

Xerox Corporation

First Quarter 2006
Earnings Presentation

April 24, 2006



Forward-Looking Statements

This presentation contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect management's current beliefs and expectations, and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in the company's 2005 Form 10-K filed with the SEC. The company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

Anne Mulcahy

Chairman and CEO
Xerox Corporation



First-Quarter Overview

- Earnings of \$0.20 per share
- Total revenue down 2% YOY, Flat CC*
 - Steady improvement in post sale and financing revenue
 - Decline in equipment sale revenue, install activity remains strong
 - Double digit color revenue growth
- Cost and expense
 - 40.2% gross margin, decline largely due to cost
 - Taking action to immediately re-align costs with business model
 - 26.6% SAG percent of revenue
 - 22.6% tax rate
- Strong balance sheet and cash performance
 - \$700 million senior unsecured notes due 2016
 - \$1.25 billion unsecured revolving credit facility
 - \$1.8 billion in cash & short-term investments
 - Share repurchase: completed \$670 million of \$1 billion buyback program

***Constant Currency* - See slide 20 for explanation of non-GAAP measure*

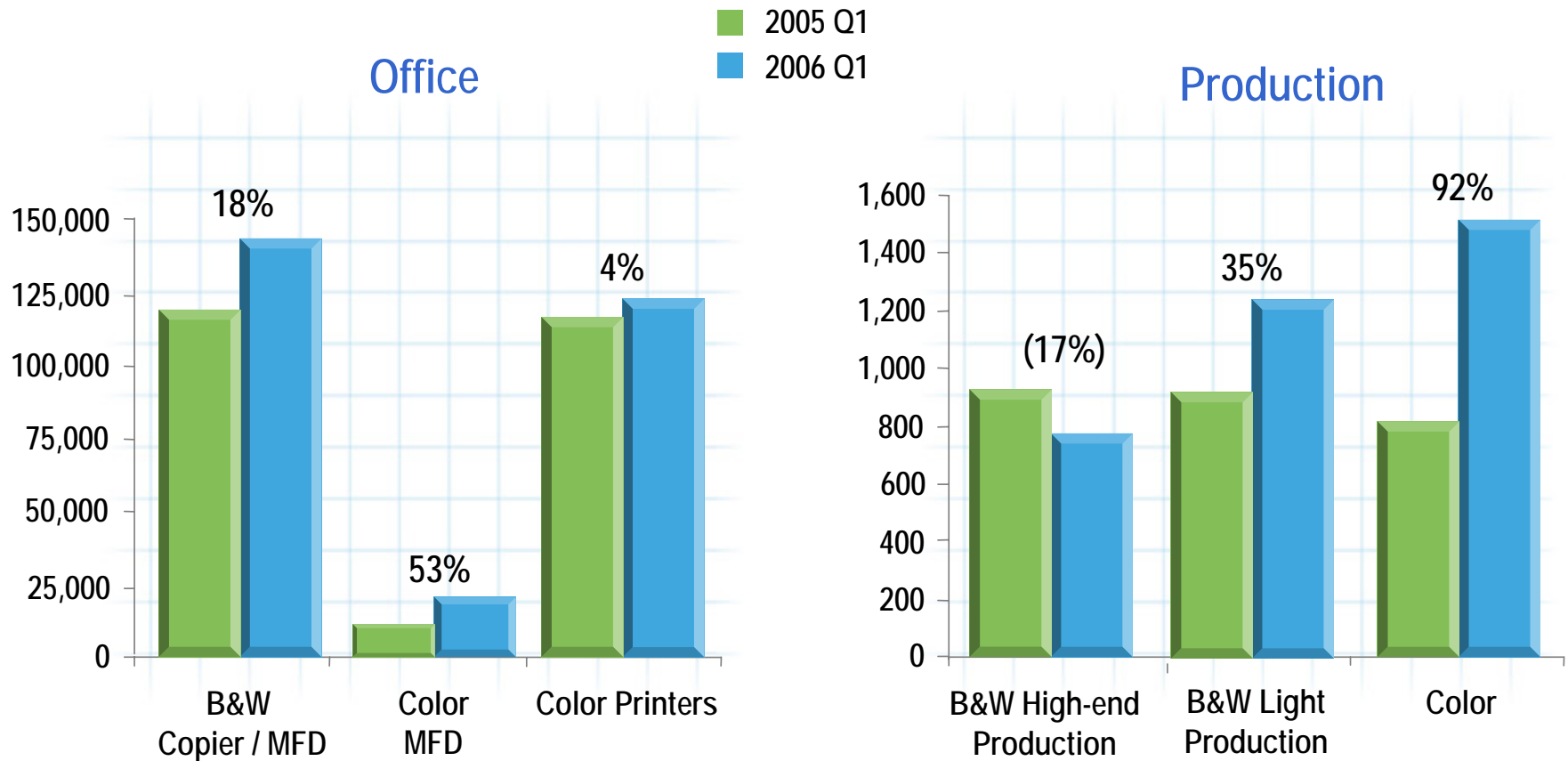
Revenue Trends

| (in millions) | 2005 | | | | 2006 |
|----------------------------------|----------|----------|----------|----------|----------|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Equipment Sales | \$ 986 | \$ 1,109 | \$ 1,018 | \$ 1,407 | \$ 947 |
| <i>Growth</i> | --% | 4% | 2% | (2%) | (4%) |
| CC Growth | (2%) | 2% | 1% | 1% | (2%) |
| Post Sale & Financing | \$ 2,785 | \$ 2,812 | \$ 2,741 | \$ 2,843 | \$ 2,748 |
| <i>Growth</i> | (2%) | 1% | 1% | (2%) | (1%) |
| CC Growth | (4%) | (1%) | 1% | --% | 1% |
| Total Revenue | \$ 3,771 | \$ 3,921 | \$ 3,759 | \$ 4,250 | \$ 3,695 |
| <i>Growth</i> | (1%) | 2% | 1% | (2%) | (2%) |
| CC Growth | (3%) | --% | 1% | 1% | --% |

Post Sale and Financing

| (in millions) | 2005 | | | | 2006 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Digital | \$ 1,919 | \$ 1,964 | \$ 1,943 | \$ 2,014 | \$ 1,962 |
| <i>Growth</i> | 3% | 5% | 6% | 1% | 2% |
| CC Growth | 1% | 3% | 5% | 4% | 5% |
| Developing Markets | \$ 295 | \$ 306 | \$ 312 | \$ 340 | \$ 310 |
| <i>Growth</i> | (2%) | 4% | 7% | 8% | 5% |
| Light Lens / SOHO | \$ 166 | \$ 149 | \$ 126 | \$ 119 | \$ 100 |
| <i>Growth</i> | (42%) | (41%) | (41%) | (39%) | (40%) |
| Other | \$ 404 | \$ 393 | \$ 359 | \$ 370 | \$ 376 |
| <i>Growth</i> | 4% | 8% | (3%) | (6%) | (7%) |
| Total Revenue | \$ 2,785 | \$ 2,812 | \$ 2,741 | \$ 2,843 | \$ 2,748 |
| <i>Growth</i> | (2%) | 1% | 1% | (2%) | (1%) |
| CC Growth | (4%) | (1%) | 1% | --% | 1% |
| Memo: | | | | | |
| Color | 14% | 15% | 19% | 14% | 12% |
| Global Services | --% | 2% | 1% | 4% | 2% |

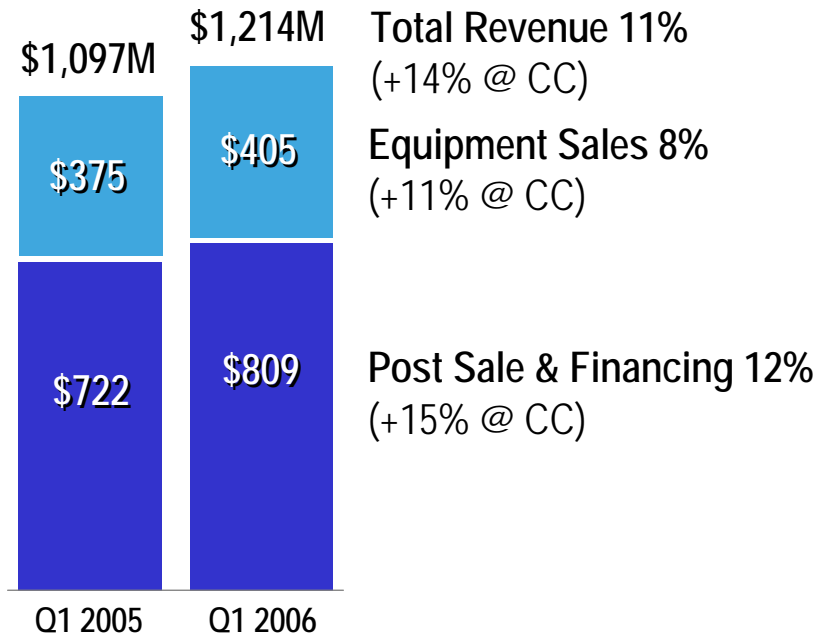
Install Trends



- Strong MFD activity in the Office; slower pace of growth for desktop printers
- Accelerated activity in production color and light production activity; decline in high-end B&W activity
- Install activity drives increase in pages; pages flow through to grow annuity

Color Performance

Color Revenue



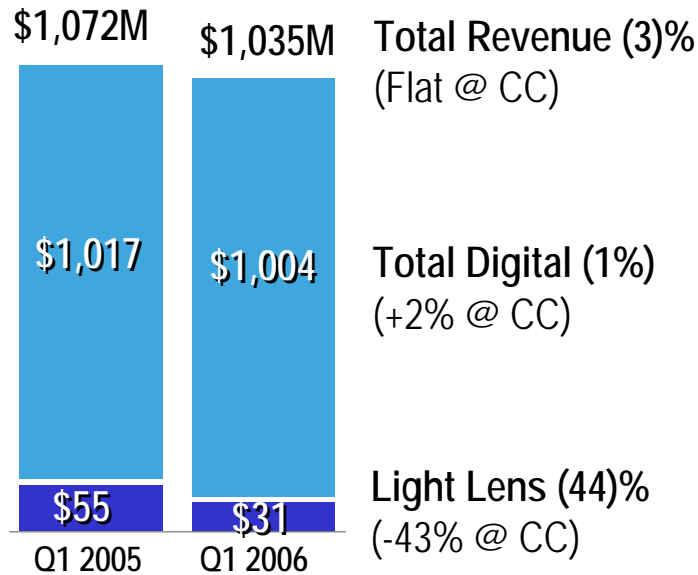
Q1 Color Trends

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|----------------------------|-------------|-------------|-------------|
| Color revenue: | | | |
| % of Equipment Sales | 33% | 38% | 43% |
| % of Post Sale & Financing | 22% | 26% | 29% |
| % of Total Revenue | 25% | 29% | 33% |
| Color pages: | | | |
| Growth | 30% | 25% | 41% |
| % of total pages | 4% | 6% | 8% |

- Lower OEM printer sales impact pace of color equipment sales growth
- 7.1 billion color pages printed on Xerox systems
 - 41% growth rate
 - Color now represents 8% of total pages

Production Segment

Production Revenue



Install Growth

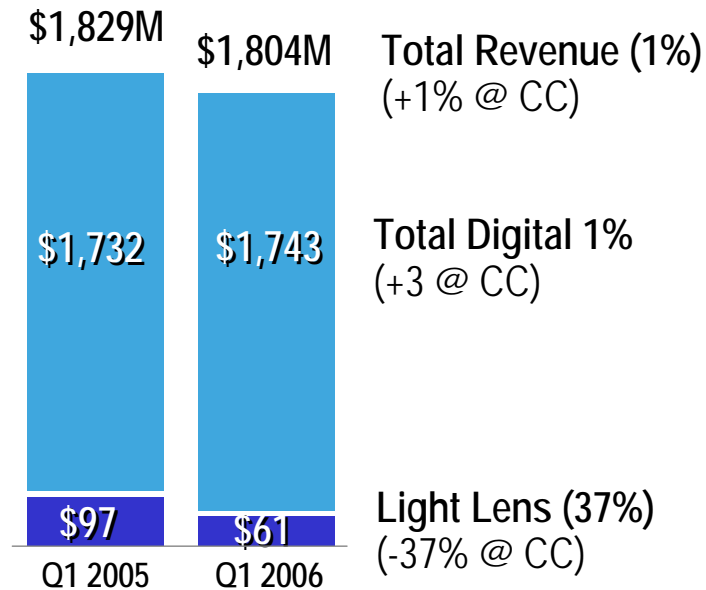
| | Q1 2006 |
|------------------------------|---------|
| Production Monochrome | 8% |
| High-End | (17%) |
| Light Production | 35% |
| Production Color | 92% |

First-Quarter Overview

- Xerox 4110 light production system drives monochrome install growth
- Successful launch of DocuColor® 240/250 boosts production color activity
- Production revenue impacted by decline in high-end cut sheet sales
- Significant April announcements and activity at IPEX
 - Enhanced finishing on Xerox Nuvera™ 100/120
 - iGen3 90 Digital Production Press
 - Xerox 4110/4590 Enterprise Printing Systems
- More announcements to come in Q2

Office Segment

Office Revenue



Install Growth

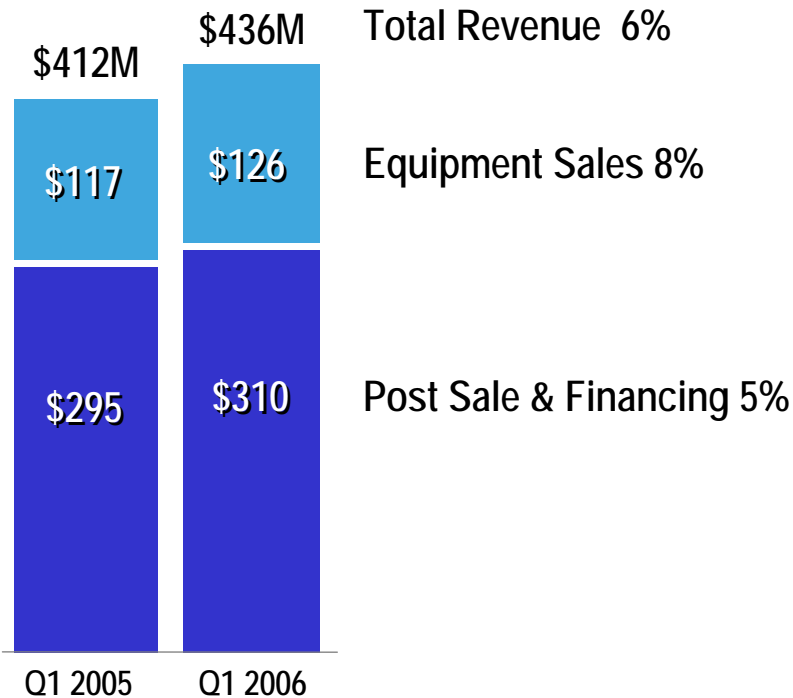
| | Q1 2006 |
|---------------------------|---------|
| Office B&W Copiers/MFDs | 18% |
| Segment 1-2 (11-30) ppm | 16% |
| Segments 3-5 (31-90) ppm | 25% |
| Office Color Copiers/MFDs | 53% |
| Color Printers | 4% |

First-Quarter Overview

- Continued strong demand for desktop WorkCentre devices
- New WorkCentre multifunction systems fuel 25% install growth in segments 3-5
- DocuColor 240/250 boosts color results
- Color printer growth driven by Xerox-branded printers; decline in OEM activity
- Equipment price investment
 - New WorkCentre multifunction systems – fueled activity growth
 - Competitive pressure on printers
- Making news at AIIM/On Demand in May

DMO Segment

DMO Revenue



First-Quarter Overview

- Strong equipment and post-sale revenue growth
- Excellent performance in Eurasia and Central & Eastern Europe
- Continued improvement in Latin America

Larry Zimmerman

Senior Vice President and CFO
Xerox Corporation



Total Revenue

| (in millions) | 2005 | | | | 2006 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| Digital | \$ 2,748 | \$ 2,902 | \$ 2,791 | \$ 3,203 | \$ 2,747 |
| <i>Growth</i> | 2% | 5% | 4% | --% | --% |
| CC Growth | --% | 3% | 3% | 2% | 3% |
| Developing Markets | \$ 412 | \$ 440 | \$ 446 | \$ 515 | \$ 436 |
| <i>Growth</i> | (2%) | 5% | 10% | 11% | 6% |
| Light Lens / SOHO | \$ 166 | \$ 149 | \$ 126 | \$ 119 | \$ 100 |
| <i>Growth</i> | (42%) | (41%) | (42%) | (40%) | (40%) |
| Other | \$ 445 | \$ 431 | \$ 396 | \$ 413 | \$ 412 |
| <i>Growth</i> | 4% | 2% | (2%) | (9%) | (7%) |
| Total Revenue | \$ 3,771 | \$ 3,922 | \$ 3,759 | \$ 4,250 | \$ 3,695 |
| <i>Growth</i> | (1%) | 2% | 1% | (2%) | (2%) |
| CC Growth | (3%) | --% | 1% | 1% | --% |

Earnings

| (in millions except per-share data) | First Quarter | | B/(W) |
|---------------------------------------|---------------|----------|-----------|
| | 2006 | 2005 | |
| Revenue | \$ 3,695 | \$ 3,771 | (2) % |
| Gross Margin | 40.2 % | 41.8 % | (1.6) pts |
| RD&E % of Revenue | 6.1 % | 6.0 % | (0.1) pts |
| SAG % of Revenue | 26.6 % | 26.8 % | 0.2 pts |
| Other, Net | \$ 68 | \$ (32)* | \$ (100) |
| Restructuring | \$ -- | \$ 85 * | \$ 85 |
| Income before taxes and equity income | \$ 208 | \$ 289 | \$ (81) |
| Pre-Tax Profit Margin | 5.6 % | 7.7 % | (2.1) pts |
| Tax Rate | 22.6 % | 40.1 % | 17.5 pts |
| Equity in Unconsolidated Affiliates | \$ 39 | \$ 37 | \$ 2 |
| Net Income | \$ 200 | \$ 210 | \$ (10) |
| Diluted EPS | \$ 0.20 | \$ 0.20 | \$ -- |

* 2005 Other, Net includes a \$93 million gain on the sale of Integic (\$0.06 after tax) which is offset by restructuring charges (\$0.06 after tax).

Cash Flow Dynamics

(in millions)

| | Q1 2006 |
|---|-----------------|
| Net income | \$ 200 |
| Depreciation & amortization | 155 |
| Increase in inventories | (67) |
| Increase in A/R & billed portion of F/R | (11) |
| Cash payments for restructurings | (80) |
| All other | (150) |
| Cash from core operations* | 47 |
| Increase in on-lease equipment | (55) |
| Decrease in finance receivables | 155 |
| Cash from Operations | 147 |
| Cash from Investing | 56 |
| Change in secured financing, net | (285) |
| Payments to acquire treasury stock | (238) |
| Net proceeds on term debt & other | 585 |
| Cash from Financing | 62 |
| Change in cash & cash equivalents | 276 |
| Ending cash & cash equivalents | 1,598 |
| Short-term investments | 196 |
| Cash and short-term investments | \$ 1,794 |

*See slide 20 for explanation of non-GAAP measure

Optimizing Balance Sheet

- Issued \$700 million, 6.40% senior notes due 2016
- Rebalanced secured and unsecured debt
 - 43% of total debt secured, down from 49% at year-end '05
- Share repurchase: \$238 million in Q1, completing first \$500 million program and \$170 million of second
 - Will execute remaining \$330 million over the next 6-9 months
- Signed \$1.25 billion, 5-year, unsecured credit facility
- April repayment of \$300 million of secured debt related to the '03 credit facility
 - Reduces secured debt to approximately 40% of total debt
- April pension contribution of \$226 million
 - 100% funded on a current liability basis under ERISA

Anne Mulcahy

Chairman and CEO
Xerox Corporation



Summary

- Post sale improvement trend continues, fuels total revenue growth
 - Key drivers: Color, page growth, install activity and document management services
- Continued activity growth from product launches over past 18 months
- “Right actions, right now” to readjust cost base in line with business model, improves gross margin
- Strong balance sheet, share repurchase execution
- Second quarter and full year on track with 2006 direction
 - Q2 EPS \$0.22 - \$0.24, includes 1-cent charge for '03 credit facility write off
 - FY EPS \$1.00 - \$1.07, high end of range

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Non-GAAP Measure

“Cash from core operations”: This measure of cash flows excludes the effect of investments made in finance receivables and on-lease equipment, which are the basis for growth in our leasing operation. These investments are viewed as income-producing assets and are important to the growth of our business. Management believes this measure gives investors an additional perspective of cash flow from operating activities. See reconciliation of cash from core operations to cash flow from operations on slide 15.

“Constant Currency”: To understand the trends in the business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted growth as “constant currency.” Developing Market currencies are shown at actual exchange rates for both actual and constant growth rates, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. Management believes this measure gives investors an additional perspective of revenue trends. The currency impact can be determined as the difference between actual growth rates and constant currency growth rates as reported on the applicable slides.