

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & Co. SC

R.R. Donnelley Limited

Accounts 31 December 1993
together with directors' and auditors' reports
Registered number: 166396



Notice of meeting

Notice is hereby given that the annual general meeting of R.R. Donnelley Limited will be held at the offices of the company at Boroughbridge Road, York at 12 p.m. on 27 May 1994 for the following purposes:

As ordinary business:

1. To receive and approve the directors' report and accounts for the year ended 31 December 1993.
2. To reappoint Arthur Andersen as auditors of the company and authorise the directors to determine their remuneration.
3. To transact any other ordinary business of an annual general meeting.

Boroughbridge Road
York
YO2 5SS

By order of the Board,

P.J. Berridge

Secretary



4 May 1994

Directors' report

For the year ended 31 December 1993

The directors present their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1993.

Principal activity and business review

The principal activities of the company continued to be the manufacture of high quality colour printing, the production of telephone directories and computer software manuals, the distribution of telephone directories and the provision of procurement services.

On the 31 December 1993 the trade, assets and liabilities of R.R. Donnelley UK Marketing Services Limited, a wholly owned subsidiary company, were transferred to the company.

Results and dividends

Results for the year are as follows:

	£
Retained profit at 31 December 1992	30,206,511
Retained profit for the year	1,293,959
Retained profit at 31 December 1993	<u>31,500,470</u>

No dividend is proposed.

Directors and their interests

The directors who served during the year are as shown below:

J.S. Oberhill	(resigned 19 November 1993)
J.W.D. Ward	
C.H. Renton	(resigned 12 August 1993)
J. Craft	(resigned 30 April 1993)
K.B. Dallas	
R.W. England	
P.J. Berridge	
P.A. Kiveal	

The directors do not have any interests required to be disclosed under Section 234 of the Companies Act 1985.

Directors' report (continued)

Directors' responsibilities for the preparation of the accounts

Company law requires the directors to prepare accounts 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 of the company for that year. In preparing those accounts, 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 accounts; and
- prepare the accounts 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Fixed assets

Information relating to changes in tangible fixed assets is given in Note 8 to the accounts.

The directors are of the opinion that the company's land and buildings have a continuing use value in excess of their net book value.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through circulation of information to employees via notice boards, production of a monthly in-house bulletin and presentations given at regular intervals.

Directors' report (continued)

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Boroughbridge Road
York
YO2 5SS

By order of the Board,

P.J. Derridge



Secretary

4 May 1994

Auditors' report

Leeds

To the Shareholders of R.R. Donnelley Limited:

We have audited the accounts on pages 6 to 19 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

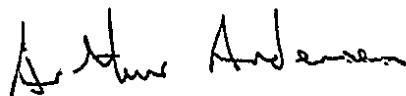
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1993 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

St. Paul's House
Park Square
Leeds LS1 2PJ

4 May 1994

Profit and loss account

For the year ended 31 December 1993

	Note	1993 £	1992 £
Turnover	2	132,108,923	132,209,811
Cost of sales		114,684,375	114,322,684
Gross profit		17,424,548	17,887,127
Other operating expenses	3	13,404,517	14,973,758
Operating profit		4,020,031	2,913,369
Interest receivable and similar income		399,986	920,064
Interest payable and similar charges	4	(1,004,004)	(1,619,001)
Profit on ordinary activities before taxation	5	3,416,013	2,214,432
Tax on profit on ordinary activities	7	(2 122,054)	(2,035,000)
Profit for the financial year		1,293,959	179,432
Retained profit, at 31 December 1992		30,206,511	30,027,079
Retained profit, at 31 December 1993		31,500,470	30,206,511

A statement of total recognised gains and losses is not presented as there are no recognised gains or losses other than the results shown above.

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1993

	Note	1993 £	1992 £
Fixed assets			
Tangible assets	8	44,091,881	42,312,422
Investments	9	1,002,000	809,102
		<u>45,093,881</u>	<u>43,121,524</u>
Current assets			
Stocks	10	7,129,710	7,397,086
Debtors	11	27,611,909	22,993,753
Cash at bank and in hand		3,261,648	2,855,306
		<u>38,003,267</u>	<u>33,246,145</u>
Creditors: Amounts falling due within one year	12	35,977,325	31,363,929
Net current assets		<u>2,025,942</u>	<u>1,882,216</u>
Total assets less current liabilities		<u>47,119,823</u>	<u>45,003,740</u>
Creditors: Amounts falling due after more than one year	13	2,124	-
Provisions for liabilities and charges	14	6,206,000	5,386,000
Net assets		<u>40,911,699</u>	<u>39,617,740</u>
Capital and reserves			
Called-up share capital	15	5,157,850	5,157,850
Revaluation reserve	16	253,379	253,379
Capital contribution	16	4,000,000	4,000,000
Profit and loss account	16	31,500,470	30,206,511
Total capital employed	17	<u>40,911,699</u>	<u>39,617,740</u>

Signed on behalf of the Board

P.J. Berridge

Director



4 May 1994

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1993

1 Accounting policies

The principal accounting policies, which have been applied consistently throughout the year and with the preceding year, are:

a. Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of certain fixed assets and in accordance with applicable accounting standards.

Under the provisions of Financial Reporting Standard No. 1, the company has not prepared a cash flow statement because its ultimate UK parent company, Donnelley Holdings Limited, has prepared consolidated accounts which include the accounts of the company for the year and which contain a consolidated cash flow statement.

b. Consolidated accounts

Consolidated accounts have not been prepared because consolidated accounts are prepared by the ultimate UK parent company, Donnelley Holdings Limited.

c. Tangible fixed assets

All of the tangible fixed assets of the company, other than 10 acres of freehold land which were revalued in 1976, are stated at the amount at which they were revalued on 31 December 1961 plus additions at cost and less disposals subsequent to that date.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight line basis over their estimated useful lives as follows:

Freehold buildings	3% per annum
Plant and machinery	5%-20% per annum

No depreciation is provided on freehold land.

The acquisition of certain plant is being financed by means of leases. The plant acquired has been capitalised at its cost and is depreciated in accordance with the above rates. The future liability to the leasing companies has been shown, net of deferred interest, as a liability in the balance sheet. Interest payable to the lessors is being charged against profits at the effective rate of interest for the duration of the primary periods of the leases.

d. Stocks

Stocks are stated at the lower of average cost and net realisable value. Cost includes material, labour and an appropriate proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Notes to accounts (continued)

1 Accounting policies (continued)

e. *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation has been calculated on the liability method. Deferred tax is provided on timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

f. *Pension costs*

In accordance with the provisions of SSAP 24, Accounting for pension costs, pension costs are charged against profits in a systematic manner over the service lives of the employees in the scheme. Total pension cost comprises:

- i. the regular pension cost, that is the constant ongoing cost, which is calculated as a level percentage of the current and expected future pensionable payroll, and
- ii. variations from the regular cost, arising from any surplus on the pension scheme, which are allocated over the expected remaining service lives of employees in the scheme.

Any difference between the amounts charged in the profit and loss account and amounts payable to the scheme for the year is recorded as a creditor or prepayment as appropriate.

g. *Foreign currency*

Transactions in foreign currencies are translated into sterling at the rate of exchange at the date of the transaction. Foreign currency items in the year end balance sheet are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

h. *Investments*

Investments in subsidiary and associated undertakings are stated at cost less amounts written off.

i. *Turnover*

Turnover comprises the value of sales, excluding VAT, of goods and services, supplied in the normal course of business.

2 Segment information

The analysis of turnover by activity and geographical market has been omitted. The vast majority of the company's turnover and profit before tax arises in the UK and from its principal activity.

Notes to accounts (continued)

3 Other operating expenses

	1993 £	1992 £
Selling and marketing costs	1,985,672	1,713,732
Administrative expenses	11,418,845	13,260,026
	<u>13,404,517</u>	<u>14,973,758</u>

4 Interest payable and similar charges

	1993 £	1992 £
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	911,948	1,546,885
On finance leases	-	3,152
	<u>911,948</u>	<u>1,550,037</u>
Discounts allowed	92,056	68,964
	<u>1,004,004</u>	<u>1,619,001</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1993 £	1992 £
Depreciation		
- tangible fixed assets (leased)	53,449	75,387
- tangible fixed assets (owned)	5,611,793	5,322,484
Hire of plant and machinery	2,017,680	2,017,680
Auditors' remuneration		
- audit	52,000	48,000
- other	43,880	40,000
Staff costs (Note 6)	29,655,983	29,778,163
Exceptional items		
- write down of investments in subsidiary undertakings (Note 9)	807,102	6,429,000
- provision against amounts due from subsidiary undertakings	<u>3,708,898</u>	<u>1,164,000</u>

Notes to accounts (continued)

6 Staff costs

Particulars of employee costs (including executive directors) are as shown below:

	1993 £	1992 £
Employee costs during the year amounted to:		
Wages and salaries	26,224,526	26,422,271
Social security costs	2,130,193	2,095,354
Other pension costs	1,301,264	1,260,538
	<u>29,655,983</u>	<u>29,778,163</u>

The average weekly number of persons employed by the company during the year was as follows:

	Number	Number
Production	854	829
Sales and marketing	12	11
Administration	<u>108</u>	<u>103</u>

Directors' remuneration:

The employee costs shown above include the following remuneration in respect of directors of the company:

	£	£
Remuneration for management services	931,767	688,509
Compensation for loss of office	207,770	-
Pension paid to former director	3,927	3,527
	<u>1,143,464</u>	<u>692,036</u>

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	£	£
Highest paid director	<u>328,308</u>	<u>119,355</u>

The remuneration of the highest paid director in 1993 was borne by the ultimate parent company.

Notes to accounts (continued)

6 Staff costs (continued)

Directors' emoluments fell within the following ranges:

	1993 Number	1992 Number
£ 0 - £ 5,000	-	1
£ 10,001 - £ 15,000	-	1
£ 30,001 - £ 35,000	1	-
£ 35,001 - £ 40,000	1	-
£ 45,001 - £ 50,000	1	-
£ 65,001 - £ 70,000	1	2
£ 70,001 - £ 75,000	1	-
£ 75,001 - £ 80,000	-	1
£ 85,001 - £ 90,000	1	-
£ 90,001 - £ 95,000	1	-
£100,001 - £105,000	-	2
£115,001 - £120,000	-	1
£325,001 - £330,000	1	-

The above figures for emoluments do not include any amount for the value of share options granted to or held by directors. Options to subscribe for common stock of the ultimate parent company have been granted as follows:

	Number of Options		
	Beginning of year	Granted	End of year
P.J. Berridge	14,000	6,000	20,000
K.B. Dallas	15,700	3,500	19,200
R.W. England	17,000	6,000	23,000
P.A. Kiveal	700	-	700
J.W.D. Ward	47,200	6,000	53,200

The options were granted between 23 October 1986 and 9 December 1993 and are exercisable between 1 and 10 years from the date the options were granted, at prices ranging from \$15.65625 to \$31.375. Options do not become fully exercisable until 4 or 5 years after the date of grant.

Notes to accounts (continued)

7 Tax on profit on ordinary activities

The tax charge is based on the result for the year and comprises:

	1993 £	1992 £
Corporation tax at 33% (1992 - 33%)	1,252,462	1,095,160
Adjustment of current taxation in respect of prior years	59,592	(149,160)
	<u>1,312,054</u>	<u>946,000</u>
Deferred taxation	810,000	1,089,000
	<u>2,122,054</u>	<u>2,035,000</u>

Group relief representing approximately £1,715,000 (1992 - £1,103,000) of current taxation has been received free of charge from fellow subsidiary undertakings.

8 Tangible fixed assets

a. The movement in the year was as follows:

	Freehold land and buildings £	Plant and machinery		Total £
		Owned £	Leased £	
Cost or valuation				
Beginning of year	8,809,135	50,222,824	2,659,583	61,691,542
Additions	108,609	6,278,087	-	6,386,696
Disposals	-	(73,210)	-	(73,210)
Transfers	-	2,278,517	130,183	2,408,700
End of year	<u>8,917,744</u>	<u>58,706,218</u>	<u>2,789,766</u>	<u>70,413,728</u>
Depreciation				
Beginning of year	2,442,433	14,403,547	2,533,140	19,379,120
Charge	327,196	5,284,597	53,449	5,665,242
Disposals	-	(71,170)	-	(71,170)
Transfers	-	1,231,700	116,955	1,348,655
End of year	<u>2,769,629</u>	<u>20,848,674</u>	<u>2,703,544</u>	<u>26,321,847</u>
Net book value, beginning of year	<u>6,366,702</u>	<u>35,819,277</u>	<u>126,443</u>	<u>42,312,422</u>
Net book value, end of year	<u>6,148,115</u>	<u>37,857,544</u>	<u>86,222</u>	<u>44,091,881</u>

Freehold land included in the above, amounting to £265,000 (1992 - £265,000) is not depreciated.

Notes to accounts (continued)

8 Tangible fixed assets (continued)

b. Basis of valuation

Plant and machinery is shown at cost. Freehold land and buildings are shown at valuation in 1993 and 1992 with subsequent additions at cost as shown below.

	1993 £	1992 £
Professionally valued		
- existing use (1964)	481,000	481,000
- existing use (1976)	180,000	180,000
Total at valuation	661,000	661,000
At cost	8,256,744	8,148,135
Cost or valuation, end of year	8,917,744	8,809,135

Freehold buildings included at valuation with an original cost of £111,932 are fully depreciated, based on cost, at 31 December 1993 and 1992.

9 Fixed asset investments

At 31 December 1993, the company held 100% of the ordinary share capital of the following subsidiary undertakings, all of which are registered in England and Wales.

	<u>Principal activity</u>
R.R. Donnelley UK Marketing Services Limited	Direct mail and lettershop services
Ben Johnson and Company Limited	Non trading
R.R. Donnelley (UK) Limited	Printing

R.R. Donnelley (UK) Limited has a 65% interest in R.R. Donnelley-Pindar, a partnership. The investment comprises the company's capital contribution less amounts written off. The principal business address of the partnership is 25/29 Worship Street, London EC2A 2DX. The principal activity of the partnership is financial and commercial printing.

On 15 April 1993 the company acquired a 49% interest in Donnelley Hearst Holdings, an unlimited liability company registered in England and Wales. The investment comprises the cost of the shares acquired. The principal activity of Donnelley Hearst Holdings is that of a holding company.

On the 31 December 1993 the trade, assets and liabilities of R.R. Donnelley UK Marketing Services Limited were transferred to the company.

Notes to accounts (continued)

9 Fixed asset investments (continued)

The movement on investments during the year, was as follows:

	£
Cost:	
Beginning of year	9,327,102
Investment in Donnelley Hearst Holdings	1,000,000
End of year	10,327,102
Amounts written off:	
Beginning of year	8,518,000
Written off	807,102
End of year	9,325,102
Net book value	1,002,000

10 Stocks

	1993 £	1992 £
Raw materials and consumables	3,593,379	3,052,109
Work in progress	3,475,154	4,344,977
Computer databases	61,177	-
	<u>7,129,710</u>	<u>7,397,086</u>

In the opinion of the directors, the estimated replacement cost of stocks does not materially exceed the book value.

11 Debtors

	1993 £	1992 £
Amounts falling due within one year:		
Trade debtors	23,232,772	17,518,115
Amounts owed by other group undertakings	2,386,853	1,550,486
VAT	838,702	1,453,760
Other debtors	353,869	373,057
Prepayments and accrued income	609,713	467,086
Assets held for resale	190,000	1,631,249
	<u>27,611,909</u>	<u>22,993,753</u>

Notes to accounts (continued)

12 Creditors: Amounts falling due within one year

	1993 £	1992 £
Obligations under finance leases and hire purchase contracts	6,600	-
Bank loans and overdrafts	2,687,956	258,706
Loan notes	77,854	113,132
Payments received on account	6,267	8,785
Trade creditors	12,050,359	14,585,489
Amounts owed to other group undertakings	14,624,783	11,232,086
Other creditors		
- UK corporation tax payable	1,398,000	1,095,160
- Social security and PAYE	898,780	779,960
- Other	693,063	856,051
Accruals and deferred income	3,533,663	2,434,560
	<u>35,977,325</u>	<u>31,363,929</u>

13 Creditors: Amounts falling due after more than one year

	1993 £	1992 £
Obligations under finance leases and hire purchase contracts	<u>2,124</u>	<u>-</u>
The future minimum lease payments to which the company is committed are as follows:		
Within one year	7,700	-
Within two to five years	<u>2,220</u>	<u>-</u>
	9,920	-
Finance charges allocated to future periods	<u>(1,196)</u>	<u>-</u>
	<u>8,724</u>	<u>-</u>

14 Provisions for liabilities and charges

Deferred taxation has been provided in full because, in the opinion of the directors, it will become payable in the foreseeable future.

Timing differences at 33% (1992 - 33%) are as follows:

	1993 £	1992 £
Excess of tax allowances over book depreciation of fixed assets	6,231,000	5,256,000
Other timing differences related to current assets and liabilities	<u>(25,000)</u>	<u>130,000</u>
	<u>6,206,000</u>	<u>5,386,000</u>

Notes to accounts (continued)

15 Called-up share capital

	1993 £	1992 £
<i>Authorised</i>		
Ordinary shares of £1 each	<u>6,157,850</u>	<u>6,157,850</u>
<i>Allotted, called-up and fully-paid</i>		
Ordinary shares of £1 each	<u>5,157,850</u>	<u>5,157,850</u>

16 Reserves

Of the total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	1993 £	1992 £
Distributable		
- profit and loss account	31,500,470	30,206,511
Non distributable		
- capital contribution	4,000,000	4,000,000
- revaluation reserve	253,379	253,379
	<u>35,753,849</u>	<u>34,459,890</u>

17 Reconciliation of movements in shareholders' funds

	1993 £	1992 £
Profit for the financial year	1,293,959	179,432
Opening shareholders' funds	<u>39,617,740</u>	<u>39,438,308</u>
Closing shareholders' funds	<u>40,911,699</u>	<u>39,617,740</u>

18 Guarantees and other financial commitments

Capital commitments

At the end of the year, capital commitments were:

	1993 £	1992 £
Contracted but not provided for	4,518,800	501,012
Authorised but not contracted for	2,810,104	542,662
	<u>7,328,904</u>	<u>1,043,674</u>

Notes to accounts (continued)

18 Guarantees and other financial commitments (continued)

b. Pension arrangements

The company operates a number of defined benefit pension schemes covering the majority of full time employees. The schemes are set up under trust and the assets are therefore held separately from the company's assets.

The accrued contribution relating to the main scheme of £53,000 (1992 - prepaid £19,000) at the year end is included within accruals and deferred income in note 12. The pension cost charge for the year of £1,301,264 (1992 - £1,260,538) was made up of a regular cost of £1,386,264 (1992 - £1,371,538) less variations from regular cost of £85,000 (1992 - £111,000).

The pension costs and related accrual are assessed in accordance with the advice of a professionally qualified actuary.

The latest actuarial valuation of the main scheme was performed on 1 April 1993 and used the projected unit method of valuation. The main actuarial assumptions were that the investment return would be 2% per annum higher than the average rate of pay growth, 5% per annum higher than the rate of increase in pensions and 4.5% per annum in excess of the rate of growth in dividends.

At the date of the latest actuarial valuation, the market value of the assets of the main scheme was £29,203,000 and the actuarial value of the assets was sufficient to cover more than 100% of the benefits that had accrued to members after allowing for expected future increases in earnings. The surplus arising will be reduced over the average remaining service lives of employees in the scheme at an employer's contribution rate of 8.75% of pensionable earnings as a result of improvements in benefits.

19 Ultimate parent company

The company's ultimate parent company is R.R. Donnelley & Sons Company which is incorporated in the State of Delaware, USA.

The company's immediate parent company is Donnelley Satellite Services Limited incorporated in the State of Delaware, USA.

The largest group in which the results of the company are consolidated is that headed by R.R. Donnelley & Sons Company. The smallest group in which they are consolidated is that headed by Donnelley Holdings Limited, incorporated in the State of Delaware, USA.

Notes to accounts (continued)

20 Related party transactions

Included in sales is £1,810,425 (1992 - £1,088,387) made to fellow group undertakings.

Included in cost of sales and operating expenses is £4,807,932 (1992 - £4,091,086) charged by fellow group undertakings.

Included in interest receivable and similar income is £52,983 (1992 - £233,235) charged to fellow group undertakings.

Included in interest payable and similar charges is £854,063 (1992 - £1,460,584) charged by fellow group undertakings.