

RR DONNELLEY

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R.R. DONNELLEY 2002 ANNUAL REPORT

Insight...

R.R. DONNELLEY 2002 ANNUAL REPORT

...into every step of the communication process.

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Our employees are also our customers' customers. Shown here (left to right) are employees Abby Love, Mahesh Bhat, Lani Mah, Toni Thompson, Hannah Porrey (daughter of employee Dan Porrey), Lee Langon,

OUR VALUES

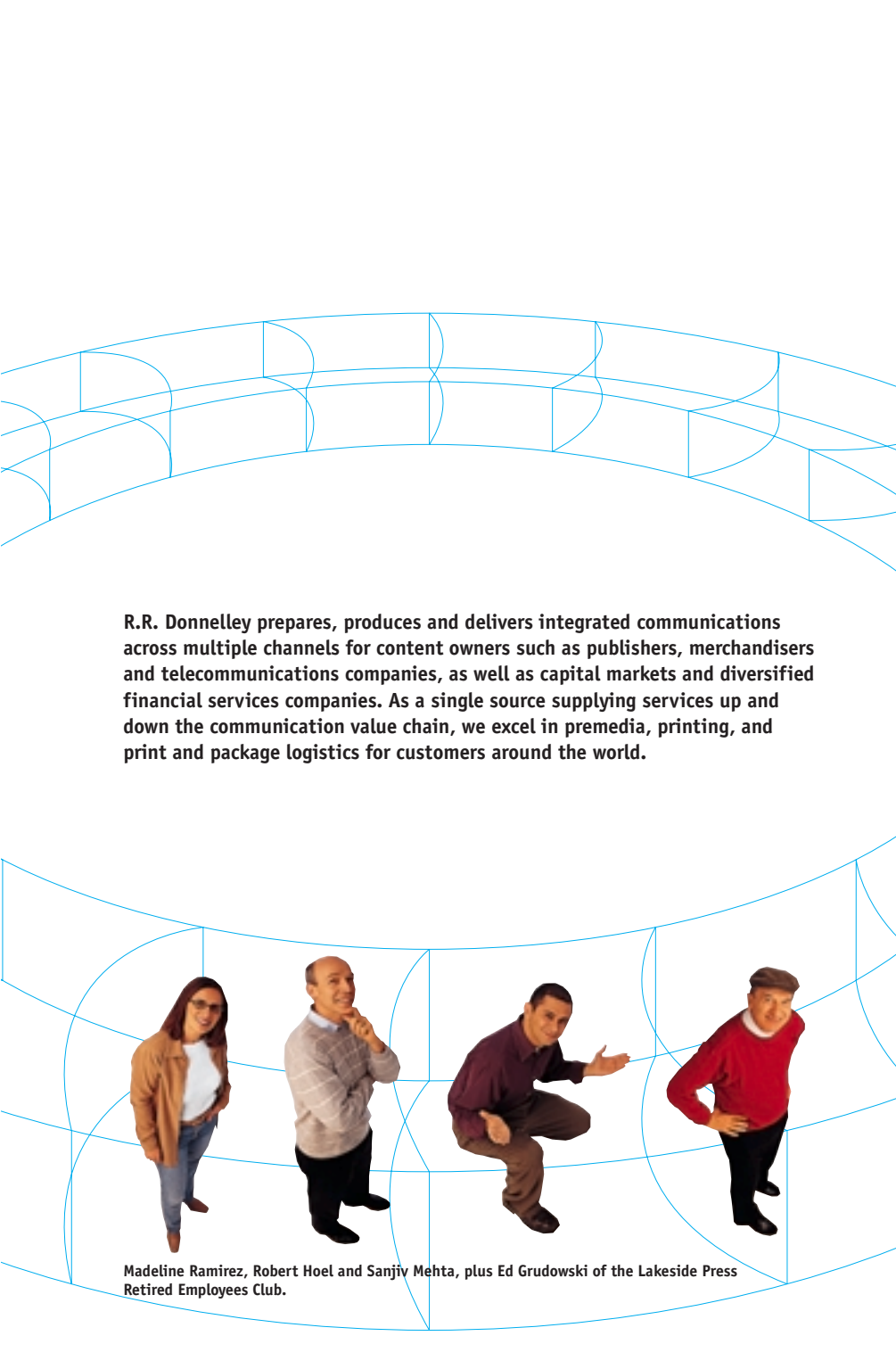
Leadership through the relentless pursuit of excellence
"own the results."

Customer intimacy and insight
"be a partner."

Respect for all, integrity always
"be open; be honest."

One team committed to common goals
"get there together."

Leading change through innovation
"define the future."



R.R. Donnelley prepares, produces and delivers integrated communications across multiple channels for content owners such as publishers, merchandisers and telecommunications companies, as well as capital markets and diversified financial services companies. As a single source supplying services up and down the communication value chain, we excel in premedia, printing, and print and package logistics for customers around the world.



Madeline Ramirez, Robert Hoel and Sanjiv Mehta, plus Ed Grudowski of the Lakeside Press Retired Employees Club.

FINANCIAL HIGHLIGHTS
IN MILLIONS, EXCEPT PER-SHARE DATA AND RATIOS

	2002 % Change		2001 % Change		2000
Net sales	\$4,754.9	(10.2)%	\$5,297.8	(8.1)%	\$5,764.3
Value-added revenue	2,756.4	(8.1)	3,000.5	(9.2)	3,305.3
Gross profit	867.5	(4.7)	910.5	(17.1)	1,098.8
Earnings from operations	244.9	66.3	147.3	(70.6)	501.0
Net income ¹	142.2	468.8	25.0	(90.6)	266.9
Earnings per diluted share ¹	1.24	490.5	0.21	(90.3)	2.17

OTHER FINANCIAL DATA

Net cash flow from operations	\$ 408.9	(25.4)%	\$ 548.4	(26.0)%	\$ 740.6
Operating working capital ³	98.4	(19.7)	122.6	(54.6)	270.0
Free cash flow ⁴	167.3	(39.2)	275.1	(45.4)	503.5
Return on average invested capital ^{1,5}	9.4%	203.2	3.1%	(76.3)	13.6%
Return on average invested capital ^{2,5}	10.4%	4.0	10.0%	(24.2)	13.2%

SHARE INFORMATION

Full year average diluted shares	114.4	(3.5)%	118.5	(3.7)%	123.1
Diluted shares outstanding at Dec. 31	113.6	(1.4)	115.2	(6.1)	122.7
Annual dividend per common share	\$0.98	4.3	\$0.94	4.4	\$0.90

Notes

1. Includes the following significant items affecting comparability: 2002: restructuring and impairment charges of \$89 million (\$54 million after-tax, or \$0.47 per diluted share), benefit from the reversal of excess corporate-owned life insurance (COLI) tax reserves of \$30 million (\$30 million after-tax, or \$0.26 per diluted share), and gain on sale of businesses and investments of \$6 million (\$6 million after-tax, or \$0.06 per share); 2001: restructuring and impairment charges of \$196 million (\$137 million after-tax, or \$1.15 per diluted share), gain on sale of businesses and investments of \$7 million (\$7 million after-tax, or \$0.05 per diluted share), and loss on investment write-downs of \$19 million (\$19 million after-tax, or \$0.16 per diluted share); 2000: gain on 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).

2. Ratio excludes items listed in Note 1 (above).

3. Operating working capital represents receivables, inventories and prepaid expenses, minus accounts payable, accrued compensation and other accrued liabilities.

4. Free cash flow represents net cash flow from operations minus capital expenditures.

5. Computed on 12-month rolling net income divided by a 13-month average of debt and equity.

LETTER TO SHAREHOLDERS

Dear Fellow Shareholder: Two years ago, I used this letter to discuss our strategies for future value growth. And while the last two years have been challenging, the progress we've made on several important programs has been substantial and will increase value in R.R. Donnelley for years to come.

Strategic Direction Our strategies focus on transforming our core print and bind business while also expanding services that provide strong additional value for our customers.

The objective in our print business is to create a platform that can sustain returns above the cost of capital. Commercial print by its nature is asset intensive, and successful companies will be those that most effectively optimize and leverage their assets. At R.R. Donnelley, we are working to set new standards for asset effectiveness in our industry. That effort requires marketing expertise, and we have strengthened our marketing capabilities to ensure we are providing solutions that meet the needs of customers in the markets we serve. We have also made strategic equipment investments and instilled a very strong culture of continuous improvement.

The other key strategy for our company is to expand our suite of services and content management capabilities that are closely aligned with the value chain needs of our customers. Our value-added products and services cover everything from photography and digital asset management to the distribution of printed materials and merchandise.

Our customers are at the heart of our operation, and we are working to give existing customers more reasons to stay with R.R. Donnelley and new customers more reasons to work with us. I believe R.R. Donnelley employees are the best in the industry. Their knowledge and experience provide insight into every step of the communication process, and we share that insight with our customers to help them sell more and save more.

Maintaining Our Focus Our strategies are straightforward, and we have maintained our focus despite an economic downturn that has masked our progress. Many of our key markets have been adversely affected by the economy for the past two years.

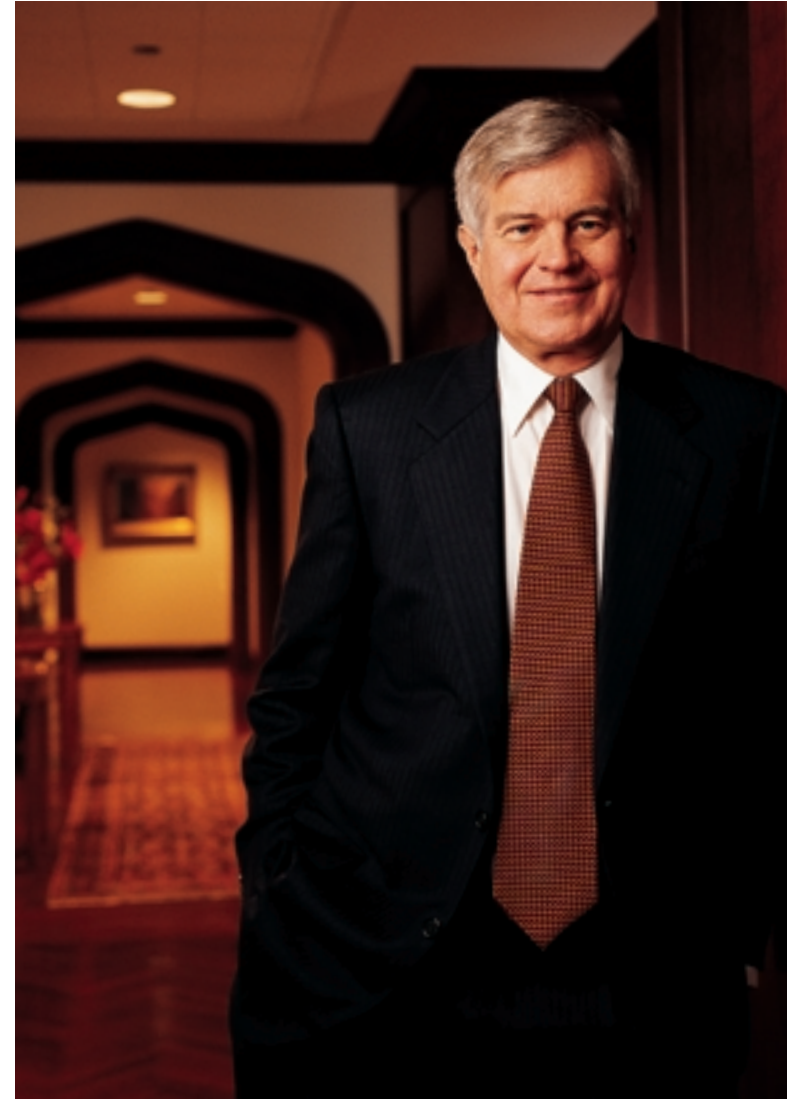
- In the magazine market, advertising pages were down 17 percent over the past two years in consumer magazines, and 33 percent in business-to-business magazines.
- In the catalog/retail market, most catalogs are distributed through the U.S. Postal Service (USPS) via Standard A mail, which has declined 7 percent.
- In our financial business, the best measure of activity in U.S. capital markets is S-filings with the Securities and Exchange Commission. S-filings in 2002 were down 38 percent from 2000.

As a result of the economic conditions, there is substantial overcapacity in our industry, which in turn has led to heavy pressure on pricing and the utilization of fixed assets. In fact, price erosion in our magazine and catalog markets probably represents an inflection point for the commercial print industry; price levels are lower than we have seen in at least 10 years.

Significant Cost Reductions Prior to the economic downturn, we began a major restructuring impacting many of our businesses as part of our transformation strategy. Since then, we have permanently reduced our cost structure by \$175 million, most of it in our core print business. Unfortunately, the value created by the restructuring has not translated into improved earnings per share; it has been offset by the economy and pricing pressures. Even so, restructuring is a key step in our effort to solidify our ability to earn excellent returns. The investments we've made are on target, and the results can best be seen in the substantial 100 basis point improvement in gross profit margin in 2002—even though sales were down 10 percent.

Overall, R.R. Donnelley has remained in excellent financial condition throughout the difficult economic environment of the past two years. We have a strong balance sheet, and we

William L. Davis
Chairman, President and Chief Executive Officer



anticipate that cash flow from operations will continue to be more than sufficient to fund capital expenditures and dividend payments.

Progress in Printing and Premedia The improvement in our gross margins is gratifying, and I am also excited about a number of other developments:

- We have substantially upgraded our print equipment base since 2001, retiring 21 older presses and closing five plants while investing in new presses and the expansion of four other plants. Reorganizing into larger, strategically positioned plants makes us more efficient in meeting customer needs.
- We accelerated the use of continuous improvement tools in our manufacturing operations to enhance quality and standardize processes. We did not invent these tools, but we were the first to bring them to the commercial print industry.
- We have significantly expanded our premedia product and service offerings. No one else can match the integrated suite of premedia services we offer. I am particularly pleased with the number of new customers who have come to us for content management services even though we do not currently do printing for them. Another exciting development in 2002 was the opening of our first Digital Solutions Center (see page 18).
- We are providing telecommunications and technology customers with a solution to meet their needs for flexible, just-in-time production of manuals for cellular phones and other electronic devices. This is a relatively new market for us, and already we are serving large customers at locations around the world.

Growth in Logistics Our logistics business delivers packages and printed materials for our customers, primarily through the USPS. By efficiently delivering materials deep into the postal system, we are able to help our customers substantially reduce distribution costs while also ensuring more timely delivery.

I am proud of our progress in developing this business. The package logistics business was a new venture for R.R. Donnelley

in 2000, and although the markets we serve have been down consistent with the economy the last two years, we saw our package delivery business grow. Our package volume increased 26 percent in 2002, and we continue to make investments to enhance customer service and increase capacity. We implemented an online tracking system in 2002, and we will open a new distribution facility in York, Pennsylvania, in mid-2003.

Transforming Financial Services In 2002, we began the transformation of our financial services business. Activity in capital markets has been at its lowest level since the early 1990s, and we have taken this opportunity to analyze this business and assess the role of the financial printer. We already provide exceptional customer service. Our transformation will provide us with a more flexible and lower cost structure, as well as the ability to provide customers with solutions that more clearly differentiate R.R. Donnelley from competitors.

International Opportunities In our international business, we are well positioned to serve customers whose worldwide reach requires a global partner that can ensure high quality and timely production. We focus on emerging markets where our experience and expertise in commercial printing can have a significant impact on the way commerce is conducted. I am particularly excited about our growth in Eastern Europe and China, two of our key international markets.

We opened a second printing plant in Poland in mid-2001. That plant operated at full capacity in 2002, and our operating earnings increased by 180 percent in Poland. In 2002, we opened a second plant in China, and we are very excited about the growth potential of that market. Our two plants in China are supplemented by a range of complementary services, including premedia. This platform will allow us to serve customers from China and around the world that want to reach the China market or produce there for export to other countries.

Technology is Key Technology is essential to the success of many companies, and at R.R. Donnelley, it has an impact on two fronts. It is the foundation for many of the products and services we provide to customers—particularly in our premedia, financial services and logistics businesses. We also use it in our manufacturing operations to manage our printing presses and binding lines so we can optimize scheduling, assess performance and monitor continuous improvement programs. In either case—whether we embed technology in new products or use it to streamline operations—our customers benefit.

Our Employees I'd like to take a moment to acknowledge the outstanding contributions of our employees. The economic environment and the changes we've made in our businesses have been challenging for our people. They have been asked to learn new skills, adopt a new culture and operate in a very constrained cost environment—all at the same time. Our employees have responded magnificently, and for that effort, they have my greatest appreciation and respect.


Like everybody else, I have watched with concern as issues involving questionable ethics surfaced at several companies in 2001 and 2002. We are fortunate at R.R. Donnelley that our founders and their successors have always stressed the highest degree of integrity throughout our 138-year history. As CEO, I am blessed to be in an environment where our employees understand the importance of doing the right thing in the right way.

We are also fortunate to have a Board of Directors that understands the importance of responsible corporate governance. Our Board has had a majority of independent Directors for many years, and they bring a wealth of knowledge and experience to our company. Our Directors also help set the right "tone at the top"—one that emphasizes the importance of early identification of issues, open and honest communication, and integrity—and they serve as excellent role models for the R.R. Donnelley management team.

Outlook Looking ahead, it's my view that market conditions will remain difficult in 2003. In financial markets, we see no particular events likely to spark an upturn. Meanwhile, many of our retail and consumer catalog customers are coming off their weakest fall selling season in years. The softness throughout many industries has also weakened confidence and increased unemployment. These factors are reflected in the input we're receiving from our customers as they guide us on their expected print needs for 2003, and it appears we are headed for the third consecutive year of down market conditions. Although our volumes should be up modestly, driven by recent sales successes, we'll continue to suffer from pricing erosion. As a result, we're redoubling our efforts to achieve additional cost improvements.

Longer term, R.R. Donnelley is committed to grow and prosper. We have enviable relationships with owners of some of the world's most recognizable brands, and we have expanded our products and services to help our customers be even more efficient and effective. Furthermore, I believe our people have the insight, knowledge and experience to help our customers grow and prosper. In the months and years ahead, we will maintain our focus on the customer, and we will strive to deliver on our commitments to our customers, our shareholders, our communities and each other.

Sincerely,



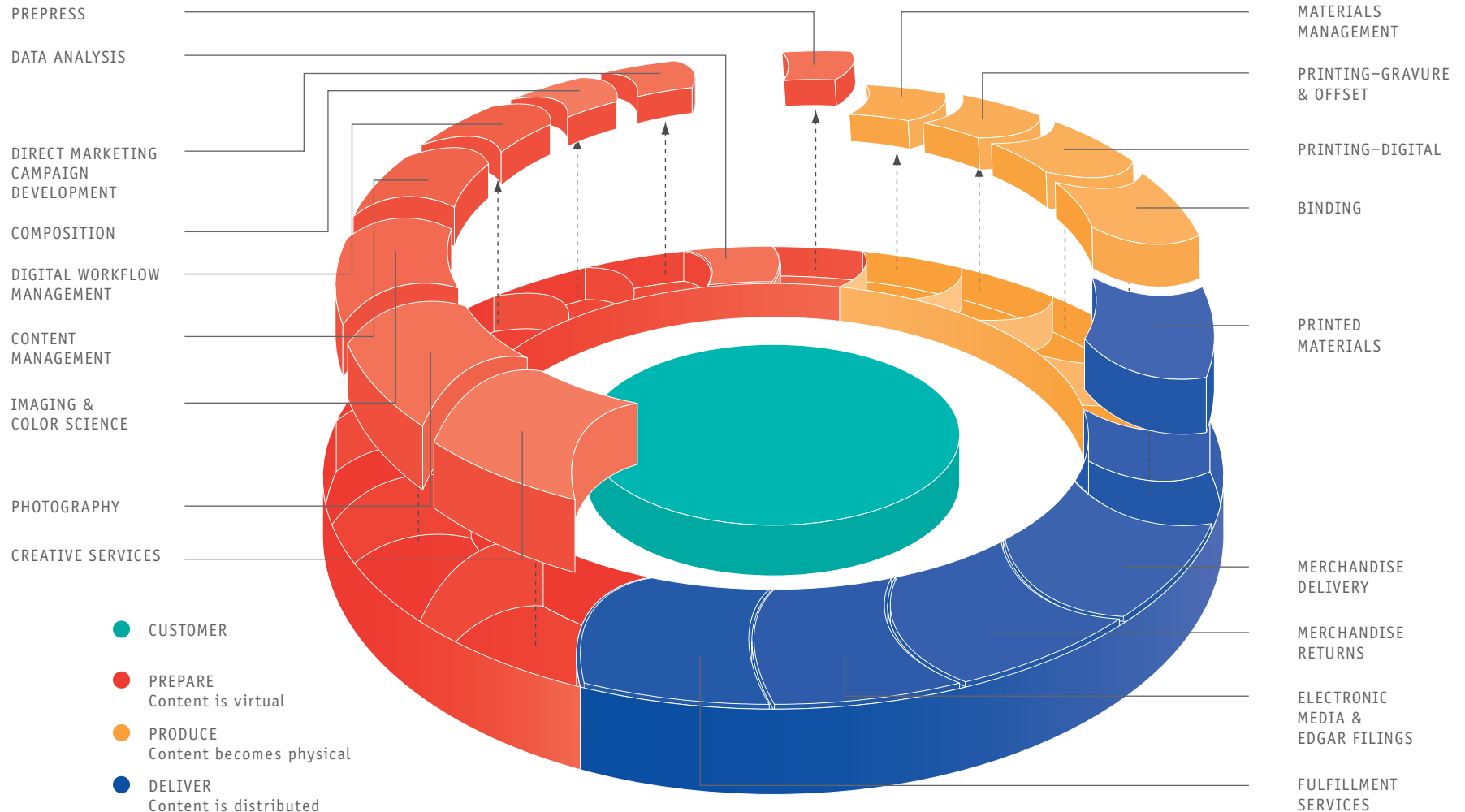
William L. Davis
Chairman, President and Chief Executive Officer
February 12, 2003

CAPABILITIES OVERVIEW

R.R. DONNELLEY: INSIGHT INTO EVERY STEP OF THE COMMUNICATION PROCESS

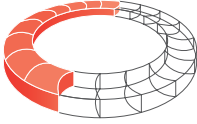
R.R. Donnelley provides products and services covering all aspects of the communication value chain—and then some. We help customers around the world prepare and produce effective communications, and then efficiently deliver these as well as merchandise to their customers. We excel at simplifying large, complex projects and processes, and at simplifying life for our customers.

Our products and services are available a la carte, or they can be bundled to meet specific needs or provide comprehensive and integrated solutions. Shown here is an example of products and services that have been bundled for one of the world's leading publishers of books and magazines.





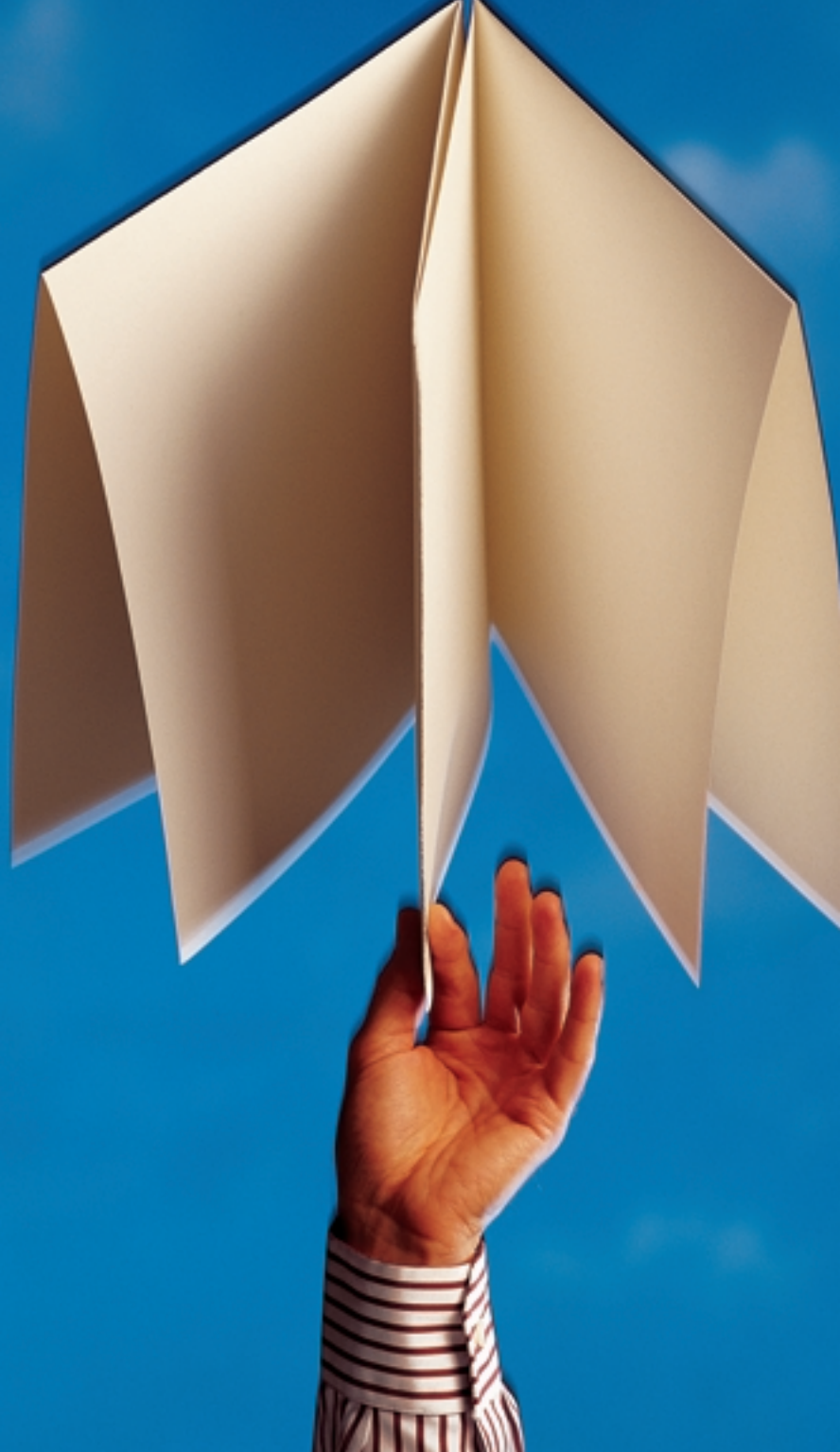
We help our customers prepare...



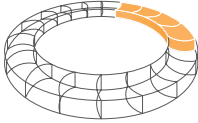
Every project starts with the metaphorical blank sheet of paper. A customer has a story to tell, information to convey, knowledge to share or merchandise to sell. They come to us early in the process because they know planning and preparation save time and money. And because they know we do those things extremely well.

Developing a catalog, for example, might seem like a straightforward proposition—until you consider the hundreds or even thousands of images involved, and the fact that those images might be reproduced in multiple communications vehicles at multiple locations at various times by various people. Suddenly, it becomes a very complex process to manage those images and ensure color consistency and quality reproduction—while still meeting a tight production schedule.

That's where R.R. Donnelley comes in. One of the ways we provide value to our customers is by simplifying complex processes—which means our customers can spend less time worrying about production and more time focusing on the other things that make money for them.



...produce...



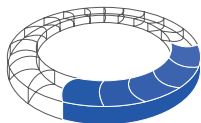
Once a customer has prepared content for production, the question is how to produce it...and when...and where. R.R. Donnelley has answers to all of these questions.

When it comes to how to produce, our extensive capabilities in print and bind allow us to handle a wide range of customer needs. When and where to produce are also critical questions for our customers. If we can provide an extra day or two through more efficient preparation, production and delivery, that translates into extra time for a magazine publisher to sell more advertising, or for a catalog retailer to fine-tune pricing, or for a book publisher to determine demand.

Over the past few years, we have done a lot to give our customers more time, improve quality and lower supply chain costs by investing in the equipment, processes and people to create the print platform of the future. We have added equipment that enhances our ability to satisfy customer needs for product flexibility, personalization and targeting. We have established and enhanced business processes to offer our customers more uniform and timely products and services across our network of plants. We have invested in our people to enhance their skills and improve service distinctiveness. And we have made significant progress in supply chain management, resulting in reduced costs and improved quality for our customers. We're using these improvements in time, quality and supply chain costs to raise the bar on customer service.



...and deliver!



When does a book become a book? When it's written? When it's printed? When it's read? Or when it stimulates an action or changes a mind? The same can be asked of a magazine, a catalog, a financial prospectus, a website or a direct mail piece. The point is that it's not enough to prepare and produce. To be effective, a communication must be delivered in the right format to the right audience at the right time.

R.R. Donnelley has exceptional expertise when it comes to delivering. We've been delivering printed materials and handling fulfillment for decades, and in recent years, we've expanded on that expertise to create a logistics business that provides print and package delivery services.

Our logistics business is an important and growing part of R.R. Donnelley. We have a strong relationship with the U.S. Postal Service (USPS), and we've leveraged our competencies in logistics to become the nation's leading distributor of catalogs, magazines, books, direct mail and packages.

What is Digital Asset Management?

R.R. Donnelley developed the following tools to help customers manage words and images more efficiently:

- ImageMerchant® allows customers to store, search, retrieve and repurpose images via a secure Internet site.
- Photo-Flow™ allows customers to participate in photo shoots from the office or around the globe via the Internet.
- PubSpring™ facilitates the reuse of content in print, Internet, wireless and syndication channels.
- AdSpring® stores, tracks and retrieves digital advertisements for reuse of ads across issues and titles.

Ace is the Place

R.R. Donnelley is partnering with Ace Hardware to develop a custom workflow management and digital asset management system for Ace's advertising. As part of the relationship, R.R. Donnelley has employees on-site at Ace, and we will be responsible for all of Ace's creative services and page production—areas most printing partners don't enter.

It Pays to Prepare

From a customer's initial idea to the final product, there are many steps in developing effective communications. And whether it's a magazine or a catalog, a book or a directory, a prospectus or a direct mail piece, R.R. Donnelley is here to provide insight from our years of experience and to help our customers every step of the way. Our expertise includes planning and executing direct marketing campaigns—from strategy, data analysis and targeting, through production, measurement and refinement.

Largest Provider of Digital Photography

One of our greatest strengths is our comprehensive and integrated premedia services—everything a customer needs to prepare content for print or electronic communication. We are not only the largest provider of digital photography in North America, we are also experts at managing color quality and image consistency. In addition, we are at the forefront of digital asset management technology, which makes it easier for customers to reuse their content. For example, over 1,000 retail and catalog customers use ImageMerchant to manage product information across their print, retail and Internet marketing channels. We also provide on-site management of premedia services for customers.

Digital Workflow Platform: Better, Easier, Faster

In April 2002, R.R. Donnelley opened its first Digital Solutions Center in Pontiac, Illinois, and announced plans to move its entire print platform to standardized digital workflow and

Reader's Digest:

Preparing Locally, Producing Globally

Reader's Digest Association, Inc. is partnering with R.R. Donnelley to prepare and produce more efficiently. We were selected to manage premedia services at Reader's Digest headquarters in Pleasantville, New York. The services include digital photography, scanning, color retouching, proofing and output. Reader's Digest also relies on R.R. Donnelley to print its magazines, books and materials at locations around the world.

"R.R. Donnelley is an important contributor to our success," says Chris Reynolds, Vice President Operations, Global Product for Reader's Digest in London. "R.R. Donnelley's combination of global reach and local facilities gives us an ideal platform to produce our magazines, and allows us to enjoy the benefits of scale across all our titles, regardless of individual print run."



file format specifications. Book publishing customers began using the digital workflow platform in 2001, and the new Digital Solutions Center provides services to manage files and advertising for trade, association, business-to-business and special interest publication customers. The benefits of the digital workflow platform include improvement in presswork quality, ease of use for customers, and faster job turnaround time. Magazine customers, for example, save up to three days of cycle time, which gives them three more days to sell advertising.

We currently serve 700 magazine customers who produce more than 1,100 titles on our new digital workflow platform. Half of those customers also use AdSpring, an optional tool developed by R.R. Donnelley to digitally manage advertisements. In just over five months, customers stored more than 35,000 advertisements in our AdSpring database—and our customers' advertisers are starting to use our system to do online proofing.

Insight, Knowledge and Experience

One of the things that sets R.R. Donnelley apart from competitors is that our employees bring unparalleled levels of insight, knowledge and experience to every project. For a direct mail piece, we use our insight to help assess past communication efforts and drive up response rates. If the job is a financial communication, we use our knowledge of capital markets around the world to help our customers meet financial regulations. For a catalog, our experienced employees can help customers manage color quality and consistency, and plan the most efficient means of production.

Tony Myrie
R.R. Donnelley





The Insight to Prepare

R.R. Donnelley employees have the insight to help customers prepare effective communications. Whether it's for a publication, a multi-channel marketing campaign, or a lifetime of learning and exploration, it pays to prepare.

Delivering Value to Financial Customers

R.R. Donnelley plays a significant role in the capital raising and regulatory process worldwide. We have offices in key financial centers around the world to help customers with everything from initial public offerings to mergers and acquisitions, from secondary offerings to debt transactions, and from disclosure compliance to complex deal management.

We also provide innovative new products for our customers. In 2002, we introduced EDGAR NET.filer to help clients meet accelerated SEC filing requirements, and we worked with Microsoft and Morgan Stanley to file the first-ever EDGAR documents containing extractable eXtensible Business Reporting Language (XBRL). XBRL provides the ability to file financial information quickly, consistently and transparently using a framework that can be customized to meet industry and internal needs.

Printing—Our Foundation

After the preparation is done, it's time to assemble the content into a cohesive, quality communication that will result in the desired action. It's time to produce.

Our print capabilities remain the foundation of our company, and we serve a "Who's Who" of customers in the following markets:

- Magazines, catalogs and retail inserts: We are a leader in the North American magazine, catalog and advertising insert markets. Our U.S. customers include the majority of the top 10 magazine titles, and a majority of the largest consumer catalog companies and retailers.
- Telecommunications: We are the global leader in telephone directory printing. In the United States, we print 1,400 directories totaling 330 billion pages a year. We also serve leading directory publishers in global markets, and we produce manuals for cellular phones and other electronic devices.
- Books: We are the leader in the North American book market, serving most of the top 10 U.S. book publishers, and we typically print more than 50 percent of *The New York Times* best-seller titles and about one-third of all U.S. textbooks.
- Financial markets: We work with corporations, investment banks and securities law firms on some of the world's largest financial transactions. We also provide compliance and marketing communications for financial services companies.
- Direct mail: We are a leading provider of direct mail services in the United States, offering a range of services for large and complex direct mail jobs.

Meredith Corporation Renews Multi-Year Contract

One of the highlights of 2002 for R.R. Donnelley was the renewal of a multi-year contract to print a host of Meredith publications, including *Better Homes and Gardens* and *Ladies' Home Journal*. We will also print self-help books published by Meredith, covering topics such as home improvement, gardening and cooking.

"R.R. Donnelley understands our business and our brand," says Bruce Heston, Vice President of Manufacturing for Meredith. "As a leader in the publishing industry, it is important for us to align with a partner who understands our needs and is committed to consistently delivering the highest quality and service." All told in 2002, R.R. Donnelley renewed more than 95 percent of the magazine work scheduled for renewal, and gained share in a down market.



International Markets

R.R. Donnelley has a strong presence in North America, and we also serve key markets in Europe, Latin America and Asia through our international operations. We focus on emerging markets where our experience and expertise in print manufacturing and related services can have a significant impact on communication.

In all our plants around the world, we follow the same high standards for ethics, environmental care and employee safety. We are particularly proud of the Shenzhen Donnelley Bright Sun printing plant in Shenzhen, China, which has achieved more than 5 million work-hours without any employees missing a day of work due to injury.

Transformation

In the last couple of years, we've been transforming our print operations to give customers more reasons to do business with R.R. Donnelley. When phase one is complete in 2003, we will have standardized and streamlined our operations into an integrated technology platform. We're seeing significant productivity and service quality benefits from these programs already—programs that will pay dividends for years to come.

Supply Chain Management: Raising the Bar on Quality
 One of the ways R.R. Donnelley helps customers prepare and produce more effective communications is through advanced supply chain management. In 2000, we launched a focused effort to measure and improve the performance of the print supply chain, starting with paper. We introduced Six Sigma continuous improvement methodology to our supply chain and implemented joint quality improvement and supply chain integration projects. We are now expanding this effort to other critical materials and services.

As part of our transformation, we've implemented continuous improvement, service quality and cost-reduction initiatives, and we're developing strong marketing practices. We also have a high-performance culture that embraces teamwork and accountability. The result is that we are able to provide more than just print and bind. By getting closer to our customers and better understanding their needs, we are able to provide solutions that help our customers save more and sell more. We are dedicated to creating compelling service solutions for customers in industries served by our print business.

Our financial services business has been adversely affected by the economy in the last couple of years, and we've taken strong actions to restructure that business. When we are done, we will have solutions that clearly differentiate us from our competitors, with greater operating flexibility, a lower cost structure and superior customer service.

Continuous Improvement

A key element of our transformation in printing has been the adoption of numerous continuous improvement tools and standards.

Over the last two years, we have brought best practices in manufacturing concepts, analytical techniques and process management to our industry. The result has been significant increases in print capacity, quality and safety. Listed below are examples of the tools and standards we use:

- Six Sigma methodology is particularly useful in identifying opportunities and problems

Aetna Selects R.R. Donnelley for Three-Year Contract
 In 2002, R.R. Donnelley was awarded a three-year fulfillment contract for all of Aetna's national accounts. That means fulfilling more than 4 million information kits annually and digitally printing more than 50 million documents per year. In addition, we are managing the logistics of moving freight from all of Aetna's print vendors to our fulfillment warehouses.



and in analyzing solutions, thereby improving processes.

- Process Variability Reduction (PVR) is an approach to improving the process by reducing variability. The goal is to develop a more dependable, predictable and consistent process.
- Transactional PVR takes the concept of PVR from manufacturing and applies it to transactions with customers.
- Total Productive Maintenance (TPM) is the effective management of business assets in order to produce the highest yield and utilization on a continuous basis.
- 5S standards—sort, set in order, shine, standardize and sustain—help ensure a clean and safe work environment.
- International Standards Organization (ISO) guidelines are used to manage product and service quality. We are certifying quality processes under ISO9000, and environmental processes under ISO14001.

Laura Macias
R.R. Donnelley



**The Knowledge
to Produce**

R.R. Donnelley employees know how to produce effective communications. Our knowledge and insight come from 138 years of experience and from operating manufacturing plants to serve markets around the world.



Postal Reform

One of the ways R.R. Donnelley delivers value to customers is by being an advocate on important industry issues. As a member of the Mailing Industry CEO Council, R.R. Donnelley CEO Bill Davis has been a vocal supporter of postal reform. In 2002, President Bush formed a Presidential Postal Commission to consider reforms in the nation's postal system.

"A vibrant economy requires a vibrant postal system," says Davis. "That means fundamental change that makes the system as essential to growth in the new economy as it was in the old."

The Last Mile

Distribution is a significant cost for our customers, and our ability to deliver mail and packages more predictably and cost-effectively than competitors is one of the most important ways we provide value to our customers. We offer a wide range of solutions that maximize economy, efficiency and response, and enable customers to focus on their core business.

20 Billion + 160 Million = Growth

We provide delivery solutions for leading catalogers, e-retailers, publishers and financial services firms. In 2002, we directed the distribution of more than 20 billion print and mail pieces, and more than 160 million packages.

We save our customers time and money by delivering materials as deeply as possible into the postal system, bypassing numerous postal handling and processing steps, and qualifying our customers for significant postal discounts. We can then track delivery as the postal service handles the last leg of delivery to the home. The results are lower costs, more reliability and more timely delivery for our customers.

Largest USPS Commercial Partner, Largest Consolidator of Packages

Our logistics services include:

Print Services: We provide sophisticated distribution and mail management services for major publishers, catalogers and other direct marketers. As the first and now the largest commercial business partner of the

R.R. Donnelley

Recognized as Top Vendor

- Target Corporation presented its Vendor Award of Excellence to R.R. Donnelley, commending our innovative leadership, superior execution and commitment to enhancing the Target brand. Target also renewed a multi-year contract with R.R. Donnelley to provide print and logistics services for Mervyn's as well as pre-media, print and logistics services for Target and Marshall Field's.
- Leslie's Poolmart, Inc., the world's largest retailer of swimming pool supplies, awarded 2002 Vendor of the Year honors to R.R. Donnelley. The honor was particularly noteworthy because it was the first time in the history of Leslie's Poolmart that the award was not given to a vendor of pool supplies.

USPS, we leverage our volume and expertise to ensure customers' magazines, catalogs, books, direct mail and other printed materials are distributed in the most timely, efficient and cost-effective manner.

Package Services: We are the largest consolidator of small packages to homes in the United States. Through a nationwide network of strategically located distribution centers, we are able to quickly and efficiently manage customer package volumes and enter this merchandise into the postal system for "last-mile" delivery. This process saves our customers up to 25 percent versus other standard ground services. In addition, we provide return management to handle and process returned merchandise.

New Consolidation Center to Open in 2003

We are enhancing our consolidation and distribution network by opening a 670,000-square-foot facility in York, Pennsylvania. The new center is expected to be operational by mid-2003, and is part of our strategy to continuously improve service and expand capacity.

The facility will consolidate operations in the northeastern United States. Customers will see service improve by up to two days within the region, and by one day for the balance of the country. The new facility will also increase our capacity by approximately 40 million packages per year.



Dan Porrey
R.R. Donnelley

The Experience
to Deliver

R.R. Donnelley
employees have the
experience to
deliver more than
printed materials and
more than packages.
We deliver results.



BOARD OF DIRECTORS

Joseph B. Anderson, Jr. (1, 2)
59, Chairman and CEO, Vibration Control Technologies, L.L.C., Troy, Michigan. Director since July 1998. Background: Automotive manufacturing. Directorships: Quaker Chemical Corporation; ArvinMeritor Automotive, Inc.; MDL Capital Corporation. Re-election date: 2005.

Gregory Q. Brown (1, 2)
42, Executive Vice President, Motorola, Inc., and President and CEO, Commercial, Government and Industrial Solutions Sector, Motorola, Inc., Schaumburg, Illinois. Director since November 2001. Background: Information technology and telecommunications. Directorships: Micromuse, Inc. Re-election date: 2003.

Martha Layne Collins (1, 2)
66, President, Martha Layne Collins & Associates; Executive scholar in residence, Georgetown College, Georgetown, Kentucky. Director since December 1987. Background: Education, government. Directorships: Eastman Kodak Company; Mid-America Bancorp (dba Bank of Louisville); PURCHASE-PRO.com, Inc. Re-election date: 2004.

William L. Davis (3*)
59, Chairman, president and CEO, R.R. Donnelley, Chicago. Director since March 1997. Background: Print manufacturing, industrial and consumer products manufacturing and marketing. Directorships: Marathon Oil Corporation. Re-election date: 2004.

James R. Donnelley (3, 4)
67, Partner, Stet & Query Limited Partnership, Chicago. Director since January 1976. Background: Print manufacturing. Directorships: Sierra Pacific/Resources; PMP Limited. Re-election date: 2003.

Judith H. Hamilton (1, 2*)
58, Retired president and CEO, Classroom Connect Inc., division of Harcourt Inc./Reed

Elsevier PLC, Foster City, California. Director since September 1995. Background: Information technology. Directorships: Artistic Media Partners, Inc. Re-election date: 2005.

Thomas S. Johnson (4, 5*)
62, Chairman and CEO, GreenPoint Financial Corp. and GreenPoint Bank, New York. Director since February 1990. Background: Banking and financial services. Directorships: Alleghany Corporation; GreenPoint Financial Corp. and GreenPoint Bank; Online Resources Corporation; The Phoenix Companies, Inc. Re-election date: 2003.

Oliver R. Sockwell (2, 5)
59, Retired president and CEO, Construction Loan Insurance Corporation (Connie Lee) and subsidiary, Connie Lee Insurance Company, Washington, D.C. Director since September 1997. Background: Financial services, insurance, education and government. Directorships: Liz Claiborne, Inc. Re-election date: 2004.

Bide L. Thomas (1*, 3, 4)
67, Retired president, Commonwealth Edison Company, Chicago. Director since March 1987. Background: Production and sale of electric energy. Re-election date: 2005.

Norman H. Wesley (3, 4, 5)
53, Chairman and CEO, Fortune Brands, Inc., Lincolnshire, Illinois. Director since November 2001. Background: Consumer products. Directorships: Fortune Brands, Inc.; Pactiv Corporation. Re-election date: 2003.

Stephen M. Wolf (4*, 5)
61, Non-executive chairman, US Airways Group, Inc. and US Airways, Inc., Arlington, Virginia. Director since January 1995. Background: Airline industry. Directorships: Philip Morris Companies, Inc.; US Airways Group, Inc.; US Airways, Inc. Re-election date: 2004.



Board of Directors (front, left to right): Martha Layne Collins, William L. Davis, Thomas S. Johnson, Oliver R. Sockwell, Judith H. Hamilton, James R. Donnelley; (back, left to right) Stephen M. Wolf, Gregory Q. Brown, Norman H. Wesley, Bide L. Thomas, Joseph B. Anderson, Jr.

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

LEADERSHIP

William L. Davis
(59; 6)* Chairman, president and CEO since 1997. Senior executive vice president, Emerson Electric Company, 1993 to 1997.

Michael B. Allen
(43; 21) Executive vice president, R.R. Donnelley Print Solutions since 2000. President, Book Publishing Services, 1997 to 2000. President, Information Services, 1996 to 1997.

Elisabeth D. Azzarello
(39; 4) Vice president, corporate strategy, planning and development since 2002. Vice president, corporate strategy and planning, 2000 to 2002. Assistant treasurer, financial strategy and analysis, 1999 to 2000.

John C. Campanelli
(45; 23) President, R.R. Donnelley Logistics since 1997. Senior vice president, Technology, Information Systems and Environmental Affairs, 1996 to 1997. Senior vice president, Technology and Informations Systems, 1995 to 1996.

Haven E. Cockerham
(55; 5) Senior vice president, human resources since 1998. Vice president of human resources, Detroit Edison Company, 1994 to 1998.

Monica M. Fohrman
(53; 24) 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.

Susan L. Henricks
(52; 13) President, Telecommunications Solutions, R.R. Donnelley Print Solutions since 2001. President, RRD Direct, 2000 to 2001. President and chief operating officer, Donnelley Marketing, InfoUSA, 2000.

Daniel L. Knotts
(38; 17) President, Magazine Solutions, R.R. Donnelley Print Solutions since 2001. President, Specialized Publishing Services, 2000 to 2001. Senior vice president and general manager, Magazine Publishing Services, 1998 to 2000.

Edward E. Lane
(51; 27) President, Book Solutions, R.R. Donnelley Print Solutions since 2001. President, Book Publishing Services, 2000 to 2001. President, Specialized Publishing Services, 1994 to 2000.

Joseph C. Lawler
(53; 8) Executive vice president since 2000. President, Merchandise Media Group, 1996 to 2000. President, Catalog Services, 1995 to 1996. President and CEO, Gander Mountain, Inc., 1992 to 1995.

Robert E. Logan, Jr.
(45; 11) President, R.R. Donnelley Latin America since 1996. Vice President, Corporate Development, 1992 to 1996.

Paul A. Masterton
(46; 20) President, R.R. Donnelley Europe, April 2003. President, R.R. Donnelley Financial, 1998 to 2003. Senior vice president, manufacturing, Financial Services, 1997 to 1998.

James T. Mauck
(43; 19) President, R.R. Donnelley Asia, March 2003. President, R.R. Donnelley Europe, 1996 to 2003. Senior vice president, R.R. Donnelley Europe and managing director, Continental Europe, 1994 to 1996.

Richard R. McClish
(55; 5) Senior vice president and chief process officer since 2002. Senior vice president and chief manufacturing officer, 1998 to 2002. Manufacturing management positions, Plastics Division, General Electric, 1979 to 1998.

Michael J. Portland
(38; 1) Executive vice president and chief marketing and development officer since 2002. Marketing and development management positions, Ashland Chemical, Inc., 1996 to 2002.

Robert S. Pyzdrowski
(49; 27) President, Operations, R.R. Donnelley Print Solutions since 2002. President, Commercial Print Operations, 2000 to 2002. President, Magazine Publishing Services, 1996 to 2000.

Andrea Robertson
(45; 7) Vice president and treasurer since 1999. Assistant treasurer, global corporate finance, 1996 to 1999. Financial positions, International Business Machines, 1984 to 1996.

Mary Lee Schneider
(40; 11) President, Premedia Technologies, R.R. Donnelley Print Solutions since 1999. Senior vice president, Technology, 1997 to 1999. Vice president, Technology, 1996 to 1997.

Virginia L. Seggerman
(43; 9) Vice president and corporate controller since 2000. Vice president and assistant controller, 1998 to 2000. Vice president, Internal Audit, 1996 to 1998.

Victoria A. Shire
(47; 2) Senior vice president, corporate communication since 2001. Managing director, Burson-Marsteller, 2000 to 2001. Assistant vice president, marketing and corporate communications, Nicor Inc., 1997 to 2000.

Gregory A. Stoklosa
(47; 10) Executive vice president and chief financial officer since 2000. Vice president and controller, 1999 to 2000. Vice president and treasurer, 1996 to 1999.

Timothy M. Stratman
(41; 19) President, RRD Direct since 2001. Senior vice president, strategic sourcing, 2000 to 2001. Senior vice president, sales, paper sourcing, 1997 to 2000.

Terry Trayvick
(41; 5) President, Capital Markets, R.R. Donnelley Financial since 2002. Senior vice president, transition, R.R. Donnelley Print Solutions, 2001 to 2002. Senior vice president, finance, Core Commercial Print, 2000 to 2001.

Steven E. Zuccarini
(46; 23) President, Catalog and Retail Solutions since 2001. President, Merchandise Media Group, 2000 to 2001. Senior vice president, catalog and retail major accounts, Merchandise Media Group, 1997 to 2000.

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

FINANCIAL INFORMATION

The financial information presented on pages 37 through 39 should be read in conjunction with R.R. Donnelley & Sons Company's Financial Statements (including the notes) and Management's Discussion and Analysis of Financial Condition and Results of Operations. This and other information about the company is contained in the 2003 Annual Meeting of Stockholders Meeting Notice and Proxy Statement and Annual Report on Form 10-K for the year ended December 31, 2002. The document is provided to all shareholders of record as of February 5, 2003. R.R. Donnelley's 2002 Annual Report on Form 10-K and the Notice and Proxy Statement also may be accessed via our Internet website at: www.rrdonnelley.com.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
R.R. Donnelley & Sons Company:

We have audited the consolidated balance sheet of R.R. Donnelley & Sons Company as of December 31, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. Such consolidated financial statements and our report thereon dated January 21, 2003, expressing an unqualified opinion (which are not included herein), are included in the Company's 2002 Annual Report on Form 10-K. The consolidated financial statements of R.R. Donnelley & Sons Company of December 31, 2001 and 2000, and for the years then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 23, 2002. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 and the related condensed consolidated statements of income and cash flows for the year then ended is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

DELOITTE & TOUCHE LLP
Chicago, Illinois
January 21, 2003

CONDENSED CONSOLIDATED STATEMENTS OF INCOME IN MILLIONS, EXCEPT PER-SHARE DATA

	Year Ended December 31		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net sales	\$ 4,754.9	\$ 5,297.8	\$ 5,764.3
Cost of sales	<u>3,887.4</u>	<u>4,387.3</u>	<u>4,665.5</u>
Gross profit	867.5	910.5	1,098.8
Selling and administrative expenses	533.7	567.7	597.8
Restructuring and impairment charges	<u>88.9</u>	<u>195.5</u>	<u>—</u>
Earnings from operations	244.9	147.3	501.0
Interest expense, net	(62.8)	(71.2)	(89.6)
Other income (expense):			
Gain on sale of businesses and investments	6.3	6.6	—
Investment write-downs	—	(18.5)	—
Other, net	<u>(12.7)</u>	<u>10.7</u>	<u>22.6</u>
Earnings before income taxes	175.7	74.9	434.0
Provision for income taxes	<u>33.5</u>	<u>49.9</u>	<u>167.1</u>
Net income	<u>\$ 142.2</u>	<u>\$ 25.0</u>	<u>\$ 266.9</u>
Net income per share of common stock			
Basic	\$ 1.26	\$ 0.21	\$ 2.18
Diluted	1.24	0.21	2.17

CONDENSED CONSOLIDATED BALANCE SHEETS
IN MILLIONS

	December 31	
	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 60.5	\$ 48.6
Receivables, net	601.2	681.5
Inventories	116.2	126.7
Prepaid expenses	<u>88.5</u>	<u>83.4</u>
TOTAL CURRENT ASSETS	866.4	940.2
Property, plant and equipment, net	1,411.0	1,490.1
Goodwill, net	308.2	312.6
Other intangible assets, net	96.7	127.9
Other noncurrent assets	<u>469.5</u>	<u>514.8</u>
TOTAL ASSETS	<u>\$3,151.8</u>	<u>\$3,385.6</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Accounts payable	\$ 267.7	\$ 295.5
Accrued compensation	157.1	162.6
Short-term debt	245.8	168.5
Current and deferred income taxes	1.4	46.8
Other accrued liabilities	<u>282.7</u>	<u>310.9</u>
TOTAL CURRENT LIABILITIES	954.7	984.3
Long-term debt	752.9	881.3
Deferred income taxes	214.1	212.1
Other noncurrent liabilities	<u>315.5</u>	<u>419.5</u>
TOTAL NONCURRENT LIABILITIES	1,282.5	1,512.9
Shareholders' equity	<u>914.6</u>	<u>888.4</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$3,151.8</u>	<u>\$3,385.6</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
IN MILLIONS

	Year Ended December 31		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Net income	\$ 142.2	\$ 25.0	\$ 266.9
Restructuring and impairment charges	88.9	195.5	—
Gain from reversal of excess tax reserves	(30.0)	—	—
(Gain) loss on sale or write-down of businesses and investments	(6.4)	11.9	—
Depreciation and amortization	352.4	378.7	390.4
Gain on sale of assets	(13.8)	(8.2)	(6.0)
Net change in operating working capital	17.3	59.7	(16.5)
Net change in other assets and liabilities	(148.8)	(122.5)	107.4
Other	<u>7.1</u>	<u>8.3</u>	<u>(1.6)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>408.9</u>	<u>548.4</u>	<u>740.6</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Capital expenditures	(241.6)	(273.3)	(237.1)
Other investments, net of cash acquired	—	(2.4)	(224.5)
Dispositions of assets	<u>25.5</u>	<u>19.3</u>	<u>23.4</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(216.1)</u>	<u>(256.4)</u>	<u>(438.2)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>			
Net (decrease) increase in borrowings	(64.1)	57.0	(152.9)
Disposition of reacquired common stock	16.6	23.5	10.3
Acquisition of common stock	(20.0)	(273.2)	(32.4)
Cash dividends paid	<u>(111.0)</u>	<u>(110.0)</u>	<u>(110.3)</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(178.5)</u>	<u>(302.7)</u>	<u>(285.3)</u>
Exchange rate impact on cash	<u>(2.4)</u>	<u>(1.6)</u>	<u>1.9</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	11.9	(12.3)	19.0
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	<u>48.6</u>	<u>60.9</u>	<u>41.9</u>
CASH AND EQUIVALENTS AT END OF PERIOD	<u>\$ 60.5</u>	<u>\$ 48.6</u>	<u>\$ 60.9</u>

ADDITIONAL INFORMATION

Corporate Headquarters

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

Annual Meeting of Shareholders

The 2003 meeting will be held at 9:00 a.m. on Thursday, March 27, 2003, 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, 2002:
8,393

Investor Relations

Shareholders, securities analysts, portfolio managers and representatives of financial institutions seeking information about the company should contact Christopher Curtis, Director, Investor Relations at the company's address (above), by calling 312-326-8313 or emailing investor.info@rrd.com.

Ordering Additional Annual Reports

R.R. Donnelley's 2002 Annual Report may be obtained without charge by completing and submitting the form on the www.rrdonnelley.com website, by writing to Investor Relations at the company's address (above) or by calling 312-326-8018 during business hours.

Community Relations Annual Report

Copies of R.R. Donnelley's 2001-2002 Community Relations Annual Report 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 completing and submitting the online form.

Environmental, Health and Safety Report

Copies of R.R. Donnelley's Environmental, Health and Safety Report 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 completing 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 Standard 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 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 Standard 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.