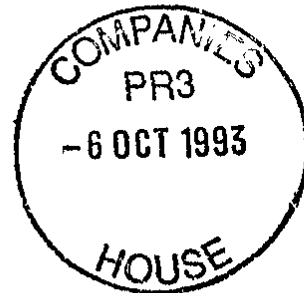


ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO. SC

R.R. Donnelley Limited

Accounts 31 December 1992
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 14 June 1993 for the following purposes:

As ordinary business:

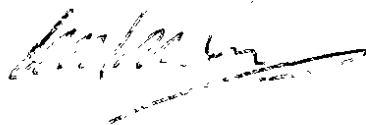
1. To receive and approve the directors' report and accounts for the year ended 31 December 1992.
2. To reappoint Arthur Andersen as auditors of the company and authorise the directors to determine their remuneration.
3. To transact any other ordinary business of an annual general meeting.

Boroughbridge Road
York
YO2 5SS

By order of the Board,

C.H. Renton

Secretary



24 May 1993

Directors' report

For the year ended 31 December 1992

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 1992.

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.

The operations of the business progressed satisfactorily during the year. Pressure on margins continued due to price pressures and cost increases.

Results and dividends

Results for the year are as follows:

	£
Retained profit at 31 December 1991	30,027,079
Retained profit for the year	179,432
Retained profit at 31 December 1992	<u>30,206,511</u>

No dividend is proposed.

Directors and their interests

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

J.S. Oberhill	(appointed 14 December 1992)
J.A. Capstick	(resigned 14 December 1992)
J.W.D. Ward	
C.H. Renton	
J. Craft	(resigned 30 April 1993)
K.B. Dallas	
R.W. England	
P.J. Berridge	
P.A. Kiveal	(appointed 19 August 1992)

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

Fixed assets

Information relating to changes in tangible fixed assets is given in Note 9 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.

Directors' report

For the year ended 31 December 1992

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.

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,

C.H. Renton

Secretary



24 May 1993

Auditors' report

Leeds

To the Members of R.R. Donnelley Limited:

We have audited the accounts on pages 5 to 18 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 December 1992 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 Auditor

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

24 May 1993

Profit and loss account

For the year ended 31 December 1992

	Note	1992 £	1991 £
Turnover	2	132,209,811	111,555,272
Cost of sales		114,322,684	100,979,480
Gross profit		17,887,127	10,575,792
Other operating expenses	3	14,973,758	7,628,399
Operating profit		2,913,369	2,947,393
Interest receivable and similar income		920,064	1,034,617
Interest payable and similar charges	4	(1,619,001)	(1,505,651)
Profit on ordinary activities before taxation	5	2,214,432	2,476,359
Tax on profit on ordinary activities	7	(2,035,000)	(967,513)
Profit before extraordinary items		179,432	1,508,846
Extraordinary items	8	-	(2,362,103)
Retained profit (loss) for the year		179,432	(853,257)
Retained profit, at 31 December 1991		30,027,079	30,880,336
Retained profit, at 31 December 1992		30,206,511	30,027,079

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

Balance sheet

31 December 1992

	Note	1992 £	1991 £
Fixed assets			
Tangible assets	9	42,312,422	42,091,788
Investments	10	809,102	627,102
		<u>43,121,524</u>	<u>42,718,890</u>
Current assets			
Stocks	11	7,397,086	8,209,491
Debtors	12	22,993,753	15,134,165
Cash at bank and in hand		2,855,306	5,475,096
		<u>33,246,145</u>	<u>28,818,752</u>
Creditors: Amounts falling due within one year	13	31,363,929	27,728,084
Net current assets		<u>1,882,216</u>	<u>1,090,668</u>
Total assets less current liabilities		<u>45,003,740</u>	<u>43,809,558</u>
Creditors: Amounts falling due after more than one year	14	-	74,250
Provision for liabilities and charges	15	5,386,000	4,297,000
Net assets		<u>39,617,740</u>	<u>39,438,308</u>
Capital and reserves			
Called-up share capital	16	5,157,850	5,157,850
Revaluation reserve	17	253,379	253,379
Capital contribution	17	4,000,000	4,000,000
Profit and loss account	17	30,206,511	30,027,079
Total capital employed		<u>39,617,740</u>	<u>39,438,308</u>

Signed on behalf of the Board

P.J. Berridge

Director

24 May 1993

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

Notes to accounts

31 December 1992

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.

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

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 cash flow statement.

b. 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 1964 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.

c. 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)

d 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.

e. 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.

f. 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.

g. Investments

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

h. 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

	1992 £	1991 £
Selling and marketing costs	1,713,732	1,479,555
Administrative expenses	13,260,026	6,148,844
	<u>14,973,758</u>	<u>7,628,399</u>

4 Interest payable and similar charges

	1992 £	1991 £
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	1,546,885	1,393,862
On finance leases	3,152	23,464
	<u>1,550,037</u>	<u>1,417,326</u>
Discounts allowed	68,964	88,325
	<u>1,619,001</u>	<u>1,505,651</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1992 £	1991 £
Depreciation		
- tangible fixed assets (leased)	75,387	207,449
- tangible fixed assets (owned)	5,322,484	3,581,003
Hire of plant and machinery	2,017,680	2,247,967
Auditors' remuneration		
- audit	48,000	48,000
- other	40,000	-
Staff costs (Note 6)	29,778,163	27,718,136
Exceptional items		
- write down of investments in subsidiary undertakings (Note 10)	6,429,000	-
- provision against amounts due from subsidiary undertakings	1,164,000	-
	<u></u>	<u></u>

In accordance with the Companies Act 1985 (Disclosure of Remuneration for Non-Audit Work) Regulations 1991, the disclosure of remuneration for non-audit work for the prior year has been omitted.

Notes to accounts (continued)

6 Staff costs

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

	1992 £	1991 £
Employee costs during the year amounted to:		
Wages and salaries	26,422,271	24,528,880
Social security costs	2,095,354	1,918,910
Other pension costs	1,260,538	1,270,346
	<u>29,778,163</u>	<u>27,718,136</u>

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

	Number	Number
Production	829	896
Sales and marketing	11	36
Administration	<u>103</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	688,509	565,973
Pension paid to former director	<u>3,527</u>	<u>3,149</u>
	<u>692,036</u>	<u>569,122</u>

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

	£	£
Chairman	<u>-</u>	<u>35,450</u>
Highest paid director	<u>119,355</u>	<u>90,564</u>

Notes to accounts (continued)

6 Staff costs (continued)

Directors' emoluments fell within the following ranges:

	1992 Number	1991 Number
£ 0 - £ 5,000	2	1
£ 5,001 - £ 10,000	-	1
£ 10,001 - £ 15,000	1	-
£ 35,001 - £ 40,000	-	1
£ 50,001 - £ 55,000	-	2
£ 55,001 - £ 60,000	-	1
£ 65,001 - £ 70,000	2	-
£ 75,001 - £ 80,000	1	1
£ 80,001 - £ 85,000	-	1
£ 90,001 - £ 95,000	-	1
£ 100,001 - £ 105,000	2	-
£ 115,001 - £ 120,000	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			End of year
	Beginning of year	Granted	Exercised	
P.J. Berridge	9,000	5,000	-	14,000
J. Craft	21,900	7,500	-	49,400
K.B. Dallas	12,200	3,500	-	15,700
R.W. England	12,200	4,800	-	17,000
P.A. Kiveal	400	300	-	700
C.H. Renton	8,000	3,000	-	11,000
J.W.D. Ward	42,200	5,000	-	47,200

The options were granted between 23 October 1986 and 10 December 1992 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.

7 Tax on profit on ordinary activities

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

	1992 £	1991 £
Corporation tax at 33% (1991 - 33.25%)	1,095,160	322,198
Adjustment of current taxation in respect of prior years	(149,160)	(315,685)
	<u>946,000</u>	<u>6,513</u>
Deferred taxation	1,089,000	961,000
	<u>2,035,000</u>	<u>967,513</u>

Group relief representing approximately £1,103,000 (1991 - £598,000 surrendered) of current taxation has been received free of charge from fellow subsidiary undertakings.

8 Extraordinary items

	1992 £	1991 £
Provision against investments in subsidiary undertakings	-	2,089,000
Provision against amounts due from subsidiary undertakings	-	61,916
Costs relating to the disposal of the Office Equipment Division	-	316,385
Corporation tax at 33% (1991 - 33.25%)	-	(105,198)
	<u>-</u>	<u>2,362,103</u>

Notes to accounts (continued)

9 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	8,730,279	45,379,155	2,707,093	56,816,527
Additions	78,455	5,528,789	-	5,607,244
Disposals	-	(723,118)	(47,510)	(770,628)
Transfers	-	37,998	-	37,998
End of year	8,809,335	50,222,824	2,659,583	61,691,742
Depreciation				
Beginning of year	2,118,664	13,121,598	2,484,477	14,724,739
Charge	323,769	4,995,715	75,387	5,394,871
Disposals	-	(715,896)	(26,724)	(742,620)
Transfers	-	(870)	-	(870)
End of year	2,442,433	14,403,547	2,533,140	19,379,120
Net book value, beginning of year	6,611,615	32,257,557	222,616	42,091,788
Net book value, end of year	6,366,902	35,819,277	126,443	42,312,622

Freehold land included in the above, amounting to £265,000 (1991 - £265,000) is not depreciated.

b. Basis of valuation

Plant and machinery is shown at cost. Freehold land and buildings are shown at valuation in 1964 and 1976 with subsequent additions at cost as shown below:

	1992 £	1991 £
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	8,148,135	8,069,279
Cost or valuation, end of year	8,809,135	8,730,279

Freehold buildings included at valuation with an original cost of £111,932 are fully depreciated, based on cost, at 31 December 1992 and 1991.

Notes to accounts (continued)

10 Fixed asset investments

At 31 December 1992, 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
BMDS Mail Order Services Limited	Non trading
Listerhills Mail Order Services Limited	Non trading
Ben Johnson and Company Limited	Non trading
R.R. Donnelley (UK) Limited	Printing

The company is a subsidiary undertaking of Donnelley Holdings Limited and consolidated accounts have been prepared by that company.

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.

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

	£
Cost:	
Beginning of year	2,716,102
Additional investment in existing subsidiary undertakings	6,611,000
End of year	<u>9,327,102</u>
Amounts written off:	
Beginning of year	2,089,000
Written off	6,429,000
End of year	<u>8,518,000</u>
Net book value	<u>809,102</u>

Notes to accounts (continued)

11 Stocks

	1992 £	1991 £
Raw materials and consumables	3,052,109	2,687,418
Work in progress	4,344,977	5,522,073
	<u>7,397,086</u>	<u>8,209,491</u>

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

12 Debtors

	1992 £	1991 £
Amounts falling due within one year:		
Trade debtors	17,518,115	8,336,517
Amounts owed by other group undertakings	1,550,486	3,903,765
VAT	1,453,760	1,734,800
Other debtors	373,057	313,817
Prepayments and accrued income	467,086	545,116
Assets held for resale	1,631,249	300,150
	<u>22,993,753</u>	<u>15,134,165</u>

13 Creditors: Amounts falling due within one year

	1992 £	1991 £
Obligations under finance leases	-	150,562
Bank loans and overdrafts	258,706	-
Loan notes	113,132	38,882
Payments received on account	8,785	13,199
Trade creditors	14,585,489	9,501,748
Amounts owed to other group undertakings	11,232,086	12,988,149
Other creditors		
- UK corporation tax payable	1,095,160	217,000
- Social security and PAYE	779,960	843,453
- Other	856,051	775,850
Accruals and deferred income	2,434,560	3,194,241
	<u>31,363,929</u>	<u>27,728,084</u>

Notes to accounts (continued)

14 Creditors: Amounts falling due after more than one year

	1992 £	1991 £
Loan notes	-	74,250
The future minimum lease payments to which the company is committed are as follows:		
Within one year	-	153,714
Within two to five years	-	-
	-	153,714
Finance charges allocated to future periods	-	(3,152)
	-	150,562

15 Provision 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% (1991 - 33.25%) are as follows:

	1992 £	1991 £
Excess of tax allowances over book depreciation of fixed assets	5,256,000	4,563,000
Other timing differences related to current assets and liabilities	130,000	194,000
Tax effect of losses carried forward	-	(460,000)
	5,386,000	4,297,000

16 Called-up share capital

	1992 £	1991 £
<i>Authorised</i>		
Ordinary shares of £1 each	6,157,850	6,157,850
<i>Allotted, called-up and fully-paid</i>		
Ordinary shares of £1 each	5,157,850	5,157,850

Notes to accounts (continued)

17 Reserves

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

	1992 £	1991 £
Distributable		
- profit and loss account	30,206,511	30,027,079
Non distributable		
- capital contribution	4,000,000	4,000,000
- revaluation reserve	253,379	253,379
	<u>34,459,890</u>	<u>34,280,458</u>

18 Guarantees and other financial commitments

a. Capital commitments

At the end of the year, capital commitments were:

	1992 £	1991 £
Contracted but not provided for	501,012	2,596,608
Authorised but not contracted for	542,562	1,666,689
	<u>1,043,674</u>	<u>4,263,297</u>

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 prepaid contribution relating to the main scheme of £19,000 (1991 - £102,000) at the year end is included within prepayments and accrued income in note 12. The pension cost charge for the year of £1,260,538 (1991 - £1,270,346) was made up of a regular cost of £1,371,538 (1991 - £1,392,346) less variations from regular cost of £111,000 (1991 - £122,000).

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

The latest actuarial valuation of the main scheme was performed on 6 April 1990 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 5% per annum in excess of the rate of growth in dividends.

Notes to accounts (continued)

18 Guarantees and other financial commitments (continued)

At the date of the latest actuarial valuation, the market value of the assets of the main scheme was £21,039,500 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 should be eliminated by 2003 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 also consolidated is that headed by Donnelley Holdings Limited, incorporated in the State of Delaware, USA.

20 Related party transactions

Included in sales is £1,088,387 (1991-£2,099,621) made to fellow group undertakings.

Included in cost of sales and operating expenses is £4,091,086 (1991-£3,334,621) charged by fellow group undertakings.

Included in interest receivable and similar income is £233,235 (1991 - £153,622) charged to fellow group undertakings.

Included in interest payable and similar charges is £1,460,584 (1991 - £1,300,528) charged by fellow group undertakings