

# R.R. Donnelley Limited

Accounts 31 December 1998  
together with directors' and auditors' reports

Registered number: 166396



## Notice of meeting

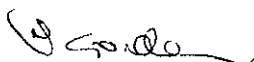
Notice is hereby given that the annual general meeting of R.R. Donnelley Limited will be held at the offices of the company at Boroughbridge Road, York, at 12 p.m. on 15 June 1999 for the following purposes:

As ordinary business:

1. To receive and approve the directors' report and the accounts for the year ended 31 December 1998.
2. To reappoint Arthur Andersen as auditors of the company and to authorise the directors to determine their remuneration.
3. To transact any other ordinary business of an annual general meeting.

Boroughbridge Road  
York  
YO26 5SS

By order of the Board,



T. Gordon  
Secretary

25 May 1999

## Directors' report

For the year ended 31 December 1998

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 1998.

### Principal activity and business review

The principal activities of the company are the production and distribution of telephone directories.

The directors view the results for the year to be satisfactory.

### Results and dividends

Results for the year are as follows:

|                                     | £                        |
|-------------------------------------|--------------------------|
| Retained profit at 31 December 1997 | 28,591,131               |
| Profit for the year                 | <u>2,362,091</u>         |
| Retained profit at 31 December 1998 | <u><u>30,953,222</u></u> |

The directors do not recommend a dividend (1997:£nil).

### Directors and their interests

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

|               |                            |
|---------------|----------------------------|
| J.T. Mauck    | (resigned 31 March 1998)   |
| M.J. Robinson | (resigned 31 January 1998) |
| J.A. Donelson | (resigned 1 April 1999)    |
| R.T. Houston  | (appointed 9 March 1998)   |
| C.P. Mann     | (appointed 1 April 1999)   |

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

## Directors' report (continued)

### Directors' responsibilities

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.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the 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 regular bulletin and presentations given at regular intervals.

### Year 2000

Process control and information systems are becoming increasingly important to the effective management of the company. Increased spending on new systems and updating of existing systems will be necessary. In the near term, we are focusing these efforts on ensuring that processes and systems are Year 2000 compliant. In addition, the company is focused on an initiative to upgrade and standardise the company's information technology infrastructure, which has the incidental effect of addressing certain of the company's Year 2000 compliance issues. We have deferred a number of other infrastructure and systems initiatives that would support continuous productivity improvements and enhanced service capabilities until after the company completes its Year 2000 compliance efforts.

## Directors' report (continued)

### Year 2000 (continued)

The Year 2000 compliance issue stems from the computer industry's practice of conserving data storage by using two digits to represent a year. Systems and hardware using this format may process data incorrectly or fail with the use of dates in, or when operating in, the next century. These types of failures can influence applications that rely on dates to perform calculations or process information, as well as facility systems (such as building security and heating) and manufacturing equipment.

The company's efforts to address Year 2000 compliance issues in our core business include:

- Evaluating internal computing infrastructure, business applications and shop-floor systems for Year 2000 compliance.
- Replacing or renovating systems and applications as necessary to assure such compliance, and
- Testing the replaced or renovated systems and applications.

Our efforts in these respects are well under way, and we currently expect that all phases of such efforts will be completed by mid 1999. In addition to our internal remediation activities, we are continuing to evaluate compliance by key suppliers, vendors and other external companies, including customers whose systems interact with ours.

Costs in relation to Year 2000 compliance are being borne by the company's ultimate parent company R.R. Donnelley & Sons Company as part of a group wide system upgrade.

Although the company expects internal systems to be Year 2000 compliant as described above, we intend to prepare a contingency plan that will specify what we plan to do if critical systems, processes, suppliers, vendors and external companies encounter Year 2000 issues. We have launched a contingency planning effort focused on these areas and the establishment of processes, structures and procedures for co-ordinating our contingency response efforts. Specific plans will be developed throughout the course of the year.


Company employees, assisted by the expertise of external consultants where necessary, staff the Year 2000 compliance efforts.

### 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  
YO26 5SS

By order of the Board,



T. Gordon  
Secretary

25 May 1999

## 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 circumstances of the company, 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 state of affairs of the company at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Arthur Andersen*

**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

1 City Square

Leeds

LS1 2AL

25 May 1999

## Profit and loss account

For the year ended 31 December 1998

|   | Notes | 1998<br>£         | 1997<br>£         |
|---|-------|-------------------|-------------------|
| Turnover                                      | 2     | 86,227,723        | 88,152,244        |
| Cost of sales                                 |       | (79,784,069)      | (85,899,116)      |
| Gross profit                                  |       | 6,443,654         | 2,253,128         |
| Other operating expenses                      |       | (4,836,613)       | (3,148,402)       |
| Operating profit (loss)                       |       | 1,607,041         | (895,274)         |
| Profit on sale of fixed asset investment      |       | -                 | 3,159,199         |
| Interest receivable and similar income        |       | 1,103,761         | 896,561           |
| Interest payable and similar charges          | 3     | (155,711)         | (56,481)          |
| Profit on ordinary activities before taxation | 4     | 2,555,091         | 3,104,005         |
| Tax on profit on ordinary activities          | 6     | (193,000)         | 437,404           |
| Retained profit for the financial year        | 14    | 2,362,091         | 3,541,409         |
| Retained profit, 31 December 1997             |       | 28,591,131        | 25,049,722        |
| Retained profit, 31 December 1998             | 14    | <u>30,953,222</u> | <u>28,591,131</u> |

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. All of the results of the company arose from continuing activities.

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

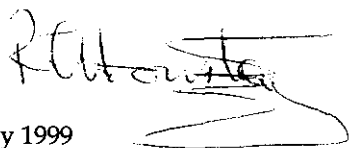
31 December 1998

|   | Notes | 1998<br>£           | 1997<br>£           |
|---|-------|---------------------|---------------------|
| <b>Fixed assets</b>                                   |       |                     |                     |
| Tangible assets                                       | 7     | 16,763,417          | 20,599,470          |
| Investments   | 8     | 19,612,162          | 2,000               |
|   |       | <u>36,375,579</u>   | <u>20,601,470</u>   |
| <b>Current assets</b>                                 |       |                     |                     |
| Stocks  | 9     | 2,467,818           | 3,131,804           |
| Debtors   | 10    | 15,658,134          | 23,413,274          |
| Cash at bank and in hand                              |       | 10,549,535          | 11,184,356          |
|   |       | <u>28,675,487</u>   | <u>37,729,434</u>   |
| <b>Creditors: Amounts falling due within one year</b> | 11    | <u>(21,883,001)</u> | <u>(15,534,228)</u> |
| <b>Net current assets</b>                             |       | <u>6,792,486</u>    | <u>22,195,206</u>   |
| <b>Total assets less current liabilities</b>          |       | <u>43,168,065</u>   | <u>42,796,676</u>   |
| <b>Provisions for liabilities and charges</b>         | 12    | <u>(2,803,613)</u>  | <u>(4,794,315)</u>  |
| <b>Net assets</b>                                     |       | <u>40,364,452</u>   | <u>38,002,361</u>   |
| <b>Capital and reserves</b>                           |       |                     |                     |
| Called-up share capital                               | 13    | 5,157,851           | 5,157,851           |
| Revaluation reserve                                   | 14    | 253,379             | 253,379             |
| Capital contribution                                  | 14    | 4,000,000           | 4,000,000           |
| Profit and loss account                               | 14    | 30,953,222          | 28,591,131          |
| <b>Equity shareholders' funds</b>                     | 15    | <u>40,364,452</u>   | <u>38,002,361</u>   |

Signed on behalf of the Board

R.T. Houston

Director



25 May 1999

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

# Notes to accounts

31 December 1998

## 1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year, are set out below.

### *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.

### *b. Cash flow statement*

At 31 December 1998 the company was a wholly owned subsidiary undertaking of R.R. Donnelley & Sons Company, a company that produces publicly available financial statements in which the results of the company are included. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 "Cash Flow Statements" (Revised) from publishing a cash flow statement.

### *c. Consolidated accounts*

Consolidated accounts have not been prepared because consolidated accounts are prepared by the ultimate UK parent company, Donnelley Holdings Limited, per FRS 2 para 21(b).

### *d. 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, net of depreciation and provision for impairment.

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.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

## Notes to accounts (continued)

### 1 Accounting policies (continued)

#### e. 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.

#### f. Taxation

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

Deferred taxation has been calculated using 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.

#### g. 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 costs 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 or deficit 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 in the balance sheet as a creditor or prepayment as appropriate.

#### h. 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.

#### i. Investments

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

#### j. Turnover

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

### 2 Turnover

An 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 Interest payable and similar charges

|   | 1998           | 1997          |
|---|----------------|---------------|
|   | £              | £             |
| On bank loans, overdrafts and other loans | 155,711        | 48,538        |
| Discounts allowed                         | -              | 7,943         |
|   | <u>155,711</u> | <u>56,481</u> |

### 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting):

|   | 1998             | 1997               |
|---|------------------|--------------------|
|   | £                | £                  |
| Depreciation and amounts written-off tangible fixed assets                |                  |                    |
| - Owned   | 3,798,197        | 4,445,446          |
| Auditors' remuneration  |                  |                    |
| - audit   | 38,000           | 38,000             |
| - other   | 84,500           | 52,110             |
| Staff costs (Note 5)  | 18,805,367       | 21,887,332         |
| Exceptional items   |                  |                    |
| - elimination of provision against investment in subsidiary undertaking   | 2,000            | 538,776            |
| - reduction in provision against amounts due from subsidiary undertakings | <u>(541,000)</u> | <u>(1,552,776)</u> |

### 5 Staff costs

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

|   | 1998              | 1997              |
|---|-------------------|-------------------|
|   | £                 | £                 |
| Employee costs during the year amounted to: |                   |                   |
| Wages and salaries                          | 16,722,475        | 19,424,005        |
| Social security costs                       | 1,219,405         | 1,480,150         |
| Other pension costs                         | 863,487           | 983,177           |
|   | <u>18,805,367</u> | <u>21,887,332</u> |

## Notes to accounts (continued)

### 5 Staff costs (continued)

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

|                     | 1998<br>Number | 1997<br>Number |
|---------------------|----------------|----------------|
| Production          | 401            | 519            |
| Sales and marketing | 3              | 4              |
| Administration      | 49             | 53             |
|                     | <u>453</u>     | <u>576</u>     |

### *Directors' remuneration*

The remuneration of the directors was as follows:

|                                 | 1998<br>£      | 1997<br>£ |
|---------------------------------|----------------|-----------|
| Emoluments                      | 301,162        | 790,118   |
| Compensation for loss of office | <u>101,754</u> | <u>-</u>  |

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long term incentive schemes. No directors exercised share options in the period (1997: None) and no shares (1997:7,500) in RR Donnelley & Sons Company were received under long term incentive schemes by any director (1997:1).

### *Pensions*

The number of directors who were members of pension schemes was as follows:

|                         | 1998<br>Number | 1997<br>Number |
|-------------------------|----------------|----------------|
| Defined benefit schemes | <u>4</u>       | <u>5</u>       |

Retirement benefits amounting to £5,027 (1997: £4,764) were paid to a past director in excess of the benefit to which he was entitled.

## Notes to accounts (continued)

### 5 Staff costs (continued)

#### *Highest paid director*

The above amounts for remuneration include the following in respect of the highest paid director.

|            | 1998<br>£      | 1997<br>£      |
|------------|----------------|----------------|
| Emoluments | <u>133,569</u> | <u>394,586</u> |

The accrued pension entitlement under the ultimate holding company's defined benefit scheme of the highest paid director at 31 December 1998 was £15,131 (1997: £24,910).

The highest paid director did not receive any shares in RR Donnelley & Sons Company under a long term incentive scheme (1997 : 7,500 shares).

### 6 Tax on profit on ordinary activities

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

|  | 1998<br>£      | 1997<br>£        |
|--|----------------|------------------|
| Adjustment of current taxation in respect of prior years | (160,000)      | (416,404)        |
| Deferred taxation  | <u>353,000</u> | <u>(21,000)</u>  |
|  | <u>193,000</u> | <u>(437,404)</u> |

## Notes to accounts (continued)

### 7 Tangible fixed assets

|                          | Freehold<br>land and<br>buildings<br>£ | Plant and machinery |             | Total<br>£  |
|--------------------------|--|---------------------|-------------|-------------|
|                          |  | Owned<br>£          | Leased<br>£ |             |
| <b>Cost or valuation</b> |  |                     |             |             |
| Beginning of year        | 7,502,784                              | 37,500,789          | 427,590     | 45,431,163  |
| Additions                | -                                      | 1,668,658           | -           | 1,668,658   |
| Disposals                | (2,483,580)                            | (2,866,537)         | -           | (5,350,117) |
| End of year              | 5,019,204                              | 36,302,910          | 427,590     | 41,749,704  |
| <b>Depreciation</b>      |  |                     |             |             |
| Beginning of year        | 2,590,738                              | 21,813,365          | 427,590     | 24,831,693  |
| Charge                   | -                                      | 3,798,197           | -           | 3,798,197   |
| Disposals                | (862,784)                              | (2,780,819)         | -           | (3,643,603) |
| End of year              | 1,727,954                              | 22,830,743          | 427,590     | 24,986,287  |
| <b>Net book value</b>    |  |                     |             |             |
| Beginning of year        | 4,912,046                              | 15,687,424          | -           | 20,599,470  |
| End of year              | 3,291,250                              | 13,472,167          | -           | 16,763,417  |

Freehold land included in the above amounting to £265,000 (1997 - £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:

|  | 1998<br>£ | 1997<br>£ |
|--|-----------|-----------|
| 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                                  | 4,358,204 | 6,841,784 |
| Cost or valuation at the end of the year | 5,019,204 | 7,502,784 |

Freehold buildings included at valuation with an original cost of £111,932 are fully depreciated, based on cost, at 31 December 1998 and 1997.

## Notes to accounts (continued)

### 8 Fixed asset investments

The following are included in the net book value of fixed asset investments:

|                         | 1998<br>£         | 1997<br>£    |
|-------------------------|-------------------|--------------|
| Subsidiary undertakings | -                 | 2,000        |
| Other investments       | 19,612,162        | -            |
|                         | <u>19,612,162</u> | <u>2,000</u> |

#### *Subsidiary undertakings*

At 31 December 1998, the company held directly 100% of the ordinary share capital of the following subsidiary undertakings:

|  | <u>Principal activity</u> | <u>Country of<br/>Incorporation</u> |
|--|---------------------------|-------------------------------------|
| R.R. Donnelley (UK) Limited                  | Printing                  | UK                                  |
| R.R. Donnelley UK Marketing Services Limited | Non trading               | UK                                  |
| Ben Johnson (Dunstable) Limited              | Investment company        | UK                                  |

#### *Other investments*

On 17 November 1998 the company acquired a 49% interest in DPA Printing Company, a Donnelley/Polish American Joint Venture Spolka z.o.o registered in Poland. The investment comprises the cost of the shares acquired. The principal activity of DPA Printing Company is commercial and directory printing.

## Notes to accounts (continued)

### 8 Fixed asset investments (continued)

The movement on investments during the year was as follows:

|                            | Subsidiary<br>Undertakings | Other<br>investments | £           |
|----------------------------|----------------------------|----------------------|-------------|
| <b>Cost</b>                |                            |                      |             |
| Beginning of year          | 9,865,878                  | -                    | 9,865,878   |
| Acquisition                | -                          | 19,612,162           | 19,612,162  |
| End of year                | 9,865,878                  | 19,612,462           | 29,478,040  |
| <b>Amounts written off</b> |                            |                      |             |
| Beginning of year          | 9,863,878                  | -                    | (9,863,878) |
| Written off in year        | 2,000                      | -                    | (2,000)     |
| End of year                | 9,865,878                  | -                    | (9,865,878) |
| <b>Net book value</b>      |                            |                      |             |
| Beginning of year          | 2,000                      | -                    | 2,000       |
| End of year                | -                          | 19,612,162           | 19,612,162  |

### 9 Stocks

|                               | 1998<br>£        | 1997<br>£        |
|-------------------------------|------------------|------------------|
| Raw materials and consumables | 888,409          | 1,389,627        |
| Work in progress              | 1,579,409        | 1,742,177        |
|                               | <u>2,467,818</u> | <u>3,131,804</u> |

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

### 10 Debtors

|  | 1998<br>£         | 1997<br>£         |
|--|-------------------|-------------------|
| Amounts falling due within one year:     |                   |                   |
| Trade debtors                            | 9,050,212         | 10,430,839        |
| Amounts owed by other group undertakings | 5,337,787         | 10,233,421        |
| VAT                                      | 701,887           | 748,514           |
| Other debtors                            | 257,053           | 1,289,432         |
| Prepayments and accrued income           | 151,195           | 247,477           |
| UK corporation tax recoverable           | 160,000           | 463,591           |
|  | <u>15,658,134</u> | <u>23,413,274</u> |

## Notes to accounts (continued)

### 11 Creditors: Amounts falling due within one year

|  | 1998<br>£         | 1997<br>£         |
|--|-------------------|-------------------|
| Payments received on account             | 1,229             | 15,229            |
| Trade creditors                          | 6,302,499         | 11,753,492        |
| Amounts owed to other group undertakings | 373,539           | 213,150           |
| Other creditors                          |                   |                   |
| - Social security and PAYE               | 444,521           | 761,349           |
| - Other                                  | 59                | 127,453           |
| Accruals and deferred income             | 14,761,154        | 2,663,555         |
|  | <u>21,883,001</u> | <u>15,534,228</u> |

### 12 Provisions for liabilities and charges

Provisions for liabilities and charges comprises:

|                         | 1998<br>£        | 1997<br>£        |
|-------------------------|------------------|------------------|
| Restructuring provision | 720,613          | 3,064,315        |
| Deferred taxation       | 2,083,000        | 1,730,000        |
|                         | <u>2,803,613</u> | <u>4,794,315</u> |

#### *a. Restructuring provision*

The movement in the provision in the year was as follows:

|                              | 1998<br>£      | 1997<br>£        |
|------------------------------|----------------|------------------|
| Beginning of year            | 3,064,315      | 13,670,259       |
| Amounts utilised in the year | (2,343,702)    | (10,605,944)     |
| End of year                  | <u>720,613</u> | <u>3,064,315</u> |

## Notes to accounts (continued)

### 12 Provisions for liabilities and charges (continued)

#### *b. Deferred taxation*

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

Timing differences are as follows:

|                                | 1998<br>£        | 1997<br>£        |
|--------------------------------|------------------|------------------|
| Accelerated capital allowances | 2,804,000        | 3,838,000        |
| Other timing differences       | (721,000)        | (2,108,000)      |
|                                | <u>2,083,000</u> | <u>1,730,000</u> |

The movement in the provision in the year was as follows:

|  | 1998<br>£        | 1997<br>£        |
|--|------------------|------------------|
| Beginning of year  | 1,730,000        | 1,751,000        |
| Amounts charged (credited) to profit and loss account in respect of: |                  |                  |
| - accelerated capital allowances                                     | (1,034,000)      | (834,000)        |
| - other timing differences   | 1,387,000        | 813,000          |
| End of year  | <u>2,083,000</u> | <u>1,730,000</u> |

### 13 Called-up share capital

|   | 1998<br>£        | 1997<br>£        |
|---|------------------|------------------|
| <i>Authorised</i>                         |                  |                  |
| 6,157,850 ordinary shares of £1 each      | <u>6,157,850</u> | <u>6,157,850</u> |
| <i>Allotted, called-up and fully-paid</i> |                  |                  |
| 5,157,851 ordinary shares of £1 each      | <u>5,157,851</u> | <u>5,157,851</u> |

## Notes to accounts (continued)

### 14 Reserves

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

|                           | 1998<br>£         | 1997<br>£         |
|---------------------------|-------------------|-------------------|
| Distributable             |                   |                   |
| - profit and loss account | 30,953,222        | 28,591,131        |
| Non distributable         |                   |                   |
| - capital contribution    | 4,000,000         | 4,000,000         |
| - revaluation reserve     | 253,379           | 253,379           |
|                           | <u>35,206,601</u> | <u>32,844,510</u> |

|                              | Revaluation<br>reserve<br>£ | Other<br>Reserves<br>£ | Profit and<br>loss account<br>£ | Total<br>£        |
|------------------------------|-----------------------------|------------------------|---------------------------------|-------------------|
| At 1 January 1998            | 253,379                     | 4,000,000              | 28,591,131                      | 32,844,510        |
| Retained profit for the year | -                           | -                      | 2,362,091                       | 2,362,091         |
| At 31 December 1998          | <u>253,379</u>              | <u>4,000,000</u>       | <u>30,953,222</u>               | <u>35,206,601</u> |

### 15 Reconciliation of movements in equity shareholders' funds

|                                     | 1998<br>£         | 1997<br>£         |
|-------------------------------------|-------------------|-------------------|
| New share issued                    | -                 | 1                 |
| Profit for the financial year       | 2,362,091         | 3,541,409         |
| Net addition to shareholders' funds | <u>2,362,091</u>  | <u>3,541,410</u>  |
| Opening equity shareholders' funds  | 38,002,361        | 34,460,951        |
| Closing equity shareholders' funds  | <u>40,364,452</u> | <u>38,002,361</u> |

### 16 Guarantees and other financial commitments

#### a. Capital commitments

At the end of the year, capital commitments were:

|                                 | 1998<br>£      | 1997<br>£        |
|---------------------------------|----------------|------------------|
| Contracted but not provided for | <u>239,450</u> | <u>1,553,000</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.

## Notes to accounts (continued)

### 16 Guarantees and other financial commitments (continued)

#### *b. Pension arrangements (continued)*

The accrued contribution relating to the main scheme of £986,000 (1997: £840,000) at the year end is included within accruals and deferred income in note 11. The pension cost charge for the year of £863,487 (1997: £983,177) was made up of a regular cost of £957,487 (1997: £1,167,177) less variations from regular cost of £94,000 (1997: £184,000).

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 1996 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 £42,880,000 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 8.1% of pensionable earnings as a result of improvements in benefits.

### 17 Related party disclosures

The company's ultimate parent company and controlling party 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.

As a wholly owned subsidiary undertaking of R. R. Donnelley & Sons Company, the company has taken advantage of the exemption in FRS8 "Related party disclosures" not to disclose transactions with other members of the group headed by R. R. Donnelley & Sons Company since that company produces accounts which are available to the public and which include R.R. Donnelley Limited.

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.

The consolidated accounts of R.R. Donnelley & Sons Company are available to the public and may be obtained from the following address:

**R.R. Donnelley & Sons Company**  
**Corporate Communication Department**  
**77 West Wacker Drive**  
**Chicago**  
**Illinois 60601-9521**  
**USA**