

R.R. DONNELLEY LIMITED

ACCOUNTS -- 31 DECEMBER 1991

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TOGETHER

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WITH DIRECTORS' AND AUDITORS' REPORTS

The company's registered number is 166396

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R.R. DONNELLEY LIMITED


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 2.30p.m. on 10 April 1992 for the following purposes -

As ordinary business -

1. To receive and approve the Directors' Report and Accounts for the year ended 31 December 1991.
2. To reappoint Arthur Andersen (formerly Arthur Andersen & Co.) 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.

By Order of the Board


C.H. Renton
Secretary

Boroughbridge Road
York YO2 5SS

19 March 1992

R.R. DONNELLEY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1991

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 1991.

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 sale of office equipment and supplies.

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

On 31 December 1991, the company disposed of its office equipment division.

RESULTS AND DIVIDENDS:

Results for the year are as follows -

Retained profit at 31 December 1990	£ 30,880,336
Profit before extraordinary items	1,508,846
Extraordinary items	(2,362,103)
Retained profit at 31 December 1991	£ 30,027,079

No dividend is proposed.

DIRECTORS AND THEIR INTERESTS:

J.A. Capstick
J.W.D. Ward
J.D. Hansen (resigned 1 February 1991)
C.H. Renton
J. Craft
K.B. Dallas
R.W. England
P.J. Berridge

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.

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 (formerly Arthur Andersen & Co.) as auditors for the ensuing year.

BY ORDER OF THE BOARD:



C.H. Renton
Secretary

19 March 1992

Auditors' Report 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 1991 and of its loss and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and Registered Auditor

19 March 1992

R.R. DONNELLEY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1991

	<u>Note</u>	<u>1991</u>	<u>1990</u>
TURNOVER	2	£111,555,272	£111,564,829
Cost of sales		100,979,480	99,344,637
GROSS PROFIT		10,575,792	12,220,192
Other operating expenses	3	7,628,399	6,760,196
OPERATING PROFIT		2,947,393	5,459,996
Interest receivable and similar income		1,034,617	1,017,430
Interest payable and similar charges	4	(1,505,651)	(366,171)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	2,476,359	6,111,255
Tax on profit on ordinary activities	7	(967,513)	(2,139,000)
PROFIT BEFORE EXTRAORDINARY ITEMS		1,508,846	3,972,255
Extraordinary items	8	(2,362,103)	(350,000)
RETAINED PROFIT (LOSS) FOR THE YEAR		(853,257)	3,622,255
RETAINED PROFIT, at 31 December 1990		30,880,336	27,258,081
RETAINED PROFIT, at 31 December 1991		£ 30,027,079	£ 30,880,336

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

R.R. DONNELLEY LIMITED

BALANCE SHEET -- 31 DECEMBER 1991

	<u>Note</u>	<u>1991</u>	<u>1990</u>
FIXED ASSETS			
Tangible assets	9	£ 42,091,788	£ 30,446,636
Investments	10	627,102	627,002
		<hr/> 42,718,890	<hr/> 31,073,638
CURRENT ASSETS			
Stocks	11	8,209,491	7,938,301
Debtors	12	15,134,165	19,505,776
Cash at bank and in hand		5,475,096	5,102,829
		<hr/> 28,818,752	<hr/> 32,546,906
CREDITORS: Amounts falling due within one year	13	27,728,084	19,791,226
		<hr/> 1,090,668	<hr/> 12,755,680
NET CURRENT ASSETS			
TOTAL ASSETS LESS CURRENT LIABILITIES		43,809,558	43,829,318
CREDITORS: Amounts falling due after more than one year	14	(74,250)	(201,753)
PROVISION FOR LIABILITIES AND CHARGES	15	(4,297,000)	(3,336,000)
		<hr/> £ 39,438,308	<hr/> £ 40,291,565
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	30,027,079	30,880,336
		<hr/> £ 39,438,308	<hr/> £ 40,291,565
TOTAL CAPITAL EMPLOYED		<hr/> £ 39,438,308	<hr/> £ 40,291,565

SIGNED ON BEHALF OF THE BOARD:

J.A. Capstick Director

19 March 1992

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

R.R. DONNELLEY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1991

	<u>1991</u>	<u>1990</u>
SOURCE OF FUNDS		
Profit before extraordinary items	£ 1,508,846	£ 3,972,255
Add items not involving the movement of funds:		
- Depreciation	3,788,452	3,153,182
- Loss on disposal of tangible fixed assets	60,269	84,734
- Increase in provision for deferred taxation	961,000	880,000
TOTAL FUNDS FROM OPERATIONS	<u>6,318,567</u>	<u>8,090,171</u>
Proceeds from disposal of tangible fixed assets	47,700	624,383
Decrease in net current assets, as shown below	11,665,012	-
	<u>£ 18,031,279</u>	<u>£ 8,714,554</u>
APPLICATION OF FUNDS		
Transfer of tangible fixed assets from other group undertakings	£ 49,490	£ -
Purchase of tangible fixed assets at cost	15,492,083	6,646,961
Purchase of investment at cost	100	627,002
Extraordinary items	2,362,103	350,000
Decrease in creditors falling due after one year	127,503	86,993
Increase in net current assets, as shown below	-	1,003,598
	<u>£ 18,031,279</u>	<u>£ 8,714,554</u>
INCREASE (DECREASE) IN NET CURRENT ASSETS		
Stocks	£ 271,190	£ (27,606)
Debtors	(4,371,611)	6,125,139
Creditors falling due within one year	(7,936,858)	(5,122,491)
	<u>(12,037,279)</u>	<u>975,042</u>
Movement in net liquid funds		
- Cash at bank and in hand	372,267	28,556
	<u>£ (11,665,012)</u>	<u>£ 1,003,598</u>

The accompanying notes are an integral part of this statement.

P.R. DONNELLEY LIMITED

NOTES TO ACCOUNTS -- 31 DECEMBER 1991

1. ACCOUNTING POLICIES:

The principal accounting policies 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.

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.

d. Taxation

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

Deferred taxation is provided at the rate at which the liability is estimated to crystallise to the extent that the directors are of the opinion that such taxation may become payable in the foreseeable future.

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.

3. OTHER OPERATING EXPENSES:

	<u>1991</u>	<u>1990</u>
Selling and marketing costs	£ 1,479,555	£ 1,485,324
Administrative expenses	6,148,844	5,274,872
	<u>£ 7,628,399</u>	<u>£ 6,760,196</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES:

	<u>1991</u>	<u>1990</u>
On bank loans, overdrafts and other loans - repayable within five years, not by instalments	£ 1,393,862	£ 169,363
On finance leases	23,464	36,148
	<u>1,417,326</u>	<u>205,511</u>
Discounts allowed	88,325	160,660
	<u>£ 1,505,651</u>	<u>£ 366,171</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after charging -

	<u>1991</u>	<u>1990</u>
Depreciation		
- tangible fixed assets (leased)	£ 207,449	£ 247,334
- tangible fixed assets (owned)	3,581,003	2,905,848
Hire of plant and machinery	2,247,967	2,448,000
Auditors' remuneration	48,000	44,000
Staff costs (Note 6)	£ 27,718,136	£ 26,256,946

6. STAFF COSTS:

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

Employee costs during the year amounted to -	<u>1991</u>	<u>1990</u>
Wages and salaries	£ 24,328,880	£ 23,337,771
Social security costs	1,918,910	1,807,668
Other pension costs	1,270,346	1,111,507
	<u>£ 27,718,136</u>	<u>£ 26,256,946</u>

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

Production	896	932
Sales and marketing	36	43
Administration	103	108

Directors' remuneration -

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

Remuneration for management services	£ 565,973	£ 539,833
Pension paid to former director	3,149	2,793
	<u>£ 569,122</u>	<u>£ 542,626</u>

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

Chairman	£ 35,450	£ -
Highest paid director	£ 90,664	£ 133,152

Directors' emoluments fell within the following ranges -

	<u>Directors</u>	
	<u>1991</u>	<u>1990</u>
£ 0 - £ 5,000	-	2
£ 5,001 - £ 10,000	1	-
£ 10,001 - £ 15,000	1	-
£ 15,001 - £ 20,000	-	1
£ 20,001 - £ 25,000	-	1
£ 25,001 - £ 30,000	2	1
£ 30,001 - £ 35,000	1	-
£ 35,001 - £ 40,000	-	1
£ 40,001 - £ 45,000	-	1
£ 45,001 - £ 50,000	1	-
£ 50,001 - £ 55,000	1	-
£ 55,001 - £ 60,000	-	1
£ 60,001 - £ 65,000	-	1
£ 65,001 - £ 70,000	-	1
£ 70,001 - £ 75,000	-	1
£ 75,001 - £ 80,000	1	-
£ 80,001 - £ 85,000	1	-
£ 85,001 - £ 90,000	-	1
£ 90,001 - £ 95,000	1	-
£ 95,001 - £ 100,000	-	1
£ 100,001 - £ 105,000	-	1
£ 105,001 - £ 110,000	-	1
£ 110,001 - £ 115,000	-	1
£ 115,001 - £ 120,000	-	1
£ 120,001 - £ 125,000	-	1
£ 125,001 - £ 130,000	-	1
£ 130,001 - £ 135,000	-	1

7. TAX ON PROFIT ON ORDINARY ACTIVITIES:

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

	<u>1991</u>	<u>1990</u>
Corporation tax at 33.25% (1990 - 34.25%) £	322,198	£ 1,259,000
Adjustment of current taxation in respect of prior years	(315,685)	-
	<hr/>	<hr/>
Deferred taxation	6,513	1,259,000
	961,000	880,000
	<hr/>	<hr/>
	£ 967,513	£ 2,139,000
	<hr/>	<hr/>

Group relief representing approximately £598,000 of current taxation has been surrendered free of charge to fellow subsidiary undertakings. In the previous year current taxation of approximately £75,000 was eliminated by the surrender of group relief by fellow subsidiary undertakings free of charge.

8. EXTRAORDINARY ITEMS:

	<u>1991</u>	<u>1990</u>
Provision against amounts due from fellow subsidiary undertakings	£ 2,150,916	£ 350,000
Costs relating to the disposal of the Office Equipment Division	316,385	-
	<hr/>	<hr/>
Extraordinary Loss	2,467,301	350,000
Corporation tax on the above at 33.25%	(105,198)	-
	<hr/>	<hr/>
	£ 2,362,103	£ 350,000
	<hr/>	<hr/>

9. TANGIBLE FIXED ASSETS:

a. The movement in the year was as follows -

	Freehold land and buildings	Plant and machinery		Total
COST OR VALUATION		Owned	Leased	
Beginning of year	£ 8,302,937	£30,442,552	£3,030,446	£41,775,935
Additions	427,342	15,064,741	-	15,492,083
Disposals	-	(268,752)	(323,353)	(592,105)
Transfers	-	140,614	-	140,614
End of year	8,730,279	45,379,155	2,707,093	56,816,527
DEPRECIATION				
Beginning of year	£ 1,818,344	£ 6,951,662	£ 2,559,293	£11,329,299
Charge	300,320	3,280,683	207,449	3,788,452
Disposals	-	(201,871)	(282,265)	(484,136)
Transfers	-	91,124	-	91,124
End of year	2,118,664	10,121,598	2,484,477	14,724,739
NET BOOK VALUE, beginning of year	£ 6,484,593	£23,490,890	£ 471,153	£30,446,636
NET BOOK VALUE, end of year	£ 6,611,615	£35,257,557	£ 222,616	£42,091,788

Freehold land included in the above, amounting to £265,000 (1990 - £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 -

	1991	1990
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	8,069,279	7,641,937
COST OR VALUATION, end of year	£ 8,730,279	£ 8,302,937

Freehold buildings included at valuation with an original cost of £111,932 are fully depreciated, based on cost, as at 31 December 1991 and 1990.

10. FIXED ASSET INVESTMENTS:

On 30 December 1991 the company acquired the entire issued share capital of Novasun Limited, a dormant company, for £100. Novasun Limited changed its name to R.R. Donnelley (UK) Limited on 31 December 1991.

At 31 December 1991, 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>
Business Mail Data Services Limited	Direct Mail and lettershop Services
BMDS Mail Order Services Limited	Non-trading
Listerhills Mail Order Services Limited	Non-trading
BMDS Mailing Services Limited	Dormant
BMDS Computer Services Limited	Dormant
European Direct Mail Services Limited	Dormant
Ben Johnson And Company Limited	Non-trading
R.R. Donnelley (UK) Limited	Non-trading

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

11. STOCKS:

	<u>1991</u>	<u>1990</u>
Raw materials and consumables	£ 2,687,418	£ 3,825,173
Work in progress	5,522,073	3,738,453
Finished goods and goods for resale	-	374,675
	<u>£ 8,209,491</u>	<u>£ 7,938,301</u>

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

12. DEBTORS:

	<u>1991</u>	<u>1990</u>
Amounts falling due within one year -		
Trade debtors	£ 8,336,517	£ 13,748,376
Amounts owed by other group undertakings	3,903,765	3,439,161
VAT	1,734,800	1,381,077
Other debtors	313,817	219,617
Prepayments and accrued income	545,116	717,545
Assets held for resale	300,150	-
	<u>£ 15,134,165</u>	<u>£ 19,505,776</u>

13. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>1991</u>	<u>1990</u>
Obligations under finance leases	£ 150,562	£ 138,189
Loan notes	38,882	241,473
Payments received on account	18,199	18,199
Trade creditors	9,501,748	8,387,946
Amounts owed to other group undertakings	12,988,149	6,060,008
Other creditors	775,850	438,381
UK corporation tax payable	217,000	1,901,249
Social security and PAYE	843,453	689,361
Accruals and deferred income	3,194,241	1,916,420
	<u>£ 27,728,084</u>	<u>£ 19,791,226</u>

14. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:

	<u>1991</u>	<u>1990</u>
Obligations under finance leases	£ -	£ 127,503
Loan notes	74,250	74,250
	<u>£ 74,250</u>	<u>£ 201,753</u>

The future minimum lease payments to which the company is committed are as follows -

Within one year	£ 153,714	£ 153,714
Within two to five years	-	153,714
	<u>153,714</u>	<u>307,428</u>
Finance charges allocated to future periods	(3,152)	(41,736)
	<u>£ 150,562</u>	<u>£ 265,692</u>

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 33.25% are as follows -

	<u>1991</u>	<u>1990</u>
Excess of tax allowances over book depreciation of fixed assets	£ 4,563,000	£ 3,506,000
Other timing differences related to current assets and liabilities	194,000	(170,000)
Tax effect of losses carried forward	(460,000)	-
	<u>£ 4,297,000</u>	<u>£ 3,336,000</u>

16. CALLED UP SHARE CAPITAL:

	<u>1991</u>	<u>1990</u>
Authorised -		
Ordinary shares of £1 each	£ 6,157,850	£ 6,157,850
Allotted, called up and fully paid -		
Ordinary shares of £1 each	£ 5,157,850	£ 5,157,850

17. RESERVES:

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

	<u>1991</u>	<u>1990</u>
Distributable		
- profit and loss account	£ 30,027,079	£ 30,880,336
Non-distributable		
- capital contribution	4,000,000	4,000,000
- revaluation reserve	253,379	253,379
	<u>£ 34,280,458</u>	<u>£ 35,133,715</u>

18. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a. Capital commitments

At the end of the year, capital commitments were -

	<u>1991</u>	<u>1990</u>
Contracted but not provided for	£ 2,596,608	£ 3,159,848
Authorised but not contracted for	1,666,689	11,384,395
	<u>£ 4,263,297</u>	<u>£ 14,544,243</u>

b. Pension arrangements

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

The prepaid contribution of £102,000 (1990 - £180,000) at the year end is included within prepayments and accrued income in Note 12. The pension cost charge for the year of £1,270,000 (1990 - £1,112,000) was made up of a regular cost of £1,392,000 (1990 - £1,343,000) less variations from regular cost of £122,000 (1990 - £231,000).

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

At the date of the latest actuarial valuation, the market value of the assets of the 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. SUBSEQUENT EVENT:

On 1 January 1992 the trade and net assets of R.R. Donnelley (UK) Limited (a foreign corporation) were transferred to R.R. Donnelley (UK) Limited (formerly Novasun Limited) at their net book value.

20. 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.

21. RELATED PARTY TRANSACTIONS:

Included in sales is £2,099,621 (1990-£302,000) made to fellow group undertakings.

Included in cost of sales and operating expenses is £3,334,621 (1990-£3,462,179) charged by fellow group undertakings.