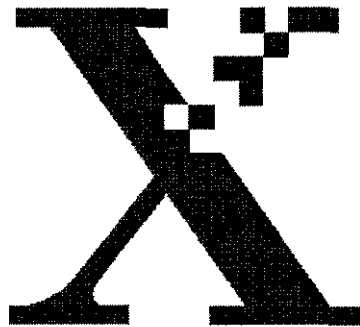


324504

**XRO Limited**

**Directors' Report  
and  
Financial Statements  
for the year ended  
31 December 2001**



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**XEROX®**

# **XRO Limited**

## **Directors' Report and Financial Statements for the year ended 31 December 2001**

### **Directors as at 31 December 2001**

M.J. Barrett  
J.F. Lawler  
N.S. Mackintosh

### **Company Secretary**

M.J. Barrett

### **Registered Office**

6 Connaught Place  
London  
W2 2EZ

### **Registered Auditors**

PricewaterhouseCoopers, Uxbridge

### **Registered Number**

324504

**XRO LIMITED**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2001**

The Directors present their report together with the audited financial statements of XRO Limited ("XRO" or the "Company") for the year ended 31 December 2001.

**1. PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

XRO Limited acts as an intermediate holding company for Xerox Corporation's interests in Europe and parts of Africa and Asia. The level of business and the year-end financial position were consistent with expectations. The Directors expect that the current activities will continue for the foreseeable future.

**2. RESULTS AND DIVIDENDS**

The profit for the financial year was £450m including dividend income of £225m from subsidiaries RRXH Limited and £225m from XRI Limited.

During the financial year the Directors proposed and paid an interim dividend of £450m (Note 2B).

**3. DIRECTORS**

The Directors of the Company at 31 December 2001 who served throughout the year are listed on page 2.

**4. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY**

No Director had any interests in the shares of the Company at any time during the year.

**5. XEROX CORPORATION**

*Significant post balance sheet events*

In June 2002, Xerox Corporation, the ultimate parent company, announced a new Credit Facility of \$4.2bn, replacing the \$7bn Revolving Credit Facility of 1997. At this time, Xerox Corporation repaid \$2.8bn of the old Revolver and extended the maturity of the remaining \$4.2bn, which predominantly matures in 2005.

Xerox Corporation manages its financing arrangements on a global basis; accordingly, XRO's funding requirements are dependent on the above agreement.

On 11 April 2002, Xerox Corporation reached a settlement with the Securities and Exchange Commission (SEC), relating to matters which had been under investigation by the SEC. Xerox Corporation restated its accounts for the periods from 1997 to 2001. That restatement does not affect the financial statements of XRO.

## 6. AUDITORS

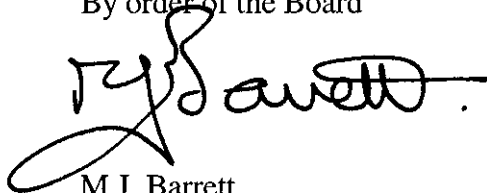
During the year, Xerox Corporation determined to change the Company's independent auditors, and, accordingly, ended the engagement of KPMG in that role and appointed PricewaterhouseCoopers as its independent auditors for the financial year ending 31 December 2001.

A resolution to re-appoint PricewaterhouseCoopers will be proposed at the Annual General Meeting.

## 7. DIRECTORS' RESPONSIBILITIES

The Directors' responsibilities are set out on page 14.

By order of the Board

A handwritten signature in black ink, appearing to read "M.J. Barrett", with a large, stylized flourish on the left side.

M.J. Barrett,  
Company Secretary

**XRO LIMITED**  
**PROFIT & LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2001**

	<i>Note</i>	2001 £m	2000 £m
<b>Operating profit/(loss)</b>		-	-
Dividend income from group companies		450	-
<b>Profit on ordinary activities before tax</b>		<b>450</b>	-
Tax on profit on ordinary activities		-	-
<b>Profit for the financial year</b>	2A	<b>450</b>	-
Dividends proposed and paid (Including Non-Equity)	2B	(450)	-
<b>Retained results for the financial year</b>		-	-

The notes on pages 8 to 13 form part of these financial statements.

There is no difference between the reported profits above and their historic cost equivalents.

There were no other recognised gains or losses in the year.

The above results relate to continuing operations.

**XRO LIMITED  
BALANCE SHEET  
AT 31 DECEMBER 2001**

	<i>Note</i>	2001 £m	2000 £m
<b>Fixed assets</b>			
Investments	3	1,571	1,571
<b>Total fixed assets</b>		<b>1,571</b>	<b>1,571</b>
<b>Current assets</b>			
Debtors			
Due after more than one year	4	884	884
<b>Total current assets</b>		<b>884</b>	<b>884</b>
<b>Creditors due within one year</b>		<b>(2)</b>	<b>(2)</b>
<b>Net current assets</b>		<b>882</b>	<b>882</b>
<b>Total assets less current liabilities</b>		<b>2,453</b>	<b>2,453</b>
<b>Creditors due after more than one year</b>	5	<b>(7)</b>	<b>(7)</b>
<b>Net assets</b>		<b>2,446</b>	<b>2,446</b>
<b>Capital and reserves</b>			
Called up share capital	6	172	172
Share premium	7	1,133	1,133
Capital redemption reserve		1	1
Profit and loss account	8	1,140	1,140
<b>Total Shareholders' funds</b> (Including Non-Equity)		<b>2,446</b>	<b>2,446</b>

The Financial statements on pages 5 to 13 were approved by the Board of Directors on 16<sup>th</sup> September 2002 and signed on its behalf by

  
N.S. Mackintosh  
Director

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £m	2000 £m
Profit for the financial year	450	-
Dividends proposed and paid (Including Non-Equity)	(450)	-
<b>Net addition to shareholders' funds</b>	<b>-</b>	<b>-</b>
Opening shareholders' funds	2,446	2,446
<b>Closing shareholders' funds</b>	<b>2,446</b>	<b>2,446</b>

## SHAREHOLDERS' FUNDS ANALYSED AS FOLLOWS

Equity	2,446	2,446
Non Equity	-	-
	<b>2,446</b>	<b>2,446</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The Company's major accounting policies are summarised below.

#### (A) Accounting Principles and basis of preparation

The financial statements are prepared on a historical cost basis and in accordance with applicable United Kingdom Accounting Standards. Accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

These financial statements have been prepared on a going concern basis. In preparing these financial statements, the Directors have assessed that the Company will continue in operational existence for the foreseeable future and have received a letter of support from Xerox Corporation.

This assessment is underpinned by the successful re-negotiation of the Revolving Credit Facility, and relies on the ongoing success of Xerox Corporation's Turnaround Programme.

Consolidated accounts have not been prepared as the Company is a wholly owned subsidiary of Xerox Investments Europe B.V., a company incorporated in the European Community, and is therefore exempt under Section 228 of the Companies Act 1985 from the obligation to prepare and deliver group accounts.

Financial Reporting Standard 18 - Accounting Policies, has been adopted in the current year but this did not require any change in accounting policy.

#### (B) Investments

Investments in subsidiaries and associates are held at cost, less any provisions required where there has been an impairment in the value of the investments (note 3).

#### (C) Disclosures

##### *Cash Flow Statement*

Under Financial Reporting Standard 1 - Cash Flow Statements, the Company is exempt from the requirement to prepare a Cash Flow Statement.

##### *Related Parties*

Under Financial Reporting Standard 8 - Related Party Disclosures, the Company is exempt from the requirement to disclose transactions with other entities within the group headed by Xerox Corporation; other related party disclosures are reported in note 9.

#### (D) Translation of Foreign Currency

Share Capital is translated at the appropriate historic rate. Differences between historic rates and the balance sheet rate are taken to reserves.



## 2. PROFITS FOR THE FINANCIAL YEAR AND DIVIDENDS

### (A) Profit for the financial year

Directors' remuneration for services provided to the Group as a whole and Auditors' remuneration were borne by a fellow group undertaking, Xerox Limited. This treatment is consistent with the prior year.

There were no employees of the Company during the year (2000: nil).

### (B) Dividends

During the financial year interim dividends of £450m were proposed and paid as follows:

#### Non-Equity Dividends

(1) £ 8,867,329 (US\$ 5.54 cents per share) in respect of the 227,552,614 Convertible Cumulative Preference Shares of 1 cent ("the US\$ Cumulative Preference Shares") of the Company.

(2) £ 440,029,839 in respect of the 1,172,378,553 Preferred Ordinary Shares of 1 cent ("the US\$ Preferred Ordinary Shares") of the Company.

#### Equity Dividends

(3) £ 1,102,839 Ordinary Shares of 10 pence ("the Sterling Ordinary Shares") of the Company.

There is no final dividend proposed. Retained profit for the year was nil (2000: nil).

## 3. INVESTMENTS

### (A) The Company's investment in subsidiaries is analysed as follows

	2001 £m	2000 £m
At 1 January	1,571	1,571
Additions	-	-
<b>At 31 December</b>	<b>1,571</b>	<b>1,571</b>

**(B) Principal direct subsidiaries at 31 December 2001, which are intermediate holding companies**

	Percentage Voting Interest	Class of Capital owned	Percentage holding
XRI Limited	100%	Ordinary	100%
XRI Limited		5% Pref.	100%
RRXH Limited	100%	Ordinary	100%

All shareholdings are direct except RRXH Limited, 50% of which is held via XRI Limited. All subsidiaries are incorporated in England.

RRXH Limited, through its subsidiary RRXIL Limited, owns 100% of the ordinary share capital of Xerox Limited, Xerox Holding (Nederland) B.V., Xerox XIB Limited (formerly Xerox Investments (Bermuda) Limited) and Xerox XHB Limited (formerly Xerox Holdings (Bermuda) Limited).

A complete list of principal subsidiaries can be found in Xerox UK Holding Ltd's (the ultimate UK parent) financial statements. A complete list of subsidiaries will be filed with the Company's next annual return.

<b>4. DEBTORS – DUE AFTER MORE THAN ONE YEAR</b>	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
Amounts due from Group company	<b>884</b>	<b>884</b>

There are no immediate plans to settle this intercompany amount and no interest is charged.

**5. CREDITORS - DUE AFTER MORE THAN ONE YEAR**

Amounts owed to Group company	<b>7</b>	<b>7</b>
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There are no immediate plans to settle this intercompany liability and no interest is charged.

## 6. AUTHORISED & CALLED UP SHARE CAPITAL

### (A) The Company's share capital

<b>Authorised Share Capital</b>	<b>2001 £000's</b>	<b>2000 £000's</b>
<b>UK Sterling</b>		
2,400,000,000 Ordinary shares of 10p each	240,000	240,000
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	14,213
500,000,000 US\$ Convertible Cumulative Preference shares of 1 cent each (see below)	2,945	2,945
	<b>317,158</b>	<b>317,158</b>
<b>US Dollars:</b>		
	<b>\$000's</b>	<b>\$000's</b>
2,400,000,000 Preferred Ordinary shares of 1 cent each	24,000	24,000
500,000,000 Convertible Cumulative Preference shares of 1 cent each	5,000	5,000
	<b>29,000</b>	<b>29,000</b>
<b>Issued and fully paid</b>		
	<b>£000's</b>	<b>£000's</b>
<b>UK Sterling</b>		
1,172,378,553 Ordinary shares of 10p each	117,238	117,238
227,552,614 Convertible Redeemable Preference shares of 20p each	45,512	45,512
US\$ Preferred Ordinary shares (see below)	7,346	7,346
US\$ Convertible Cumulative Preference Shares	1,456	1,456
	<b>171,552</b>	<b>171,552</b>
<b>US Dollars:</b>		
	<b>\$000's</b>	<b>\$000's</b>
1,172,378,553 Preferred Ordinary shares of 1 cent each	11,724	11,724
227,552,614 Convertible Cumulative Preference shares of 1 cent each	2,276	2,276
	<b>14,000</b>	<b>14,000</b>

**(B) Rights of shares under the meaning of Accounting Standard FRS4 - Capital Instruments**

**(i) 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.

**(ii) US\$ Preference shares**

The convertible Preference share dividend is paid in two equal instalments on 31<sup>st</sup> January and 31<sup>st</sup> July at the discretion of the directors.

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.

**7. SHARE PREMIUM**

Of the share premium of £1,133,222,000 reported at 2001 year-end, £604,361,000 arose in 1998, when XRO Limited issued £35,389,000 of ordinary and U.S. \$ preferred ordinary shares at a premium of £604,361,000 to Xerox Overseas Holdings Limited; at the same time XRO Limited increased its investment in RRXH Limited and XRI Limited. The remainder of the share premium arose prior to the 1997 Rank Organisation buyout.

<b>8. PROFIT AND LOSS ACCOUNT</b>	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
Balance at 1 January	1,140	1,140
Retained profit for the year	-	-
<b>Balance at 31 December</b>	<b>1,140</b>	<b>1,140</b>

**9. RELATED PARTY DISCLOSURE**

An overseas subsidiary of the Group, NV Xerox Management Services SA, has provided a loan to a Director of the Company. Throughout the year and at the end of the year there was an outstanding loan to J.F. Lawler of £20,000 (2000: £20,000). No interest was charged on this loan. No amounts have been provided for or written off against the loan.

**10. CONTINGENT LIABILITIES**

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 in 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 2001 as, in the opinion of the Directors, it is unlikely that they will occur.

The Company had no other contingent liabilities at 31 December 2001 (2000: nil).

## **11. ULTIMATE PARENT COMPANY**

The ultimate parent company, ultimate controlling party and the largest group in which the results of XRO Limited are consolidated is that of 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>.

The smallest group in which the results of XRO Limited are consolidated is that of Xerox Investments Europe 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.

## **Directors' Responsibilities**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. The Directors confirm that:

- suitable accounting policies have been selected and applied consistently;
- reasonable and prudent judgements and estimates have been made;
- applicable accounting standards have been followed; and
- the financial statements have been prepared on the going concern basis;

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, and 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 to prevent and detect fraud and other irregularities.

# Independent Auditors Report

## To the members of XRO Limited

We have audited the financial statements which comprises the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds (including the analysis of shareholders' funds), and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

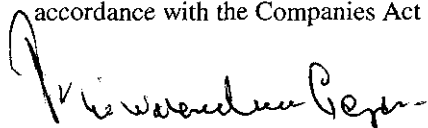
### Basis of audit opinion

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 2001 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
**Chartered Accountants and Registered Auditors**  
**Uxbridge**

**16 September 2002**