R.R. Donnelley & Sons Company 2000 Annual Report

Revolutionizing communications effectiveness

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Revolutionizing communications effectiveness

R.R. Donnelley is revolutionizing communications effectiveness[G] by providing comprehensive and integrated communications services[G], including premedia[G], digital photography, digital asset management[G], printing[G], direct response, Internet and logistics[G]. The company's full range of solutions helps publishers and merchandisers, as well as telecommunications, financial and healthcare companies, deliver effective and targeted communications in the right format to the right audience at the right time.

Revolutionizing communications effectiveness

Our customers are content[G] owners. Together we have been through two revolutions.

First, the **content revolution**, in which we helped our customers hone their words and images to match the interests of carefully defined audiences.

Second, the **media[G] revolution**, in which we helped our customers leverage their content across a wide range of delivery channels, offline and online.

Now comes the third revolution, in which we are helping our customers refine their targeting, eliminate wasted effort, reduce total delivered cost and improve results. Revolutionizing Communications Effectiveness: It's what's next.

R.R. Donnelley is perfectly positioned to lead the **revolution in communications effectiveness** because of our:

- Solid Foundation—Our print business gives us the **customers**, **content** and **cash** that allow us to develop a wide range of communications services that meet our customers' business goals.
- Customer Relationships—We have deep-rooted and long-standing relationships with hundreds of **world-class** content owners.
- Leading Brand[G]—R.R. Donnelley is the **#1 brand** in printing and content management[G] services.
- Leading Technology—Top technology magazine *Information Week* ranks us #3 in its current listing of the **most innovative** media and entertainment company users of information technology.
- Leading Expertise in Managing and Delivering Content—We are #1 in our industry at helping customers repackage content to develop **new markets**, **new audiences** and **new revenue sources**.

Our ability to truly revolutionize communications effectiveness is demonstrated by our growing network of integrated communications services—the most comprehensive in the world.

R.R. Donnelley at a Glance

Note: Words marked with [G] are in the glossary on page 53.

Our network of integrated communications services is the key to revolutionizing communications effectiveness for our customers.

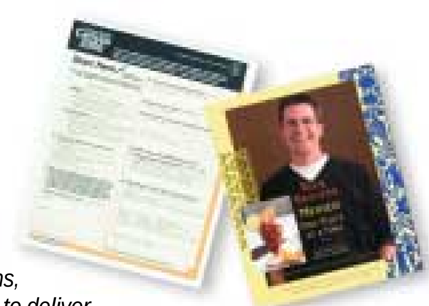
Business Profile	Our Commitment to Customers	Selected Customers	Growth Drivers	Representative Alliances/Competitors
Long-run[G] Magazines, Catalogs & Inserts	Provide innovative technologies and solutions to effectively communicate with magazine readers. Provide a single source for catalog and advertising insert[G] production.	Hearst Meredith J.C. Penney Primedia Spiegel Target	Demand for the dual use of print and the Internet. Specialized titles are filling niche markets. Increased focus on direct marketing. Personalization[G] to create a consistent brand image.	*Alliances:* Experian, International Paper, UPM–Kymmene *Competitors:* Banta, Brown Printing, Quad/Graphics, Quebecor World, Vertis
Telecommunications	Provide innovative and cost-effective advertising vehicles.	British Telecom Southwestern Bell Verizon	Demand for the dual use of print and the Internet. International deregulation of the telecommunications industry.	*Alliances:* China Online, PersonalPath Systems *Competitors:* EINSA, Quebecor World
Book Publishing Services	Provide efficient management and production solutions for book publishers.	Harper Collins Pearson Random House	The Internet—books are the #1 selling item. Growing number of elementary through high school students, combined with increased state and federal funding for education, will create higher demand for textbooks.	*Alliances:* Adobe, Creo *Competitors:* Berryville Graphics, Quebecor World, Von Hoffman
R.R. Donnelley Financial	Create, manage and deliver time-sensitive decision-making information to target audiences in the financial and healthcare industries.	Bank of America Barclay's Deutsche Telekom Met Life	Globalization of capital markets. Regulatory change. Increased targeted communications to attract and retain customers.	*Alliances:* CCBN.com, Experian, InfoMedics *Competitors:* Banta, Bowne, Harte–Hanks, Merrill Communications, Moore
International	Provide integrated network of communications services.[G]	Edipresse Editora Globo Ericsson Marshall Cavendish Telefónica de España WTPS	Increased demand for telephone directories. Growing disposable income. Regional governments' emphasis on education spending.	*Alliances:* Globo, Telefónica, Televisa *Competitors:* Poligrafia, Quad/Graphics, Quebecor World, Winkowski
Specialized Publishing Services[G]	Create revenue-generating communications services[G] that target well-defined markets. Business-to-business branding[G] through our Mobium subsidiary.	Crain Communications Lebhar-Friedman Penton Media	Demand for targeted communications solutions and personalization[G]. Growth of business-to-business communications.	*Alliances:* B2B Works, Crown Vantage, Sun *Competitors:* Banta, Brown Printing, Fry, Publisher's Press, Quebecor World
Premedia[G] Technologies Group	Create, prepare, manage and distribute content[G] for both print and online communications.	Merck Nordstrom Ziff Davis	Increased use of multiple media[G] and multiple channels. Advances in digital technology.	*Alliances:* Commercial printers *Competitors:* AGT, LTC Group
RRD Direct	Create personalized direct-mail solutions that achieve maximum response rates.	MCI/Worldcom Reader's Digest Toys "R" Us	Demand for short-run personalized mail to drive response rates.	*Alliances:* Experian, U.S. Postal Service *Competitors:* Banta, Quebecor World, Webcraft
R.R. Donnelley Logistics	Provide efficient, reliable logistics[G] solutions that maximize economy, confidentiality and response.	L.L. Bean FleetBoston Financial Lillian Vernon	Demand for cost-effective and timely delivery solutions for mail and packages to the home.	*Alliances:* i2 Technologies, Newgistics, USF Processors, U.S. Postal Service *Competitors:* Quad/Graphics, Quebecor World, UPS
Red Rover Digital	Create, design and develop solutions that maximize content and brands on the Internet.	Clapper Communications Limited Too Teleflora	Demand for high-end, customized website services.	*Alliances:* B2B Works, IBM, Vignette *Competitors:* marchFIRST, RazorFish, Sapient

Communications Services[G]

Business Profile	Binding[G]	Color Management[G]	Composition[G]	Content Assembly[G]	Creative/Design Services	Custom Publishing[G]	Data Repurposing[G]	Database Management[G]	Digital Archiving[G]	Digital Asset Management[G]	Digital Prepress[G]	Digital Printing[G]	Distribution Management[G]	Electronic Fulfillment[G]	Facilities Management[G]	File Format Conversion[G]	Kitting/Packaging[G]	Mail Management[G]	Mailing List Management[G]	Marketing Consulting	Multiple-media Delivery[G]	Page Production[G]	Personalization[G]	Photography[G]	Printing[G]	Response Tracking[G]	Returns Management[G]	Small Package Delivery[G]	Translation Services[G]	Web Consulting[G]	Web Editorial Services[G]	Web Marketing/Analysis[G]	Website Development[G]	XML Tagging[G]
Long-run Magazines, Catalogs & Inserts	●		●								●		●						●				●		●									
Telecommunications	●	●	●	●	●			●	●	●	●					●	●			●		●			●					●			●	
Book Publishing Services	●		●	●	●	●			●	●	●	●	●			●	●				●	●			●									
R.R. Donnelley Financial	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●		●	●			●					
International	●		●	●			●	●	●	●	●	●	●				●	●				●	●		●									
Specialized Publishing Services	●		●	●					●		●		●						●				●		●									
Premedia Technologies Group		●		●	●		●	●	●	●	●	●			●	●					●	●	●	●										●
RRD Direct	●							●			●	●							●				●		●	●								
R.R. Donnelley Logistics													●					●									●	●						
Red Rover Digital				●	●	●	●	●	●					●		●				●	●		●							●	●	●	●	●

Note: Words marked with [G] are in the glossary on page 53.

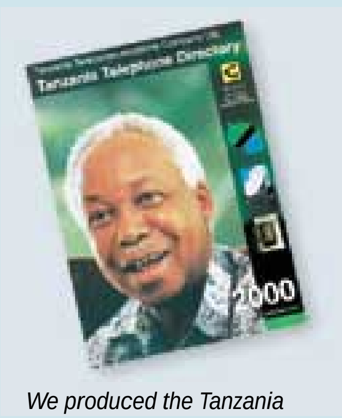
R.R. Donnelley's integrated communications services deliver communications effectiveness.



On the cover: *In revolutionizing communications effectiveness, R.R. Donnelley enriches lives by connecting people with the power of words and images—whether in print or electronically.* ***Near right:*** *RRD Direct printed 216 million long and short U.S. census forms, which R.R. Donnelley Logistics delivered to local post offices already sorted for carriers to deliver.* ***Far right:*** *The rise in cooking as a leisure activity is spurring the growing number of cookbook titles.*

Our cash flow is healthy.

For the initial share offer of Hong Kong's Mass Transit Railway Corp., we produced 440,000 460-page prospectuses in two languages in less than 84 hours.



We produced the Tanzania Yellow Pages—our first directory for Africa.

With pages rising to 600-plus and a shift from monthly to bi-weekly frequency, Red Herring *moved from our short-run to long-run platform. Our Premedia unit helped the publisher use technologies such as CTP[G] to improve workflow efficiencies.*

Financial Highlights

IN THOUSANDS, EXCEPT PER-SHARE DATA AND RATIOS	***2000***	*% Change*	*1999*	*% Change*	*1998*
Continuing Operations					
Net sales	**$ 5,764,335**	6.4%	$ 5,415,642	3.8%	$ 5,217,953
Value-added revenue	**3,305,318**	(0.1)	3,307,343	7.0	3,091,259
Gross profit	**1,098,863**	(5.2)	1,159,007	9.5	1,058,197
Earnings from operations	**501,040**	(5.5)	530,427	8.6	488,418
Income from operations					
Excluding one-time items*	**258,992**	(9.2)	285,171	4.3	273,305
Including one-time items	**266,900**	(14.3)	311,515	(16.9)	374,647
Earnings per diluted share					
Excluding one-time items*	**2.11**	(4.1)	2.20	14.0	1.93
Including one-time items	**2.17**	(9.6)	2.40	(9.1)	2.64
Results After Discontinued Operations					
Loss from discontinued operations, net of taxes	**$ —**	N/A	$ (3,201)	N/A	$ (80,067)
Net income	**266,900**	(13.4)	308,314	4.7	294,580
Earnings per diluted share	**2.17**	(8.8)	2.38	14.4	2.08
Other Financial Data					
EBITDA before one-time items*	**$ 901,166**	(2.7)	$ 926,240	5.9	$ 874,706
Net cash flow from operations	**740,585**	16.6	635,317	(13.3)	732,835
Operating working capital[1]	**279,161**	(19.0)	344,451	(2.4)	353,050
Free cash flow[2]	**503,478**	40.1	359,491	(29.2)	507,613
Return on average invested capital*	**13.2%**	(7.7)	14.3%	9.2	13.1%
Share Information					
Full year average diluted shares	**123,093**	(5.0)	129,566	(8.7)	141,865
Diluted shares outstanding at December 31	**122,684**	(0.5)	123,362	(10.0)	137,076
Annual dividend per common share	**$ 0.90**	4.7	$ 0.86	4.9	$ 0.82

* The following one-time items have been excluded: 2000 gain related to the sale of shares received from the demutualization of the company's basic life insurance carrier of $13 million ($8 million after-tax, or $0.06 per diluted share); 1999 gains on the sale of businesses and investments of $43 million ($27 million after-tax, or $0.20 per diluted share); 1998 gains on the sale of the company's remaining interests in two former subsidiaries of $169 million ($101 million after-tax, or $0.71 per diluted share).

[1] Operating working capital represents accounts receivable, inventories and prepaid expenses, minus accounts payable, accrued compensation and other liabilities (excludes restructuring/impairment reserves).

[2] Free cash flow represents net cash flow from operations minus capital expenditures.

Note: Words marked with [G] are in the glossary on page 53.

Our commitment to revolutionizing the effectiveness of communication through integrated communications services is powering our company's future.

Dear fellow shareholder,

Today our customers communicate more content, in more ways, than ever before. By 2004, the U.S. communications market will increase 31%, from $570 billion to $746 billion*. This explosive growth spells opportunity.

R.R. Donnelley serves the largest market segments—commercial printing and targeted communications—as well as the fastest-growing segment, the Internet. And we're expanding in the robust business-to-home logistics market. Although there have been and will be challenges, I've never been more excited about our future.

In this report, you'll see that we serve the world's leading publishers, merchandisers, and telecommunications, financial and healthcare customers. Our customers develop deep, rich content. More and more, they need integrated communications solutions to effectively reach targeted audiences.

In the next few years, R.R. Donnelley has a significant opportunity to help our customers get their content in the hands of exactly the right consumers, with more precise timing, less waste, lower total delivered costs and greater results. That's communications effectiveness, and our goal is to revolutionize it everywhere we do business—in North America, South America, Europe and the Asia/Pacific Basin.

We are doing this through three market strategies: transforming our long-run printing businesses, expanding value-added services and logically extending into complementary businesses.

Financial results

In 2000, earnings per share (excluding one-time items) fell 4% to $2.11, after we delivered double-digit growth consistently for three years. The shortfall was driven by

William L. Davis
Chairman, President and
Chief Executive Officer

*Veronis, Suhler & Associates forecast

problems in our logistics, direct mail and capital markets businesses. We have taken strong corrective actions to ensure the future success of each of these businesses.

We doubled the size of our existing logistics business by acquiring CTC Distribution Direct to add packages to our product mix of catalogs and magazines. Our resources were challenged as we grew our network to handle the larger volumes of work. While that crimped 2000 earnings, this year we expect to make progress in creating a streamlined delivery network that skips steps in the postal chain to earn larger postal discounts with greater schedule reliability.

In direct mail, to address weak revenues, we've been focusing on the right markets and right customers to turn this business around. And, in financial services, a slowdown in U.S. capital markets hurt this high-margin business. We've taken aggressive cost containment actions to weather this storm, and we expect to come back strong as U.S. capital markets revive.

Key financial indicators point to underlying strength. Operating working capital to net sales has improved steadily to 6.1% in 2000 from 6.9% in 1999 and 8.4% in 1998. Our earnings before interest, taxes, depreciation and amortization (EBITDA) exceeds $901 million, giving us the healthy cash flow and the flexibility to invest for growth. Over the past three years, we have bought back one-fifth of our outstanding shares, and we'll continue to do so when cash flow exceeds our investment needs.

Strategies for growth

In 2000 we unveiled three new strategies for growth. Strategy 1 ensures a solid foundation for our traditional printing businesses, which bring us strong customer relationships and a robust cash flow. Through Strategies 2 and 3, we're directing our resources to the most promising opportunities—communications services with higher profit potential and lower asset intensity. The good news is that we're making solid progress toward our goal of generating half of our revenues from services in the next five years, a dramatic increase from the 20% of revenues generated by services in 2000.

Strategy 1. Transform our long-run printing businesses. We are focused on ensuring that our print platform remains the industry's most productive, so we continue to transform our traditional businesses of printing magazines, catalogs, directories, advertising inserts and books. That means we invest much more in our employees, less in our machinery than historically. Through our training in advanced productivity techniques during 2000, we freed up latent capacity equivalent to seven new presses and associated binding lines—or $150 million in deferred capital expenditures—then sold this additional capacity to achieve immediate benefits.

By investing in people and providing new productivity tools, our long-run printing businesses generated positive EVA® (Economic Value Added) for the first time. The credit for that goes to R.R. Donnelley employees, and I salute them for learning fast and working hard to serve our customers better.

Strategy 2. Expand value-added services. We are redirecting capital from our long-run printing businesses to aggressively grow existing businesses that offer value-added services such as digital photography, digital asset management, logistics and personalized, targeted communications. Together with print and the Internet, these services enable us to provide our customers with complete solutions.

By tripling the number of our premedia locations, we attained nationwide coverage in 2000. For example, we opened new facilities to be closer to key customers in media markets such as Los Angeles and, soon, New York. In our overseas operations, we became the largest book printer in South America, through a plant expansion and an acquisition. In Europe, we launched the most modern directory plant in the world. And we continue to see growth opportunities in emerging markets where we already do business, such as Central Europe and China.

Strategy 3. Logically extend into complementary businesses. We moved our growing Internet consulting business into a new wholly owned subsidiary called Red Rover Digital. This unit helps publishers and merchandisers as they add the Internet as another way to more effectively communicate with their audiences. We're investing for growth in this robust market, and about 30% of Red Rover's revenues now come from customers who had not done business with R.R. Donnelley before.

In addition, we continue to explore ways to use the Internet to make us even more efficient in procurement, internal operations and customer transactions. For example, we joined with others in the industry to begin developing a set of common standards for customer transactions performed through the Internet.

The right people

R.R. Donnelley employs 34,000 people who are dedicated to getting the job done right for our customers. We back them up with the right tools, training and technology. In this age of increasingly digital communications, our vast technology deployments led *Information Week* to rank R.R. Donnelley #3 among the most innovative media and entertainment company users of technology.

We are on the right course to revolutionize communications effectiveness. We have a solid foundation in our traditional printing businesses. We have deep-rooted and long-standing relationships with hundreds of world-class customers, the leading brand in our industry, leading technology and leading expertise in content management and delivery.

That's why I am confident that we're moving into the future with the vision and the strength to extend our success into this new century.

Sincerely,

William L. Davis

William L. Davis
Chairman, President and Chief Executive Officer
February 1, 2001

Q&A

Chairman, president and CEO William L. Davis answers shareholder questions

Q: How relevant will print continue to be?

Print is a natural complement to new digital media. Historically, new communications technologies stimulate innovations in other communications media. Books now are the Internet's top-selling merchandise, which has fueled an overall increase in book sales. And, count the number of full-page magazine ads promoting websites.

The leading brands now define themselves by content, not by medium. Our customer Martha Stewart aims at individual home enthusiasts with information that matches their specific interests. She surrounds her audience with merchandise and content in a wide range of print and electronic communications: her magazine, newspaper columns, books, radio and TV appearances, catalogs and website.

More customers need integrated communications to effectively reach targeted audiences. They need a partner with the expertise to deliver the right content, in the right medium, at the right place and time. We are that partner.

Q: Some of your "value-added" services faltered this year. Does this mean you are re-evaluating your strategies?

No. Our strategies are sound. Mid-course adjustments are to be expected as we revolutionize communications effectiveness. For example, as we address the challenges to our rapidly expanding logistics business, we have laid the groundwork for providing a comprehensive service in the package-to-home market, which is growing 12% a year. So, we are now in a position to benefit from our acquisition of CTC last year.

To offset the cyclical nature of our financial printing business, we are taking our expertise in delivering confidential, time-sensitive documents and building capabilities to serve less cyclical vertical markets, such as investment companies and healthcare providers, with targeted, personalized communications services. And our direct-mail business has turned to new customers and new market segments to take advantage of growth in the overall direct mail market.

Q: How much productivity improvement is possible?

A lot. Last year, our first full year using continuous improvement tools such as Six Sigma and Process Variability Reduction, we added the capacity equivalent of seven presses and associated binding equipment instead of buying new capital assets. This year, we are extending those tools to 21 plants worldwide, freeing even more capacity that we can sell to meet rising customer demand.

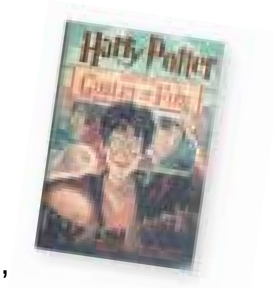
By 2004, we will train all company supervisors in Six Sigma. Proven by companies such as Motorola and General Electric, Six Sigma has the power to drive breakthrough improvements in quality, productivity and speed, and we're the first in our industry to embrace it wholeheartedly.

5 reasons why R.R. Donnelley is positioned to revolutionize communications effectiveness:

R.R. Donnelley's distinctive strengths are reinventing how content is produced, managed and delivered.

#1

Our speed and high security levels in printing more than two million copies of Harry Potter and the Goblet of Fire *for Scholastic show why customers rank us first in our industry. Common quality standards among our digitally networked plants ensure that every volume is identical in quality.*



Solid foundation

Our long-established printing business propels us into the broader communications services industry. Print is our source of customers who value reliable, flexible, targeted and comprehensive communications solutions—from creative conception, premedia, printing and binding to Internet services and logistics. Print also is the source of the content we produce in a variety of formats for many channels to connect our customers with their audiences. We digitally capture and store our customers' content, convert it to appropriate formats and deliver their messages in the right environment at the right time. Finally, print provides the cash not only to help us develop new technologies and expand logically into complementary businesses that meet our customers' evolving business needs, but also to return value to our shareholders.

#2

Near right: We partner with ⅔ of the local phone companies, such as Ameritech, to help small businesses advertise their services through print as well as online directories.

Far right: Through our digital asset management service, Spiegel can easily retrieve and reformat words and images for its catalogs or website.

Customer relationships

We serve a "Who's Who" of leading and emerging publishers, merchandisers, telecommunications and financial services companies, healthcare providers and dot-coms. We've partnered with several customers—such as J.C. Penney and *Time*—since long before there was an Internet, television or even radio. Later, we teamed with still others, such as *TV Guide*, Random House, Hallmark, Southwestern Bell, Prudential and BestBuy.com. In producing their catalogs, magazines, books, directories, direct-response promotions, financial documents, marketing communications or websites, we learned their needs. We developed an understanding of their products, their industries, their business issues and their customers. Now, they value us as a trusted partner that knows how the focus on content is changing and addresses those changes.

Ultimately, we are committed to helping our customers enhance relationships with their audiences. That frees them to more effectively grow their businesses as they sell more copies, sell more advertising, deliver faster, build their brands, take content into new channels and become more profitable.

#3

Our track record in producing Hearst's high-quality consumer magazines for the past 18 years led to our selection as its print and distribution partner for high-profile O, The Oprah Magazine, *launched in April 2000.*

Leading brand

We are the leading brand in printing and content management services. Customers rank R.R. Donnelley first in the industry in **reliability, integrity** and **professionalism**. This makes us attractive to customers and prospects who need help in effectively communicating with their audiences through the right channels at the right time.

Independent research shows that our strength gives us the capability to expand our brand into new services and products for our established customers. And our brand enables us to acquire new customers, not only in our traditional businesses but in new areas such as the Internet, e-mail and e-books. Finally, our reputation positions us to partner with "name-brand" allies such as Adobe, Microsoft and Hewlett Packard to develop new solutions and new applications to help us attract an even wider range of customers.

#4

We've expanded our premedia services to offer customers unique archiving and database capabilities.

Leading technology

eWeek currently ranks us #19 of the top 100 **innovators** in e-business networking. We are a **pioneer** in managing digitized images and text, and hold more than 25 issued and pending patents for emerging technologies. For more than 23 years, we have been first with every significant technological advancement in the printing industry. Our digitally networked plants ensure identical high-quality standards worldwide while improving our reliability and reducing cycle time. And, we continue to look to the Internet to make procurement, internal operations and customer transactions even more efficient. Every day, more and more customers transfer files to us over secure Internet connections to speed production, while giving them more time to create their content, hone their pricing or sell more ads.

#5

Leading expertise in managing and delivering content

The world is changing every day. What hasn't changed is our customers' need to reach their audiences in ways that generate greater awareness, greater interest, greater response. We help our customers to reach their narrowly defined target audiences through a variety of channels. These extend beyond ink on paper to electronic media such as e-mail, e-books and websites. And our logistics expertise moves our customers' physical products across the state—or across the world—meeting strict delivery schedules while saving them money.

We provide economical solutions for our customers and a manufacturing platform that can meet the most demanding requirements. We have more than 200 facilities in 32 states across the United States and in 39 countries across four continents. That gives us the ability to handle the most complex jobs. In the initial public offering for Sinopec, China's largest petroleum and petrochemical company, we produced 110,000 copies of the 1,022-page prospectus and more than 1 million application forms in just over 48 hours for simultaneous listings on the Hong Kong, London and New York stock exchanges. We also met time-critical delivery schedules for its investor roadshows.

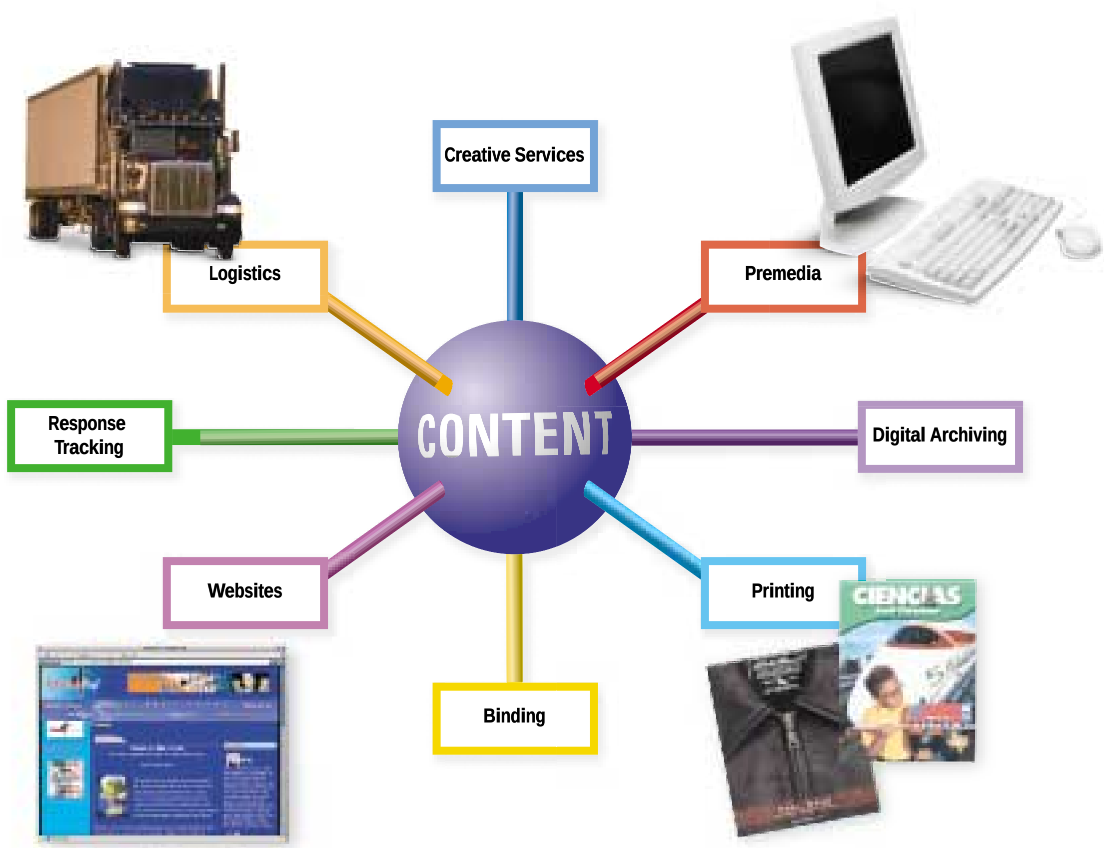
We are uniquely positioned to meet new customer needs by repackaging content to create opportunities for customers to develop new markets, new audiences and new revenue sources.

Our comprehensive, integrated services—from premedia and traditional printing and binding to electronic media such as e-mail, e-books and websites—help our customers communicate more effectively with their target audiences at the right time in the right formats.

Bottom left: We are partnering with China Online to bring Chinese-language versions of U.S. magazines to Chinese consumers via the www.chinapop.com *website.*

Bottom center: To create a leathery look and feel for 4.6 million copies of Eddie Bauer's Winter 2000 catalog, we developed and applied a textured UV (ultraviolet) varnish to coated paper.

Bottom right: Our innovative prepress technology allows us to customize textbooks for specific audiences. We produced this edition of Ciencias *for students in Texas.*



How you touch R.R. Donnelley every day.

In 2000 alone, people read more than 5 bill

magazines produced

70%

We print leading publications for seven of the top 10 magazine publishers.

Our Red Rover Digital subsidiary helps magazine publishers such as Farm Progress create and manage content for several of its websites, including www.prairiefarmer.com, to boost reader loyalty.

ion

and distributed by R.R. Donnelley.

AdSpring™, a key component of our comprehensive ad management services, helps streamline a magazine publisher's workflow by providing secure Internet access for receiving, tracking, archiving and reusing ads.

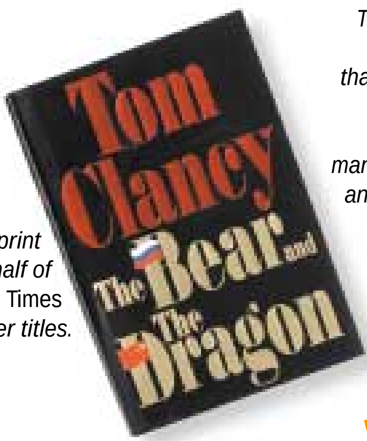
As the first and largest commercial business partner of the U.S. Postal Service, we leverage our volume and expertise to ensure timely and efficient delivery of customers' magazines and other printed materials.

Read a good book lately?

We produced more than

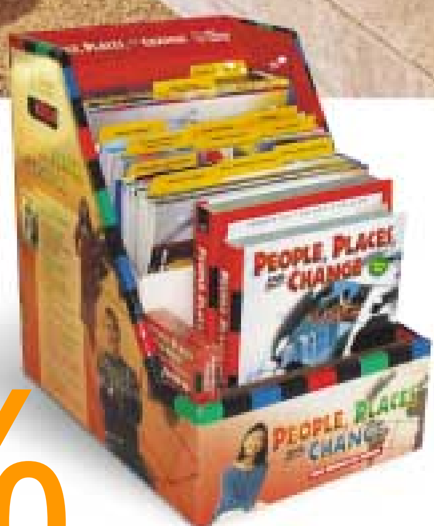
520

This year, one in three elementary and high school students used textbooks that we produced and delivered to meet time-critical windows. Our Graphics Management division designs and manages the production of teachers' kits and other education-related packaging.



Each year, we print more than half of The New York Times *best-seller titles.*

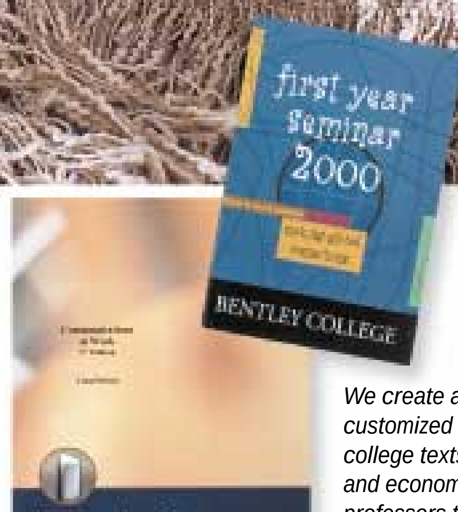
50%



million

books over the past year.

400,000 computer users downloaded Stephen King's novella, Riding the Bullet, *which our Allentown Digital Service Center formatted for e-book readers within hours of receiving the text.*



We create and deliver customized content for college texts to quickly and economically give professors the precise information they need for teaching.

In 2000 we produced 6 billion

To help merchandisers communicate more effectively with their customers, we provide value-added services such as remote image approval, asset management, direct mail, logistics and preparing content for websites.

We produced and distributed 57 million eye-catching Big Toy Books for Toys "R" Us. The innovative holiday advertising insert, designed by RRD Direct, featured pull-out coupons and a pull-tab panel with colorful "my choice" stickers.

catalogs, directories, direct-mail promotions and website pages.

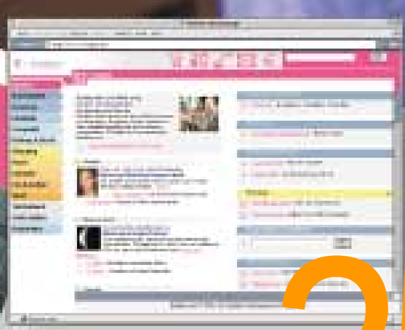
Your Teleflora florist is now online! Our Red Rover Digital subsidiary designed and developed Internet solutions that generated more than $200 million in e-commerce revenues for our customers last year.

Our alliance with Experian gives merchandisers data so they can target relevant products and services to specific customers—and improve response rates.

Our expertise in designing and producing directories, our experience in Internet services and our extensive customer relationships led to an alliance to create an online directory of products and services for PersonalPath Systems' consumer healthcare website, www.personalpath.com.

The communications we managed for our corporate and investment management clients raised more than

$400 bil



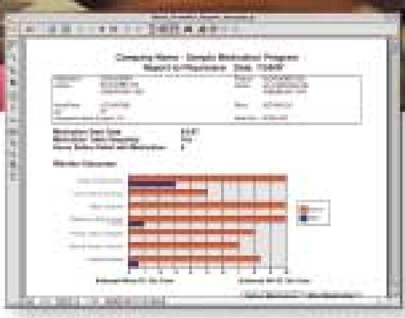
25%

We produce one of every four public documents filed electronically with the U.S. Securities and Exchange Commission. Worldwide, we are the leader in capital markets deals in Asia, Europe and Latin America, creating documents for clients such as Deutsche Telekom and its Internet arm, T-Online.

Using Donnelley SENDD®—Secure Electronic Net Document Delivery—a project team can work on documents online in a secure, interactive Internet-based "virtual conference room."

lion

in new capital.



Through its alliance with InfoMedics, our Customized Communications Solutions group helps pharmaceutical companies target one-to-one healthcare messages directly to patients and doctors, while providing valuable patient data to physicians.

We continuously work with MassMutual Retirement Services to create state-of-the-art quarterly statements that provide its 401(k) and pension plan participants with detailed, graphically enhanced documents containing user-friendly personalized account information from a process that uses Internet-based technology.

Fortune 100 pharmaceutical companies partnered with us to manage their broad-ranging communications programs, including coordinating the production of bilingual direct-to-consumer materials and promotional information on new drugs, personalizing targeted communications to consumers and managing digital assets.

Last year, we entered 4 billion pounds of mail into the U.S. postal system—more than any other company.

We distribute 19 billion print and mail pieces and 115 million packages each year, making us the largest private user of the U.S. Postal Service.

We deliver more than 20,000 daily shipments of confidential materials that banks require in specific time frames.

Companies such as RadioShack rely on us to ensure their catalogs and inserts reach consumers within a precise time frame. Precision delivery allows merchandisers not only to manage their inventories but also to staff call centers when they expect orders to peak.

With our worldwide resources and relationships, we delivered more than 37 million pieces of mail to more than 212 countries.

Last holiday season, the Lillian Vernon catalog and online retailer offered Dallas customers ReturnValet® service, created by an alliance among R.R. Donnelley, Newgistics and USF Processors. By bringing return merchandise to one of 100 storefronts, customers with a proof-of-purchase or shipping receipt received instant credit.

Management's Discussion and Analysis of Operations

OVERVIEW

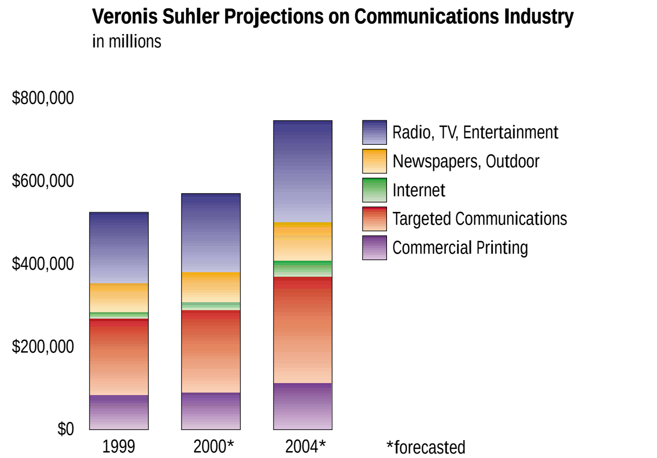
R.R. Donnelley & Sons Company (NYSE:DNY) provides comprehensive, integrated communications services that efficiently and effectively produce, manage and deliver our customers' content, regardless of the communications medium. While our superior print capabilities remain the foundation of the company, our recent focus on expanding our range of offerings with value-added services allows us to create additional value.

We provide solutions designed to enhance the effectiveness of our customers' communications. Our services include:

- *Content creation*—to provide creative design services to maximize the impact of communications and improve response rates. In addition to in-house capabilities, alliances with best-in-class providers complement our service offerings (see the foldout on the inside front cover).
- *Digital asset management*—to help our customers leverage their content to reach end-users through multiple marketing channels. Through our premedia services, we digitally capture content, convert it to the appropriate format and channel it to multiple communications media, including print and the Internet.
- *Production*—to drive results for our customers cost-effectively through print or the Internet. Our manufacturing operations around the world offer a full range of capabilities and are networked to produce large printing jobs quickly with identical specifications. We also are able to version printed content to reach targeted audiences. Our Internet services include website production to extend our customers' brands to the Internet by delivering content and commerce online through our Red Rover Digital (Red Rover) subsidiary.
- *Distribution*—to deliver our customers' words and images efficiently and reliably through print or the Internet. R.R. Donnelley Logistics (Donnelley Logistics) delivers printed products and packages to the U.S. Postal Service (USPS), saving our customers significant time and money. Red Rover offers a full range of services to deliver value, maximize content effectiveness, enhance our clients' businesses and build their customer relationships via the Internet.

Our 136-year history as a printing industry leader positions us well for the future. The printing industry is projected to grow along with the communications industry. Print advertising is expected to remain among the most cost-effective ways for our customers to deliver their messages and generate revenue as they use words and images to inform, educate, entertain and sell to their audiences.

We are confident that print will remain integral to successful marketing given its unique capabilities, such as portability and high-quality graphics that cannot be duplicated by other communications methods. We also believe that the nature of print will evolve. The ability of print to be targeted, timely, flexible and integrated with other communications media will become more critical.



Commercial printing and targeted communications are projected to grow 28% by 2004.

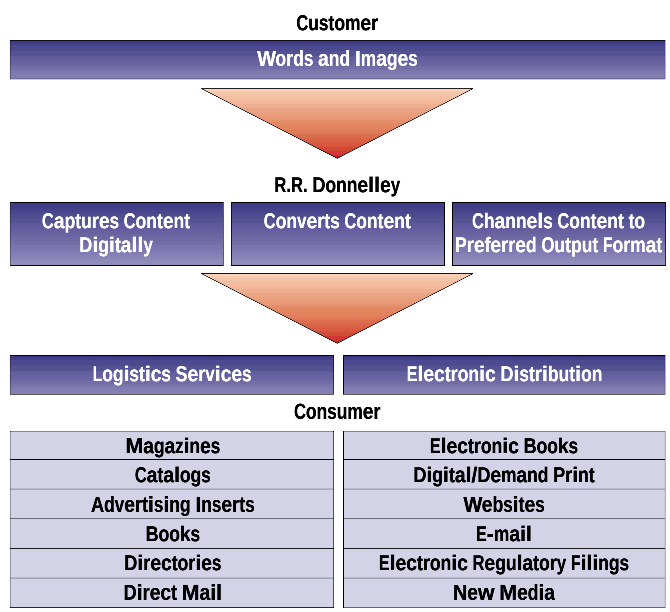
COST PER $1.00 OF REVENUE GENERATION

	2000	*2005*
Directories*	3.5¢	3.5¢
Advertising Inserts*	7.7	7.0
Catalogs*	8.4	7.4
Direct Mail*	8.4	7.4
Magazines*	10.7	9.9
Telephone Marketing	12.0	10.7
Online*	17.4	12.4
Radio	15.3	14.0
TV	18.6	17.1

**R.R. Donnelley Offerings*

Sources: CRM and Direct Marketing Association's 2000 estimated and 2005 forecasted cost per $1.00 of sales generated.

Print is projected to remain the most effective media choice for generating revenue.



R.R. Donnelley services span our customers' value chains.

END-MARKET DESCRIPTIONS

The following describes the end-markets we serve:

LONG-RUN MAGAZINES, CATALOGS AND INSERTS R.R. Donnelley is a leader in the North American magazine, catalog and advertising insert markets. These markets are characterized by demand for large, cost-effective print runs with excellent opportunity for differentiation among competitors through services such as premedia and Donnelley Logistics. Our U.S. customers include seven of the top 10 magazine titles, eight of the top 10 consumer catalog companies and eight of the top 10 retailers. Contracts typically span from three to five years.

TELECOMMUNICATIONS R.R. Donnelley is the worldwide leader in the directory market. We serve the global directory needs of telecommunications providers, including three of the four U.S. Regional Bell Operating Companies, independent telephone companies such as Sprint, independent directory publishers such as McCleod and Yellow Book, and leading international telecommunications providers such as British Telecom and Shanghai Telephone.

Directory contracts typically span five to 10 years, with our current major contracts expiring between 2004 and 2009. Deregulation and substantial investment in the global telecommunications industry provide significant growth opportunities. In addition, growth opportunities arise as we work with directory publishers to introduce innovations such as targeted printed directories, website development for small businesses, content for online directories and solutions for the technology and government markets, and as we extend our capabilities worldwide.

BOOK PUBLISHING SERVICES R.R. Donnelley, the leader in the North American book market, serves the trade, children's, religious and educational book segments. We are a key supplier for all of the top 10 U.S. book publishers and we print more than 50% of *The New York Times'* adult best-seller titles. We also print one-third of all textbooks used in classrooms in the United States.

We are one of the leading converters of book publishers' content to electronic format for electronic books, or e-books, providing services for all major e-book formats. We have converted approximately 1,500 titles to date, including Stephen King's novella *Riding the Bullet*, which was distributed only online.

FINANCIAL SERVICES R.R. Donnelley Financial, a leader in the U.S. and international financial services markets, supports the communications needs of corporations and their investment banks as they access the global capital markets. We also are a leading provider of customized communications solutions for investment management, banking, insurance, managed care and pharmaceutical companies.

Our global service network, manufacturing platform and distribution system give us unique advantages in servicing the capital markets, particularly for large financial deals. For example, the four largest transactions of the 1990s used R.R. Donnelley Financial to communicate their deals. Additionally, we are a leading provider of mutual fund compliance communications. To meet our clients' needs for accuracy, speed, confidentiality and convenience, we have developed technology for virtual deal management and Internet-enabled inventory management, are experts in EDGAR HTML filings and have integrated database management with content assembly, digital output and multiple-media delivery.

Our customized communications solutions provide an integrated suite of information management, content assembly and delivery solutions designed to give our clients closer and longer-lasting relationships with their customers. In markets that increasingly see demand for more precise communication with individuals, we believe customized communications solutions are and will continue to be a significant growth opportunity for the company.

INTERNATIONAL We have extended our core competencies for high quality print and related services into non-U.S. geographic markets with no pre-existing local solution. These markets tend to be emerging, with favorable demographic trends such as rising education levels and increasing disposable income. Our international operations in Poland, Mexico and South America, where we produce magazines, books and telephone directories, are reported as "International." Financial Services' international revenue is included in Financial Services. Directory revenues from China and England are included in Telecommunications.

SPECIALIZED PUBLISHING SERVICES R.R. Donnelley is a leader in providing short-run publishers, catalogers and associations with comprehensive communications solutions. We serve customers with highly targeted audiences and typical production runs from 10,000 to 200,000 copies. We offer full-service and cost-effective solutions for business-to-business and consumer magazine and catalog publishers, as well as journal, association and academic publishers.

TRENDS IN NET SALES BY END-MARKET

IN MILLIONS	***2000***	***% CHANGE***	*1999*	*% CHANGE*	*1998*
Long-run Magazines, Catalogs and Inserts	**$ 1,873**	**0.7%**	$ 1,861	(8.6)%	$ 2,036
Telecommunications	**868**	**(0.1)**	869	5.3	825
Book Publishing Services	**780**	**0.7**	775	3.9	746
Financial Services	**638**	**1.0**	632	19.1	531
International	**327**	**16.6**	280	18.3	237
Specialized Publishing Services	**263**	**27.8**	206	3.8	199
RRD Direct	**198**	**3.0**	192	65.2	116
Premedia	**111**	**25.0**	89	65.2	54
Commercial Print	**$ 5,058**	**3.1**	$ 4,904	3.4	$ 4,744
Logistics Services	**691**	**144.7**	282	12.6	251
Other	**15**	**(93.6)**	230	3.0	223
Total Net Sales	**$ 5,764**	**6.4**	$ 5,416	3.8	$ 5,218

RRD DIRECT R.R. Donnelley is a leader in the U.S. direct-mail market, offering expertise and a range of services to guide customers smoothly and cost-effectively through direct-marketing projects. Our full-service solutions include content creation, database management, premedia, printing, personalization, finishing and distribution. We produce highly personalized and sophisticated direct mail pieces that generate results for our customers.

PREMEDIA In our premedia services, we leverage digital technologies to effectively create, manage and prepare customer content and distribute it via various communications media, including print and the Internet. We have developed technology that allows customers to securely access their digital content in an Internet-enabled database and repurpose it for multiple uses. These technologies include our ImageMerchant℠ ASP (Application Service Provider) service for merchandisers and AdSpring℠ ASP service for magazine publishers.

R.R. DONNELLEY LOGISTICS R.R. Donnelley is one of the largest users of the USPS, handling approximately 25% of the ground packages and 15% of the magazines delivered by the USPS. No other business partner of the USPS approaches our volume levels in these combined categories. Distribution costs are a significant component of our customers' cost structures, and our ability to deliver mail and packages more predictably and cost-effectively is a key differentiator for us.

Our February 2000 acquisition of CTC Distribution Services L.L.C. (CTC) extended our services by adding package delivery to our established business of delivering printed material (freight services). By leveraging the USPS infrastructure to make the final delivery to households and businesses, we are able to provide more economical logistics services. Through "zone skipping" we are able to obtain greater postal discounts and provide more timely, reliable delivery for our customers. As we complete the integration of CTC and further develop our processes for zone skipping, we are able to bring together our scale, systems and expertise to create logistics services that are valuable to our customers.

In addition to delivering packages and printed material, we also provide returns management and expedited distribution of time-sensitive and secure material (expedited services). Together, these services help merchandisers and other businesses manage their supply chains more effectively and at a lower cost.

RED ROVER DIGITAL This subsidiary (included in the operating segment "Other") can meet our customers' Internet needs using a range of services including a full suite of scalable communications and e-commerce solutions. Red Rover implements solutions that deliver value, maximize content effectiveness, enhance our clients' businesses and build their customer relationships. Services such as strategy, design, editorial, development and production populate sites with content, and provide the end-to-end solutions necessary for businesses to thrive on the Internet today. Our partnerships and investments in this arena strengthen our online services offering, expand our solutions and help our customers leverage the power of the Internet to communicate with their audiences.

FINANCIAL REVIEW

In the financial review that follows, we discuss our results of operations, financial condition and certain other information. This discussion should be read in conjunction with our consolidated financial statements and related notes that begin on page 34.

In November 1999, we disposed of our entire interest in Corporate Software and Technology Inc. (CS&T). The operating results of this business are shown as a discontinued operation. During November 1999, we also sold 93% of our investment in the common stock of Stream International Inc. (Stream). Stream is consolidated in our financial results prior to the date of disposition. For comparison purposes, summary results of operations for Stream are included in the table below:

STREAM SUMMARY INCOME STATEMENT

IN MILLIONS	***2000***	*1999**	*1998*
Net sales**	**$ —**	$ 212	$ 214
Value-added revenue (VAR)**	**—**	212	214
Gross profit	**—**	64	56
Selling and administrative expenses	**—**	57	56
Earnings (loss) from operations	**—**	7	(2)

* Results are through disposition in November 1999.

** Included in "Other" for End-Market discussion.

AFTER-TAX EARNINGS SUMMARY

IN THOUSANDS, EXCEPT PER-SHARE DATA	***FULL YEAR RESULTS***			***PER DILUTED SHARE***		
	2000	*1999*	*1998*	***2000***	*1999*	*1998*
Income from continuing operations before one-time items	**$258,992**	$285,171	$273,305	**$ 2.11**	$ 2.20	$ 1.93
Gain from demutualization	**7,908**	—	—	**0.06**	—	—
Gain on sale of businesses and investments	**—**	77,532	101,342	**—**	0.60	0.71
COLI tax provision	**—**	(51,188)	—	**—**	(0.40)	—
Income from continuing operations	**$266,900**	$311,515	$374,647	**$ 2.17**	$ 2.40	$ 2.64
Loss from discontinued operations	**—**	(3,201)	(80,067)	**—**	(0.02)	(0.56)
Net income	**$266,900**	$308,314	$294,580	**$ 2.17**	$ 2.38	$ 2.08

ANALYSIS OF EXPENSE TRENDS

IN MILLIONS	***2000***	***% CHANGE***	*1999*	*% CHANGE*	*1998*
Cost of materials	**$ 1,891**	**0.1%**	$ 1,889	(2.1)%	$ 1,930
Cost of transportation	**568**	**158.9**	220	11.6	197
Cost of manufacturing	**1,876**	**1.6**	1,847	7.6	1,716
Depreciation	**326**	**1.0**	323	0.1	323
Amortization	**64**	**24.7**	51	(3.8)	53
Selling and administrative expenses	**598**	**(4.9)**	629	10.3	570
Net interest expense	**90**	**1.7**	88	12.8	78

ONE-TIME ITEMS The following nonrecurring items also affect comparability between years:

In 2000, income from continuing operations included a one-time non-operating gain related to the sale of shares received from the demutualization of our basic life insurance carrier ($13 million pretax and $8 million after-tax; $0.06 per diluted share).

In 1999, income from continuing operations included:

- a gain on the sale of our 93% interest in Stream ($40 million pretax and $75 million after-tax due to tax benefits from associated tax loss carrybacks; $0.59 per diluted share);
- a gain on the sale of our interest in Modus Media International (MMI) ($3 million both pretax and after-tax; $0.01 per diluted share); and
- a provision for income taxes related to corporate-owned life insurance (COLI) [$51 million; $(0.40) per diluted share]; (see "Income Taxes" footnote to the consolidated financial statements on page 44 for more details on COLI).

In 1998, income from continuing operations included:

- a gain on the sale of our remaining interest in Metromail Corporation (Metromail) ($146 million pretax and $87 million after-tax; $0.61 per diluted share) and
- a gain on the sale of our remaining interest in Donnelley Enterprise Solutions Incorporated (DESI) ($23 million pretax and $14 million after-tax; $0.10 per diluted share).

Results of Operations—2000 compared with 1999

CONTINUING OPERATIONS Net sales increased $349 million, or 6.4%, to $5.8 billion compared with $5.4 billion in 1999. Excluding Stream, net sales increased $561 million, or 10.8%, from 1999. Acquisitions contributed $476 million of the increase in net sales excluding Stream between years. Our most significant acquisition during the year was the purchase of certain net assets of CTC in February 2000. CTC, which is reported as part of our Logistics Services segment, contributed $365 million of net sales in 2000.

For our Commercial Print segment, value-added revenue represents net sales less the cost of materials. For some customers, we purchase paper used in the printing process and pass through this cost (referred to as "pass-through material sales") at a margin that is lower than print and related services; other customers furnish their own paper. Customer-furnished paper is not reflected in our financial results. For our Logistics Services segment, value-added revenue represents net sales less the cost of transportation. By measuring value-added revenue, we eliminate the effects of material prices and transportation costs that are largely beyond our control.

Consolidated value-added revenue was flat between years; excluding Stream, value-added revenue increased $210 million, or 6.8%, to $3.3 billion compared with $3.1 billion in 1999. Acquisitions contributed $136 million of the increase in value-added revenue between years. Value-added revenue is affected by the price of scrap (by-product) paper we sell. Income from the sale of by-products is recorded as a reduction in our cost of materials. During 2000, we recognized a reduction in our cost of materials of $66 million from by-product revenues, which represents an increase of $28 million from 1999.

Gross profit as a percentage of net sales was 19.1% in 2000 compared with 21.4% in 1999. Excluding Stream, gross margin in 1999 was 21.0%. Our Logistics Services segment, which has lower gross margins than our Commercial Print segment, represented a higher proportion of net sales in 2000 (12% versus 5% in 1999), primarily as a result of the acquisition of CTC. Logistics Services' gross margin was down significantly in 2000 related to the performance of CTC, as well as higher transportation costs and other operational issues discussed below. Commercial Print's gross margin increased between years due to the impact of continued productivity initiatives and higher by-products revenues.

Selling and administrative expenses decreased $31 million, or 4.9%, to $598 million compared with $629 million in 1999. Selling and administrative expenses as a percentage of net sales was 10.4% in 2000 compared with 11.6% in 1999. Spending reductions and cost containment of $10 million, coupled with the elimination of Stream expenses ($57 million) and lower Year 2000-related expenses ($30 million), were partially offset by increased spending to grow new complementary businesses ($23 million), information systems development ($21 million) and recent acquisitions ($22 million).

Net interest expense increased 1.7% to $90 million in 2000, due to higher average short-term borrowing rates. Other income, net, in 2000 of $23 million included a one-time pretax gain of $13 million from the sale of shares received from the demutualization of our basic life insurance carrier. Excluding one-time items, other income, net, decreased $12 million between years primarily due to lower equity income on investments ($7 million) and foreign currency transaction losses ($5 million). Gain on sale of businesses and investments of $43 million in 1999 included one-time pretax gains on the disposition of Stream ($40 million) and the sale of our interest in MMI ($3 million).

TRENDS IN VALUE-ADDED REVENUE BY END-MARKET

IN MILLIONS	***2000***	***% CHANGE***	*1999*	*% CHANGE*	*1998*
Long-run Magazines, Catalogs and Inserts	**$ 1,158**	**4.0%**	$ 1,114	(3.3)%	$ 1,152
Telecommunications	**407**	**2.2**	398	8.6	367
Book Publishing Services	**533**	**3.5**	515	5.9	486
Financial Services	**540**	**2.8**	526	18.2	445
International	**157**	**17.3**	134	13.4	118
Specialized Publishing Services	**159**	**23.3**	129	(0.8)	130
RRD Direct	**107**	**(5.9)**	114	77.4	64
Premedia	**107**	**25.7**	85	65.1	52
Commercial Print	**$ 3,168**	**5.1**	$ 3,015	7.2	$ 2,814
Logistics Services	**122**	**97.5**	62	14.6	54
Other	**15**	**(93.6)**	230	3.0	223
Total Value-Added Revenue	**$ 3,305**	**(0.1)**	$ 3,307	7.0	$ 3,091

The following comparisons exclude the impact of one-time items and Stream: Income from continuing operations before income taxes of $421 million decreased 8.0% from 1999. The effective tax rate in both years was 38.5%. Income from continuing operations per diluted share of $2.11 decreased $0.06, or 2.8%, from 1999. The rate of decrease was lower on a per-share basis due to fewer average shares outstanding during 2000. Including one-time items and Stream, income from continuing operations and related diluted earnings per share decreased 14.3% and 9.6%, respectively, from 1999.

DISCONTINUED OPERATIONS Operating results of CS&T were classified as a discontinued operation as of the date of disposal (November 1999), with prior periods restated. In 1999, the pretax loss from this segment was $5 million, or $3 million after-tax ($0.02 per diluted share). There was no gain or loss on sale.

CONSOLIDATED NET INCOME Excluding one-time items and Stream, net income of $259 million in 2000 decreased 7.0% from $279 million in 1999, while diluted earnings per share decreased 1.9% to $2.11. The rate of decrease was lower on a per-share basis due to fewer average shares outstanding during 2000. Including one-time items and Stream, net income decreased 13.4% while diluted earnings per share decreased 8.8%.

OPERATING RESULTS BY CONTINUING BUSINESS SEGMENT—2000 COMPARED WITH 1999
As discussed more fully in the “Industry Segment Information” footnote to the consolidated financial statements on page 47, we have two reportable segments: Commercial Print and Logistics Services. Following our acquisition of CTC in February 2000, we now report results from our logistics businesses as a separate business segment within Logistics Services. Previously, results for logistics were included within the Commercial Print segment. Refer to the section “End-Market Descriptions” which begins on page 23 for a discussion of the end markets served by each of these business segments.

Net sales of our Commercial Print segment increased $154 million in 2000, or 3.1%, from 1999. Net sales for Long-run Magazines, Catalogs and Inserts were up less than 1% from 1999, which reflected strong volume increases and higher paper prices in 2000, offset by a lower volume of pass-through material sales. Paper prices for major grades of paper employed by our long-run market increased an average of 5% between years. Net sales for Telecommunications were flat to 1999, as an increase in directory volumes was offset by a reduction in nondirectory work (for example, the platform produced work for Financial Services in 1999). Net sales for Book Publishing were flat to 1999, driven by higher volumes within the consumer and educational markets, offset by lower pass-through material sales. Net sales for Financial Services were up 1.0% in 2000, driven by increased volume in international capital markets. During 2000, we derived 25% of our capital markets sales from international; our international capital markets volume increased 56% from 1999. Due to weakness in the U.S. capital markets for much of 2000, our U.S. capital markets sales were down 12% from 1999.

Net sales of our Logistics Services segment of $691 million in 2000 included $365 million from the acquisition of CTC, which added package delivery to our established business of delivering printed materials. Excluding CTC, net sales of our print logistics business increased $44 million, or 15.6%, from 1999, driven almost entirely by higher freight services volume, despite a small decline in expedited services volume.

Value-added revenue for the Commercial Print segment increased $153 million, or 5.1%, from 1999. Excluding the impact of acquisitions, value-added revenue for Commercial Print increased 2.6%, primarily due to strong volume increases in Long-run Magazines, Catalogs and Inserts and higher by-product revenues. Incremental revenues from by-products for Commercial Print increased value-added revenue by 1.0% between years. Value-added revenue for the Logistics Services segment of $122 million in 2000 included $59 million from CTC. Excluding CTC, value-added revenue of our print logistics business increased 2.9% from 1999.

Earnings from operations for the Commercial Print segment were down less than 1% between years. Our traditional print businesses (long-run and book) had strong volume increases and productivity gains in 2000, particularly during the first half, and higher income from by-products. Earnings from operations were hurt during the second half by escalating energy and healthcare costs, and higher employee turnover at several of our plants. For the full year, earnings from operations were affected negatively by Financial Services and RRD Direct, our direct mail operation. Financial Services was hard hit by the U.S. capital markets slowdown. RRD Direct's volume declined as a result of a decrease in sweepstakes and credit card solicitations.

In both Financial Services and RRD Direct, we have taken direct action to address these earnings shortfalls. This included closing two unprofitable production facilities in 2000 for which we incurred a pretax charge of $9 million. In the fourth quarter, we reorganized RRD Direct's sales and marketing efforts. We also made substantial progress addressing operational issues that arose following a consolidation of two of our direct mail facilities. We are continuing to review the cost structure of Financial Services in light of uncertainty in U.S. capital markets.

Our Logistics Services segment incurred a loss from operations of $14 million in 2000, equal to CTC's loss for the year. CTC was affected negatively in 2000 by low price levels in response to competition, the impact of low-margin work and new facility start-up costs. In order to increase volume and drive deeper penetration of the postal system (closer to the final destination), CTC delivered packages for a number of large mailers at price levels that proved to be unprofitable. Levels of this low-margin work peaked during the fourth quarter and negatively affected results. We will be taking actions in 2001 to adjust work mix and begin to restore profitability to these operations.

Excluding CTC, earnings from operations of our print logistics business were break-even in 2000, down $8 million from 1999, with the majority of the shortfall occurring in the fourth quarter of 2000. This decrease was driven by higher transportation costs, primarily due to increased carrier and fuel costs and start-up problems following expansion of our Northeast distribution facility. Despite higher freight services volume, transportation costs were up 7% between years on an average per-unit basis. We have taken actions to resolve the start-up issues noted, and will be instituting price increases and other measures to improve profitability.

Earnings (loss) from operations within the "Other" operating segment include losses of $28 million and $8 million in 2000 and 1999, respectively, to grow complementary businesses, including Red Rover.

Results of Operations—1999 compared with 1998

CONTINUING OPERATIONS Net sales increased $198 million, or 3.8%, to $5.4 billion in 1999 compared with $5.2 billion in 1998. Acquisitions contributed $162 million of the increase in net sales between years. Significant acquisitions in 1999 included the Communicolor division of the Standard Register Company and certain net assets of Cadmus Financial (Cadmus), both included in the Commercial Print segment.

Consolidated value-added revenue increased $216 million, or 7.0%, to $3.3 billion in 1999 compared with $3.1 billion in 1998. Acquisitions contributed $101 million of the increase in value-added revenue between years. Value-added revenue is affected by the price of scrap (by-product) paper we sell. Income from the sale of by-products is recorded as a reduction in our cost of materials. During 1999, we recognized a reduction in our cost of materials of $38 million from by-product revenues, which represents an increase of $8 million, or 26%, from 1998.

Gross profit as a percentage of net sales was 21.4% in 1999 compared with 20.3% in 1998. The improved gross margin between years reflected primarily the impact of our productivity programs within the Commercial Print segment.

Selling and administrative expenses increased $59 million, or 10.3%, to $629 million in 1999 compared with $570 million in 1998. Selling and administrative expenses as a percentage of net sales was 11.6% in 1999 compared with 10.9% in 1998. In addition to volume-related increases, the majority of the increase in expense was due to acquisitions ($17 million), increases in Financial Services to build its sales force ($15 million), Premedia expansion ($7 million) and corporate initiatives to build capabilities ($17 million), partially offset by lower Year 2000 expenses ($9 million).

Net interest expense increased $10 million, or 12.8%, to $88 million in 1999 due to higher average debt balances associated with acquisitions and share repurchase programs. Excluding one-time items, other income, net, increased $11 million between years to $21 million in 1999 related to lower COLI expense due to plan experience ($5 million) and lower minority interest expense ($4 million) as we increased our ownership percentage in two majority-owned subsidiaries in 1999. Gain on sale of businesses and investments of $43 million in 1999 and $169 million in 1998 represent one-time items described above.

The following comparisons exclude the impact of one-time items: Income from continuing operations before income taxes of $464 million increased 10.3% from 1998. The effective tax rate increased to 38.5% in 1999 from 35.0% due to the phase-out of deductions for interest related to our COLI programs. Income from continuing operations per share of $2.20 increased $0.27, or 14%, from 1998. The rate of increase was higher on a per-share basis due to fewer shares outstanding during 1999. Including one-time items, income from continuing operations and related diluted earnings per share decreased 16.9% and 9.1%, respectively, from 1998.

DISCONTINUED OPERATIONS In 1998, the loss from discontinued operations reflected a pretax impairment charge of $80 million (with no tax benefit, or $0.56 per diluted share) for CS&T.

CONSOLIDATED NET INCOME Excluding one-time items, net income increased $89 million, or 46%, to $282 million in 1999, while diluted earnings per share increased 59% to $2.18. The rate of increase was higher on a per-share basis due to fewer average shares outstanding. Including one-time items, net income increased 4.7% while diluted earnings per share increased 14.4%.

OPERATING RESULTS BY CONTINUING BUSINESS SEGMENT—1999 COMPARED WITH 1998

Net sales of our Commercial Print segment increased $160 million in 1999, or 3.4%, from 1998. Excluding the impact of acquisitions, net sales were essentially flat year over year. Net sales for Long-run Magazine, Catalogs and Inserts decreased 8.6% from 1998, which reflected lower paper prices in 1999 and fewer pass-through material sales, partially offset by higher magazine volume. Paper prices for major grades of paper employed by our long-run market decreased an average of 6% between years. Net sales for Telecommunications increased 5.3% between years based on higher directory and nondirectory volume. Net sales for Book Publishing increased 3.9% between years driven by volume increases within the consumer, education and religious markets across both our one-color and four-color platforms, partially offset by lower fulfillment and distribution revenues. Net sales for Financial Services increased 19.1%, due to the Cadmus acquisition (5.6%) and increased capital markets activity, including international.

Net sales for our Logistics Services segment increased $31 million, or 12.6%, from 1998 driven by volume increases in both freight services and expedited services, which included increased volume from our Financial Services sector.

Value-added revenue for the Commercial Print segment increased $201 million, or 7.2%, from 1998. Excluding the impact of acquisitions, value-added revenue for Commercial Print increased 3.6% primarily due to improved volume for Financial Services, Telecommunications, Book Publishing and Premedia. Excluding acquisitions, Financial Services generated strong value-added revenue growth of 12.7% from 1998 driven by increased capital markets activity, including international. Value-added revenue for Logistics Services increased 14.6% from 1998 due to higher volumes and decreased transportation costs through improved carrier management, including more cost-effective routing of deliveries.

Earnings from operations for the Commercial Print segment increased 5.9% from 1998, driven primarily by higher volume and productivity improvements in our Telecommunications and Book Publishing businesses.

Earnings from operations for the Logistics Services segment increased 24.0% from 1998, driven by higher volumes and more efficient use of our existing transportation and consolidation facility network.

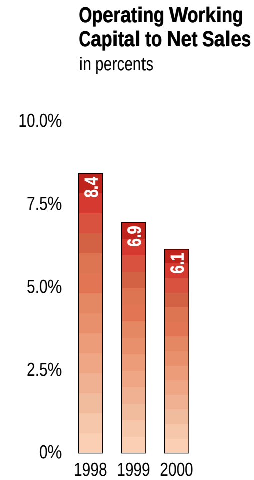
FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Because of our scale, manufacturing experience and strong customer base, we enjoy stable to growing market share and very strong cash flow from our printing businesses. We will use these cash flows to grow our value-added services and invest in future growth through complementary businesses. If we do not have investment opportunities that generate returns above our cost of capital, we intend to return excess cash to shareholders through share repurchase programs.

CASH FLOWS FROM OPERATING ACTIVITIES

Cash flow from operations was $741 million, an increase of $105 million from 1999, primarily due to a tax refund and reduced investment in operating working capital as compared with 1999. The decrease in operating working capital between years was driven primarily by an increase in accrued liabilities in 2000, in part due to our share repurchase activity at year-end ($30 million). The decrease in refundable income taxes between years reflects the receipt of a $69 million tax refund during 2000 related to our fourth-quarter 1999 sales of our investments in Stream, CS&T and MMI. Our cash conversion cycle (days' sales outstanding plus days' inventory on hand minus days' payable outstanding) continued to improve to 48 days from 50 days a year ago and 55 days in 1998. The ratio of operating working capital to sales also has continued to improve to 6.1% in 2000 from 6.9% in 1999 and 8.4% in 1998.

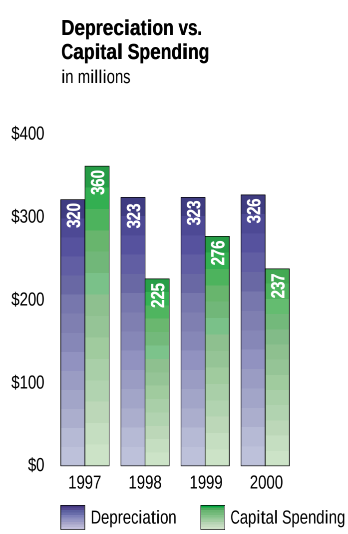
Cash flows from operations decreased by $98 million in 1999 due to higher working capital requirements to support higher volume.



Working capital has continued to improve.

CASH USED IN INVESTING ACTIVITIES

Our principal recurring investing activities are capital expenditures to improve the productivity of operations, expand in specific markets and establish new businesses that leverage our distinctive capabilities. In 2000, capital expenditures totaled $237 million, a $39 million decrease from 1999. Spending levels in 2000 continued to reflect our disciplined investment process, which includes evaluating a broad range of alternatives and optimizing the overall manufacturing platform, and our focus on productivity, which tends to result in less costly process-enhancement investments. In 2000, we invested in expanding in selected international markets. We expanded our operations in Poland based on the strong market potential that we see in Eastern and Central Europe. We began operations in a new directory plant in Flaxby, England. We also made systems-related and other improvements throughout the company, which were capitalized. We expect capital spending to be below $350 million in 2001.



Disciplined investment process has resulted in lower capital spending.

ACQUISITIONS

In 2000, we made acquisitions and investments to extend our geographic reach and expand our range of capabilities. Acquisitions completed in 2000 included:

- *Omega Studios–Southwest, Inc.* (January 2000)—This dedicated photography studio expanded our premedia offerings in digital photography and creative services, and extended our geographic reach to the Southwest.
- *CTC* (February 2000)—This mailer of business-to-home packages in the United States more than doubled the revenue of our Logistics Services segment, enhanced our scale and expanded our service offering to include the delivery of packages in addition to printed products.
- *Iridio, Inc.* (February 2000)—This full-service premedia company, which provides digital photography, prepress, digital asset management and digital print services, brought us a significant presence in the Pacific Northwest.
- *Evaco, Inc.* (February 2000)—This financial printer based in Florida expanded our Financial Services operations in the Southeast, one of our fastest-growing geographic regions.
- *Circulo do Livro* (July 2000)—This Brazilian book printer expanded our capabilities to serve the book publishing market and, together with expansion of our Hamburg Gráfica Editora division, made us the largest book printer in South America.
- *Interactive Dataflow Technology, Inc.* (December 2000)—This application service provider based in Lanham, Maryland, provides the federal government with secure, customized Internet-based solutions that can help automate print procurement processes.

DIVESTITURES

See "Divestitures" footnote to the consolidated financial statements on page 39 for details.

CASH USED FOR FINANCING ACTIVITIES

Financing activities include net borrowings, dividend payments and share repurchases. Our net borrowings decreased by $153 million in 2000 as we paid down debt with excess cash flow. This included repayment of our 9.125% debentures for $200 million in December 2000. Debt levels increased by $117 million in 1999 as a result of acquisitions, higher capital spending and share repurchase activity, partially offset by strong working capital management and cash generated from the disposition of assets no longer aligned with our strategic priorities.

Commercial paper is our primary source of short-term financing. On December 31, 2000, we had $195 million outstanding in commercial paper borrowing. In addition, at December 31, 2000, we had a $438 million unused revolving credit facility with a number of banks. This facility provides support for issuing commercial paper and other credit needs. Management believes our cash flow and borrowing capability are sufficient to fund operations.

SHARE REPURCHASE

We purchased 2.5 million, 11.9 million and 13.2 million shares of our stock in 2000, 1999 and 1998, respectively, for $63 million, $379 million and $544 million, respectively, in privately negotiated or open market transactions. Since 1996, we have spent $1.2 billion to repurchase stock and reduced the number of shares outstanding by 23%.

Net cash used to repurchase common stock, defined as cash used for share repurchases net of proceeds from stock options exercised, was $22 million in 2000. In 1999, we used $350 million of net cash for share repurchase. In 1998, we used $457 million of net cash for share repurchase.

SHARES OUTSTANDING

IN THOUSANDS	***2000***	*1999*	*1998*
As of December 31:			
Basic	**121,055**	123,237	134,322
Dilutive effect	**1,629**	125	2,754
Total	**122,684**	123,362	137,076
Full year average:			
Basic	**122,323**	128,872	139,624
Dilutive effect	**770**	694	2,241
Total	**123,093**	129,566	141,865

DIVIDENDS

Dividends to shareholders totaled $110 million in 2000, $111 million in 1999 and $115 million in 1998. In 2000, we increased our dividend by 5%, representing our 30th consecutive annual dividend increase. We have consistently paid a dividend since becoming a public company in 1956.

FINANCIAL CONDITION

Our financial position remains strong as evidenced by our year-end balance sheet. Our total assets in 2000 were $3.9 billion, unchanged from 1999. Average invested capital (total debt and equity, computed on a 13-month average) was $2.4 billion in 2000, unchanged from 1999. Lower income from continuing operations excluding one-time items reduced the return on average invested capital to 13.2% from 14.3% a year ago.

At year-end 2000, the debt-to-capital ratio decreased to 45% from 51% in 1999 and year-end debt-to-total market value decreased to 24% from 28% a year ago. We also consider interest coverage ratios when reviewing our capital structure. Our ratio of earnings before interest, taxes, depreciation and amortization (EBITDA), excluding one-time items, to interest expense was 10.1 at year-end, compared with 10.5 a year ago.

OTHER INFORMATION

HUMAN RESOURCES

As of December 31, 2000, approximately 34,000 full-time employees worked for the company. Approximately 82% of our employees work in the United States, and approximately 3% of those are covered by collective bargaining agreements. Of the approximately 6,000 people working in our international operations, 33% are covered by collective bargaining agreements, as is customary in those locations.

Minority and female representation among U.S. professionals, officials and managers during 2000 increased by 7% and 3%, respectively, based on our government reporting. Minority representation was 14% among our U.S. professionals, officials and managers while female representation was 35%. Minorities represented 17% of our U.S. workforce and females represented 33%.

ENVIRONMENTAL HEALTH & SAFETY

Our business is subject to various laws and regulations governing employee health and safety and environmental protection. Our policy is to comply with all laws and regulations. Our overriding principles are to create sustainable compliance and an injury-free workplace. We do not anticipate that compliance will have a material adverse effect on our competitive or consolidated financial position.

YEAR 2000 AND SYSTEM INFRASTRUCTURE

Process control and information systems are increasingly important to the effective management of the company. The upgrade and standardization of our systems is necessary for us to succeed in using information technology to our strategic advantage. In 1999, we focused our efforts on ensuring that processes and systems were Year 2000 compliant. In addition, we began ongoing initiatives to upgrade and standardize our information technology infrastructure. In 1999, we deferred a number of other infrastructure and systems initiatives that would support continuous productivity improvements and enhance service capabilities, while we completed our Year 2000 efforts.

During the transition from 1999 to 2000, all operations were fully supported by trained personnel. Key efforts were focused for four business-critical factors: safety of employees, continuity of production, environmental compliance and reporting, and continuity of systems to support the ability of personnel to continue working (such as the availability of utilities or operation of payroll systems). At the end of the transition, no Year 2000 issues affecting any business-critical factors were reported by any operation. To the extent that date-related issues were reported, they were limited to instances where personnel available at the site were able to promptly correct the issue without interruption to our operations.

In 2000, we spent $3 million on our Year 2000 initiatives, of which $1 million was reflected in administrative expense and the remainder in cost of sales. In 1999, we spent $49 million, of which $31 million was reflected in administrative expense and the remainder in cost of sales. These expenses do not include costs capitalized with respect to our information and technology infrastructure upgrade and standardization initiatives. As internal resources completed their Year 2000 assignments, they were reallocated to technology projects that had been deferred, as well as to other productivity projects.

TECHNOLOGY

We remain a technology leader and hold 180 patents in print-related technology, including 20 patents in the emerging area of digital printing. We are a leader in technologies such as computer-to-plate, customer connectivity and digital imaging capabilities, as well as Internet-based services.

Public recognition from *eWeek* and *Information Week* for our technology efforts in 2000 include the following rankings among all U.S. companies:

- #3 of the most innovative media and entertainment company users of information technology (*Information Week*, September 11, 2000);
- #82 of the top 500 leading IT innovators (*Information Week*, September 11, 2000); and
- #19 of the top 100 in e-business networking (*eWeek*, May 8, 2000).

LITIGATION AND CONTINGENT LIABILITIES

For a discussion of certain litigation involving the company, see “Commitments and Contingencies” footnote to the consolidated financial statements on page 40. For a discussion of our corporate-owned life insurance programs, see “Income Taxes” footnote to the consolidated financial statements on page 44.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, subsequently amended in June 1999 by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133—An Amendment of FASB Statement No. 133* and in June 2000 by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133*, which requires that all freestanding derivatives and many derivatives embedded in other contracts be recognized on the balance sheet as either an asset or liability measured at fair value. Changes in the derivative instrument’s fair value will be recognized currently in earnings or in other comprehensive income if specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument’s gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that we formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

We have limited transactions that fall under the accounting rules of SFAS No. 133. From time to time we enter into forward contracts to minimize potential transaction losses in non-U.S. entities with fixed-rate borrowings denominated in U.S. dollars, or with nonfunctional currency-denominated sales. We also have entered into foreign currency option contracts to minimize potential exchange rate risk due to currency fluctuations on certain non-U.S. dollar denominated purchases.

The implementation date for accounting for these transactions under SFAS No. 133 is January 1, 2001. We will record the effect of the transition to the new accounting requirements as a change in accounting in the first quarter of 2001. The effect of this change in accounting will not be material to our results of operations or financial position.

OUTLOOK

The environment is highly competitive in most of our product categories and geographic regions. Competition is based largely on price, quality and servicing the special needs of customers. Industry analysts believe that there is overcapacity in most commercial printing markets. Therefore, competition is intense. Our intent is to differentiate our service offerings so that we are viewed by our customers as a partner that can help them deliver effective and targeted communications in the right format to the right audience at the right time.

We are a large user of paper, supplied to us by our customers or bought by us. The cost and supply of certain paper grades used in the manufacturing process will continue to affect our financial results. However, management currently does not see any disruptive conditions affecting prices or supply of paper in 2001.

Postal costs are a significant component of our customers' cost structures. Changes in postal rates that went into effect in January 2001 are not expected to negatively affect the company. In fact, postal rate increases enhance the value of Donnelley Logistics to our customers, as we are able to improve the cost efficiency of mail processing and distribution. This ability to deliver mail on a more precise schedule and at a lower relative cost should enhance our position in the marketplace.

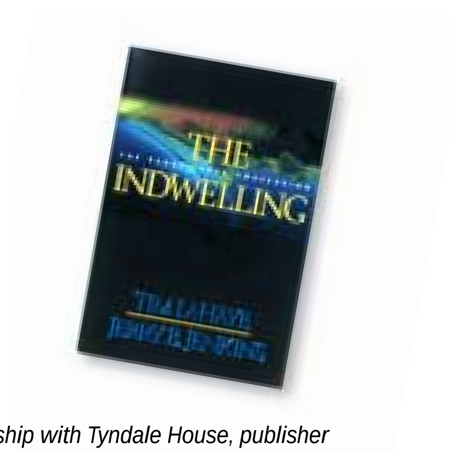
The cost of energy affects our operating costs in the Commercial Print segment and transportation costs in Logistics Services. In Logistics Services, increases in fuel costs can be offset by fuel surcharges passed on to customers, but continuing increases in other energy costs could affect our consolidated financial results.

In addition, consumer confidence and economic growth are key drivers of demand for our services and a significant change in economic outlook could affect us. The slowdown experienced in U.S. capital markets in the fourth quarter of 2000 is expected to continue into 2001, which would negatively affect our Financial Services business. However, growth in demand for customized communications solutions for investment management, banking, insurance, managed care and pharmaceutical companies provides opportunities for our Financial Services business to offset a U.S. capital markets slowdown. As we enter 2001, uncertainty in the economy has led certain of our customers in other businesses to indicate that they anticipate flat demand in their end markets.

In the longer term, technological changes, including the electronic distribution of information, present both risks and opportunities for the company. Many of our new business initiatives are designed to leverage our distinctive capabilities to participate in the rapid growth in electronic communications. We are a leader in emerging digital printing technologies. Our goal remains to help our customers succeed by delivering effective and targeted communications in the right format to the right audience at the right time. We believe that with our competitive strengths, including our comprehensive service offerings, technology leadership, depth of management experience, customer relationships and economies of scale, we can develop the most valuable solutions for our customers, which should result in growth in shareholder value.

SAFE HARBOR

Certain statements in this annual report, including the discussions of our expectations, are "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from our expectations. Please refer to Part I, Item 1 of our 2000 Annual Report on Form 10-K for a description of relevant factors.



Our partnership with Tyndale House, publisher of the phenomenally successful Left Behind series, generated our largest tradebook series ever—20 million copies—produced across five networked book plants. The series' seventh book, The Indwelling*, had a first printing of two million copies.*

11-YEAR FINANCIAL SUMMARY*

IN MILLIONS, EXCEPT PER-SHARE DATA AND RATIOS	***2000***	*1999*	*1998*	*1997*
Operating Results—Continuing Operations				
Net sales	**$ 5,764**	$ 5,416	$ 5,218	$ 5,086
Gross profit	**1,099**	1,159	1,058	951
Selling and administrative expenses	**598**	629	570	511
Earnings from operations	**501**	530	488	439
Earnings before income taxes	**421**	464	420	374
Income from continuing operations	**259**	285	273	249
Per diluted common share	**$ 2.11**	$ 2.20	$ 1.93	$ 1.69
Operating Results—Discontinued Operations				
(Loss) income, net of income taxes	**$ —**	$ (3)	$ (80)	$ (16)
Loss on disposal, net of income taxes	**—**	—	—	(60)
Per diluted common share	**$ —**	$ (0.02)	$ (0.56)	$ (0.51)
Financial Ratios[1]				
As a percent of sales:				
Gross profit	**19.1%**	21.4%	20.3%	18.7%
Selling and administrative expenses	**10.4**	11.6	10.9	10.0
Earnings from operations	**8.7**	9.8	9.4	8.6
Earnings before income taxes	**7.3**	8.6	8.0	7.4
Net income	**4.5**	5.3	5.2	4.9
Return on average invested capital[2]	**13.2**	14.3	13.1	11.3
Debt to invested capital—book value	**45.1**	50.6	44.9	43.0
Other Information				
Per common share				
Market price (year-end)	**$ 27.00**	$ 24.81	$ 43.81	$ 37.25
Shareholders' equity per year-end diluted share	**10.0**	9.2	9.5	10.8
Shares outstanding				
Full year average diluted	**123.1**	129.6	141.9	147.5
Diluted at year-end	**122.7**	123.4	137.1	147.2
Property, plant and equipment—net	**$ 1,621**	$ 1,711	$ 1,701	$ 1,788
Capital investment[3]	**438**	490	290	356
Average invested capital[4]	**2,362**	2,369	2,444	2,680

* The following one-time items have been excluded: 2000 gain related to the sale of shares received from the demutualization of the company's basic life insurance carrier of $13 million ($8 million after-tax, or $0.06 per diluted share); 1999 gains on the sale of businesses and investments of $43 million ($27 million after-tax, or $0.20 per diluted share); 1998 gains on the sale of the company's remaining interests in two former subsidiaries of $169 million ($101 million after-tax, or $0.71 per diluted share); 1997 restructuring and impairment charges of $71 million ($42 million after-tax, or $0.29 per diluted share); 1996 restructuring and impairment charges of $442 million ($374 million after taxes and minority interest, or $2.45 per diluted share) and gains on partial divestitures of subsidiaries of $80 million ($48 million after-tax, or $0.31 per diluted share); 1993 restructuring and impairment charge primarily related to the closure of the company's Chicago facility ($61 million after-tax, or $0.39 per diluted share), the deferred income tax charge ($6 million after-tax, or $0.04 per diluted share) and the cumulative effect of accounting changes ($70 million after-tax, or $0.45 per diluted share).

[1] Based on continuing operations.

[2] The return on average invested capital is calculated using a numerator of net income, excluding after-tax interest expense, net (loss) income from discontinued operations and one-time items as defined in footnote * above; the denominator is a 13-point average of total debt plus total shareholders' equity less the net assets of discontinued operations.

[3] Capital expenditures and other investments including acquisitions, net of cash acquired and the proceeds received from the disposition of assets.

[4] A 13-point average of short-term debt, long-term debt and stockholders' equity.

YEAR ENDED DECEMBER 31

1996	*1995*	*1994*	*1993*	*1992*	*1991*	*1990*
$ 5,209	$ 5,198	$ 4,227	$ 3,873	$ 3,835	$ 3,668	$ 3,309
971	1,012	841	780	756	685	659
518	497	414	390	374	337	303
453	515	428	390	382	347	356
373	399	363	333	333	304	354
255	276	249	226	218	194	221
$ 1.66	$ 1.77	$ 1.60	$ 1.45	$ 1.39	$ 1.24	$ 1.42
$ (86)	$ 23	$ 19	$ 20	$ 17	$ 11	$ 4
—	—	—	—	—	—	—
$ (0.57)	$ 0.15	$ 0.12	$ 0.13	$ 0.11	$ 0.07	$ 0.03
18.6%	19.5%	19.9%	20.1%	19.7%	18.7%	19.9%
9.9	9.6	9.8	10.1	9.8	9.2	9.2
8.7	9.9	10.1	10.1	10.0	9.5	10.8
7.2	7.7	8.6	8.6	8.7	8.3	10.7
4.9	5.3	5.9	5.8	5.7	5.3	6.7
10.7	10.7	10.8	11.1	11.5	9.3	13.8
47.3	42.8	38.6	29.0	23.5	26.5	30.8
$ 31.38	$ 39.38	$ 29.50	$ 31.13	$ 32.75	$ 25.00	$ 19.88
11.1	13.8	12.8	11.8	11.7	11.0	10.3
153.6	155.9	155.5	156.1	157.3	156.3	156.1
146.7	157.3	154.5	156.0	157.6	156.7	155.3
$ 1,837	$ 1,839	$ 1,696	$ 1,526	$ 1,427	$ 1,467	$ 1,419
364	505	506	450	285	284	664
2,913	3,209	2,600	2,265	2,114	2,094	1,598

More and more websites are complementing their online presence with print. Our customer Ziff Davis Media Inc. is working with Expedia to extend its online brand through Expedia Travels *magazine.*

Consolidated Statements of Income

IN THOUSANDS, EXCEPT PER-SHARE DATA	2000	1999	YEAR ENDED DECEMBER 31 1998
Net sales	**$ 5,764,335**	$ 5,415,642	$ 5,217,953
Cost of sales	**4,665,472**	4,256,635	4,159,756
Gross profit	**1,098,863**	1,159,007	1,058,197
Selling and administrative expenses	**597,823**	628,580	569,779
Earnings from operations	**501,040**	530,427	488,418
Other income (expense):			
Interest expense	**(89,639)**	(88,164)	(78,166)
Gain on sale of businesses and investments	**—**	42,835	168,903
Other, net	**22,583**	21,431	10,217
Earnings from continuing operations before income taxes	**433,984**	506,529	589,372
Income taxes	**167,084**	195,014	214,725
Income from continuing operations	**266,900**	311,515	374,647
Loss from discontinued operations, net of income taxes	**—**	(3,201)	(80,067)
Net Income	**$ 266,900**	$ 308,314	$ 294,580
Income from Continuing Operations per Share of Common Stock			
Basic	**$ 2.18**	$ 2.41	$ 2.68
Diluted	**2.17**	2.40	2.64
Loss from Discontinued Operations per Share of Common Stock			
Basic	**$ —**	$ (0.02)	$ (0.57)
Diluted	**—**	(0.02)	(0.56)
Net Income per Share of Common Stock			
Basic	**$ 2.18**	$ 2.39	$ 2.11
Diluted	**2.17**	2.38	2.08

See accompanying Notes to Consolidated Financial Statements.

Through a regional printing strategy, our printing facilities in Mexico and Chile help IDEAS Publishing Group, publisher of Newsweek en Español*, cut delivery times.*

Consolidated Balance Sheets

IN THOUSANDS, EXCEPT SHARE DATA	***2000***	*DECEMBER 31* *1999*
Assets		
Cash and equivalents	**$ 60,873**	$ 41,873
Receivables, less allowance for doubtful accounts of $20,016 in 2000 and $15,461 in 1999	**882,486**	865,305
Inventories	**188,745**	194,312
Prepaid expenses	**74,345**	51,781
Refundable income taxes	**—**	76,579
Total Current Assets	**1,206,449**	1,229,850
Net property, plant and equipment, at cost, less accumulated depreciation of $3,040,871 in 2000 and $2,822,737 in 1999	**1,620,592**	1,710,669
Goodwill and other intangibles, net of accumulated amortization of $266,014 in 2000 and $217,616 in 1999	**520,242**	397,983
Other noncurrent assets	**566,919**	514,962
Total Assets	**$ 3,914,202**	$ 3,853,464
Liabilities		
Accounts payable	**$ 387,495**	$ 334,389
Accrued compensation	**184,668**	175,590
Short-term debt	**271,640**	419,555
Current and deferred income taxes	**43,484**	10,894
Other accrued liabilities	**303,274**	263,035
Total Current Liabilities	**1,190,561**	1,203,463
Long-term debt	**739,190**	748,498
Deferred income taxes	**233,505**	252,884
Other noncurrent liabilities	**518,398**	510,361
Total Noncurrent Liabilities	**1,491,093**	1,511,743
Shareholders' Equity		
Common stock at stated value ($1.25 par value) Authorized shares: 500,000,000; Issued: 140,889,050 in 2000 and 1999	**308,462**	308,462
Retained earnings	**1,666,936**	1,521,474
Accumulated other comprehensive income	**(74,126)**	(64,154)
Unearned compensation	**(6,752)**	(6,222)
Reacquired common stock, at cost	**(661,972)**	(621,302)
Total Shareholders' Equity	**1,232,548**	1,138,258
Total Liabilities and Shareholders' Equity	**$ 3,914,202**	$ 3,853,464

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

IN THOUSANDS	***2000***	*1999*	*1998*
			YEAR ENDED DECEMBER 31
Cash flows provided by (used for) operating activities:			
Net income	**$ 266,900**	$ 308,314	$ 294,580
Loss from discontinued operations, net of tax	**—**	3,201	80,067
Gain on sale of businesses and investments, net of tax	**—**	(77,532)	(101,342)
Depreciation	**326,349**	323,009	322,680
Amortization	**64,053**	51,373	53,391
Gain on sale of assets	**(5,952)**	(6,524)	(13,446)
Net change in operating working capital	**(16,533)**	(27,915)	68,848
Net change in other assets and liabilities	**107,426**	41,829	47,935
Other	**(1,658)**	19,562	(19,878)
Net Cash Provided by Operating Activities	**740,585**	635,317	732,835
Cash flows provided by (used for) investing activities:			
Capital expenditures	**(237,107)**	(275,826)	(225,222)
Other investments including acquisitions, net of cash acquired	**(224,511)**	(222,066)	(91,184)
Disposition of assets	**23,401**	7,837	26,498
Disposition of businesses and investments, net of tax	**—**	135,664	274,079
Net Cash Used for Investing Activities	**(438,217)**	(354,391)	(15,829)
Cash flows provided by (used for) financing activities:			
Net (decrease) increase in borrowings	**(152,946)**	116,621	(155,545)
Disposition of reacquired common stock	**10,314**	22,591	82,710
Acquisition of common stock	**(32,421)**	(372,403)	(539,434)
Cash dividends paid	**(110,268)**	(111,133)	(114,898)
Net Cash Used for Financing Activities	**(285,321)**	(344,324)	(727,167)
Effect of exchange rate changes on cash and equivalents	**1,953**	(1,460)	(592)
Net Increase (Decrease) in Cash and Equivalents from Continuing Operations	**19,000**	(64,858)	(10,753)
Net Increase in Cash from Discontinued Operations	**—**	40,505	29,165
Net Increase (Decrease) in Cash and Equivalents	**19,000**	(24,353)	18,412
Cash and Equivalents at Beginning of Year	**41,873**	66,226	47,814
Cash and Equivalents at End of Year	**$ 60,873**	$ 41,873	$ 66,226

Changes in operating working capital, net of acquisitions and divestitures:	***2000***	*1999*	*1998*
Decrease (increase) in assets:			
Receivables—net	**$ (8,889)**	$ (15,860)	$ (27,041)
Inventories—net	**3,761**	(1,814)	18,846
Prepaid expenses	**(21,857)**	7,664	19,674
Increase (decrease) in liabilities:			
Accounts payable	**10,850**	(7,651)	37,352
Accrued compensation	**9,146**	(10,274)	30,049
Other accrued liabilities	**(9,544)**	20	(10,032)
Net Change in Operating Working Capital	**$ (16,533)**	$ (27,915)	$ 68,848

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

IN THOUSANDS, EXCEPT SHARE DATA	*COMMON STOCK*		*REACQUIRED COMMON STOCK*		*UNEARNED COMPENSATION RESTRICTED STOCK*	*RETAINED EARNINGS*	*OTHER COMPRE-HENSIVE INCOME*	*TOTAL*
	SHARES	*AMOUNT*	*SHARES*	*AMOUNT*				
Balance at December 31, 1997	150,889,050	$ 320,962	(5,771,220)	$ (202,675)	$ (9,414)	$ 1,528,406	$ (45,782)	$ 1,591,497
Net income						294,580		294,580
Translation adjustments							(9,268)	(9,268)
Comprehensive income								285,312
Treasury stock purchases			(13,196,393)	(543,743)				(543,743)
Cash dividends						(114,898)		(114,898)
Common shares issued under stock programs			2,400,991	78,444	3,296	970		82,710
Common shares retired	(10,000,000)	(12,500)	10,000,000	395,924		(383,424)		—
Balance at December 31, 1998	140,889,050	$ 308,462	(6,566,622)	$ (272,050)	$ (6,118)	$ 1,325,634	$ (55,050)	$ 1,300,878
Net income						308,314		308,314
Translation adjustments							(8,613)	(8,613)
Minimum pension liability adjustment							(491)	(491)
Comprehensive income								299,210
Treasury stock purchases			(11,850,254)	(379,074)				(379,074)
Cash dividends						(110,078)		(110,078)
Common shares issued under stock programs			765,231	29,822	(104)	(2,396)		27,322
Balance at December 31, 1999	140,889,050	$ 308,462	(17,651,645)	$ (621,302)	$ (6,222)	$ 1,521,474	$ (64,154)	$ 1,138,258
Net income						266,900		266,900
Translation adjustments							(8,696)	(8,696)
Minimum pension liability adjustment							(1,276)	(1,276)
Comprehensive income								256,928
Treasury stock purchases			(2,502,003)	(62,684)				(62,684)
Cash dividends						(110,268)		(110,268)
Common shares issued under stock programs			320,018	22,014	(530)	(11,170)		10,314
Balance at December 31, 2000	**140,889,050**	**$ 308,462**	**(19,833,630)**	**$ (661,972)**	**$ (6,752)**	**$ 1,666,936**	**$ (74,126)**	**$ 1,232,548**

See accompanying Notes to Consolidated Financial Statements.

Building on a 30-year relationship with Ziff Davis Media Inc., publisher of Yahoo! Internet Life*, we now offer it a total supply-chain solution, from onsite premedia facilities management and printing, to logistics and paper management.*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries. Minority interests in the income (loss) of consolidated subsidiaries ($0.2 million, $0.6 million and $4.5 million of expense in 2000, 1999 and 1998, respectively) are included in other expense in the Consolidated Statements of Income. Intercompany items and transactions are eliminated in consolidation. The company held investments in unconsolidated affiliates of $39 million at both December 31, 2000 and 1999.

NATURE OF OPERATIONS The company provides a wide variety of print and print-related services and products for customers. The company also provides logistics and distribution services for its print customers and other mailers. Approximately 70% of the company's business was under contract in 2000. Some contracts provide for progress payments from customers as certain phases of the work are completed; however, revenue is not recognized until the earnings process has been completed in accordance with the terms of the contracts. Some customers furnish paper for their work, while in other cases the company purchases the paper and resells it to the customer.

CASH AND EQUIVALENTS The company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

INVENTORIES Inventories include material, labor and factory overhead and are stated at the lower of cost or market. The cost of approximately 81% and 74% of the inventories at December 31, 2000 and 1999, respectively, has been determined using the Last-In, First-Out (LIFO) method. This method reflects the effect of inventory replacement costs in earnings; accordingly, charges to cost of sales reflect recent costs of material, labor and factory overhead. The remaining inventories are valued using the First-In, First-Out (FIFO) or specific identification methods.

LONG-LIVED ASSETS Long-lived assets are comprised of property, plant and equipment and intangible assets. Long-lived assets, including certain identifiable intangibles and goodwill related to those assets to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the asset, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists, pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows and fundamental analysis. The company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

- *Property, plant and equipment* — Property, plant and equipment are carried at cost and depreciated primarily on a straight-line basis over their estimated useful lives. Useful lives range from 15 to 33 years for buildings and from three to 15 years for machinery and equipment. Maintenance and repair costs are charged to expense as incurred. Major overhauls that extend the useful lives of existing assets are capitalized. When properties are retired or disposed, the costs and accumulated depreciation are eliminated and the resulting profit or loss is recognized in income.
- *Intangibles* — Goodwill ($370 million and $212 million, net of accumulated amortization, at December 31, 2000 and 1999, respectively) is amortized on a straight-line basis over periods ranging from 10 to 40 years. Other intangibles represent primarily the costs of acquiring print contracts and volume guarantees and are amortized over the periods in which benefits will be realized.

SOFTWARE COSTS Software development costs for internal use are accounted for in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMPREHENSIVE INCOME In 1998, the company adopted SFAS No. 130, *Reporting Comprehensive Income*. This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income, minimum pension liability adjustments and foreign currency translation adjustments and is presented in the Consolidated Statements of Shareholders' Equity. The adoption of SFAS No. 130 had no impact on total shareholders' equity.

RECLASSIFICATIONS Certain prior-year amounts have been reclassified to conform to the 2000 presentation. This includes a restatement of net sales to reflect Donnelley Logistics' sales on a gross basis in accordance with the Emerging Issues Task Force (EITF) Issue 00-10, *Accounting for Shipping and Handling Fees and Costs,* with transportation costs being included as a component of cost of sales. Previously, net sales were shown net of transportation costs. The effect of this change was to increase both net sales and cost of sales by $232 million and $200 million in 1999 and 1998, respectively. There was no impact on gross profit or earnings from operations.

DISCONTINUED OPERATIONS

During 1996, Stream International Holdings, Inc. (SIH), an 80%-owned equity investment of the company, reorganized into three independent businesses: Stream International, a provider of outsource technical support services; Corporate Software & Technology Inc. (CS&T), a software distribution business; and Modus Media International (MMI), a global manufacturing and fulfillment business. CS&T and MMI comprised substantially all of the company's investment and net income in SIH.

On December 15, 1997, SIH's businesses became separate companies and the company's ownership interest in Stream International was restructured. The company converted its equity and debt positions in Stream International into 87% of the common stock of that business. Additionally, the company converted its equity and debt positions in CS&T into 86% of the common stock of CS&T and sold its equity and debt positions in MMI for nonvoting preferred stock of MMI.

In connection with the company's planned disposition of CS&T, the company reported its interest in CS&T as discontinued operations at December 31, 1997. The company's interest in MMI was reported as discontinued operations through December 15, 1997, when its interest was restructured. Thereafter, the company's investment in MMI was classified in other noncurrent assets through its date of disposition in October 1999.

During 1998, the company recorded an $80 million impairment charge (with no associated tax benefit) related to the write-down of goodwill at CS&T. The $80 million charge was classified as a loss from discontinued operations in 1998. The net assets of CS&T were classified as net assets of discontinued operations at December 31, 1998.

During 1999, the company recorded a pretax loss from discontinued operations of $5 million ($3 million after-tax). In November 1999, the company sold its entire interest in CS&T to the management of CS&T for cash proceeds of approximately $41 million. There was no gain or loss recognized from this transaction in 1999.

See "Divestitures" footnote below for more details with respect to MMI and Stream International. Also included in the "Divestitures" footnote is a discussion of the tax impact from the sale of the three Stream-related businesses and investments.

DIVESTITURES

In June 2000, the company sold its 100% interest in R.R. Donnelley (India) Ltd. and its 25.37%-owned subsidiary, Tata Donnelley Limited, to Tata Sons Limited for approximately $12.5 million in cash; there was no gain or loss recognized from this transaction.

In October 1999, the company sold its investment in MMI, which consisted of 9.50% Series Senior Cumulative Preferred shares, for a total of approximately $60 million ($47 million in cash and a $13 million promissory note due no later than October 2002). The promissory note is interest-bearing at 9.5% per annum, payable quarterly. The company recognized both a pretax and after-tax gain of $3 million from this transaction.

In November 1999, the company sold 93% of its investment in the common stock of Stream International to a group led by Bain Capital for approximately $96 million in cash. The company recognized a pretax gain of $40 million and a tax benefit of $35 million (total of $75 million after-tax) from this transaction. The tax benefit in 1999 was recognized because of the company's ability to carry back the capital tax losses generated from the sale of Stream International to years 1996 through 1998.

The total pretax gain ($43 million) in 1999 from the sales of the company's investments in MMI and Stream International is included in gain on sale of businesses and investments. These sales resulted in an after-tax gain of $78 million ($0.60 per diluted share), prior to a $51 million charge ($0.40 per diluted share) in the fourth quarter of 1999 to record an additional tax provision related to the company's corporate-owned life insurance (COLI) program. See "Income Taxes" footnote on page 44 for more details.

As a result of the company's sales in 1999 of CS&T (see "Discontinued Operations" footnote above for more details) and Stream International and the sale of its investment in MMI, the company generated approximately $77 million in refundable income taxes, of which $69 million was received in July 2000, from the carryback of tax losses. The remainder will be applied as a reduction to future federal and state tax payments.

In April 1998, the company received $297 million in cash, or approximately $238 million after-tax, from the sale of its remaining 38% interest in Metromail Corporation (Metromail). The company recognized a pretax gain in 1998 of $146 million ($87 million after-tax) from this transaction.

In July 1998, the company received $45 million in cash, or approximately $36 million after-tax, from the sale of its remaining interest in Donnelley Enterprise Solutions Incorporated (DESI). The company recognized a pretax gain of $23 million ($14 million after-tax) in 1998 from this transaction.

ACQUISITIONS AND INVESTMENTS

During February 2000, the company acquired certain net assets of CTC Distribution Services L.L.C. (CTC), one of the largest shippers of business-to-home packages in the United States, for approximately $160 million, net of cash acquired. CTC, formerly headquartered in Minneapolis, Minnesota, has 18 facilities nationwide. The acquisition has been accounted for using the purchase method of accounting. The purchase price has been allocated based upon estimated fair values at the date of the acquisition. Goodwill from this transaction of approximately $153 million, based upon the preliminary purchase price allocation, is being amortized over a 20-year period.

During 2000, the company also acquired certain net assets of Omega Studios–Southwest, Inc., a photography studio offering digital photography and creative services; Iridio, Inc., a Seattle-based full-service premedia company; Evaco, Inc., a Florida-based leading financial printer; Circulo do Livro, a leading Brazilian book printer; and Interactive Dataflow Technology, Inc., a Maryland-based application service provider. All of these acquisitions have been accounted for using the purchase method of accounting. In 2000, the company also acquired minority interests in Noosh, Inc., an Internet communications services company, and in several additional start-up businesses. Excluding CTC, the aggregate cost of these acquisitions and investments in 2000 was $57 million.

During 1999, the company acquired certain net assets of Cadmus Financial, a financial printer; the Communicolor division of the Standard Register Company, a provider of personalization services and printer of innovative direct-mail campaigns; Hamburg Gráfica Editora, a Brazilian book printer; Freight Systems, Inc., a California-based transportation company; and Penton Press, a short-run magazine printing facility. All of these acquisitions have been accounted for using the purchase method of accounting. In 1999, the company also acquired a 30% interest in MultiMedia Live, an Internet consulting firm, and increased its ownership position in Editorial Lord Cochrane S.A. (Cochrane) to 99% from 78%. In addition, Cochrane also increased its ownership interest in Atlántida Cochrane (Argentina) in 1999 from 50% to 100% through the assumption of its debt. The aggregate cost of these acquisitions and investments in 1999 was $199 million. Upon finalization of the purchase price allocation, these acquisitions resulted in goodwill of $58 million, which is being amortized over periods up to 20 years.

During 1998, the company acquired Ediciones Eclipse S.A. de C.V., a Mexico City-based printer of retail inserts; and a directory-printing plant in St. Petersburg, Florida. Both of these acquisitions have been accounted for using the purchase method of accounting. In 1998, the company also increased its ownership position in Cochrane to 78% from 55% and increased its ownership position in the Polish-American Printing Company to 100% from 51%. The aggregate cost of these acquisitions and investments was $69 million in 1998.

The company also increased its investment in affordable housing by $8 million, $23 million and $22 million in 2000, 1999 and 1998, respectively.

INVENTORIES

The components of the company's inventories were as follows:

		DECEMBER 31
IN THOUSANDS	***2000***	*1999*
Raw materials and manufacturing supplies	**$ 131,803**	$ 125,014
Work in process	**144,927**	150,992
Finished goods	**2,069**	1,388
Progress billings	**(39,450)**	(39,901)
LIFO reserve	**(50,604)**	(43,181)
Total	**$ 188,745**	$ 194,312

For financial reporting purposes, the company recognized LIFO expense of $7.4 million in 2000, LIFO income of $5.2 million in 1999 and LIFO expense of $4.5 million in 1998. The LIFO benefit in 1999 was due to declining costs and lower inventories subject to LIFO, which reduced 1999 cost of sales. The company uses the external-index method of valuing LIFO inventories.

PROPERTY, PLANT AND EQUIPMENT

The following table summarizes the components of property, plant and equipment (at cost):

		DECEMBER 31
IN THOUSANDS	***2000***	*1999*
Land	**$ 38,669**	$ 31,779
Buildings	**634,524**	582,868
Machinery and equipment	**3,988,270**	3,918,759
Total	**$ 4,661,463**	$ 4,533,406

COMMITMENTS AND CONTINGENCIES

As of December 31, 2000, authorized expenditures on incomplete projects for the purchase of property, plant and equipment totaled $249 million. Of this total, $106 million has been contractually committed. The company has a variety of commitments with suppliers for the purchase of paper, ink and other materials for delivery in future years at prevailing market prices.

The company has operating lease commitments totaling $240 million extending through various periods to 2009. The lease commitments total $49 million for 2001, range from $29 million to $43 million in each of the years 2002–2005 and total $48 million for years 2006 and thereafter.

The company is not exposed to significant accounts receivable credit risk, due to its customer diversity with respect to industry classification, distribution channels and geographic locations.

On November 25, 1996, a purported class action was brought against the company in federal district court in Chicago, Illinois, on behalf of all current and former African-American employees, alleging that the company racially discriminated against them in violation of the Civil Rights Act of 1871, as amended, and the U.S. Constitution (*Jones, et al. v. R.R. Donnelley & Sons Co.*). The complaint seeks declaratory and injunctive relief, and asks for actual, compensatory, consequential and punitive damages in an amount not less than $500 million. Although plaintiffs seek nationwide class certification, most of the specific factual assertions of the complaint relate to the closing by the company of its Chicago catalog operations in 1993. Other general claims relate to other company locations. On August 10, 1999, the district court judge denied the company's motion for partial summary judgment, holding that the prediscovery record raised a question of fact as to plaintiffs' failure to timely file the action. Following discovery, on December 20, 2000, the company filed a renewed motion for partial summary judgment on the basis of timeliness, which is pending.

On December 18, 1995, a class action was filed against the company in federal district court in Chicago alleging that older workers were discriminated against in selection for termination upon the closing of the Chicago catalog operations (*Gerlib, et al. v. R.R. Donnelley & Sons Co.*). The suit also alleges that the company violated the Employee Retirement Income Security Act (ERISA) in determining benefits payable to retiring or terminated employees. On August 14, 1997, the court certified classes in both the age discrimination and ERISA claims limited to former employees of the Chicago catalog operations.

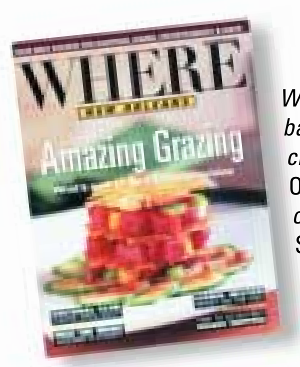
On December 28, 2000, a purported class action was brought against the company and certain of its benefit plans in federal district court in Chicago, Illinois, on behalf of certain former employees of the Chicago catalog operations (*Jefferson, et al. v. R.R. Donnelley & Sons Co., et al.*). The suit alleges that enhanced pension benefits were not paid to plaintiffs and that plaintiffs are being required to contribute to the costs of retiree medical coverage, both in violation of plan documents and ERISA. The complaint seeks recalculation of pension benefits due plaintiffs since their retirement dates, reimbursement of any amounts paid by plaintiffs for medical coverage, interest on the foregoing amounts, as well as a declaration as to the benefits due plaintiffs in the future.

On June 30, 1998, a purported class action was filed against the company in federal district court in Chicago on behalf of current and former African-American employees, alleging that the company racially discriminated against them in violation of Title VII of the Civil Rights Act of 1964 (*Adams, et al. v. R.R. Donnelley & Sons Co.*). While making many of the same general discrimination claims contained in the *Jones* complaint, the *Adams* plaintiffs are also claiming retaliation by the company for the filing of discrimination charges or otherwise complaining of race discrimination. The complaint seeks the same relief and damages as sought in the *Jones* case.

The *Jones*, *Gerlib* and *Jefferson* cases relate primarily to the circumstances surrounding the closing of the Chicago catalog operations. The company believes that it acted properly in the closing of the operations. Further, with regard to all four cases, the company believes it has a number of valid defenses to all of the claims made and will vigorously defend its actions. However, management is unable to make a meaningful estimate of any loss that could result from an unfavorable outcome of any of the pending cases.

In December 1999, the U.S. Environmental Protection Agency, Region 5 (U.S. EPA) issued a Notice of Violation against the company, pursuant to Section 113 of the Clean Air Act (the Act). The notice alleges that the company's facility in Willard, Ohio, violated the Act and Ohio's State Implementation Plan in installing and operating certain equipment without appropriate air permits. While the notice does not specify the remedy sought, upon final determination of a violation, the U.S. EPA may issue an administrative order requiring the installation of air pollution control equipment, assess penalties, or commence civil or criminal action against the company. The company responded to the U.S. EPA on March 10, 2000. The company does not believe that any unfavorable result of this proceeding will have a material impact on the company's financial position or results of operations.

In addition, the company is a party to certain litigation arising in the ordinary course of business that, in the opinion of management, will not have a material adverse effect on the operations or financial condition of the company.



We print and deliver on a monthly basis eight of the Where *magazine city editions, including* Where New Orleans. *Soon we will be expanding our services to include the* Where Seattle *edition.*

RETIREMENT PLANS

The company has seven principal retirement plans: the restated Retirement Benefit Plan of R.R. Donnelley & Sons Company (the main R.R. Donnelley retirement plan); an unfunded Supplemental Benefit Plan; the Merged Retirement Income Plan for Employees at R.R. Donnelley Printing Company, L.P. and R.R. Donnelley Printing Company; the Supplemental Unfunded Retirement Income Plan for Employees of Meredith-Burda Corporation Limited Partnership; the Supplemental Unfunded Retirement Income Plan for Employees of Meredith-Burda Corporation; the Haddon Craftsmen, Inc. Retirement Plan; and the R.R. Donnelley UK Pension Plan.

The company's restated Retirement Benefit Plan (the Plan) is a noncontributory defined benefit plan. Substantially all U.S. employees age 21 or older are covered by the Plan. Normal retirement age is 65, but reduced early retirement benefits are paid to fully vested participants at or after age 55. As required, the company uses the projected unit credit actuarial cost method to determine pension cost for financial reporting purposes. In conjunction with this method, the company amortizes deferred gains and losses (using the corridor method) and prior service costs over the average remaining service life of its active employee population. In addition, a transition credit (the excess of Plan assets plus balance sheet accruals over the projected obligation as of January 1, 1987) is amortized over 19 years. For tax and funding purposes, the entry age normal actuarial cost method is used. Plan assets include primarily government and corporate debt securities, marketable equity securities, commingled funds and group annuity contracts purchased from a life insurance company. In the event of Plan termination, the Plan provides that no funds can revert to the company and any excess assets over Plan liabilities must be used to fund retirement benefits.

In addition to pension benefits, the company provides certain healthcare and life insurance benefits for retired employees. Most of the company's regular full-time U.S. employees become eligible for these benefits upon reaching age 55 while working for the company and having 10 years of continuous service at retirement. The company funds a portion of the liabilities associated with these plans through a tax-exempt trust. The assets of the trust are invested primarily in life insurance covering some of the company's employees.

The following represents the obligations and plan assets at fair value for the company's pension and postretirement benefit plans at the respective year-ends:

	PENSION BENEFITS		*POSTRETIREMENT BENEFITS*	
IN THOUSANDS	***2000***	*1999*	***2000***	*1999*
Benefit obligation at beginning of year	**$ 1,232,803**	$ 1,239,266	**$ 251,714**	$ 240,654
Service cost	**53,068**	54,220	**10,162**	7,742
Interest cost	**85,309**	80,570	**17,600**	12,067
Plan participants' contribution	**800**	659	**2,129**	1,592
Amendments	**—**	10,638	**(14,679)**	(4,223)
Actuarial loss (gain)	**32,107**	(100,892)	**3,699**	8,565
Acquisitions/plan initiations/curtailments	**—**	—	**1,791**	—
Expected benefits paid	**(68,868)**	(51,658)	**(23,036)**	(14,683)
Benefit obligation at end of year	**$ 1,335,219**	$ 1,232,803	**$ 249,380**	$ 251,714

	PENSION BENEFITS		*POSTRETIREMENT BENEFITS*	
IN THOUSANDS	***2000***	*1999*	***2000***	*1999*
Fair value of plan assets at beginning of year	**$ 1,706,091**	$ 1,671,693	**$ 331,347**	$ 317,586
Actual return on plan assets	**193,175**	83,776	**40,448**	13,761
Employer contribution	**3,767**	1,621	**—**	—
Plan participants' contributions	**800**	659	**—**	—
Expected benefits paid	**(68,868)**	(51,658)	**(32,881)**	—
Fair value of plan assets at end of year	**$ 1,834,965**	$ 1,706,091	**$ 338,914**	$ 331,347

Traditional retailers are supplementing their "brick and mortar" showrooms with websites, such as Best Buy's www.bestbuy.com*, created with our Red Rover Digital subsidiary.*

The funded status of the plans reconcile with amounts on the consolidated balance sheets as follows:

IN THOUSANDS	PENSION BENEFITS 2000	PENSION BENEFITS 1999	POSTRETIREMENT BENEFITS 2000	POSTRETIREMENT BENEFITS 1999
Funded status	**$ 499,746**	$ 473,288	**$ 89,535**	$ 79,633
Unrecognized transition obligation	**(53,345)**	(64,484)	**—**	—
Unrecognized net actuarial gain	**(192,892)**	(185,183)	**(75,680)**	(65,817)
Unrecognized prior service cost	**41,083**	44,610	**(21,241)**	(16,093)
Fourth quarter contribution (payment)	**377**	956	**(666)**	(13,092)
Net asset (liability) recognized	**$ 294,969**	$ 269,187	**$ (8,052)**	$ (15,369)

Amounts recognized in the consolidated balance sheets consist of:

IN THOUSANDS	PENSION BENEFITS 2000	PENSION BENEFITS 1999	POSTRETIREMENT BENEFITS 2000	POSTRETIREMENT BENEFITS 1999
Prepaid benefit cost	**$ 323,235**	$ 291,853	**$ —**	$ —
Accrued benefit cost	**(34,882)**	(29,100)	**(8,052)**	(15,369)
Intangible asset	**4,849**	5,943	**—**	—
Minimum pension liability adjustment	**1,767**	491	**—**	—
Net asset (liability) recognized	**$ 294,969**	$ 269,187	**$ (8,052)**	$ (15,369)

The weighted average assumptions used in the actuarial computation that derived the above amounts were as follows:

	PENSION BENEFITS 2000	PENSION BENEFITS 1999	PENSION BENEFITS 1998	POSTRETIREMENT BENEFITS 2000	POSTRETIREMENT BENEFITS 1999	POSTRETIREMENT BENEFITS 1998
Discount rate	**7.25%**	7.25%	6.75%	**7.25%**	7.25%	6.75%
Expected return on plan assets	**9.50%**	9.50%	9.50%	**9.00%**	9.00%	9.00%
Average rate of compensation increase	**4.00%**	4.00%	4.00%	**4.00%**	4.00%	4.00%

For measuring other retirement benefits, a 6.1% annual rate of increase in the per-capita cost of covered healthcare benefits was assumed for 2002 (the trend rate occurring during 2001 to arrive at 2002 levels). The rate was assumed to decrease gradually to 5.0% for 2008 and remain at that level thereafter.

The components of the net periodic benefit cost and total income and expense were as follows:

IN THOUSANDS	PENSION BENEFITS 2000	PENSION BENEFITS 1999	PENSION BENEFITS 1998	POSTRETIREMENT BENEFITS 2000	POSTRETIREMENT BENEFITS 1999	POSTRETIREMENT BENEFITS 1998
Service cost	**$ 53,068**	$ 54,220	$ 42,979	**$ 10,162**	$ 10,322	$ 9,508
Interest cost	**85,309**	80,570	76,037	**17,600**	16,089	15,626
Expected return on plan assets	**(153,683)**	(141,237)	(130,140)	**(26,042)**	(23,734)	(20,671)
Amortization of transition obligation	**(10,763)**	(10,840)	(10,863)	**—**	—	—
Amortization of prior service cost	**3,527**	3,541	2,888	**(7,740)**	(6,345)	(6,345)
Amortization of actuarial (gain) loss	**(763)**	1,011	227	**(845)**	15	—
Net periodic benefit	**$ (23,305)**	$ (12,735)	$ (18,872)	**$ (6,865)**	$ (3,653)	$ (1,882)
Curtailment loss	**—**	6	—	**—**	—	244
Settlement expense	**—**	688	—	**—**	—	—
Total income	**$ (23,305)**	$ (12,041)	$ (18,872)	**$ (6,865)**	$ (3,653)	$ (1,638)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for all pension plans with accumulated benefit obligations in excess of plan assets were $57 million, $40 million and $6 million, respectively, in 2000 and $50 million, $37 million and $8 million, respectively, in 1999.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for postretirement benefits. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects in 2000:

IN THOUSANDS	***1% INCREASE***	***1% DECREASE***
Effect on total of service and interest cost components	$ 102	$ (154)
Effect on postretirement benefit obligation	$ 1,139	$ (1,453)

EMPLOYEE 401(K) SAVINGS PLAN The company has maintained a savings plan that is qualified under Section 401(k) of the Internal Revenue Code. Substantially all of the company's U.S. employees are eligible for this plan. Under provisions for this plan, employees may contribute up to 15% of eligible compensation on a before-tax basis and up to 10% of eligible compensation on an after-tax basis. During 1999, the company introduced a company match. The company generally matches 50% of a participating employee's first 3% of before-tax contributions. The total expense attributable to the match was $11 million and $5 million in 2000 and 1999, respectively.

INCOME TAXES

Cash payments for income taxes were $55 million (net of a $69 million refund related to the 1999 sale of our investment in Stream International, CS&T and MMI), $122 million and $152 million in 2000, 1999 and 1998, respectively. The components of income tax expense for the years ending December 31, 2000, 1999 and 1998, were as follows:

IN THOUSANDS	***2000***	*1999*	*1998*
Federal			
Current	**$ 134,008**	$ 102,086	$ 139,180
Deferred	**1,959**	56,610	35,222
State	**31,117**	36,318	40,323
Total	**$ 167,084**	$ 195,014	$ 214,725

The significant deferred tax assets and liabilities were as follows:

		DECEMBER 31
IN THOUSANDS	***2000***	*1999*
Deferred tax liabilities:		
Accelerated depreciation	**$ 156,818**	$ 171,086
Investments	**45,751**	45,081
Pensions	**126,618**	108,464
Other	**55,013**	52,766
Total deferred tax liabilities	**384,200**	377,397
Deferred tax assets:		
Postretirement benefits	**3,438**	6,563
Accrued liabilities	**82,061**	69,765
Net operating loss and other tax carryforwards	**37,167**	41,145
Investments	**10,606**	9,981
Other	**79,388**	52,427
Total deferred tax assets	**212,660**	179,881
Valuation allowance	**39,818**	41,162
Net deferred tax liabilities	**$ 211,358**	$ 238,678

The company has used COLI to fund employee benefits for several years. In 1996, the United States Health Care Reform Act was passed, eliminating the deduction for interest from loans borrowed against COLI programs. 1998 was the final year of the phase-out for deductions. The Internal Revenue Service (IRS), in its routine audit of the company, has disallowed the $34 million of tax benefit that resulted from the COLI interest deductions claimed by the company in its 1990 to 1992 tax returns.

In two federal trial court decisions involving different corporate taxpayers, the courts disallowed deductions for loans against those taxpayers' COLI programs. A decision involving a taxpayer in another court is imminent, and appeals from the first two decisions have been or are expected to be taken. While the company believes its COLI program differs from those involved in the earlier litigation, should the reasoning of these cases be upheld and applied to others, the company could lose an additional maximum of $151 million in tax benefits for periods from 1993 through 1998. In addition, should all or a portion of the company's COLI deductions ultimately be disallowed, the company would be liable for interest on those amounts. The company's maximum exposure for interest should all prior COLI deductions be disallowed is approximately $67 million after-tax through December 31, 2000.

The company will continue to examine its position with respect to the final resolution of pending cases. During the fourth quarter of 1999, the company recorded an additional tax provision of $51 million ($0.40 per diluted share) related to COLI. The ultimate resolution of these issues may have a material impact on the company's results of operations and financial condition.

Also during the fourth quarter of 1999, the company recognized a tax benefit of $35 million related to the sale of Stream International (see "Divestitures" footnote on page 39 for more details).

The following table outlines the reconciliation of differences between the U.S. statutory tax rates and the rates used by the company in determining net income:

	2000	*1999*	*1998*
Federal statutory rate	**35.0%**	35.0%	35.0%
Sale of Stream International	**—**	(7.1)	—
Foreign tax rates over U.S. statutory rate	**—**	0.6	—
State and local income taxes, net of U.S. federal income tax benefit	**4.7**	4.7	4.4
Goodwill amortization	**0.5**	0.2	0.2
Expense (benefit) resulting from corporate-owned life insurance programs	**1.4**	10.9	(1.3)
Affordable housing investment credits	**(4.5)**	(4.0)	(3.4)
Change in valuation allowance	**(0.6)**	(2.1)	(0.1)
Other	**2.0**	0.3	1.6
Total	**38.5%**	38.5%	36.4%

DEBT FINANCING AND INTEREST EXPENSE

The company's debt consisted of the following:

IN THOUSANDS	DECEMBER 31 2000	1999
Commercial paper and extendable commercial notes	**$ 195,327**	$ 141,521
Medium-term notes due 2001–2005 at a weighted average interest rate of 6.61%	**232,345**	266,000
9.125% debentures due December 1, 2000	**—**	199,934
8.875% debentures due April 15, 2021	**80,821**	80,814
6.625% debentures due April 15, 2029	**198,924**	198,886
8.820% debentures due April 15, 2031	**68,906**	68,902
7.000% notes due January 1, 2003	**109,921**	109,882
Other	**124,586**	102,114
Total	**$ 1,010,830**	$ 1,168,053

Based upon the interest rates currently available to the company for borrowings with similar terms and maturities, the fair value of the company's debt exceeded its book value at December 31, 2000, by approximately $2 million.

At December 31, 2000, the company had available credit facilities of $438 million with a group of U.S. and foreign banks, of which $225 million expires October 10, 2001. The remaining $213 million is a five-year facility that expires December 10, 2003. The credit arrangements provide support for the issuance of commercial paper and other credit needs. As of December 31, 2000, there has been no borrowing under these credit facilities. The company pays an annual commitment fee on the total unused credit facilities of 0.06% for the 364-day facility and 0.08% for the five-year facility.

The weighted average interest rate on all commercial paper and extendable commercial notes outstanding during 2000 was 6.21% (6.54% at December 31, 2000). Annual maturities of long-term debt (excluding commercial paper and short-term debt) are as follows: 2002—$80 million, 2003—$136 million, 2004—$5 million, 2005—$166 million and $352 million thereafter.

The following table summarizes interest expense included in the Consolidated Statements of Income:

IN THOUSANDS	2000	1999	1998
Interest incurred	**$ 94,193**	$ 95,176	$ 83,162
Amount capitalized as property, plant and equipment	**(4,554)**	(7,012)	(4,996)
Total	**$ 89,639**	$ 88,164	$ 78,166

Interest paid, net of capitalized interest, was $91 million, $86 million and $79 million in 2000, 1999 and 1998, respectively.

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EARNINGS PER SHARE

In accordance with SFAS No. 128, *Earnings per Share*, the company has computed basic and diluted earnings per share (EPS), using the treasury stock method.

IN THOUSANDS, EXCEPT PER-SHARE DATA	2000	1999	1998
Average shares outstanding	**122,323**	128,872	139,624
Effect of dilutive securities—options and nonvested restricted shares	**770**	694	2,241
Average shares outstanding, adjusted for dilutive effects	**123,093**	129,566	141,865
Income from continuing operations	**$ 266,900**	$ 311,515	$ 374,647
Basic EPS	**$ 2.18**	$ 2.41	$ 2.68
Diluted EPS	**2.17**	2.40	2.64
Loss from discontinued operations	**$ —**	$ (3,201)	$ (80,067)
Basic EPS	**$ —**	$ (0.02)	$ (0.57)
Diluted EPS	**—**	(0.02)	(0.56)
Net income	**$ 266,900**	$ 308,314	$ 294,580
Basic EPS	**$ 2.18**	$ 2.39	$ 2.11
Diluted EPS	**2.17**	2.38	2.08

STOCK AND INCENTIVE PROGRAMS FOR EMPLOYEES

RESTRICTED STOCK AWARDS At December 31, 2000 and 1999, respectively, the company had 457,000 and 424,000 unvested restricted shares of its common stock granted to certain officers. These shares are registered in the names of the recipients, but are subject to conditions of forfeiture and restrictions on sale or transfer for one to five years from the grant date. Dividends on the restricted shares are paid currently to the recipients. The expense of the grant is recognized evenly over the vesting period.

The value of the restricted stock awards was $12 million and $11 million based upon the closing price of the company's stock at each year-end ($27.00 and $24.81 at December 31, 2000 and 1999, respectively). During 2000, a total of 209,000 shares of restricted stock were issued with a grant date fair value of $5 million. Charges to expense for these grants were $4 million, $3 million and $4 million in 2000, 1999 and 1998, respectively.

STOCK PURCHASE PLAN Prior to 1999, the company had a stock purchase plan for selected managers and key staff employees. Under the plan, the company was required to contribute an amount equal to 70% of participants' contributions, of which 50% was applied to the purchase of stock and 20% was paid in cash. The amount charged to expense for this plan was $9 million in 1998.

INCENTIVE COMPENSATION PLANS In 1998, the company implemented a new management incentive plan designed to provide incentive compensation to senior officers that is closely tied to the creation of value for company shareholders. Awards under the plan are largely based on the achievement of relative total shareholder return and Economic Value Added (EVA®) improvement targets, along with earnings-per-share objectives and other individual and strategic targets. The plan combines aspects of both an annual and long-term plan by using a "banking" feature, in which a portion of the amount earned in the year is paid out to participants and a portion is deferred for payout in subsequent years. The company has accrued for both the portion currently payable and the deferred component. Prior to 1998, the company had both an annual incentive plan and a long-term incentive plan for its senior officers. The company's incentive compensation plans for other officers, managers and supervisors are primarily based on annual improvements in EVA, along with relative total shareholder return and earnings per share targets.

STOCK OPTIONS The company has incentive stock plans for its employees. Under these plans, options vest from one to nine and one-half years after date of grant and may be exercised, once vested, up to 10 years from the date of grant. Under authorized stock incentive plans, a maximum of 3.6 million shares were available for future grants of stock options, stock units and restricted stock awards as of December 31, 2000. The company accounts for employee stock options under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, under which no compensation cost has been recognized. Had compensation cost been determined consistent with SFAS No. 123, *Accounting for Stock Based Compensation*, the company's net income from continuing operations and respective earnings per share would have been reduced to the following pro forma amounts:

IN THOUSANDS, EXCEPT PER-SHARE DATA	***2000***	*1999*	*1998*
Income from continuing operations:			
As reported	**$ 266,900**	$ 311,515	$ 374,647
Pro forma	**251,508**	297,131	358,991
Basic earnings per share:			
As reported	**$ 2.18**	$ 2.41	$ 2.68
Pro forma	**2.06**	2.31	2.57
Diluted earnings per share:			
As reported	**$ 2.17**	$ 2.40	$ 2.64
Pro forma	**2.04**	2.29	2.53

The fair value of each option granted during the year is estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions:

	2000	*1999*	*1998*
Dividend yield	**3.88%**	2.66%	1.98%
Expected volatility	**68.86%**	34.13%	26.51%
Risk-free interest rate	**6.38%**	5.85%	5.28%
Expected life	**10 Years**	10 Years	10 Years

A summary of the status of the company's option activity is presented below:

	2000		*1999*		*1998*	
	SHARES (THOUSANDS)	***WEIGHTED AVERAGE EXERCISE PRICE***	***SHARES (THOUSANDS)***	***WEIGHTED AVERAGE EXERCISE PRICE***	***SHARES (THOUSANDS)***	***WEIGHTED AVERAGE EXERCISE PRICE***
Options outstanding at beginning of year	**13,432**	**$ 34.73**	12,398	$ 34.80	13,958	$ 33.04
Options granted	**6,507**	**21.38**	1,863	34.23	1,627	41.81
Options exercised	**(316)**	**19.79**	(257)	26.18	(2,387)	29.77
Options forfeited	**(1,591)**	**35.28**	(572)	38.29	(800)	33.47
Options outstanding at end of year	**18,032**	**30.13**	13,432	34.73	12,398	34.80
Options exercisable at end of year	**9,239**	**$ 33.71**	8,980	$ 33.10	7,344	$ 31.93
Weighted average fair value of options granted during the year		**$ 10.90**		$ 13.21		$ 15.01

The following summarizes information about stock options outstanding at December 31, 2000:

	OPTIONS OUTSTANDING			***OPTIONS EXERCISABLE***	
RANGE OF EXERCISE PRICES	***SHARES (THOUSANDS)***	***AVERAGE REMAINING CONTRACTUAL LIFE***	***WEIGHTED AVERAGE EXERCISE PRICE***	***SHARES (THOUSANDS)***	***WEIGHTED AVERAGE EXERCISE PRICE***
$20.88–$30.94	10,438	7.18	$ 24.35	4,065	$ 28.83
$30.95–$76.96	7,594	5.93	$ 38.07	5,174	$ 37.54
$20.88–$76.96	18,032	6.65	$ 30.13	9,239	$ 33.71

OTHER INFORMATION Under the stock programs, authorized unissued shares or treasury shares may be used. The company intends to reacquire shares of its common stock to meet the stock requirements of these programs in the future.

PREFERRED STOCK

The company has two million shares of $1.00 par value preferred stock authorized for issuance. The Board of Directors may divide the preferred stock into one or more series and fix the redemption, dividend, voting, conversion, sinking fund, liquidation and other rights. The company has no present plans to issue any preferred stock. One million of the shares are reserved for issuance under the "Shareholder Rights Plan" discussed below.

SHAREHOLDER RIGHTS PLAN

The company maintains a Shareholder Rights Plan (the Plan) designed to deter coercive or unfair takeover tactics, to prevent a person or group from gaining control of the company without offering fair value to all shareholders and to deter other abusive takeover tactics that are not in the best interest of shareholders.

Under the terms of the Plan, each share of common stock is accompanied by one right; each right entitles the shareholder to purchase from the company one one-thousandth of a newly issued share of Series A Junior Preferred Stock at an exercise price of $140.

The rights become exercisable 10 days after a public announcement that an acquiring person (as defined in the Plan) has acquired 15% or more of the outstanding common stock of the company (the Stock Acquisition Date), 10 business days after the commencement of a tender offer that would result in a person owning 15% or more of such shares or 10 business days after an adverse person (as defined in the Plan) has acquired 10% or more of such shares and such ownership interest is likely to have a material adverse impact on the company. The company can redeem the rights for $0.01 per right at any time until 10 days following the Stock Acquisition Date (under certain circumstances, the 10-day period can be shortened or lengthened by the company). The rights will expire on August 8, 2006, unless redeemed earlier by the company.

If, subsequent to the rights becoming exercisable, the company is acquired in a merger or other business combination at any time when there is a 15% or more holder, the rights will then entitle a holder (other than a 15% or more shareholder or an adverse person) to buy shares of the acquiring company with a market value equal to twice the exercise price of each right. Alternatively, if a 15% holder acquires the company by means of a merger in which the company and its stock survives, if any person acquires 15% or more of the company's common stock or if an adverse person acquires 10% or more of the company's common stock and such ownership is likely to have a material adverse impact on the company, each right not owned by a 15% or more shareholder or an adverse person would become exercisable for common stock of the company (or, in certain circumstances, other consideration) having a market value equal to twice the exercise price of the right.

INDUSTRY SEGMENT INFORMATION

The company operates primarily in the commercial print portion of the printing industry, with related service offerings designed to offer customers complete solutions for communicating their messages to target audiences. Substantially all revenues within commercial printing result from the sale of printed products and services to customers in the following end-markets: Long-run Magazines, Catalogs and Inserts; Telecommunications; Book Publishing Services; Financial Services; Specialized Publishing Services; RRD Direct; Premedia; and International, which provides similar products and services outside the United States. The company's management has aggregated its commercial print businesses as one reportable segment because of strong similarities in the economic characteristics, nature of products and services, production processes, class of customer and distribution methods used.

R.R. Donnelley Logistics (Donnelley Logistics) represents the company's logistics and distribution services operation for its print customers and other mailers. Donnelley Logistics serves its customers by consolidating and delivering printed product and packages to the U.S. Postal Service closer to the final destination, resulting in reduced postage costs and improved delivery performance. Following the company's acquisition of certain net assets of CTC in February 2000, the combined operations of Donnelley Logistics and CTC have been included within the reportable segment "Logistics Services" for the year ended December 31, 2000. Prior-year amounts have been restated to reflect the current year presentation (see the "Acquisitions and Investments" footnote on page 40 for more details regarding the acquisition of CTC).

In connection with the acquisition of CTC, the company has changed its presentation of reported operating results for Donnelley Logistics. Previously, net sales of Donnelley Logistics were classified net of transportation costs. For the year ended December 31, 2000, the company reported net sales for Donnelley Logistics on a gross basis, with transportation costs being included as a component of cost of sales. The effect of this change was to increase both net sales and cost of sales by $232 million and $200 million in 1999 and 1998, respectively. There was no impact on gross profit or earnings from operations.

For the year ended December 31, 2000, Donnelley Logistics' operating results include net sales from CTC of $365 million.

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The company has disclosed earnings (loss) from operations as the primary measure of segment earnings (loss). This is the measure of profitability used by the company's chief operating decision-maker that is most consistent with the presentation of profitability reported within the consolidated financial statements. The accounting policies of the business segments reported are the same as those described in the "Summary of Significant Accounting Policies" footnote on page 38.

IN THOUSANDS	*COMMERCIAL PRINT*	*LOGISTICS SERVICES*	*OTHER* [1]	*CORPORATE* [2]	*DISCONTINUED OPERATIONS* [3]	*CONSOLIDATED TOTAL*
2000						
Sales	**$ 5,058,400**	**$ 691,167**	**$ 14,768**	**$ —**	**$ —**	**$ 5,764,335**
Earnings (loss) from operations	**519,688**	**(13,918)**	**(30,532)**	**25,802**	**—**	**501,040**
Earnings (loss) from continuing operations before income taxes	**532,826**	**(14,001)**	**(34,386)**	**(50,455)**	**—**	**433,984**
Assets	**2,963,837**	**246,784**	**31,517**	**672,064**	**—**	**3,914,202**
Depreciation and amortization	**347,644**	**13,267**	**1,512**	**27,979**	**—**	**390,402**
Capital expenditures	**203,234**	**3,478**	**540**	**29,855**	**—**	**237,107**
1999						
Sales	$ 4,904,014	$ 281,468	$ 230,160	$ —	$ —	$ 5,415,642
Earnings (loss) from operations	521,803	8,989	(4,957)	4,592	—	530,427
Earnings (loss) from continuing operations before income taxes	537,835	8,916	(5,775)	(34,447)	—	506,529
Assets	3,122,111	46,253	10,964	674,136	—	3,853,464
Depreciation and amortization	332,514	1,121	16,866	23,881	—	374,382
Capital expenditures	205,630	1,783	12,067	56,346	—	275,826
1998						
Sales	$ 4,743,715	$ 250,749	$ 223,489	$ —	$ —	$ 5,217,953
Earnings (loss) from operations	492,741	7,250	(13,538)	1,965	—	488,418
Earnings (loss) from continuing operations before income taxes	506,878	7,251	(13,688)	88,931	—	589,372
Assets	3,022,631	28,715	94,774	606,521	45,476	3,798,117
Depreciation and amortization	335,739	997	18,126	21,209	—	376,071
Capital expenditures	167,917	1,310	17,079	38,916	—	225,222

[1] Represents other operating segments of the company, including Stream International in 1999 and 1998 (see "Divestitures" footnote on page 39 for more details).

[2] Corporate earnings consist primarily of the following unallocated items: net earnings of benefit plans (excluding service costs) of $86 million, $83 million and $84 million in 2000, 1999 and 1998, respectively, which were partially offset by general corporate, management and information technology costs. In addition to earnings from operations, corporate earnings before income taxes include: 2000 net interest expense of $76 million and a gain on the sale of shares received from the demutualization of the company's basic life insurance carrier of $13 million; 1999 net interest expense of $77 million and gains on the sale of businesses and investments of $43 million; and 1998 net interest expense of $72 million and gains on the sale of the company's remaining interests in two former subsidiaries of $169 million.

Corporate assets consist primarily of the following unallocated items at December 31: 2000—benefit plan assets of $342 million, investments in affordable housing of $143 million and fixed assets of $92 million; 1999—benefit plan assets of $298 million, investments in affordable housing of $139 million and fixed assets of $95 million and refundable income taxes of $77 million; and 1998—benefit plan assets of $285 million, investments in affordable housing of $120 million and fixed assets of $118 million.

[3] See the "Discontinued Operations" footnote on page 39 for more details.

GEOGRAPHIC AREA INFORMATION

IN THOUSANDS	*U.S.*	*INTERNATIONAL*	*COMBINED*
2000			
Sales	**$ 5,135,718**	**$ 628,617**	**$ 5,764,335**
Long-lived assets[1]	**2,287,908**	**419,845**	**2,707,753**
1999			
Sales	$ 4,833,220	$ 582,422	$ 5,415,642
Long-lived assets[1]	2,310,581	313,033	2,623,614
1998			
Sales	$ 4,717,399	$ 500,554	$ 5,217,953
Long-lived assets[1]	2,362,042	280,784	2,642,826

[1] Includes net property, plant and equipment, goodwill and other intangibles, net assets of discontinued operations and other noncurrent assets.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements of R.R. Donnelley & Sons Company and Subsidiaries are the responsibility of management, and those statements have been prepared in accordance with generally accepted accounting principles. All available information and management's judgment of current conditions and circumstances have been reflected. Management accepts full responsibility for the accuracy, integrity and objectivity of the financial information included in this report.

To provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements, management maintains systems of accounting and internal controls, including written policies and procedures, which are communicated to all levels of the company. Management believes that the company's accounting and internal control systems provide reasonable assurance that assets are safeguarded and financial information is reliable. Key employees are periodically given written communications concerning their responsibilities for integrity.

Maintenance of sound internal control by division of responsibilities is augmented by internal audit programs and an Audit Committee of the Board of Directors composed solely of directors independent of management. The Audit Committee reviews the scope of the audits performed by the independent public accountants (Arthur Andersen LLP) and the company's Internal Audit Department, together with their audit reports and any recommendations made by them. In January each year, the Committee reviews the results of the audit for the prior fiscal year with the independent public accountants before the earnings report for such fiscal year is released publicly. The independent accountants have free access to meet with the Audit Committee and the Board of Directors with or without management representatives present.

WILLIAM L. DAVIS
Chairman, President and Chief Executive Officer

GREGORY A. STOKLOSA
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited the accompanying consolidated balance sheets of R.R. Donnelley & Sons Company (a Delaware corporation) and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of R.R. Donnelley & Sons Company and Subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP
Chicago, Illinois
January 25, 2001

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Unaudited Interim Financial Information, Dividend Summary and Financial Summary

IN THOUSANDS, EXCEPT PER-SHARE DATA	*FIRST QUARTER*	*SECOND QUARTER*	*THIRD QUARTER*	*YEAR ENDED DECEMBER 31* *FOURTH QUARTER*	*FULL YEAR*
2000					
Net sales	**$ 1,342,970**	**$ 1,388,805**	**$ 1,433,000**	**$ 1,599,560**	**$ 5,764,335**
Gross profit	**239,435**	**267,721**	**304,146**	**287,561**	**1,098,863**
Income from continuing operations	**46,701**	**56,340**	**92,308**	**71,551**	**266,900**
Net income	**46,701**	**56,340**	**92,308**	**71,551**	**266,900**
Net income per diluted share	**0.38**	**0.46**	**0.75**	**0.58**	**2.17**
Stock market high	**24.31**	**26.69**	**26.75**	**27.00**	**27.00**
Stock market low	**19.00**	**20.13**	**22.13**	**21.38**	**19.00**
Stock market closing price	**20.94**	**22.56**	**24.56**	**27.00**	**27.00**
1999					
Net sales	$ 1,231,404	$ 1,247,483	$ 1,399,400	$ 1,537,355	$ 5,415,642
Gross profit	242,936	259,250	321,655	335,166	1,159,007
Income from continuing operations	45,800	53,674	85,587	126,454	311,515
Loss from discontinued operations, net of income taxes	(1,820)	(1,187)	—	(194)	(3,201)
Net income	43,980	52,487	85,587	126,260	308,314
Net income per diluted share	0.33	0.40	0.67	1.01	2.38
Stock market high	43.81	37.94	36.94	30.25	43.81
Stock market low	32.13	31.38	27.75	22.81	22.81
Stock market closing price	32.19	37.06	28.88	24.81	24.81

Stock prices reflect New York Stock Exchange composite quotes.

DIVIDEND SUMMARY

	2000	*1999*	*1998*	*1997*	*1996*
Quarterly rate per common share*	**$ 0.225**	$ 0.215	$ 0.205	$ 0.195	$ 0.185
Yearly rate per common share	**0.90**	0.86	0.82	0.78	0.74

* Averages (2000—$0.22 first two quarters and $0.23 last two quarters; 1999—$0.21 first two quarters and $0.22 last two quarters; 1998—$0.20 first two quarters and $0.21 last two quarters; 1997—$0.19 first two quarters and $0.20 last two quarters; 1996—$0.18 first two quarters and $0.19 last two quarters).

FINANCIAL SUMMARY

IN THOUSANDS, EXCEPT PER-SHARE DATA	***2000***	*1999*	*1998*	*1997*	*1996*
Net sales	**$ 5,764,335**	$ 5,415,462	$ 5,217,953	$ 5,085,811	$ 5,209,169
Income (loss) from continuing operations	**266,900**	311,515	374,647	206,525	(71,483)
Loss on disposal of discontinued operations	**—**	—	—	(60,000)	—
Loss from discontinued operations	**—**	(3,201)	(80,067)	(15,894)	(86,142)
Net income (loss)**	**266,900**	308,314	294,580	130,631	(157,625)
Per diluted common share**	**2.17**	2.38	2.08	0.89	(1.04)
Total assets	**3,914,202**	3,853,464	3,798,117	4,134,166	4,443,828
Noncurrent liabilities	**1,491,093**	1,511,743	1,447,852	1,730,047	2,044,818

**Net income includes the following one-time items: 2000 gain related to the sale of shares received from the demutualization of the company's basic life insurance carrier of $13 million ($8 million after-tax, or $0.06 per diluted share); 1999 gains on the sale of businesses and investments of $43 million ($27 million after-tax, or $0.20 per diluted share); 1998 gains on the sale of the company's remaining interests in two former subsidiaries of $169 million ($101 million after-tax, or $0.71 per diluted share); 1997 restructuring and impairment charges of $71 million ($42 million after-tax, or $0.29 per diluted share); 1996 restructuring and impairment charges of $442 million ($374 million after taxes and minority interest, or $2.45 per diluted share), and gains on partial divestitures of subsidiaries of $80 million ($48 million after-tax, or $0.31 per diluted share).

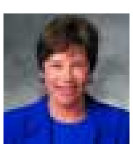
R.R. Donnelley Board of Directors

JOSEPH B. ANDERSON, JR. (2, 5)
57, Chairman and CEO, Chivas Industries, L.L.C., Sterling Heights, Michigan. Director since July 1998. Background: Automotive manufacturing. President and CEO, Composite Energy Management Systems, Incorporated, 1992–1993. General director, Body Hardware Business Unit, Inland Fisher Guide Division, General Motors Corporation, 1990–1992. Directorships: Quaker Chemical Corporation; Meritor Automotive, Inc. Re-election date: 2002.

MARTHA LAYNE COLLINS (1, 3)
64, President, Martha Layne Collins & Associates; Executive scholar in residence, Georgetown College, Georgetown, Kentucky. Director since December 1987. Background: Education, government. President, Martha Layne Collins & Associates, 1988–present. Director of International Business and Management, University of Kentucky, 1996–1998. President, St. Catharine College, 1990–1996. Governor of Kentucky, 1983–1987. Directorships: Eastman Kodak Company; Mid-America Bancorp (dba Bank of Louisville); PURCHASEPRO.com, Inc. Re-election date: 2001.

WILLIAM L. DAVIS (3*)
57, Chairman, president and CEO, R.R. Donnelley & Sons Company, Chicago. Director since March 1997. Background: Print manufacturing, industrial and consumer products manufacturing and marketing. Senior executive vice president, Emerson Electric Company, 1993–1997. Executive vice president, Emerson Electric Company, 1988–1993. Re-election date: 2001.

JAMES R. DONNELLEY (3, 4)
65, Partner, Stet & Query Limited Partnership, Chicago. Director since January 1976. Background: Print manufacturing. Vice chairman, R.R. Donnelley & Sons Company, 1990–2000. Group president, Corporate Development, R.R. Donnelley & Sons Company, 1988–1990. Directorships: Sierra Pacific Resources; PMP Limited. Re-election date: 2003.



JUDITH H. HAMILTON (1, 2)
56, President and CEO, Classroom Connect Inc., Foster City, California. Director since September 1995. Background: Information technology. President and CEO, FirstFloor Software, 1996–1998. President and CEO, Dataquest Incorporated, 1992–1995. Senior vice president and general manager, Systems Division, Locus Computing Corporation, 1991–1992. Directorships: Artistic Media Partners, Inc.; Classroom Connect Inc.; Evolve, Inc.; Lante Corporation. Re-election date: 2002.

THOMAS S. JOHNSON (4, 5*)
60, Chairman and CEO, GreenPoint Financial Corp. and GreenPoint Bank, New York. Director since February 1990. Background: Banking and financial services. President, Manufacturers Hanover Corporation and Manufacturers Hanover Trust Company, 1989–1991. Directorships: Alleghany Corporation; Greenpoint Financial Corp. and GreenPoint Bank; Online Resources & Communications Corporation; Phoenix Home Life Mutual Insurance Company. Re-election date: 2003.

GEORGE A. LORCH (2*, 5)
59, Chairman emeritus, Armstrong Holdings, Inc., Lancaster, Pennsylvania. Director since March 1996. Background: Sales and marketing for consumer and industrial products. Chairman and CEO, Armstrong Holdings, Inc., 2000. Chairman, president and CEO, Armstrong World Industries, Inc., 1994–2000. President and CEO, Armstrong World Industries, Inc., 1993–1994. Executive vice president, Armstrong World Industries, Inc., 1988–1993. Directorships: Household International, Inc.; Pfizer Inc. Re-election date: 2003.

OLIVER R. SOCKWELL (1, 2)
57, Executive-in-residence, Columbia University Graduate School of Business, New York. Director since September 1997. Background: Financial services, insurance, education and government. President and CEO, Construction Loan Insurance Corporation (Connie Lee) and its subsidiary, Connie Lee Insurance Company, 1987–1997. Re-election date: 2001.

BIDE L. THOMAS (1*, 3, 4)
65, Retired president, Commonwealth Edison Company, Chicago. Director since March 1987. Background: Production and sale of electric energy. President, Commonwealth Edison Company, 1987–1992. Directorships: The Northern Trust Corporation. Re-election date: 2002.

STEPHEN M. WOLF (4*, 5)
59, Chairman, US Airways Group, Inc., Arlington, Virginia. Director since January 1995. Background: Airline industry. CEO, US Airways Group, Inc., 1996–1998. Senior advisor to Lazard Fréres & Co., 1994–1996. Chairman and CEO, UAL Corporation and United Airlines, Inc., 1987–1994. Directorships: Philip Morris Companies, Inc.; US Airways Group, Inc. Re-election date: 2001.

1 Audit Committee
2 Corporate Responsibility & Governance
3 Executive
4 Finance
5 Human Resources
* Chairman of Committee

Executive Staff and Principal Officers

WILLIAM L. DAVIS (57; 4)* Chairman, president and chief executive officer since 1997. Senior executive vice president, Emerson Electric Company, 1993 to 1997; management positions, Emerson Electric Company, 1977 to 1993. Various positions, Sears, Roebuck & Company, 1965 to 1977. B.A., 1965, Princeton University.

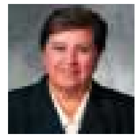
MICHAEL B. ALLEN (41; 19) Executive vice president since 2000. President, Book Publishing Services, 1997 to 2000; president, Information Services, 1996 to 1997; president, Retail Services, 1994 to 1996; president, Merchandise Media sales, 1993 to 1994; management and sales positions, 1982 to 1993. Advanced Management Program, 1996, Harvard University; B.A., 1982, Lawrence University.

JOSEPH C. LAWLER (51; 6) Executive vice president since 2000. President, Merchandise Media, 1996 to 2000; president, Catalog Services, 1995 to 1996; president and chief executive officer, Gander Mountain, Inc., 1992 to 1995; senior vice president, Fingerhut Companies, Inc., 1991 to 1992; chairman and chief executive officer, Lawler Botsford & Company, Inc., 1988 to 1991; executive vice president, CML Group, Inc., 1978 to 1988; product management and financial analysis positions, The Gillette Company, 1973 to 1976. M.B.A, 1978, Harvard University; B.S./B.A., 1973, Northeastern University.

GREGORY A. STOKLOSA (45; 8) Executive vice president and chief financial officer since 2000. Vice president and controller, 1999 to 2000; vice president and treasurer, 1996 to 1999; assistant treasurer of global corporate finance, 1993 to 1996; assistant treasurer, Kraft General Foods, 1988 to 1993; director of planning and business analysis, Dart & Kraft Financial Corp., 1984 to 1988. M.M., 1984, Northwestern University; B.S., 1978, University of Michigan.

MICHAEL W. WINKEL (55; 2) Executive vice president, strategy and planning since 1999. Corporate vice president of global operations and finance, Monsanto Company, 1998 to 1999; corporate vice president of corporate planning and development, Monsanto, 1995 to 1998; senior vice president of operations, Monsanto Chemicals, 1993 to 1995; management positions, Monsanto Company, 1978 to 1993. Advanced Management Program, 1985, Harvard University; B.S., 1968 and M.A, 1971, Western Michigan University.

HAVEN E. COCKERHAM (53; 3) Senior vice president, human resources since 1998. Vice president of human resources, Detroit Edison Company, 1994 to 1998; president, Cockerham, McCain & Associates, Inc., 1991 to 1994; owner, Cockerham Chevrolet-Oldsmobile, Inc., 1989 to 1991; personnel and employee relations positions, General Motor Corporation, 1969 to 1988. M.B.A., 1979, Michigan State University; B.S., 1969, North Carolina A&T State University.



MONICA M. FOHRMAN (51; 22) Senior vice president, general counsel and corporate secretary since 1999. Vice president, law, assistant general counsel and corporate secretary, 1997 to 1999; vice president, law and assistant general counsel, 1994 to 1997; assistant general counsel and assistant secretary, 1991 to 1994; law positions, 1978 to 1991. Program for Management Development, 1989, Harvard University; J.D., 1974, Columbia University; B.A., 1971, University of Illinois.

RICHARD R. McCLISH (53; 3) Senior vice president and chief manufacturing officer since 1998. Manufacturing management positions, General Electric Plastics Division, 1979 to 1998; plant manager, Thermofil, Inc., 1978 to 1979; engineering positions, General Electric Plastics Division, 1972 to 1978; engineer, E.I. DuPont, 1970 to 1972. B.S., 1970, University of Akron.

GARY L. SUTULA (56; 4) Senior vice president and chief information officer since 1997. Senior vice president and chief information officer, Transamerica Financial Services, 1994 to 1997; senior vice president, chief information officer and director of bank operations for retail banking group, American Savings Bank, 1990 to 1994; vice president, First Interstate Bank, 1990 to 1994; independent consultant, 1980 to 1983; senior project manager, First Interstate Bank, 1977 to 1980; management positions, RanierBank, 1968 to 1977. B.A., 1966, Gannon University.

JOHN C. CAMPANELLI (43; 21)*
President, R.R. Donnelley Logistics

FRANCIS R. COSTELLO (43; 18)
President, Magazine Publishing Services

RONALD E. DALY (53; 37)
President, Telecommunications

SUSAN L. HENRICKS (50; 1)
President, RRD Direct

STEVEN R. KOROL (42; 18)
President, Print and Package Services, R.R. Donnelley Logistics

DANIEL L. KNOTTS (36; 15)
President, Specialized Publishing Services

EDWARD E. LANE (49; 25)
President, Book Publishing Services

ROBERT E. LOGAN JR. (43; 9)
President, R.R. Donnelley Latin America

PAUL A. MASTERTON (44; 18)
President, R.R. Donnelley Financial

JAMES T. MAUCK (41; 17)
President, R.R. Donnelley Europe

ROBERT S. PYZDROWSKI (47; 25)
President, Commercial Print Operations

ANDREA ROBERTSON (43; 5)
Vice president and treasurer

MARY LEE SCHNEIDER (38; 9)
President, Premedia Technologies

VIRGINIA L. SEGGERMAN (41; 7)
Vice president and corporate controller

TIMOTHY M. STRATMAN (39; 17)
Senior vice president, strategic sourcing

KIMBERLY D. WILLIAMS (36; 5)
President, Red Rover Digital, Inc.

STEVEN E. ZUCCARINI (44; 21)
President, Merchandise Media

* The numbers in parentheses indicate age and number of years with R.R. Donnelley, respectively.

Glossary

ADVERTISING INSERTS
Ad circulars and printed promotions included in daily and Sunday newspapers.

APPLICATION SERVICE PROVIDER (ASP)
A company that hosts and manages access to a program that helps the user accomplish a specific task.

BINDING
Converting a group of printed sheets into books, catalogs, magazines or personalized communications.

BRAND
The reputation of a company and its products and services.

COLOR MANAGEMENT
Process that makes color more reliable, predictable and realistic.

COMMUNICATIONS EFFECTIVENESS
Moving focused content to select consumers with the least waste, lowest total cost and greatest results.

COMMUNICATIONS SERVICES
Services—including premedia, print, Internet, customization, logistics and more—that help customers extend their brands across multiple media to reach their customers more effectively and efficiently.

COMPOSITION
The process of assembling characters, words, lines and other blocks of type or pages for reproduction.

COMPUTER-TO-PLATE (CTP)
Technology that enables images to be directly transferred to image plates from a computer for offset printing. CTP reduces cycle times, increases flexibility for last-minute changes and improves production efficiencies.

CONTENT
Words, images and data used in a variety of media, including audio and video, to communicate with consumers and businesses.

CONTENT ASSEMBLY
The process of collecting, composing, archiving, repurposing and translating print or electronic communications into one unit.

CONTENT MANAGEMENT
Storing and maintaining digital files.

CUSTOMIZED COMMUNICATIONS SOLUTIONS
An R.R. Donnelley business model that enables customers to use a single source to more easily access and repurpose information, personalize their marketing message and get information to their audiences in the most effective, efficient manner.

CUSTOM PUBLISHING
The process of creating and assembling printed materials compiled from a variety of existing data. The customization can be applied at chapter/section or word level, allowing the user to combine selected text and to reassemble them into any order.

DATABASE MANAGEMENT
The process of organizing and compiling information such as customer name, purchasing history, product preferences and mailing address into data that can be manipulated for various purposes, such as target marketing or a direct-mail campaign.

DATA REPURPOSING
The process of taking data that was originally used for one medium and preparing it for use in another medium.

DIGITAL ARCHIVING
The storage of electronic data.

DIGITAL ASSET MANAGEMENT
An Internet-based technology that provides access to digital files so they can be formatted simultaneously for either print or online use.

DIGITAL IMAGING
The computerized process of capturing words and images in preparation for production and storage.

DIGITAL PREPRESS
The conversion of electronic information about text and graphics into finalized form ready for print or electronic media.

DIGITAL PRINTING
A printing process, such as ink-jet and laser, controlled by a computer, allowing every page to be reimaged or customized.

DIGITIZE
To convert information into a digital (electronic) format.

DISTRIBUTION MANAGEMENT
The process of organizing and preparing materials for distribution in print or electronic form.

DOWNLOAD
To transfer electronic files from the Internet to a computer.

ECONOMIC VALUE ADDED (EVA®)
A financial performance measure that ties revenues and profit growth to that of the marketplace, taking into account the amount of capital investment needed to support the incurred growth. EVA is calculated as net operating profit after taxes, less a capital charge.

EDGAR
Electronic Data Gathering, Analysis, and Retrieval. This system performs automated collection, validation, indexing, acceptance and forwarding of submissions by companies and others required by law to file forms with the U.S. Securities and Exchange Commission (SEC). It increases the efficiency and fairness of the securities market for the benefit of investors, corporations and the economy by accelerating the receipt, acceptance, dissemination and analysis of time-sensitive corporate information.

ELECTRONIC BOOK (E-BOOK)
An electronic device for viewing published materials (books, magazines, newspapers).

ELECTRONIC FULFILLMENT
The process of sorting, personalizing and sending a package of information electronically.

ELECTRONIC PUBLISHING
The distribution of information that is transmitted and reproduced electronically.

E-TAILERS (E-RETAILERS)
Merchandisers who primarily market and sell via electronic formats including the Internet and e-mail.

FACILITIES MANAGEMENT
Day-to-day management of customers' creative production process and schedules.

FILE FORMAT CONVERSION
The conversion of files into specific electronic formats. An example of this is e-book conversion, which takes final book production files and converts them to specific electronic book device formats.

FORMAT
The general makeup or design of printed or electronic material.

GRAPHIC
An illustration that represents an object.

Glossary

(continued)

KITTING AND PACKAGING
The assembly of various components into one unit that can be customized and personalized.

LOGISTICS
Providing distribution and mail management services of printed materials and packages for publishers, retailers and e-retailers, as well as financial services and healthcare companies.

LONG-RUN PRINTING
Press runs for printed materials, such as magazines, in excess of more than 200,000 copies.

MAILING LIST MANAGEMENT
The process that updates and maintains databases of mailing addresses allowing customers to send their printed communication, such as catalogs, to the correct audience.

MAIL MANAGEMENT
The distribution and tracking of printed materials, such as catalogs and magazines, to maximize cost-effectiveness.

MEDIA (MEDIUM)
Various types of communications, such as print and the Internet, that deliver content and graphics to a target audience.

METADATA
Data that is attached to images and associated text elements. Metadata enables an automated search to simplify the process of retrieving and reusing content for both print and the Internet.

MULTIPLE MEDIA OR MULTIMEDIA
Using several different types of communications (print, Internet, TV, etc.) to deliver a message.

MULTIPLE-MEDIA DELIVERY
A service that distributes content and graphics through several different media to a target audience.

PAGE PRODUCTION
The process that prepares artwork, text and other elements to be collected and prepared for printing.

Through our short-run magazine platform, we serve niche publishers with small circulations.

PERSONALIZATION
Using personal information—a name, for example—to increase a consumer's interest in products and services featured in communications such as direct-mail, catalogs and target marketing.

PHOTOGRAPHY
The process of storing images on a computer chip or a sensitized surface (film).

PREMEDIA
The process of creating, managing and preparing content to be published in any medium, including print and electronic formats.

PREPRESS
The process of preparing and assembling text and images for printing.

PRINTING
Reproducing words and images onto paper.

PROCESS VARIABILITY REDUCTION (PVR)
An approach to improving the process by removing variability. Variability can be anything from doing the same task two different ways to a piece of equipment that doesn't always run right. The goal of PVR is to remove variability from the process to produce a more dependable, predictable and consistent process.

PROOF
A sample copy used to evaluate the entire production process prior to production.

RESPONSE TRACKING
Measuring an audience's interest in the content delivered via print or online communications.

RETURNS MANAGEMENT
The process that manages pick-up and transportation of returned items to catalogers and e-retailers.

SHORT-RUN PRINTING
Press runs for printed materials in quantities of 10,000 to 200,000 copies.

SIX SIGMA
A proven program that combines the knowledge of a workforce with advanced statistical tools to help dramatically improve the operations process. It allows companies to identify breakthrough improvements in efficiency and ensure that those improvements are sustained over time. The name comes from statistics, where the Greek letter sigma is used to measure how far something deviates from perfection. Six Sigma means a company tries to make error-free products 99.9997% of the time—a minuscule 3.4 errors per million opportunities.

SMALL PACKAGE DELIVERY
The process of consolidating, processing and delivering packages to regional areas throughout the country. Packages are then transported and entered into the U.S. Postal Service system for final delivery to consumers.

SPECIALIZED PUBLISHING SERVICES
An R.R. Donnelley business unit that provides print and bind as well as value-added services to short-run publishers and catalogers.

TELECOMMUNICATIONS
A segment of the printing industry that develops and prints advertising vehicles, such as telephone directories, for businesses to promote their products and services.

TRANSLATION SERVICES
The process of changing one language into another (for example, English into Spanish).

WEB CONSULTING
The process of creating a strategy that identifies the goals and objectives of a website. This strategy is the key to the design, development and production of a successful website.

WEB EDITORIAL SERVICES
The process of writing and reviewing content for a website.

WEB MARKETING/ANALYSIS
Research and development of marketing/advertising campaigns to promote a website.

WEBSITE DEVELOPMENT
The process of designing and creating a website.

XML TAGGING
Extensible Markup Language. An industry standard language that attaches data tags (metadata) to images and tags and links it to other objects. XML tagging enables an automated search for specific images with associated text elements to simplify the process of creating, distributing and reusing content for both print and the Internet.

ZONE-SKIPPING
Bypassing steps in the postal system to deliver printed products and packages directly to local post offices, allowing neighborhood mail carriers to deliver the last mile to the home.

Additional Information

CORPORATE HEADQUARTERS

RR DONNELLEY & SONS COMPANY

77 West Wacker Drive
Chicago, Illinois 60601-1696
312-326-8000
www.rrdonnelley.com

ANNUAL MEETING OF SHAREHOLDERS

The 2001 meeting will be held at 9:00 a.m. on Thursday, March 22, 2001, at Bank One Center, Monroe and Dearborn Streets, Chicago, Illinois.

STOCK EXCHANGE LISTINGS

Chicago Stock Exchange, New York Stock Exchange, Pacific Exchange.
Symbol: DNY

SHAREHOLDERS OF RECORD

As of December 31, 2000, approximately 9,500

INVESTOR RELATIONS

Shareholders, securities analysts, portfolio managers and representatives of financial institutions seeking information about the company should contact Investor Relations at the company's address (above), by calling 312-326-8000 or via e-mail to investor.info@rrd.com.

FORM 10-K

Form 10-K Annual Report, to be filed with the Securities and Exchange Commission, will contain certain additional information. A copy of our Form 10-K, which will be filed during the first quarter of 2001, may be obtained without charge upon written request to: Monica M. Fohrman, Senior Vice President, General Counsel and Secretary, at the company's address above.

ORDERING ADDITIONAL ANNUAL REPORTS

R.R. Donnelley's 2000 Annual Report also is available online on the company's website at *www.rrdonnelley.com/investor*. Additional printed copies of the report may be obtained without charge by filling out and submitting the form on the website, by writing to Investor Relations at the company's address or by calling 312-326-8018 during business hours.

COMMUNITY RELATIONS ANNUAL REPORT

Copies of R.R. Donnelley's 2000 Community Relations Annual Report, which will be available in April 2001, may be obtained without charge upon request to: Susan M. Levy, Director, Community Relations, at the company's address above. The report also will be available online on the company's website at *www.rrdonnelley.com/public/community*, and may be ordered by filling out and submitting the online form.

ENVIRONMENTAL PROGRESS REPORT

Copies of R.R. Donnelley's Environmental Progress Report, as updated from time to time, may be obtained without charge upon request to: Arthur J. Gibson, Senior Vice President, Environmental, Health and Safety, at the company's address above. The report also is available online on the company's website at *www.rrdonnelley.com/public/environment*, and may be ordered by filling out and submitting the online form.

STOCK TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A.
P.O. Box 2500
Jersey City, NJ 07303-2500

Telephone:
Inside the United States: 800-446-2617
Outside the United States: 201-324-0498

TDD/TTY for hearing impaired: 201-222-4955
(Operators are available Monday–Friday, 8:30 a.m. to 7:00 p.m. Eastern Time. An interactive automated system is available around the clock every day.)

Internet:
www.equiserve.com

DEBT TRUSTEE

Citibank, N.A.
Corporate Trust Services
120 Wall Street
New York, NY 10043

REINVESTMENT AND DIRECT DEPOSIT OF DIVIDENDS

R.R. Donnelley & Sons Company shareholders have the opportunity to increase their holdings through a Dividend Reinvestment Plan, which permits either dividend reinvestment, voluntary cash investments or both, without incurring brokerage commissions or other administrative costs. Also, R.R. Donnelley shareholders may elect to have their dividends directly deposited electronically in a checking or savings account.

Shareholders may request additional information about the Dividend Reinvestment Plan and Direct Deposit of Dividends by writing or calling the Stock Transfer Agent (see above).

INFORMATION CONTACTS

EquiServe Trust Company N.A. Automated Telephone Response Center may be reached 24 hours a day at 800-446-2617. Personnel in the center are available from 8:30 a.m. to 7:00 p.m., Eastern Time, Monday through Friday, and will perform the following functions over the telephone when a shareholder identifies his or her account by providing a taxpayer identification number, registration of the securities and the address of record:

- information regarding stock transfer requirements
- address changes
- replacement of dividend checks
- duplicate 1099 forms and W-9 tax certification forms
- transcripts of shareholder accounts
- duplicate reinvestment statements
- requests for dividend reinvestment brochures and authorization cards
- information regarding the Direct Deposit of Dividends.

Requests for information on topics not covered above should be sent in writing, with reference to the company, to the address noted above for the Stock Transfer Agent and Registrar.

Design: Herring Design   Principal photography: Tom Maday   Portrait photography: James Godman   Printed on recycled paper containing a minimum of 10% post-consumer recovered fiber.

R.R. Donnelley is revolutionizing communications effectiveness.

Our purpose is to enrich lives by connecting people with the power of words and images.

Values:

- Leadership through the relentless pursuit of excellence
- Respect for all, integrity always
- One team committed to common goals
- Customer intimacy and insight
- Leading change through innovation

www.rrdonnelley.com