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*R.H. Donnelley* is the largest independent marketer of yellow pages advertising in the United States. Donnelley sells nearly \$1 billion in advertising a year to more than 500,000 small and medium-sized businesses.

We operate in *strong markets*, including Chicago, New York, Las Vegas, Orlando, Cincinnati and, in the near future, key cities in China.

We help *growing businesses* by providing proven, trusted and cost-effective advertising that helps buyers—who are ready to buy—find sellers.

We are committed to the continuing development of multiple media, including print yellow pages, cable television and Internet advertising, that offer exciting *new solutions* for bringing buyers and sellers together.

## Financial Highlights

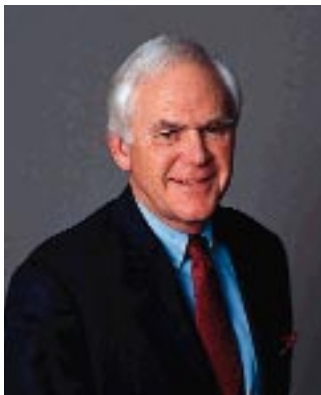
(in millions except per share data)	Years Ended December 31,		Percent change
	1998	1997	
Advertising Sales <sup>(1)</sup>	\$ 983.5	\$ 962.4	2.2%
Adjusted Operating Income <sup>(2)</sup>	\$ 121.3	\$ 115.2	5.3%
Reported Operating Income	\$ 125.7	\$ 134.7	
Adjusted Net Income <sup>(3)</sup>	\$ 47.9	\$ 42.7	12.2%
Reported Net Income	\$ 61.6	\$ 84.9	
Adjusted Earnings Per Diluted Share <sup>(3)</sup>	\$ 1.39	\$ 1.25	11.2%
Reported Earnings Per Diluted Share	\$ 1.78	\$ 2.48	

(1) Advertising sales are on a publication cycle basis and represent the billing value of advertisements sold for all directories published in a year. Amounts exclude sales from the Company's Proprietary-East ("P-East") business, which was sold in 1997, and 1998 sales from the Company's independent Cincinnati business and 1997 sales related to the Company's sales contract with Cincinnati Bell, which expired in 1997. The comparable advertising sales amounts on a calendar cycle basis were \$985.9 million and \$943.4 million for 1998 and 1997, respectively.

(2) Operating income has been adjusted to exclude the results of P-East and includes additional estimated general and administrative expenses as if RHD were a stand-alone entity for all periods.

(3) Net income and earnings per diluted share have been adjusted to give effect to the items noted in (2) above and to include an estimate of interest expense that would have been incurred assuming debt was outstanding for the entire period prior to July 1, 1998.

## To Our Shareholders:



*Frank R. Noonan*

*Chairman and Chief Executive Officer*

On July 1, 1998, R.H. Donnelley became an independent public company for the first time in its 112-year history. It was an extraordinarily exciting, challenging and rewarding year. We have intensified our focus on driving advertising sales growth, capturing new markets, tightening expense controls and meeting our commitments to increase shareholder value. These are some of the highlights of those efforts:

- Full-year adjusted 1998 earnings of \$1.39 per diluted share were up 11.2 percent from the prior year and slightly above the goal we set at mid-year.

- We created increased financial flexibility for the company and more tax-efficient returns to shareholders by eliminating the dividend and initiating a stock repurchase plan.

- Sales growth in our DonTech and Sprint businesses exceeded industry results by approximately 1.3 percentage points.

- Bell Atlantic selected Donnelley as its sales agent in the Buffalo, N.Y., market that had been serviced by another vendor for nearly 30 years.

- Donnelley and China United Telecommunications Corporation (China Unicom) formed a joint venture to provide print and electronic yellow pages advertising in China. China Unicom is one of only two companies licensed to sell yellow pages advertising in China.

- We accelerated the rollout of Internet and cable TV advertising products, which together with print yellow pages offer customers new multiple-media advertising solutions.

We are pleased with the overall performance of R.H. Donnelley in 1998 and are excited about the actions we are taking to position the company for continued growth in the future.

### **R.H. Donnelley's Growth Strategy**

These are dynamic times in the yellow pages business. Print yellow pages directories have long served as the primary form of local business advertising, and they will remain an important medium for years to come, by continuing to deliver proven, trusted, and cost-effective results. We remain committed to achieving the highest level of sales performance and service in the yellow pages industry.

At the same time, the telecommunications environment is changing rapidly in the United States. Large telephone companies are consolidating, while smaller new telephone companies are forming to provide competitive local exchange services. In the yellow pages business, the smaller independent yellow pages companies are growing faster than the overall industry and experiencing some consolidation as well. It is also clear that the emergence of exciting new media, such as the Internet, will over time transform the way local businesses advertise.

What does all this mean for Donnelley?

Some observers might perceive these trends, particularly the rise of the Internet, as threats to Donnelley's business. We strongly disagree. From our perspective, each of these trends provides new growth opportunities that will enable Donnelley to build significant shareholder value, both near term and long term. Our strategy for creating that value has two major elements, which I call *Playing to Win* and *Expanding the Playing Field*.

### **Optimizing Our Sales Performance**

*Playing to Win* means establishing Donnelley as a second-to-none sales organization by optimizing our sales performance in terms of productivity and efficiency. We will achieve superiority by concentrating maximum resources on our selling efforts and by streamlining our support and corporate functions to reduce cycle times and costs.

Our goal is to achieve sales growth in our core business, including print yellow pages and our growing sales of bundled Internet and cable TV advertising packages, of 1-to-2 percentage points above the yellow pages industry.

### **Leveraging Our Expertise**

*Expanding the Playing Field* involves leveraging our core expertise, both by expanding the number of markets we serve and broadening the range of products we sell. In the changing telecommunications environment, we see growth opportunities by partnering with traditional telephone companies and competitive local exchange carriers, or by acquiring existing independent yellow pages companies in selected markets. International expansion is another thrust, evidenced by our recent entry into China. We also see a significant opportunity to develop a new sales channel to sell Internet advertising outside our current markets. As we have already demonstrated in a number of markets, Donnelley can serve as the bridge between local businesses seeking an Internet presence and the Internet companies that are eager to

find a way to deliver advertising to this large and growing customer base.

We believe our strategy will enable R.H. Donnelley to achieve its goal of sustained low double-digit growth in earnings per share in the near term, with some upside potential over the long term. Our financial strategy is straightforward: apply our strong cash flow to growth investments or share repurchase, both of which will add to EPS growth.

By executing a strategy that delivers strong, near-term results in our core business, while simultaneously building a more diversified business with multiple-media solutions in higher growth markets over the longer term, we believe we have an outstanding opportunity to deliver significant value to shareholders.

### **Capitalizing on a Legacy of Success**

Our success has been attributable to our highly focused, disciplined, and productive sales force; sophisticated marketing techniques; innovative products; and advanced technology. In a rapidly changing environment and as a new independent public company, we must continue to raise the bar to create a high-performing entrepreneurial culture. This is an area of constant focus that will enable us to execute this strategy consistently.

We are enthusiastically committed to building an even greater company with the unique resources, capabilities and expertise that are necessary for delivering enhanced rewards to shareholders by satisfying the needs of our employees and customers.



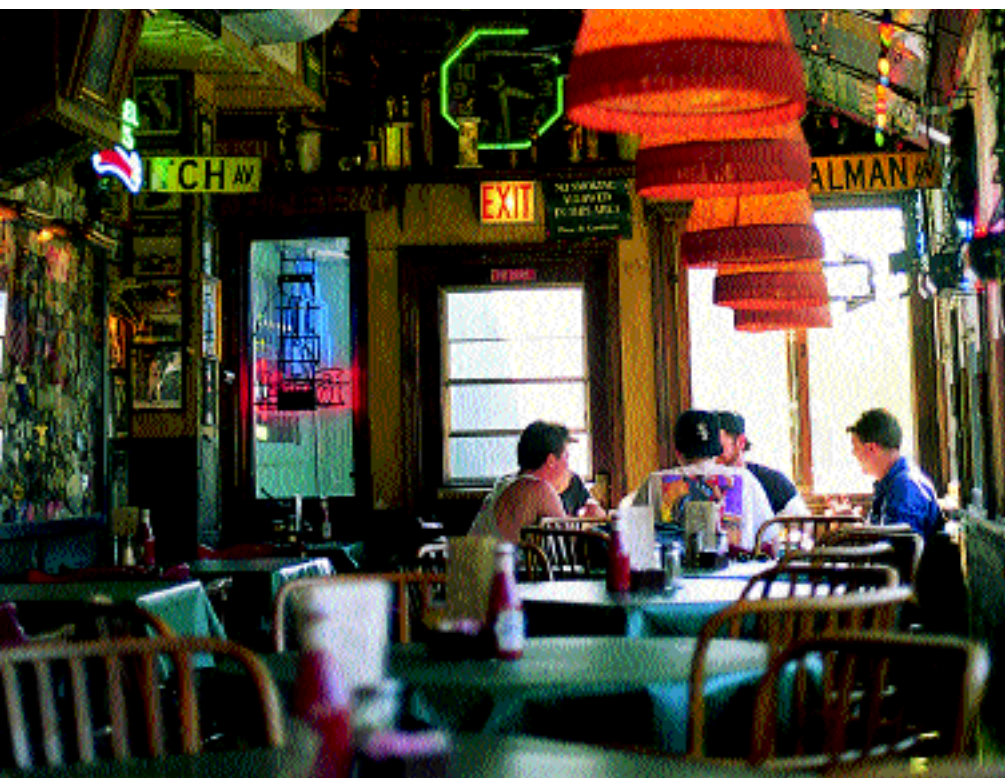
Frank R. Noonan  
Chairman and Chief Executive Officer  
R.H. Donnelley Corporation

March 3, 1999

" By building a diversified,  
multiple-media business focused  
on high-growth markets,  
we believe R.H. Donnelley has  
an outstanding opportunity  
to accelerate its growth  
and deliver significant value  
to our shareholders."

# Performance and Positioning: DonTech Delivers

DonTech is R.H. Donnelley's perpetual partnership with an operating unit of Ameritech Corporation. DonTech serves as Ameritech's exclusive sales agent for approximately 125 yellow pages directories published in Illinois and northwest Indiana.



"Nineteen ninety-eight was a very solid year for DonTech," says Bruce Disbrow, president and chief executive officer of DonTech. "Our sales performance was on target, exceeding industry growth, and we successfully completed a number of key initiatives aimed at enhancing future performance."

## 1998 Performance and Progress

The DonTech sales team successfully achieved approximately 5 percent growth in its yellow pages business in 1998, while simultaneously completing the final phase of a two-year initiative to rebalance the publication schedules for the Ameritech directories. In the past, a disproportionately large number of directories were published in the fourth quarter of the year. As a result of the rebalancing initiative, the publication dates of these directories are now more evenly distributed throughout the year, enabling DonTech to achieve higher levels of sales productivity and enhanced customer satisfaction.

DonTech also decentralized several key support functions to local sales offices, allowing the company to significantly improve its ability to respond quickly to customer needs.

"DonTech's increased responsiveness has strengthened our marketing programs, which translates to more value for the customer and increased sales for DonTech," says Disbrow.





### **Long-Term Growth Opportunities**

Internet advertising solutions represent an important element of DonTech's long-term growth strategy to leverage the strengths of its highly skilled and productive sales force. As Ameritech's exclusive print and electronic sales agent in Illinois and northwest Indiana, DonTech will begin selling Web advertising for Ameritech's Internet yellow pages in 1999. An important tool for successfully selling this product is new laptop-based technology, which will be implemented by the DonTech sales force in 1999. This investment in sales automation will improve productivity by reducing paper flow, while significantly enhancing customer service.

### **A Commitment to Delivering Increased Value**

DonTech is an important contributor to R.H. Donnelley's overall results. A key element of its strategy is to leverage the capabilities of both R.H. Donnelley and Ameritech. By closely linking with the marketing programs of Ameritech, DonTech delivers enhanced service to the many customers whose needs

reach across the borders of the various states served by Ameritech.

"We are committed to achieving the goals of our partnership by maximizing the experience and support provided by Ameritech and Donnelley," says Disbrow. "The end result will be a significantly enhanced capability to deliver increased levels of advertising value to the local businesses we serve."





## Bell Atlantic and Sprint: Donnelley Builds on a Foundation of Strong Relationships

Directory Advertising Services includes two long-standing and strong relationships: Donnelley's businesses with Bell Atlantic and Sprint.

"Nineteen ninety-eight was a year of substantial progress in both the Bell Atlantic and Sprint businesses," says Dave Swanson, president of Directory Services. "The introduction

of new products and pricing plans, as well as the acquisition of important new markets, have set the stage for continued future success."

### **Bell Atlantic Relationship Positioned for Growth**

The relationship between R.H. Donnelley and Bell Atlantic is one of the most enduring in the industry, tracing its roots to a contract signed with New York Telephone in 1909. Donnelley currently serves as sales agent for the 119 Bell Atlantic yellow pages directories in New York State.

The Bell Atlantic relationship posted mixed results in 1998. While sales were below expectations for certain New York City area directories, the year was highlighted by Bell Atlantic's decision to award R.H. Donnelley with the contract to service the Buffalo and North Country markets in upstate New York. The agreement adds 26 directories to RHD's coverage, significantly expanding Donnelley's alliance with Bell Atlantic.

"Winning this contract was a tremendous boost for R.H. Donnelley," says Swanson. "Bell Atlantic delivered a strong vote of confidence in RHD's ability to serve its customers."

Achieving future growth in the Bell Atlantic markets requires meeting customers' needs with new value-added



*In 1998, Bell Atlantic awarded R.H. Donnelley the contract to service the Buffalo, N.Y., (above) and North Country markets in upstate New York. Sprint's Orlando, Fla., market (far right) is another high-growth area served by R.H. Donnelley.*



products. In 1998, the foundation was laid for delivering multiple-media solutions to Bell Atlantic customers by adding Internet and cable television advertising to our highly productive sales channel for print yellow pages. These new and exciting options were introduced in several Bell Atlantic markets last year, with further expansion planned for 1999. In a remarkably short time, Donnelley's Bell Atlantic sales organization already has become highly effective in selling Web sites. In addition, sales of yellow pages cable television advertising (YPTV®) packages met or exceeded objectives in 80 percent of the markets. YPTV is an innovative multiple-media product that combines yellow pages advertising with local cable TV spots.

### **Sprint Posts Strong Results**

R.H. Donnelley currently provides sales, marketing and publishing services for 42 Sprint directories in Florida, Nevada, North Carolina and Virginia. Donnelley's Sprint sales team posted strong results in 1998, with sales up 7.7 percent,

or about 3.5 points above the industry average. Sales growth exceeded expectations in all markets, led by an especially strong year in Las Vegas, which posted double-digit gains for the fifth consecutive year. Over the last five years, the Sprint sales team has been a consistently strong performer, generating average annual sales growth of 7.9 percent. Value-added offerings, including YPTV, were successfully introduced in two Sprint markets in 1998, following a test-marketing effort in 1997. In early 1999, Donnelley began selling Web advertising in Sprint's Las Vegas market through a relationship with InfoSpace.com.

### **Strategy for Growth**

Donnelley's enduring relationships with Bell Atlantic and Sprint have created solid businesses, which will grow by capitalizing on the strengths of the respective companies.

"With very strong market shares and rates of customer renewal, Donnelley intends to leverage its highly effective and efficient sales force to bring more value-added solutions to its customers," says Swanson. "Given the more than 260,000 customers in these markets and the penetration rates we are already experiencing with these

new product offerings, we are excited about the future. We're bringing YPTV to more and more Bell Atlantic and Sprint customers. We're bringing more and more customers onto the Internet. That translates to more value for both the advertisers and Bell Atlantic and Sprint. So everybody wins, and that's what it's all about."



## RHD Independent Reinvents Itself in Cincinnati

R.H. Donnelley successfully reentered the independent yellow pages publishing business in 1998 with the launch of The One Book Yellow Pages® in Cincinnati. The One Book was distributed to 780,000 users and contained 1,260 yellow pages and 306 business white pages. Revenue generated by The One Book placed it among the nation's top five independent yellow pages directories.

"Donnelley's One Book launch was a big win for us," says Dave Swanson, president of Directory Services. "In a highly competitive market, we demonstrated that RHD can deliver a product that customers value."

The One Book is the only directory covering the entire Cincinnati and northern Kentucky market, with advertising also available via the Internet through a relationship with America Online's Digital City. The One Book offers businesses a unique level of market coverage.

The results of The One Book underscore R.H. Donnelley's extensive experience as an independent yellow pages publisher. Innovation is a hallmark of R.H. Donnelley, and the Cincinnati market serves as a field-research laboratory for testing new products and process concepts being developed by the company. Results from these tests provide RHD's other clients with compelling and powerful evidence of the viability and profitability of the innovative new services the company is creating, such as Internet services, YPTV and other sales-channel enhancements.





### RHD Independent's Growth Strategy

RHD's strategy is to seek opportunities in fast-growing markets that offer attractive opportunities to serve the needs of users and advertisers. Another key component of this expansion strategy is to gain new partnerships and alliances with competitive local exchange carriers (CLECs).

"We can offer highly attractive, cost-effective turnkey yellow pages advertising and publishing solutions for the CLECs as they, in turn, seek new growth markets," says Swanson. "Our objective is to bring added value to advertisers and users by offering yellow pages directories with enhanced features, coupled with innovative multiple-media advertising solutions pioneered by Donnelley."



# Strategic Marketing and Business Development Opens Doors to New Media, New Markets and New Opportunity

Strategic Marketing and Business Development at R.H. Donnelley has responsibility for the company's initiatives in new media and new market expansion. Donnelley made significant progress on both fronts.

## **New Media Initiatives**

Strategic Marketing and Business Development helped Donnelley launch three new Internet initiatives in U.S. markets over the past year, in New York, Cincinnati and Las Vegas.

Donnelley also continued to expand YPTV into new markets in 1998. YPTV is an innovative multimedia product that combines yellow pages advertising with local cable TV spots. YPTV transforms a local business's yellow pages ad into quality 15-second commercials for broadcast on local cable channels, such as CNN, A&E, TNT, ESPN and MTV. Each commercial is customized for the advertiser, who chooses from a variety of video, audio and music treatments.

YPTV provides customers with a cost-effective way of enhancing their presence and maximizing their investment in their print advertising. Each YPTV commercial carries leading and closing references to the directory where the ad can be found.



## New Market Expansion

In November, R.H. Donnelley formed a landmark joint venture with China United Telecommunications Corporation (China Unicom) to publish yellow pages directories and to offer Internet directory services in the People's Republic of China.

China Unicom is one of only two national telecommunications providers in China. The joint venture will begin by introducing yellow pages directories in four key economic and regional centers in China, the first scheduled for publication later this year. The four-city introduction will be the springboard for a more extensive plan to penetrate other major cities in China.

The joint venture with China Unicom also owns ChinaBiG, the first bilingual and most comprehensive Internet directory covering China, Hong Kong, Taiwan and Macao. Combining print and Internet advertising will provide a highly attractive offering to customers in the initial directories.

"A year ago, China wasn't even on our radar screen," says Lyle Wolf, senior vice president for Strategic Marketing and Business Development. "We are quickly opening new doors of opportunity for R.H. Donnelley."

## Strategy for Growth

These initiatives are aimed at accelerating R.H. Donnelley's long-term growth by expanding RHD's scope and scale as a marketing and sales organization serving the multiple-media advertising needs of local businesses in targeted markets around the world.





## The "Force" Behind the Sales Force



R.H. Donnelley's Directory Publishing Services is the most sophisticated print and multiple-media support organization in the yellow pages advertising industry. Publishing Services creates print yellow pages ads, directories, Web sites, and specialized CD-ROM-based directories. Clients include both large and small telephone companies, as well as independent directory publishers.

"Publishing Services is about providing services and systems that drive sales growth, and that's a subtle but important distinction," says Alex Marasco, executive vice president, Corporate Development. "Our ultimate goal is to help our clients sell to local businesses, whether it's yellow pages print advertising or Web sites. Our sales-oriented culture, technology and processes are all geared toward that fundamental objective, and that's what sets us apart."

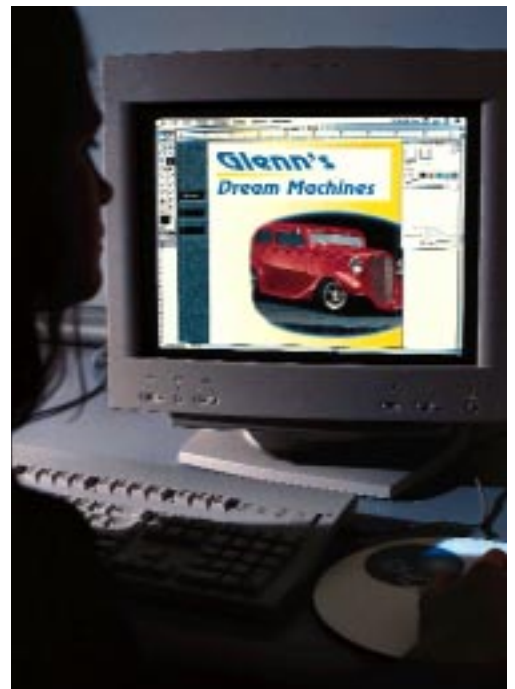
For Ameritech, Sprint, Yellow Book USA, CFW Communications and RHD's own independent directory in Cincinnati, Publishing Services delivers a full range of directory sales and publishing

support services, from information and tools for effective sales-force deployment, to ad graphics execution, to sales-order processing, and in some cases, billing. For Thomas Regional Directories, a new client in 1998, Publishing Services creates specialized directory advertising on CD-ROM for purchasing managers.

RHD Publishing Services was the first print and multiple-media support organization to operate in a totally digital environment, electronically transmitting completed directories to the printer. More than 200 directories a year are prepared by RHD Publishing Services.

RHD Publishing Services also creates the Web sites sold by the RHD sales forces serving Sprint's Las Vegas

*R.H. Donnelley Web site designer puts the finishing touches on an Internet advertisement.*







directory and The One Book Yellow Pages in Cincinnati. In addition, the publishing team is providing initial support to Donnelley's joint venture with China Unicom.

### **Growth Strategy**

Based in Raleigh, North Carolina, and Dunmore, Pennsylvania, Publishing Services historically was part of RHD's overall product offering. Going forward, Publishing Services intends to leverage its industry-leading capabilities to serve new customers, including both traditional yellow pages publishers and non-traditional customers, such as Thomas Regional Directories.

"We have a significant opportunity to capitalize on Publishing Services' unique capabilities and available capacity," says Marasco. "What was once primarily an internal service function within RHD's business is fast becoming a business itself."



# Management's Discussion and Analysis of Financial Condition and Results of Operations

*The matters discussed in this annual report of R.H. Donnelley Corporation (the "Company") and R.H. Donnelley Inc. ("Donnelley") contain forward looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Where possible, the words "believe," "expect," "anticipate," "should," "planned," "estimated," "potential," "goal," "outlook," and similar expressions, as they relate to the Company, Donnelley or its management, have been used to identify such forward looking statements. These statements and all other forward looking statements reflect the Company's and Donnelley's current beliefs and specific assumptions with respect to future business decisions and are based on information currently available. Accordingly, the statements are subject to significant risks, uncertainties and contingencies which could cause the Company's and Donnelley's actual operating results, performance or business prospects to differ from those expressed in, or implied by, these statements. Such risks, uncertainties and contingencies include the following: (1) loss of market share through competition; (2) uncertainties caused by the consolidation of the telecommunications industry; (3) introduction of competing products or technologies by other companies; (4) complexity and uncertainty regarding the development of new high technology products; (5) pricing pressures from competitors and/or customers; (6) changes in the yellow pages industry and markets; (7) the company's inability to complete the implementation of its Year 2000 plans on a timely basis; and (8) a sustained economic downturn in the United States.*

## The Company

Except where otherwise indicated, the term "Company" refers to R.H. Donnelley Corporation and its wholly owned subsidiary R.H. Donnelley Inc. ("Donnelley"). Donnelley is a wholly owned subsidiary of the Company. The Company has no other operations other than through its Donnelley subsidiary. Therefore, on a consolidated basis, the financial statements of the Company and Donnelley are substantially identical.

The Company provides advertising sales and marketing services for yellow pages and other directory products under long-term sales agency agreements and joint venture partnerships with operating units of major telephone companies as well as through its own independent operations. The Company is a sales agent in New York State for an operating unit of Bell Atlantic and in Florida for an operating unit of Sprint. It also serves as a sales agent for the CenDon partnership ("CenDon"), a 50/50 partnership between Donnelley and an operating unit of Sprint that was formed to publish directories in Florida, Nevada, Virginia and North Carolina. The Company also began publishing its own independent yellow pages directory in the Cincinnati area in 1998. Due to their similarities, the Company aggregates these businesses in its Directory Advertising Services segment.

The Company is also a 50% partner in the DonTech Partnership ("DonTech"), a partnership with an operating unit of Ameritech, which acts as the exclusive sales agent for yellow pages directories published by Ameritech in Illinois and northwest Indiana. In addition to receiving 50% of the profits of DonTech, the Company also receives direct fees ("Revenue Participation") from an operating unit of Ameritech, which are tied to advertising sales. While DonTech provides advertising sales of yellow pages and other directory products, the partnership is considered a separate operating segment since, among other things, the employees of DonTech, including officers and managers, are not employees of the Company.

The Company also provides pre-press publishing services for yellow pages directories, including advertisement creation, sales

contract management, listing database management, sales reporting and commissions, pagination, billing services and imaging, to independent yellow pages publishers and its existing customers under separately negotiated contracts. This business is classified as Directory Publishing Services.

## Factors Affecting Comparability

Prior to July 1, 1998, the Company operated as part of The Dun & Bradstreet Corporation ("Old D&B"). On December 17, 1997, the Board of Directors of Old D&B approved in principle a plan to separate into two publicly-traded companies - R.H. Donnelley Corporation and The New Dun & Bradstreet Corporation ("New D&B"). The distribution ("Distribution") was the method by which Old D&B distributed to its shareholders shares of New D&B common stock. On July 1, 1998, as part of the Distribution, Old D&B distributed to its shareholders shares of New D&B stock. In connection with the Distribution, Old D&B changed its name to R.H. Donnelley Corporation.

The historical consolidated financial statements reflect the financial position, results of operations and cash flows of the Company as if it were a stand-alone entity for all periods presented. The historical financial statements include allocations of certain Old D&B general and administrative expenses and corporate assets and liabilities related to the Company's business. Management believes these allocations are reasonable; however, these costs and allocations are not necessarily indicative of the costs that would have been incurred had the Company performed or provided these functions as a separate entity. For example, the Company estimates that general and administrative expenses would have been approximately \$4.4 million and \$8.6 million higher than the amounts allocated from Old D&B during the first six months of 1998 and the full year of 1997, respectively. Additionally, in connection with the Distribution, the Company issued Debt (as defined below; see - "Liquidity and Capital Resources") and estimates that additional interest expense of \$18.4 million and \$42.7 million would have been incurred in 1998 and 1997, respectively, assuming the Debt was outstanding as of January 1, 1997.

Other items affecting the comparability of 1998 results to the prior periods include the sale of the Company's Proprietary-East ("P-East") business in December 1997 and the Proprietary-West ("P-West") business in May 1996. Also, in August 1997, the Company's sales agency contract with Cincinnati Bell expired. The Company made a strategic decision to leverage its expertise in yellow pages advertising sales and its knowledge of the Cincinnati area to launch its own independent yellow pages directory. During 1998, the Company published its initial Cincinnati directory. The revenues from the publication placed the Cincinnati directory among the nation's top five independent directories.

## Advertising Sales

**Calendar Cycle Sales** Advertising sales is the billing value of advertisements sold by the Company and DonTech in a given calendar year. This is referred to as calendar cycle sales. The Company recognizes advertising sales on the same basis on which revenues are recognized (that is, when a sales contract is signed where the Company is a sales agent and when a directory is published where the Company is the publisher of the directories). For 1998, calendar cycle sales were \$995.4 million compared to \$1,067.2 million in 1997. Excluding sales from P-East of \$73.8 million in 1997, sales in 1998 were consistent with 1997. However, advertising sales from the Cincinnati area were significantly lower in 1998 due to the expiration of the sales agency agreement with

Cincinnati Bell, which was partially offset by the initiation of an independent directory. Excluding the impact of this change, sales showed a 4.5% increase in the underlying comparable businesses over 1997.

Advertising sales for the Directory Advertising Services segment decreased 14.0% in 1998 compared to 1997. However, excluding the sales from P-East and adjusting for the change in the Cincinnati operations, sales in the Directory Advertising Services segment showed a 4.1% increase in 1998 over 1997. This increase was driven by growth of 7.7% in the Sprint markets, particularly the Las Vegas, Nevada; Hickory, North Carolina; and Tallahassee, Florida areas, and a 2.6% increase in the Bell Atlantic markets. The increase in the Bell Atlantic markets was primarily due to \$6.3 million of sales in the Buffalo and North Country markets. During 1998, the Company was appointed the exclusive sales agent by Bell Atlantic to service these markets. Advertising sales for DonTech increased 5.0% in 1998 compared to 1997 primarily due to strong growth in Chicago and surrounding areas.

Calendar cycle sales decreased 4.3% in 1997 to \$1,067.2 million from \$1,115.6 million in 1996. In the Directory Advertising Services segment, advertising sales decreased 7.5% in 1997 compared to 1996. Sales from Bell Atlantic directories were 7.4% lower than in 1996 due to the rescheduling of publication dates of certain directories from 1997 into 1998. Sales from Cincinnati Bell decreased 22.9% as the Company did not sell advertising for the November 1997 directories due to the expiration of the sales agency contract, and sales from P-East were down 18.0% due to the sale of that business. These declines were partially offset by 5.5% growth in the Sprint markets, primarily in Las Vegas. Advertising sales from DonTech increased 1.3% in 1997 over 1996.

*Publication Cycle Sales* The Company believes that an additional measurement of sales performance is the publication cycle method. This method calculates sales on the basis of the annual value of a directory according to its publication date regardless of when the advertising for that directory was sold. If a directory publication date changes from one year to the next, the prior year publication date is adjusted to conform to the present year to maintain comparability. In 1998, publication cycle sales were \$993.9 million compared to \$1,086.3 million in 1997. Sales in 1998 of \$993.9 million were 1.8% lower than 1997 sales of \$1,012.5 million, after excluding 1997 sales of P-East of \$73.8 million. After further excluding advertising sales related to the Company's changing Cincinnati operations, as noted above, advertising sales increased 2.2% from \$962.4 million to \$983.5 million in 1998. The increase was due to strong growth in the Sprint and DonTech markets.

Advertising sales from the Directory Advertising Services segment decreased 15.7% in 1998 compared to 1997. Excluding sales from P-East and sales related to the Company's changing Cincinnati operations, sales increased 0.6%. Strong growth of 7.7% in the Sprint markets was offset by a decline in sales in the Bell Atlantic markets of 2.2%. This decrease was driven primarily by lower sales in the New York City area (including Manhattan, Queens, Staten Island and Brooklyn).

Advertising sales from DonTech increased 4.6% over 1997 due to growth in the DonTech markets and sales efficiencies as a result of the completion of the final phase of a two-year initiative to rebalance the publication schedules for the Ameritech directories. Prior to 1997, sales and production inefficiencies arose from an unbalanced production schedule in which the majority of the directories with which DonTech is affiliated were published in the fourth quarter. The publication dates of the directories are now more evenly distributed throughout the year, enabling DonTech to achieve higher sales through increased productivity and utilization and enhanced customer satisfaction.

Publication cycle sales of \$1,086.3 million in 1997 were consistent with 1996 sales of \$1,081.9 million. Sales from the Directory Advertising Services segment decreased approximately 1.6% as strong growth from the Sprint markets was offset by a decrease resulting from the expiration of the Cincinnati Bell contract and the sale of the P-East business during 1997. Sales from DonTech increased 4.3% over 1996 due to growth in the Chicago markets.

#### Results of Operations – 1998 vs. 1997

Revenues in 1998 of \$170.0 million decreased 29.1% from \$239.9 million in 1997. Excluding revenues from P-East (\$78.0 million), 1998 revenues increased 5.0%, or \$8.1 million. The increase was due to higher revenues from the Directory Advertising Services and Directory Publishing Services segments. The increase in Directory Advertising Services' revenues was due to strong growth in the Sprint markets of Nevada and Florida, partially offset by lower revenues in the Bell Atlantic and Cincinnati markets. The increase in Directory Publishing Services' revenues resulted from a new long-term contract with the purchaser of the Company's P-East business.

Operating expenses in 1998 of \$123.5 million decreased 25.3% from \$165.3 million in 1997; however, excluding the operating expenses of P-East in 1997 (\$50.6 million), operating expenses increased 7.6%, or \$8.7 million. This increase is primarily attributable to an increase in costs related to the new Buffalo operation, costs relating to the publication of the Company's first Cincinnati independent directory and higher information technology costs.

General and administrative expenses in 1998 of \$28.4 million decreased 3.8% from \$29.6 million in 1997, but excluding the general and administrative expenses of P-East (\$8.6 million), general and administrative expenses increased 35.3%, or \$7.4 million. This increase is due to increased costs related to being a stand-alone company, increased information technology spending and costs associated with the start-up of a Chinese joint venture with China Unicom (see – "Liquidity and Capital Resources").

Provision for bad debts of \$8.6 million in 1998 decreased \$9.9 million from 1997; however, excluding \$7.1 million related to P-East, the provision decreased \$2.8 million. This reduction is mainly attributable to lower Bell Atlantic revenues.

Income from partnerships and related fees includes the Company's share of the profits from the CenDon and DonTech partnerships and Revenue Participation. This income increased 4.4% in 1998 to \$135.9 million from \$130.2 million in 1997, driven mainly by a 3.3% increase in DonTech income. DonTech's increase was primarily due to the strong growth in advertising sales. However, DonTech income was held down by a charge for adjustments for billing and receivables. The charge mainly relates to the Company's share of those accounts deemed uncollectible. Equity income from CenDon increased \$3.6 million in 1998 to \$15.8 million, primarily due also to strong growth in advertising sales.

Interest expense of \$23.1 million in 1998 represents interest on the Debt incurred in connection with the Distribution. In June, the Company borrowed \$350 million under variable rate credit facilities and issued \$150 million of fixed rate notes. At the current level of debt and interest rates, the Company anticipates interest expense to be in the range of \$40 - \$42 million per year.

The effective tax rate in 1998 was 40.0% compared to 41.1% in 1997. The higher effective tax rate in 1997 was due to the amortization of goodwill, which is a non-deductible expense for tax purposes.

The Company anticipates that its effective tax rate in future years will approximate 40%.

Net income in 1998 was \$61.6 million, or \$1.78 per diluted share compared to \$84.9 million, or \$2.48 per diluted share in 1997. As previously stated, management believes that the historical results are not indicative of the current operations as they include the results of businesses that have been sold by the Company and do not include the full year effect of certain costs and expenses that the Company has incurred as a result of its separation from Old D&B. If the historical results are adjusted to (i) exclude the operations of the P-East business, (ii) include the estimated additional general and administrative expenses associated with being a stand-alone company and (iii) assume the Debt was outstanding for all periods prior to the Distribution, net income for 1998 would have been \$47.9 million or \$1.39 per diluted share compared to \$42.7 million or \$1.25 per diluted share for 1997.

*Directory Advertising Services Segment* Revenues from Directory Advertising Services consist of sales commissions from the Company's sales agency agreements and the billing value of advertisements sold from the Company's independent operation. Sales commission revenues from the Bell Atlantic and Sprint sales agency operations are recognized when an advertising contract is signed with a customer. Sales commission revenues from CenDon, for which CenDon is the publisher, are recognized when a directory is published. The Company does not record its share of the revenues of CenDon, but recognizes its share of the profits as Income from partnerships and related fees, a component of operating income. Revenues from the Company's independent operation are recognized when a directory is published. Revenues from Directory Advertising Services were \$138.1 million in 1998 compared to \$214.8 million in 1997. Excluding P-East revenues of \$78.0 million, revenues increased 1% in 1998. Revenues from the Sprint markets were up 10.9%, but were offset by a 19.6% decrease in Cincinnati and a 2.3% decrease in the Bell Atlantic markets.

Operating income from Directory Advertising Services includes the revenues and direct costs incurred by these businesses plus an allocation of certain centralized operating and general and administrative costs not charged directly to the businesses. Operating income in 1998 for Directory Advertising Services was \$32.6 million compared to \$41.0 million in 1997. Excluding P-East operating income of \$11.0 million in 1997, operating income increased 8.5% due to a 34.0% increase in the operating income from the Sprint markets, including CenDon, partially offset by lower operating income from Cincinnati and the Bell Atlantic business.

*DonTech Partnership Segment* The Company does not record its share of the revenues and costs of the DonTech Partnership, but recognizes its share of the profits as Income from partnerships and related fees. The Company's Income from partnerships related to DonTech increased 3.3% in 1998, or \$3.9 million, due to a 5.0% increase in sales. This increase in income was held down by the charge previously mentioned.

*Directory Publishing Services Segment* Revenues of \$31.9 million were 27.2% higher than 1997 revenues of \$25.1 million, after elimination of intercompany revenues of \$0.8 million and \$9.9 million, respectively. This increase was primarily due to increased revenue resulting from a new long-term contract with the purchaser of the Company's P-East business. This revenue replaced the work that Directory Publishing Services performed for the P-East business when it was owned by the Company.

Operating income from Directory Publishing Services includes the revenues and direct costs incurred by this business, plus an allocation of certain centralized operating and general and administrative costs not charged directly to the business. This segment incurred an operating loss of \$3.0 million in 1998 compared to \$4.6 million in 1997. This improvement is principally due to reduced expenses. Depreciation and amortization of \$6.3 million and \$6.9 million, respectively, in 1998 and 1997, is the result of the Company's investment in the Raleigh operations.

#### Results of Operations – 1997 vs. 1996

Revenues in 1997 were \$239.9 million compared to \$270.0 million in 1996. This decrease of 11.2% was primarily due to lower revenues from P-East due to the sale of the business in 1997 and lower revenues in Cincinnati due to the expiration of the Company's sales agency agreement in 1997. Revenues were also adversely affected by scheduling shifts in the publication schedules for certain Bell Atlantic directories.

Total expenses in 1997 of \$235.3 million were consistent with the 1996 amount of \$235.5 million. Expenses in 1997 related to P-East and P-West were \$10.8 million lower than in 1996. However, offsetting this decrease was \$4.0 million in start-up costs in 1997 associated with the Cincinnati independent directories and \$5.7 million higher depreciation due to the completion of the Raleigh publishing facility.

Income from partnerships and related fees decreased 2.1% to \$130.2 million in 1997 compared to \$132.9 million in 1996. Of this, income and related fees from DonTech decreased 4.2% in 1997 to \$116.2 million compared to \$121.4 million in 1996. The decrease in DonTech earnings is principally due to a contractual reduction in the Company's share of DonTech profits from 54% in 1996 to 53% in 1997. A portion of the decline was also due to sales and production inefficiencies that arose from an unbalanced production schedule in which the majority of the directories with which DonTech is affiliated were published in the fourth quarter. The Company's partnership income from CenDon increased to \$12.2 million in 1997 from \$9.7 million in 1996, primarily due to strong sales growth in the Sprint markets, especially Las Vegas.

Operating income in 1997 decreased \$32.7 million, or 19.5%, compared to 1996. This decrease was primarily due to lower operating income due to the sale of P-East, lower Income from partnerships from DonTech, the expiration of the Cincinnati Bell contract during 1997 and the decrease in Bell Atlantic revenues mentioned above.

The effective tax rate in 1997 was 41.1% compared to 43.8% in 1996. The higher tax rate in 1996 was due to a non-deductible capital loss for tax purposes related to the sale of the P-West business in 1996.

*Directory Advertising Services Segment* Revenues from Directory Advertising Services decreased 12.5% to \$214.8 million in 1997 compared to \$245.3 million in 1996. This decrease was due to the sale of the P-East business and the rescheduling of certain Bell Atlantic directories in 1997, partially offset by higher revenues from the Sprint markets. Operating income from Directory Advertising Services decreased 36.5% in 1997 primarily due to the sale of the P-East business in 1997, additional start-up costs associated with the Cincinnati independent directories and the decrease in revenues from Bell Atlantic directories.

*DonTech Partnership Segment* As previously stated, the Company's Income from partnerships from DonTech decreased 4.2%, or \$5.1 million, in 1997, primarily due to the contractual decrease in the



Company's share of the profits and sales and production inefficiencies that arose from an unbalanced production schedule.

*Directory Publishing Services Segment* Revenues of \$25.1 million in 1997 were consistent with 1996 revenues of \$24.7 million, after elimination of intercompany revenues of \$9.9 million and \$10.1 million, respectively. Operating loss in 1997 of \$4.6 million was \$2.3 million higher than in 1996 due to higher depreciation on the Company's investment in the Raleigh facility, which became operational in the second quarter of 1997. Operating income excluding depreciation was \$2.3 million, which was consistent with 1996.

### **Liquidity and Capital Resources**

In connection with the Distribution, Donnelley borrowed \$300 million under its Senior Secured Term Facilities ("Term Facilities") and issued \$150 million of Senior Subordinated Notes (the "Notes"). Donnelley also borrowed \$50 million against its \$100 million Senior Revolving Credit Facility (the "Revolver", together with the Term Facilities, the "Credit Agreement"). The net proceeds from these borrowings (the "Debt"), were divided into Old D&B and distributed to New D&B in connection with the Distribution. The Term Facilities mature between June 4, 2004, and December 5, 2006, and require quarterly principal repayments. The Notes pay interest semi-annually at the annual rate of 9.125%, and are due in 2008. The Credit Agreement and the Indenture governing the Notes each contain various financial and other restrictive covenants, including restrictions on indebtedness, capital expenditures and commitments. At February 28, 1999, Donnelley had \$310.9 million of outstanding debt under the Credit Agreement at a weighted average interest rate of 7.2% per annum, and available borrowing capacity of \$88.0 million under the Revolver.

To reduce the exposure to changes in interest rates on its floating rate long-term debt under the Credit Agreement, Donnelley entered into interest rate swap agreements having a total notional principal amount of \$175 million. These agreements effectively change the interest rate on \$175 million of floating rate borrowing to fixed rates. The interest rate swap agreements expire between June 2001 and June 2003. The notional amount of the swap agreements is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. Donnelley is exposed to credit risk in the event of nonperformance by the other party to the interest rate swap agreements. However, Donnelley does not anticipate nonperformance by the counterparty. In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 1999. Because of the Company's limited use of derivatives, management does not anticipate that the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

During 1998, the Company entered into a joint venture with China United Telecommunications Corporation ("China Unicom") to publish yellow pages directories and to offer Internet directory services in the People's Republic of China. Under the terms of the joint venture agreement, the Company will invest cash of approximately \$15.6 million to acquire a 15% equity interest in the joint venture. In 1998, the Company invested \$1.3 million and will make additional contributions totaling \$14.3 million over the next two to three years. The Company anticipates contributing approximately \$8.0 million in 1999, \$3.8 million in 2000 and \$2.5 million in 2001. These payments will be funded from cash flows from operations or from borrowings under the Revolver.

During 1998, the Board of Directors authorized the Company to repurchase its Common Stock under a systematic repurchase plan to offset the dilutive effect on earnings from the exercise of employee stock options and also authorized a general repurchase plan of up to \$20 million of its Common Stock, from time to time, depending on market conditions. At February 28, 1999, the Company had spent approximately \$4.7 million to repurchase shares under both the systematic and general repurchase plans.

The Company believes that cash from operations, together with available debt capacity under the Revolver, will be sufficient to permit the Company to fund its cash requirements, including its operating expenses, anticipated capital expenditures and debt service requirements, for the foreseeable future.

*Cash Flow* Net cash flow provided by operations was \$97.7 million in 1998, \$99.7 million in 1997, and \$100.5 million in 1996. Net income has declined in the three year period mainly due to the loss of income from businesses that were sold, lower earnings in the Bell Atlantic and Cincinnati operations, and increases in expenses, principally interest and general and administrative expenses, as a result of the Company's separation from Old D&B. This decline was offset by the timing of partnership cash receipts, receivables changes and certain changes in liabilities over the three year period. Fluctuations from cash received in partnerships relative to income from partnerships is a result of the timing of receipts and is not anticipated to fluctuate significantly in the future. Cash generated by accounts receivable was positive in 1997, mainly due to lower Bell Atlantic sales because of timing of directory publications. This situation reversed itself in 1998. New receivables associated with the Cincinnati directory in 1998 coupled with the reversal of the Bell Atlantic receivables situation caused a negative effect on cash flow that year. Cash flow from operations was also impacted by changes in net deferred tax liabilities over the three year period principally as a result of estimates used to approximate tax balances as if the Company was a separate entity for 1996 and 1997. Accounts payable, accrued liabilities and other current liabilities were higher in 1998 as a result of accrued interest payable related to the Debt. It is not anticipated that cash flow will fluctuate in the future as it had in this three year period with respect to these liabilities.

Net cash flow from investing activities used \$12.7 million in 1998, provided \$105.7 million in 1997 and used \$16.5 million in 1996. The amount in 1997 includes \$122.0 million from the sale of the P-East business and the 1996 amount includes \$21.4 million received from the sale of the P-West business. Expenditures for property and equipment and computer software were \$12.7 million in 1998, \$16.3 million in 1997 and \$37.8 million in 1996. The higher spending in 1996 was due to the Company's investment in its new publishing facility in Raleigh, North Carolina. The Company currently has no material commitments for capital expenditures.

Net cash used in financing activities was \$82.8 million in 1998, \$205.4 million in 1997 and \$85.5 million in 1996. Prior to July 1, 1998, all cash deposits were transferred to Old D&B on a daily basis and Old D&B funded the Company's disbursement bank accounts as required. The net amounts transferred to Old D&B were \$529.3 million in 1998, \$205.4 million in 1997 and \$85.5 million in 1996. The amount transferred in 1998 includes the net proceeds from the Debt and the amounts for 1997 and 1996 include the proceeds from the sale of the P-East and P-West businesses, respectively. Additionally, cash was used in 1998 to repay debt (\$31.4 million), to repurchase common stock under the

Company's systematic stock repurchase plan (\$1.0 million) and to pay dividends to shareholders (\$12.0 million). During 1998, the Company announced that it would cease paying a dividend after the payment of the fourth quarter 1998 cash dividend.

#### Year 2000 Issue

The Year 2000 ("Y2K") issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Computer programs that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions.

As part of its Y2K compliance program, all of the Company's installed computer systems and software products have been assessed for Y2K problems. The Company has replaced its financial systems (General Ledger, Accounts Payable, and Fixed Assets) with systems that use programs from Oracle Corporation, which have been tested and certified to be Y2K compliant. For all remaining systems, software programs are being modified or replaced. The Company is requesting assurances from all software vendors from which it has purchased or licensed software, or from which it may purchase or license software, that such software will correctly process all date information at all times. Additionally, all modifications to existing software, or new software installed by the Company are subjected to the Company's internal Y2K compliance program described below. Through continued modifications to existing software and the conversions to new software, the Company believes that it will be able to mitigate its exposure to the Y2K issue before 2000. However, if continued modifications and conversions are not made, or not completed on a timely basis, the Y2K issue could have a material adverse effect on the Company's operating results and financial condition.

The Company's Y2K compliance program is divided into five major phases – (1) the assessment of all computer systems and software products (collectively the "Computer Systems") for Y2K compliance, (2) the remediation (i.e. conversion or modification) of each Computer System to be Y2K compliant, (3) the testing of the remediation to confirm that such remediation has not adversely impacted the operation of the Computer Systems, and that it can process dates in the year 2000 and beyond, (4) the implementation of the remediated Computer Systems into production and (5) certification of the remediation for Y2K compliance. The percentage of completion of each phase at the end of February 1999 is shown in the table below:

Assessment	100%
Remediation	100%
Testing	98%
Implementation	96%
Certification	75%

In addition, it is possible that certain computer systems or software products with which the Company's computer systems, software, databases or other technology interface or are integrated with may not accept input of, store, manipulate and output dates in the year 2000 or thereafter without error or interruption. The Company has conducted a review of its computer systems to attempt to identify ways in which its systems could be affected by interface- or integration-related problems in correctly

processing date information. The Company is communicating with those third parties with which it maintains business relationships to monitor and evaluate their progress in identifying and addressing their Y2K issues and assessing the potential impact, if any, to the Company. Currently, nothing has come to the Company's attention that would indicate that the Y2K compliance efforts of a major third party would have a material adverse effect on the Company's results of operations and financial condition. However, there can be no assurance that the Company will identify all interface- or integration-related or third party-related problems in advance of their occurrence, or that the Company will be able to successfully remedy problems that are discovered. The expenses of the Company's efforts to identify and address such problems, or the expenses and liabilities to which the Company may become subject to as a result of such problems, could have a material adverse effect on its results of operations and financial condition.

The Company expects to have its Y2K compliance program substantially completed by the first quarter of 1999. The Company continually assesses the risk of non-compliance of its systems and the systems of major third parties and is currently in the process of developing contingency plans and alternative arrangements for circumstances outside the direct control of the Company.

The Company has spent approximately \$4.1 million addressing the Y2K issues and estimates that it will spend an additional \$1.2 million in 1999. These costs will be funded through cash flows from operations.

#### Market Risk Sensitive Instruments

**Interest Rate Risk** The Company is exposed to interest rate risk through its Credit Agreement, where it borrows at prevailing short-term variable rates. In order to manage its exposure to fluctuations in interest rates, the Company uses interest rate swap agreements which allow the Company to raise funds at floating rates and effectively swap them into fixed rates that are lower than those available to it if fixed rate borrowings were made directly. These derivative financial instruments are viewed by the Company as risk management tools that are entered into for hedging purposes only. The Company does not use derivative financial instruments for trading or speculative purposes. A discussion of the Company's accounting policies for derivative financial instruments is included in Note 2 - Summary of Significant Accounting Policies, and further disclosure relating to financial instruments is included in Note 12 - Financial Instruments.

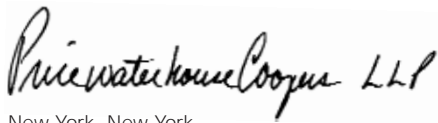
The fair value of interest rate risk is calculated by the Company utilizing estimates of the termination value of the Company's interest rate swaps based upon a 10% increase, or decrease in interest rates from December 31, 1998, levels. Fair values are the present value of projected future cash flows based on the market rates and prices chosen. At December 31, 1998, the unrealized fair value of the interest rate swaps was a loss of \$3.6 million. Assuming an instantaneous parallel upward shift in the yield curve of 10% from December 31, 1998, levels, the unrealized fair value of the Company's interest rate swaps would be a loss of \$0.6 million. Assuming an instantaneous parallel downward shift in the yield curve of 10% from December 31, 1998, levels, the unrealized fair value of the Company's interest rate swaps would be a loss of \$6.5 million.

**Foreign Exchange Risk** The Company's 15% equity interest in the joint venture with China Unicom represents the Company's only foreign operations. Given the current size of the joint venture operations and the Company's 15% equity interest, exposure to changes in foreign exchange rates at this time is minimal.

## Report of Independent Accountants

To the Board of Directors and  
Shareholders of R.H. Donnelley Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of R.H. Donnelley Corporation ("the Company") and its subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



New York, New York  
February 19, 1999

## Management's Responsibility for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include certain amounts based on management's estimates and assumptions. Other financial information presented in this annual report is consistent with that in the consolidated financial statements.

Management believes that the Company's internal control systems provide reasonable assurance that the financial statements reflect the authorized transactions of the Company and that assets are safeguarded against loss from unauthorized use or disposition. The concept of reasonable assurance recognizes that limitations exist in any internal control system as the cost of a control procedure should not exceed the benefits derived. Management believes its internal control systems, augmented by written policies, an organizational structure providing division of responsibilities and its internal audit function, appropriately balances this cost/benefit relationship.

The Company's consolidated financial statements have been audited and reported on by PricewaterhouseCoopers LLP, in accordance with generally accepted auditing standards. These standards include an assessment of the internal control systems and tests of transactions to the extent considered necessary by them to support their opinion.

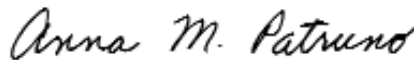
The Board of Directors of the Company has an Audit and Finance Committee that consists of three independent non-management Directors. The Audit and Finance Committee is responsible for, among other things, reviewing and monitoring the Company's financial reporting and accounting policies, and meets periodically with PricewaterhouseCoopers LLP, and the Company's internal auditors, both privately and with management present.



Frank R. Noonan  
Chairman and Chief Executive Officer



Phillip C. Danford  
Senior Vice President and Chief Financial Officer



Anna M. Patruno  
Vice President and Controller



## Consolidated Statements of Operations

(in thousands, except per share data)	Years Ended December 31,		
	1998	1997	1996
Revenues	\$ 169,988	\$ 239,865	\$ 270,029
Expenses			
Operating expenses	123,462	165,318	170,129
General and administrative	28,447	29,576	30,999
Provision for bad debts	8,614	18,473	18,175
Depreciation and amortization	19,578	21,930	16,229
Total expenses	180,101	235,297	235,532
Income from partnerships and related fees	135,854	130,171	132,945
Operating income	125,741	134,739	167,442
Interest expense, net	23,141	—	—
Gain (loss) on dispositions	—	9,412	(28,500)
Income before provision for income taxes	102,600	144,151	138,942
Provision for income taxes	41,040	59,246	60,857
Net income	\$ 61,560	\$ 84,905	\$ 78,085
Earnings per share			
Basic	\$ 1.80	\$ 2.49	\$ 2.30
Diluted	\$ 1.78	\$ 2.48	\$ 2.29
Shares used in computing earnings per share:			
Basic	34,237	34,153	34,003
Diluted	34,522	34,213	34,058

The accompanying notes are an integral part of the financial statements.

## Consolidated Balance Sheets

	December 31,	
	1998	1997
<i>(in thousands, except share and per share data)</i>		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,302	\$ 32
Accounts receivable		
Billed	6,941	5,208
Unbilled	73,817	78,010
Other	8,712	4,562
Allowance for doubtful accounts	(5,298)	(4,014)
Total accounts receivable – net	84,172	83,766
Deferred contract costs	6,401	6,944
Other current assets	4,278	388
Total current assets	97,153	91,130
Property and equipment – net	21,077	25,460
Computer software – net	33,523	37,546
Partnership investments and related receivables	216,482	218,620
Other non-current assets	22,891	9,530
Total Assets	\$ 391,126	\$ 382,286
<b>Liabilities and Shareholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,654	\$ 1,395
Accrued and other current liabilities	69,485	58,070
Current portion of long-term debt	4,125	—
Total current liabilities	75,264	59,465
Long-term debt	464,500	—
Deferred income taxes	50,909	34,456
Postretirement and postemployment benefits	9,648	12,920
Other liabilities	12,415	16,770
Commitments and contingencies		
<b>Shareholders' Equity (Deficit)</b>		
Preferred stock, par value \$1.00 per share, authorized – 10,000,000 shares, outstanding – none	—	—
Common stock, par value \$1.00 per share, authorized – 400,000,000 shares; issued – 51,621,894 and 51,967,121 shares for 1998 and 1997, respectively	51,622	51,967
Additional paid-in capital	274	—
Retained earnings (deficit)	(255,434)	224,562
Treasury stock, at cost, 17,419,739 and 17,853,652 shares for 1998 and 1997, respectively	(18,072)	(17,854)
Total shareholders' equity (deficit)	(221,610)	258,675
Total Liabilities and Shareholders' Equity (Deficit)	\$ 391,126	\$ 382,286

The accompanying notes are an integral part of the financial statements.

## Consolidated Statements of Cash Flows

(in thousands)	Years Ended December 31,		
	1998	1997	1996
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 61,560	\$ 84,905	\$ 78,085
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	19,578	21,930	16,229
Amortization of deferred financing costs	793	—	—
Provision for doubtful accounts	8,614	18,473	18,175
(Gain) loss from sale of business	—	(9,412)	28,500
Cash received (less than) in excess of income from partnerships	(1,061)	10,930	(18,593)
Loss on sale of property and equipment	—	1,551	724
(Increase) decrease in accounts receivable	(9,020)	15,524	(9,974)
Decrease (increase) in deferred contract costs	543	(6,746)	(8,403)
(Increase) decrease in other assets	(5,223)	1,806	4,090
Increase (decrease) in accounts payable, accrued and other current liabilities	13,122	(38,993)	(26,781)
Increase (decrease) in other liabilities	8,826	(314)	18,486
Net cash provided by operating activities	97,732	99,654	100,538
<b>Cash Flows from Investing Activities</b>			
Proceeds from sale of business	—	122,000	21,368
Additions to property and equipment	(5,207)	(9,078)	(15,965)
Additions to computer software	(7,443)	(7,190)	(21,859)
Net cash (used in) provided by investing activities	(12,650)	105,732	(16,456)
<b>Cash Flows from Financing Activities</b>			
Net proceeds from long-term borrowings	490,408	—	—
Repayment of debt	(31,375)	—	—
Net distributions to Old D&B	(529,306)	(205,414)	(85,466)
Purchase of treasury stock	(1,017)	—	—
Payment of dividend	(12,016)	—	—
Other, net	494	—	—
Net cash used in financing activities	(82,812)	(205,414)	(85,466)
Increase (decrease) in cash and cash equivalents	2,270	(28)	(1,384)
Cash and cash equivalents, beginning of year	32	60	1,444
Cash and cash equivalents, end of year	\$ 2,302	\$ 32	\$ 60

The accompanying notes are an integral part of the financial statements.

## Consolidated Statements of Changes in Shareholders' Equity (Deficit)

<i>(in thousands, except per share data)</i>	<i>Common Stock</i>	<i>Paid-in Capital</i>	<i>Retained Earnings (Deficit)</i>	<i>Treasury Shares</i>	<i>Total Shareholders' Equity (Deficit)</i>
Balance, January 1, 1996	\$ 52,910	\$ —	\$ 352,687	\$ (19,032)	\$ 386,565
Net income			78,085		78,085
Net distribution to Old D&B			(85,466)		(85,466)
Net change due to treasury stock activity	(1,136)		(283)	1,419	—
Balance, December 31, 1996	51,774	—	345,023	(17,613)	379,184
Net income			84,905		84,905
Net distribution to Old D&B			(205,414)		(205,414)
Net change due to treasury stock activity	193		48	(241)	—
Balance, December 31, 1997	51,967	—	224,562	(17,854)	258,675
Net income			61,560		61,560
Dividends paid (\$0.35 per share)			(12,016)		(12,016)
Net distribution to Old D&B			(529,306)		(529,306)
Net change due to treasury stock activity prior to the Distribution	(345)	274	(234)	799	494
Purchase of treasury shares				(1,017)	(1,017)
Balance, December 31, 1998	\$ 51,622	\$ 274	\$ (255,434)	\$ (18,072)	\$ (221,610)

The accompanying notes are an integral part of the financial statements.

# Notes to Consolidated Financial Statements

(In thousands, except share and per share data, unless otherwise indicated)

## 1. Description of Business and Basis of Presentation

R.H. Donnelley Corporation ("the Company") provides advertising sales and marketing services for yellow pages and other directory products under long-term sales agency agreements and joint venture partnerships with operating units of major telephone companies as well as through its own independent operations. The Company is a sales agent in New York State for an operating unit of Bell Atlantic and in Florida for an operating unit of Sprint. It also serves as a sales agent for the CenDon partnership ("CenDon"), a 50/50 partnership between the Company and an operating unit of Sprint that was formed to publish directories in Florida, Nevada, Virginia and North Carolina. The Company also has a 50/50 partnership ("DonTech") with an operating unit of Ameritech Corporation which acts as the exclusive sales agent for yellow pages directories published by Ameritech in Illinois and northwest Indiana. The Company's independent operations are located in Cincinnati, Ohio. The Company also provides pre-press publishing services for yellow pages directories, including advertisement creation, sales contract management, listing database management, sales reporting and commissions, pagination, billing services and imaging to other yellow pages publishers and its existing customers under separately negotiated contracts.

Prior to July 1, 1998, the Company operated as part of The Dun & Bradstreet Corporation ("Old D&B"). On December 17, 1997, the Board of Directors of Old D&B approved in principle a plan to separate into two publicly traded companies – R.H. Donnelley Corporation and The New Dun & Bradstreet Corporation ("New D&B"). The distribution ("Distribution") was the method by which Old D&B distributed to its shareholders shares of New D&B common stock. On July 1, 1998, as part of the Distribution, Old D&B distributed to its shareholders shares of New D&B stock. In connection with the Distribution, Old D&B changed its name to R.H. Donnelley Corporation. After the Distribution, the Company's only operating subsidiary is R.H. Donnelley Inc. ("Donnelley"). Therefore, on a consolidated basis, the financial statements of the Company and Donnelley are substantially identical.

The financial statements reflect the financial position, results of operations, and cash flows of the Company as if it were a separate entity for all periods presented. Old D&B provided certain centralized services to the Company, the cost of which was allocated to the Company. Management believes these allocations were reasonable; however, the costs of these services are not necessarily indicative of the costs that would have been incurred if the Company had performed or provided these services as a separate entity. These allocations were \$11,570 for the six months ended June 30, 1998, \$21,531 and \$18,626 for the years ended 1997 and 1996, respectively, and are included in operating expenses and general and administrative expenses in the Consolidated Statements of Operations.

The Company retained all the assets and liabilities related to the yellow pages and other directory product sales, marketing and publishing service businesses after the Distribution as well as an allocation of certain Old D&B corporate headquarters assets and liabilities relating to the Company's businesses. Management believes these allocations were reasonable. The financial information included herein may not necessarily reflect the results of operations, financial position, changes in shareholders' equity and cash flows of the Company in the future or

what they would have been had the Company been a separate, stand-alone entity during the periods presented.

In connection with the Distribution, Donnelley entered into a credit agreement with the Chase Manhattan Bank, and the Lenders party thereto. Under the terms of the agreement, Donnelley obtained a Senior Revolving Credit Facility of \$100,000 and Senior Secured Term Facilities in the aggregate amount of \$300,000 of which Donnelley initially borrowed \$350,000. In addition, Donnelley issued \$150,000 of Senior Subordinated Notes. The aggregate \$500,000 was divided into Old D&B, but repayment of such indebtedness remains an obligation of Donnelley, as guaranteed by the Company. Net distributions to Old D&B include net cash transfers, third party liabilities paid on behalf of the Company by Old D&B and amounts due to/from Old D&B for services and other charges. No interest was charged on these inter-company transactions.

For purposes of governing certain of the ongoing relationships between the Company and New D&B after the Distribution and to provide for orderly transition, the Company and New D&B entered into various agreements including a Distribution Agreement, Tax Allocation Agreement, Employee Benefits Agreement, Shared Transaction Services Agreement, Intellectual Property Agreement, Data Services Agreement, and Transition Services Agreement.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany transactions and balances have been eliminated. Investments in the Company's 50% or less owned partnerships are accounted for under the equity method of accounting. The Company's share of partnerships' operating results is reflected in Income from partnerships and related fees. Related fees represent the revenue participation earnings from an operating unit of Ameritech Corporation ("Ameritech") (see Note 4).

### Revenue Recognition

The Company recognizes revenue as earned, which is based on contractual relationships. For agreements where the Company is a sales agent, revenue is comprised of sales commissions and is recognized upon execution of contracts for the sale of advertising. For businesses where the Company is the publisher, revenues are recognized when directories are published. Revenues from publishing services are recognized on a straight-line basis throughout the year as the services are performed.

### Cash and Cash Equivalents

Cash equivalents include highly liquid investments with a maturity of less than three months at the time of acquisition.

### Unbilled Receivables

For agreements where the Company is a sales agent, unbilled receivables represent revenues earned from the sale of advertising in directories that are scheduled to be published by the publisher. These receivables will be billed to the publisher upon directory publication in accordance with contractual provisions. For businesses where the Company is the publisher, unbilled receivables represent revenues earned on published directories. In most cases, advertisers are billed ratably over the life of the directories, which is generally 12 months.

### Deferred Contract Costs

Direct costs incurred by the Company as publisher are deferred until the related directory is published. Direct costs incurred where the Company is a sales agent are expensed in the period incurred.

### Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of depreciable assets using the straight-line method. Estimated useful lives are five years for machinery and equipment, ten years for furniture and fixtures, and three to five years for computer equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the improvement.

### Capitalized Software Costs

Certain direct costs incurred for computer software to meet the needs of the Company and its customers are capitalized. These costs are amortized on a straight-line basis over five years. In March 1998, the Accounting Standards Executive Committee of the AICPA issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use and is effective for fiscal years beginning after December 15, 1998. The Company's existing accounting policy is in compliance with the requirements of the SOP.

### Long-Lived Assets

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, an impairment loss would be recognized when the sum of the undiscounted expected future cash flows is less than the carrying amount of such assets. The measurement for such an impairment loss is then based on the fair value of the asset.

### Income Taxes

The Company accounts for income taxes under the liability method in accordance with SFAS 109, "Accounting for Income Taxes." Prior to the Distribution, the Company was included in the Federal and certain state income tax returns of Old D&B. The provision for income taxes for the three years ended December 31, 1998, 1997 and 1996 have been calculated on a separate-company basis and the income taxes paid on behalf of the Company through June 30, 1998, by Old D&B have been included in equity.

### Concentration of Credit Risk

The Company maintains significant accounts receivable balances from its agreements with operating units of Ameritech, Bell Atlantic and Sprint. The Company establishes an allowance for doubtful accounts based on the expected collectibility of accounts receivable from advertisers principally from historical trends. The Company does not currently foresee a credit risk associated with these receivables due to the high credit ratings of its counterparties.

### Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement requires that all items recognized under accounting standards as components of comprehensive earnings be reported in a financial statement for the period in which they are recognized and displayed with the same prominence as other financial statements. There were no additional components of comprehensive income and, as a result, the Company's total comprehensive income for the periods presented were equal to net income.

### Derivative Financial Instruments

The Company uses interest rate swap contracts to manage market risk and reduce its exposure to fluctuations in interest rates on its variable rate debt. Periodic payments and receipts under the interest rate swaps are recorded as part of interest expense. The related amounts payable to, or receivable from, the counterparty are included in accrued and other current liabilities or other current assets. The fair value of the interest rate swaps are not recognized in the consolidated financial statements as they are accounted for as hedges. If the interest rate swaps cease to qualify as a hedge, any subsequent gains and losses are recognized currently in income. The Company is subject to credit risk in the event of nonperformance by the counterparty to the interest rate swap agreements. However, the Company does not anticipate nonperformance by the counterparty. The Company does not use derivative financial instruments for trading or speculative purposes.

In June, 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in years beginning after June 15, 1999. Because of the Company's limited use of derivatives, management does not anticipate that the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

### Earnings Per Share of Common Stock

Basic earnings per share are calculated by dividing net income by the weighted average common shares outstanding during the year. Diluted earnings per share are calculated by dividing net income by the weighted average common shares outstanding and potentially dilutive common shares, primarily employee stock options. Potentially dilutive common shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all employee options are used to repurchase common stock at market value. The

amount of shares remaining after the proceeds are exhausted represent the number of potentially dilutive options.

The table below provides a reconciliation of basic weighted average shares outstanding to dilutive weighted average shares outstanding. At December 31, 1998, options to purchase 2,026,740 shares of common stock were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

<i>in thousands</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
Weighted average shares outstanding – basic	34,237	34,153	34,003
Effect of potentially dilutive stock options as of year end	285	60	55
Weighted average shares outstanding – assuming dilution	34,522	34,213	34,058

During 1998, the Company executed a one-for-five split of its outstanding common stock. All share and per share data provided herein has been adjusted to reflect such a reverse stock split.

### 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, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Estimates are used in the determination of allowances for bad debts, depreciation and amortization and employee benefit plans, among others.

### Reclassification

In 1998, the Company reclassified certain expenses related to the sale of advertising, historically included as general and administrative expenses, to operating expenses. To better measure the contribution of each operating unit and facilitate decision making and resource allocation, these costs have been reclassified from general and administrative to operating expenses on the Consolidated Statements of Operations. As a result, general and administrative costs of \$33,040 and \$34,629 were reclassified to operating expenses for 1997 and 1996, respectively. In addition, certain prior year amounts have been restated to conform to the 1998 presentation. These reclassifications had no impact on previously reported results of operations or shareholders' equity.

## 3. Non-Recurring Items

### Post-Distribution Adjustments

The asset and liability amounts allocated to the Company by Old D&B pursuant to the Distribution Agreement were based on preliminary estimates and subject to revision based on final determinations of amounts. Accordingly, adjustments have been made to reflect approximately \$13.6 million of additional deferred tax liabilities and to decrease benefit liabilities originally assumed by approximately \$8.1 million. These adjustments have been reflected as an adjustment to equity and did not have any impact on the Consolidated Statements of Operations.

### Sale of Businesses

The 1997 operating results include a pretax gain of \$9,412 related to the sale of its Proprietary-East business ("P-East"). In connection with the sale of the P-East business, the Company maintained a continuing obligation to provide publishing services through the year 2002 to the acquirer. This obligation has been adequately provided for in the financial statements.

The 1996 results reflect a pre-tax charge of \$28,500 incurred as a result of the sale of the Proprietary-West business ("P-West").

## 4. Partnerships

**DonTech** In 1991, the Company formed a general partnership with an operating unit of Ameritech, the DonTech Partnership ("DonTech I"). Prior to August 1997, DonTech I published various directories, solicited advertising, and manufactured and delivered directories in Illinois and northwest Indiana. Under this agreement, the Company's share in the profits of DonTech I was 54% in 1996 and 53% during 1997. In August 1997, the Company signed a series of agreements with Ameritech changing the structure of the existing partnership. A new partnership was formed ("DonTech") appointing DonTech the exclusive sales agent in perpetuity for yellow pages directories published by Ameritech in Illinois and northwest Indiana. Under the new sales agency partnership, DonTech performs the advertising sales function for the directories and earns a commission while Ameritech serves as the publisher. The Company has a 50% interest in the profits of DonTech. The Company also receives direct fees ("Revenue Participation") from an operating unit of Ameritech, which are tied to advertising sales.

The Company recognized equity earnings, including Revenue Participation, of \$120,087, \$116,228, and \$121,354 from the DonTech partnership during 1998, 1997, and 1996, respectively. The Company's investment in DonTech was \$198,848 and \$203,589 at December 31, 1998 and 1997, respectively. The Revenue Participation receivable from Ameritech, included in the Company's total investment, was \$100,748 at December 31, 1998, and \$51,610 at December 31, 1997.

**CenDon** The Company has a 50% interest in the profits of CenDon. The Company recognized equity earnings of \$15,767, \$12,219 and \$9,695 from CenDon during 1998, 1997 and 1996, respectively. The Company's investment in CenDon was \$17,634 and \$15,031 at December 31, 1998 and 1997, respectively. The CenDon agreement extends through the end of December 2004.

The Company also provides sales and publishing services to CenDon. The partnership is billed upon the publication of each directory based on a contractual rate for sales and is billed pro rata during the year for publishing services based on a contractual fee. Sales commissions and publishing services revenue for the Company were \$32,560, \$35,126, and \$32,258 for 1998, 1997 and 1996, respectively.



## 5. Property and Equipment

Property and equipment at December 31, 1998 and 1997, consisted of the following:

	1998	1997
Computer equipment	\$ 40,143	\$ 35,587
Machinery and equipment	5,365	4,949
Furniture and fixtures	8,082	7,928
Leasehold improvements	7,121	7,121
Total cost	60,711	55,585
Less accumulated depreciation	39,634	30,125
Net property and equipment	\$ 21,077	\$ 25,460

## 6. Computer Software

Computer software costs capitalized at December 31, 1998 and 1997, consisted of the following:

	1998	1997
Computer software, at cost	\$ 60,253	\$ 52,784
Less accumulated amortization	26,730	15,238
Net computer software	\$ 33,523	\$ 37,546

Amortization expense charged to earnings was \$10,017 in 1998 and \$9,789 in 1997.

## 7. Long-term Debt and Credit Facilities

Long-term debt at December 31, 1998, consisted of the following:

	1998
Senior subordinated 9.125% Notes	\$ 150,000
Senior secured term facilities	298,875
Senior revolving credit facility	19,750
Total	468,625
Less current portion	4,125
Net long-term debt	\$ 464,500

All long-term debt was incurred on June 5, 1998, in connection with the Distribution. Accordingly, no long-term debt was outstanding at December 31, 1997. In connection with the issuance of long-term debt, the Company incurred deferred financing costs of \$9,592, which are being amortized over the term of the debt. During 1998, \$793 was amortized and included in interest expense.

The Senior Subordinated Notes (the "Notes") pay interest semi-annually and mature in 2008. The Notes Indenture contains covenants which, among other things, restricts the ability of the Company and its subsidiary to incur certain additional debt and liens and engage in mergers, consolidations and asset sales. The Notes are callable at the option of the Company at any time on or after June 1, 2003.

The Company's committed bank facilities consist of an aggregate \$300,000 Senior Secured Term Facilities ("Term Facilities") and a \$100,000 Senior Revolving Credit Facility (the "Revolver"). The Term Facilities require quarterly principal repayments and mature between June 2004 and December 2006. The Revolver matures in June 2004. These facilities bear interest at a floating rate based on a spread over London interbank offered rate (LIBOR) or the greater of either the Prime rate or the Fed Funds rate plus 50 basis points, at the election of the Company. The committed facilities contain covenants that, among other things, restrict the ability of the Company and its subsidiary to engage in mergers, consolidations and asset sales, incur additional indebtedness and liens and require the Company to maintain certain financial ratios. At December 31, 1998, the Company had \$318,625 of outstanding debt under the Term Facilities and Revolver at a weighted average interest rate of 7.1% per annum. At December 31, 1998, the Company had available borrowing capacity of \$80,250 under the Revolver.

Aggregate maturities of long-term debt are:

1999	\$ 4,125
2000	9,750
2001	15,375
2002	19,125
2003	24,750
Thereafter	395,500
Total	\$ 468,625

At December 31, 1998, interest payable of \$11,392 was recorded in the financial statements as a component of accrued and other current liabilities. Cash interest paid for the period ended December 31, 1998, totaled \$15,866.

## 8. Commitments and Contingencies

The Company leases office facilities and computer and other equipment under operating leases with terms expiring at various dates through 2011. Rent expense under real estate operating leases for the years 1998, 1997, and 1996 was \$6,948, \$8,612 and \$9,482, respectively. Lease expense under computer and other equipment leases was \$2,032, \$2,245 and \$1,762 for 1998, 1997, and 1996 respectively.

The approximate minimum rental payments applicable to noncancelable operating leases at December 31, 1998, are:

1999	\$ 7,994
2000	7,397
2001	5,808
2002	5,909
2003	5,876
Thereafter	23,588
Total	\$ 56,572

During 1998, the Company entered into a joint venture with China United Telecommunications Corporation ("China Unicom") and Teleway Communications Limited to publish yellow pages directories and to offer Internet directory services in the People's Republic of China.

Under the terms of the joint venture agreement, the Company will invest cash of approximately \$15.6 million to acquire a 15% equity interest in the joint venture. In 1998, the Company invested \$1.3 million and will make additional contributions totalling \$14.3 million over the next two to three years. The Company anticipates contributing approximately \$8.0 million in 1999, \$3.8 million in 2000 and \$2.5 million in 2001.

On July 29, 1996, Information Resources, Inc. ("IRI") filed a complaint in the United States district court for the Southern district of New York, naming as defendant Old D&B, ACNielsen Company, and IMS International Inc. ("the IRI Action"). The complaint alleges, among other things, various violations of the antitrust laws and seeks damages in excess of \$350 million, which IRI is seeking to have trebled under the antitrust laws. IRI also seeks punitive damages of an unspecified amount. Under the Distribution Agreement, New D&B will assume the defense and indemnify the Company against any payments to be made by the Company or Donnelley in respect of the IRI Action, under the Indemnity and Joint Defense Agreement or otherwise, including any ongoing legal fees and expenses related thereto.

Certain tax planning strategies entered into by Old D&B are currently subject to review by tax authorities. The Internal Revenue Service (the "IRS") is currently reviewing Old D&B's utilization of certain capital losses during 1989 and 1990. While the IRS has not issued a formal assessment with respect to these transactions, the IRS has assessed other companies that had entered into similar types of transactions. If an assessment is made and should the IRS prevail, the total cash obligation to the IRS at December 31, 1998, would approximate \$500 million for taxes and accrued interest. Pursuant to a series of agreements, IMS Health Incorporated ("IMS") and Nielsen Media Research, Inc. ("NMR") (both of which are former subsidiaries of Old D&B) are each jointly and severally liable to pay 50%, and Old D&B is liable for the remaining 50% of any payments for taxes and accrued interest arising from this matter and certain other potential tax liabilities after Old D&B pays the first \$137 million. As explained above, as the result of the form of the Distribution, the Company is the legal entity and the taxpayer referred to herein as Old D&B. However, New D&B, pursuant to the terms of the Distribution Agreement and the Tax Allocation Agreement, executed in connection with the Distribution, has assumed and will indemnify the Company and Donnelley against any payments to be made by the Company or Donnelley in respect of any tax liability that may be assessed and any costs and expenses relating thereto including any ongoing legal fees. Accordingly, management believes that such tax liabilities and the costs and expenses relating thereto will have no impact on the consolidated financial position of the Company. Management further believes that New D&B, IMS and NMR have sufficient financial resources to satisfy all such liabilities and to reimburse the Company for all costs and expenses relating thereto.

Other than the matters described above, the Company and Donnelley are involved in legal proceedings, claims and litigation arising in the ordinary conduct of its business. Although there can be no assurances, the Company's management believes that the outcome of such legal proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 9. Pension and Postretirement Benefits

Prior to the Distribution, substantially all employees of the Company and Donnelley were eligible to participate in Old D&B's defined benefit and defined contribution pension plans. These plans were accounted for as multi-employer plans. Accordingly, the Company has recorded pension costs as allocated by Old D&B relating to the defined benefit plan totaling \$1,121 for the six months ended June 30, 1998, \$996 in 1997 and \$1,082 in 1996. Allocated costs relating to the defined contribution plan were \$818 for the six months ended June 30, 1998, \$2,243 in 1997 and \$2,268 in 1996.

In addition to providing pension benefits, Old D&B provided certain health care and life insurance benefits for retired employees of the Company and Donnelley. The Company accounted for this plan as a multi-employer plan. Accordingly, the Company has recorded postretirement benefits costs as allocated by Old D&B totaling \$893 for the six months ended June 30, 1998, \$1,724 in 1997 and \$1,873 in 1996.

Subsequent to the Distribution, the Company assumed responsibility for pension benefits for active employees of the Company and Donnelley with vested benefits under the Old D&B Retirement Plan. The responsibility for Donnelley retirees and vested terminated employees prior to the Distribution will remain with New D&B. The Company assumed responsibility for postretirement benefits for active employees of Donnelley. An allocation of assets and liabilities related to active employee benefits has been included in the financial statements. A description of the Company's benefit plans follows.

*Pension* The Company has a defined benefit plan covering substantially all employees. The benefits to be paid to employees are based on years of service and a percentage of total annual compensation. The percentage of compensation allocated to a retirement account ranges from 3.0% to 12.5% depending on age and years of service. Pension costs are determined actuarially. Due to the overfunded status of the plan, the Company has not formally adopted a funding policy as of December 31, 1998. The underlying pension plan assets are invested in diversified portfolios consisting primarily of equity and debt securities.

The Company also has two unfunded non-qualified defined benefit plans, the Pension Benefit Equalization Plan (PBEP) and the Supplemental Executive Benefit Plan (SEBP). Senior executives and certain key employees are entitled to participate in these plans which provide retirement benefits based on years of service and compensation (including compensation not permitted to be taken into account under the previously mentioned defined benefit plan).

The Company also maintains a defined contribution plan for substantially all its employees. Contributions to the plan are generally determined based on a percentage of each eligible employee's salary. The Company makes a matching contribution of 50 cents for each dollar contributed up to 6% of each participating employee's salary. The cost of this plan to the Company for the six months ended December 31, 1998, was \$808.

*Postretirement Benefits* In addition to the Company's defined benefit and defined contribution plans, the Company sponsors an unfunded defined benefit postretirement plan that provides certain health care and life insurance benefits to those full-time employees who reach normal retirement age while working for the Company or Donnelley.

A summary of the funded status of the benefit plans at December 31, 1998, is as follows:

	Retirement Plans		Post-retirement Plan
	Qualified	SEBP/PBEP	
<b>Change in benefit obligation</b>			
Benefit obligation, July 1, 1998	\$ 40,064	\$ 1,354	\$ 6,100
Service cost	1,160	208	240
Interest cost	1,401	48	200
Plan participant contributions	—	—	10
Actuarial loss	974	65	270
Benefits paid	(25)	—	(60)
Benefit obligation at December 31, 1998	43,574	1,675	6,760
<b>Change in plan assets</b>			
Fair value of plan assets, July 1, 1998	60,925	—	—
Return on plan assets	2,476	—	—
Employer contributions	—	—	50
Plan participant contributions	—	—	10
Benefits paid	(25)	—	(60)
Fair value of plan assets at December 31, 1998	63,376	—	—
Funded status of plans	19,802	(1,675)	(6,760)
Unrecognized net (gain) loss	(6,411)	484	710
Unrecognized prior service costs	299	136	(80)
Unrecognized transition (asset) obligation	(954)	4	—
Prepaid (accrued) benefit cost	\$ 12,736	\$ (1,051)	\$ (6,130)

The net periodic benefit (income) cost of the benefit plans for the six months ended December 31, 1998 is as follows:

Service cost	\$ 1,160	\$ 208	\$ 240
Interest cost	1,401	48	200
Return on plan assets	(2,476)	—	—
Net amortization and deferral	(228)	34	(60)
Net periodic benefit (income) expense	\$ (143)	\$ 290	\$ 380

The following assumptions were used in determining the benefit obligation and net periodic pension cost:

Weighted average discount rate	6.75%	6.75%	6.75%
Rate of increase in future compensation	3.91%	3.91%	3.91%
Expected return on plan assets	9.75%	—	—

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 1999. The rate was assumed to decrease gradually to 5.0% through 2021 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have the following effects:

	One percentage-point increase	One percentage-point decrease
Effect on benefit obligation at end of period	\$ 590	\$ (540)
Effect on total service and interest costs	\$ 40	\$ (30)

## 10. Employee Stock Option Plans

SFAS No. 123, "Accounting for Stock-Based Compensation," requires that companies with stock-based compensation plans either recognize compensation expense based on the fair value of options granted or continue to apply the existing accounting rules and disclose pro forma net income and earnings per share assuming the fair value method had been applied. The Company has chosen to continue applying Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for the fixed stock option plans. The following table reflects the pro forma net income and earnings per share assuming the fair value method had been applied in accordance with SFAS No. 123.

	1998	1997	1996
Net income			
As reported	\$ 61,560	\$ 84,905	\$ 78,085
Pro forma	60,101	84,542	77,844
Basic earnings per share of common stock			
As reported	\$ 1.80	\$ 2.49	\$ 2.30
Pro forma	1.76	2.48	2.29
Diluted earnings per share of common stock			
As reported	\$ 1.78	\$ 2.48	\$ 2.29
Pro forma	1.74	2.47	2.29

The pro-forma disclosures shown are not representative of the effects on income and earnings per share in future years.

The fair value of stock options used to compute the Company's pro forma income disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1998	1997	1996
Dividend yield	0%	3.3%	4.5%
Expected volatility	35%	20%	15%
Risk-free interest rate	5.46%	5.73%	6.04%
Expected holding period	4.7 years	4.5 years	4.9 years

Under the terms of the Old D&B 1982 Key Employees Stock Option Plan and the 1991 Key Employees Stock Option Plan, as amended, (collectively "Stock Option Plans"), certain key employees of the Company were eligible to receive stock options, stock appreciation rights and limited stock appreciation rights in tandem with stock options. Immediately after the Distribution, these plans were amended and adopted by the Company and outstanding awards under the Stock Option Plans held by Company employees were adjusted to have the same ratio of the exercise price per option to the market value per share, the same aggregate difference between market value and exercised price and the same vesting provisions, option periods and other terms and conditions applicable prior to the Distribution.

The vesting period for awards under the Stock Option Plans are determined by the Board at the date of the grant. Options may not be granted at less than fair market value of the Company's common stock at the date of the grant and may not expire more than ten years from the grant date. At December 31, 1998, 1997 and 1996, options for 1,456,610 shares, 121,291 shares and 115,188 shares of common stock, respectively, were exercisable. Options for 4,272,093 shares, 290,039 shares and 848,154 shares were available for future grants under the Stock Option Plans at December 31, 1998, 1997 and 1996, respectively.

Changes in stock options for the three years ended December 31, 1998, are summarized in the table at right:

	Shares	Weighted Average Exercise Price(\$)
Options outstanding, December 31, 1995	78,468	280.35
Granted	—	—
Exercised	(10,427)	259.95
Surrendered or expired	(1,607)	285.90
Options outstanding, October 31, 1996	66,434	283.40
Options converted, November 1, 1996	175,227	107.40
Granted	94,861	114.35
Exercised	(1,811)	104.75
Surrendered or expired	(3,163)	110.60
Options outstanding, December 31, 1996	265,114	109.85
Granted	75,798	149.75
Exercised	(35,013)	102.25
Surrendered or expired	(23,882)	114.35
Options outstanding, December 31, 1997	282,017	121.15
Granted	1,808	159.53
Exercised	(16,436)	108.36
Surrendered or expired	(25,992)	126.71
Options outstanding, June 30, 1998	241,397	123.76
Options converted, July 1, 1998	2,473,354	12.08
Granted	2,043,250	15.31
Exercised	(12,868)	10.89
Surrendered or expired	(118,743)	12.65
Options outstanding, December 31, 1998	4,384,993	13.55

The weighted average fair value of options granted during 1998, 1997 and 1996 was \$4.91, \$27.70 and \$18.00, respectively. The information above has been prepared based on historical Old D&B prices after giving retroactive effect for the reverse one-for-five stock split in August 1998. Options outstanding as of June 30, 1998, were converted on July 1, 1998, to give effect to the Distribution.

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Weighted Average		Shares	Weighted Average Exercise Price
		Remaining Contractual Life	Exercise Price		
\$ 7.67 - \$ 11.79	1,635,163	6.3 years	\$ 10.89	1,267,553	\$ 10.80
\$ 12.08 - \$ 15.78	2,749,830	9.4 years	\$ 15.13	189,057	\$ 14.63
	<u>4,384,993</u>			<u>1,456,610</u>	

In 1998, the Board of Directors adopted the 1998 Directors' Stock Option Plan. Under the terms of the plan, non-employee directors receive an annual award of 1,500 shares of restricted common stock and options to purchase 1,500 shares of the Company's common stock. Additionally, non-employee directors receive 1,500 shares of restricted common stock

upon election to the Board. These shares vest equally over a three-year period. The Company reserved 150,000 shares of common stock for issuance under the plan. During the year, the Company granted 17,677 stock options and restricted shares and at December 31, 1998, 132,323 shares remain available for future issuance.

## 11. Income Taxes

Provision for income taxes consisted of:

	1998	1997	1996
Current tax provision			
U.S. Federal	\$ 31,220	\$ 63,629	\$ 28,634
State and local	7,020	8,660	15,675
Total current tax provision	38,240	72,289	44,309
Deferred tax provision (benefit)			
U.S. Federal	2,261	(15,777)	19,347
State and local	539	2,734	(2,799)
Total deferred tax provision (benefit)	2,800	(13,043)	16,548
Provision for income taxes	\$ 41,040	\$ 59,246	\$ 60,857

The following table summarizes the significant differences between the U.S. Federal statutory tax rate and the Company's effective tax rate for financial statement purposes.

	1998	1997	1996
Statutory Federal tax rate	35.0%	35.0%	35.0%
State and local taxes, net of U.S. Federal tax benefit	4.7	5.1	6.0
Non-deductible capital losses	—	—	2.8
Non-deductible expense	0.3	1.0	—
Effective tax rate	40.0%	41.1%	43.8%

Deferred tax assets and liabilities consisted of the following at December 31,

	1998	1997
Deferred tax assets		
Postretirement benefits	\$ 2,648	\$ 4,288
Postemployment benefits	782	3,210
Reorganization and restructuring costs	413	937
Bad debts	2,119	1,606
Intangibles	—	2,571
Various accrued liabilities	11,572	15,535
Total deferred tax asset	17,534	28,147
Deferred tax liabilities		
Revenue recognition	50,670	45,160
Pension	5,117	3,812
Property and equipment	152	829
Intangibles	309	—
Capitalized project costs	12,195	12,802
Total deferred tax liabilities	68,443	62,603
Net deferred tax liability	\$ 50,909	\$ 34,456

Federal and state income taxes paid in cash during the six months ended December 31, 1998, were \$16,362.

## 12. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivables and long-term debt, including current maturities. The carrying amount of cash and cash equivalents and accounts receivables reported in the consolidated balance sheet approximates fair value due to the short-term nature of these instruments.

Long-term debt consists of borrowings under committed bank facilities and the Notes. The carrying amount of the Company's borrowings under the committed bank facilities at December 31, 1998, of \$318,625 approximates fair value as these obligations bear interest at floating rates. The carrying amount of the Notes at December 31, 1998, was \$150,000 and the fair value was \$157,875. Fair value was determined based on quoted market prices of similar debt instruments.

The Company enters into interest rate swap agreements to manage market risk and reduce its exposure to fluctuations in interest rates on its variable rate debt. Interest rate swaps allow the Company to raise funds at floating rates and effectively swap them into fixed rates that are lower than those available to it if fixed-rate borrowings were made directly. These agreements involve the exchange of floating-rate for fixed-rate payments without the exchange of the underlying principal amount. At December 31, 1998, the Company had outstanding interest rate swaps with a notional value of \$175,000. The swap contracts expire from June 2001 through June 2003. Fixed-rate payments are at rates ranging from 5.86% to 5.90%. Floating-rate payments received are based on rates tied to prevailing short-term interest rates. At December 31, 1998, the average pay rate of outstanding interest rate swaps was 5.88% and the average receive rate was 5.31%. Periodic payments and receipts under the interest rate swaps are recorded as part of interest expense. If the Company terminates a swap agreement, the gain or loss is amortized over the shorter of the remaining original life of the debt or the swap. At December 31, 1998, the unrealized fair value of the interest rate swaps was a loss of \$3,582.

### 13. Business Segments

The Company provides advertising sales and marketing services of yellow pages and other directory products under long-term sales agency agreements and joint venture partnerships with operating units of major telephone companies and through its own independent operations. The Company also provides publishing and production services for yellow pages directories. The Company's reportable operating segments are Directory Advertising Services, DonTech Partnership and Directory Publishing Services. The DonTech Partnership is viewed as a separate reportable operating segment by the Company since, among other factors, the employees of DonTech, including officers and

managers, are not employees of the Company. Essentially, all the Company's operations are conducted in the United States.

The Company evaluates the performance of its operating segments and allocates resources to them based on operating income and other factors. Operating income for the reportable segments (except DonTech) includes those costs directly incurred by each business unit plus an allocation of certain shared operating and general and administrative expenses based on estimated business usage. Interest expense, income tax expense and non-operating income and expenses are not allocated to the operating segments.

Information for each operating segment for the years ended December 31, 1998, 1997 and 1996 are presented below.

	Directory Advertising Services	DonTech Partnership	Directory Publishing Services	Other	Totals Before Reconciling Items	Reconciling Items (2)	Consolidated Totals
<b>1998</b>							
Advertising sales (unaudited) (1) –							
Calendar cycle	\$ 566,245	\$ 429,200	—	—	\$ 995,445	—	\$ 995,445
Publication cycle	590,754	403,100	—	—	993,854	—	993,854
Revenues	138,070	—	\$ 32,711	—	170,781	\$ (793)	169,988
Income from partnerships and related fees	15,767	120,087	—	—	135,854	—	135,854
EBITDA (3)	38,600	120,087	3,348	\$ (16,716)	145,319	—	145,319
Depreciation and amortization	6,009	—	6,344	7,225	19,578	—	19,578
Operating income (loss)	32,591	120,087	(2,996)	(23,941)	125,741	—	125,741
Total assets	124,366	198,848	21,948	45,964	391,126	—	391,126
<b>1997</b>							
Advertising sales (unaudited) (1) –							
Calendar cycle	\$ 658,642	\$ 408,600	—	—	\$ 1,067,242	—	\$ 1,067,242
Publication cycle	700,815	385,500	—	—	1,086,315	—	1,086,315
Revenues	214,774	—	\$ 34,984	—	249,758	\$ (9,893)	239,865
Income from partnerships and related fees	13,943	116,228	—	—	130,171	—	130,171
EBITDA (3)	47,761	116,228	2,272	\$ (9,592)	156,669	—	156,669
Depreciation and amortization	6,741	—	6,895	8,294	21,930	—	21,930
Operating income (loss)	41,020	116,228	(4,623)	(17,886)	134,739	—	134,739
Total assets	124,692	203,589	23,551	30,454	382,286	—	382,286
<b>1996</b>							
Advertising sales (unaudited) (1) –							
Calendar cycle	\$ 712,060	\$ 403,500	—	—	\$ 1,115,560	—	\$ 1,115,560
Publication cycle	712,300	369,600	—	—	1,081,900	—	1,081,900
Revenues	245,334	—	\$ 34,800	—	280,134	\$ (10,105)	270,029
Income from partnerships and related fees	11,591	121,354	—	—	132,945	—	132,945
EBITDA (3)	68,759	121,354	2,208	\$ (8,650)	183,671	—	183,671
Depreciation and amortization	4,169	—	4,507	7,553	16,229	—	16,229
Operating income (loss)	64,590	121,354	(2,299)	(16,203)	167,442	—	167,442
Total assets	226,228	215,373	28,317	32,275	502,193	—	502,193

(1) Advertising sales represent the billing value of advertisements sold by the Company and DonTech. Management reviews the performance of its operating segments on, among other things, the advertising sales generated on a calendar cycle and a publication cycle basis. Calendar cycle advertising sales represent the billing value of advertisements sold stated on the same basis for which revenue is recognized in the consolidated financial statements (that is, when a sales contract is signed where the Company is a sales agent and when a directory is published where the Company is the publisher). Advertising sales on a publication cycle basis represent the billing value of advertisements sold based on when a directory is

published, regardless of the Company's role and the recognition of revenue in the consolidated financial statements.

(2) Reconciling items represent publishing services revenue charged to internal businesses based on costs incurred. These revenues are eliminated in the consolidated financial statements.

(3) EBITDA represents earnings before interest, taxes and depreciation and amortization.



The Directory Advertising Services segment information above includes data relating to the P-East and P-West businesses sold in 1997 and 1996, respectively. The amounts related to these businesses are as follows:

	1997	1996
Advertising Sales (unaudited) –		
Calendar cycle	\$ 73,753	\$ 89,939
Publication cycle	73,753	89,939
Revenues	77,979	97,263
Income from partnerships and related fees	1,724	1,710
EBITDA	11,817	19,910
Depreciation and amortization	848	1,323
Operating income	10,969	18,587
Total assets	—	80,962

The operating loss under the Other column represents general and administrative expenses and other activities not allocated to the business units. Total assets included in the Other column represent those assets not allocated to the business units, such as cash and cash equivalents, prepaid expenses, deferred financing costs and property and equipment.

The Company has two major customers within the Directory Advertising Services segment from which it derives a significant portion of its total revenues. Revenues from one of these major customers were 50% of total revenues in 1998, 36% in 1997 and 36% in 1996. Revenues from the other major customer were 25% of total revenues in 1998, 16% in 1997 and 13% in 1996.

#### 14. Quarterly Information (unaudited)

	Three Months Ended			
	March 31	June 30	September 30	December 31
<b>1998</b>				
Revenues	\$ 24,344	\$ 37,994	\$ 53,391	\$ 54,259
Operating income	20,245	39,136	43,055	23,305
Net income	12,147	21,673	19,619	8,121
Earnings per share data:				
Basic	\$ 0.36	\$ 0.63	\$ 0.57	\$ 0.24
Diluted	\$ 0.35	\$ 0.63	\$ 0.57	\$ 0.24
<b>1997</b>				
Revenues	\$ 20,207	\$ 60,465	\$ 62,728	\$ 96,465
Operating income (loss)	(2,290)	9,789	46,833	80,407
Net income (loss)	(1,374)	5,873	28,100	52,306
Earnings (loss) per share data:				
Basic	\$ (0.04)	\$ 0.17	\$ 0.82	\$ 1.53
Diluted	\$ (0.04)	\$ 0.17	\$ 0.82	\$ 1.53

The 1997 quarterly results were affected by an imbalance in the publication dates of various directories in the DonTech markets in which a majority of the directories were published in the fourth quarter. By the end of 1998, DonTech had rescheduled the

publication of the directories in these markets to more evenly distribute the publication dates throughout the year. As a result, the Company anticipates its quarterly results should be more in line with 1998 trends.

#### 15. Supplemental Financial Information

The following is summarized combined financial information of the DonTech Partnership:

	For the years ended December 31,		
	1998	1997	1996
<b>Statement of Operations Data</b>			
Gross revenues	\$286,930	\$503,912	\$459,083
Income from operations	152,948	204,246	219,617
Net income	152,441	206,310	222,294
<b>Balance Sheet Data</b>			
Current assets	\$164,395	\$323,499	\$355,197
Total assets	172,863	328,397	361,818
Total liabilities	13,866	189,800	202,931

The decrease in gross revenues, income from operations, net income and assets and liabilities in 1998 is due to the change in the structure of the partnership, which occurred in August 1997. Prior to this change, DonTech published various directories, solicited advertising, and manufactured and delivered directories in Illinois and northwest Indiana. Since the change, DonTech performs the advertising sales function for the directories and earns a commission, while Ameritech serves as the publisher. The Company has a 50% interest in the profits of DonTech and also receives Revenue Participation income, which is tied to advertising sales, from an operating unit of Ameritech. This Revenue Participation income is not reflected in the table at left. Due to the change in the partnership structure and the timing of revenue recognition, the numbers in the table at left do not correspond to the income from partnerships recognized by the Company.



## Five-Year Selected Financial Information

(in thousands, except per share data)	Years Ended December 31,				
	1998	1997	1996	1995	1994
<b>Statement of Operations Data</b> <sup>(1)</sup>					
Revenues	\$ 169,988	\$ 239,865	\$ 270,029	\$ 312,940	\$ 310,313
Income from partnerships and related fees	135,854	130,171	132,945	137,180	148,770
Operating income	125,741	134,739	167,442	182,795	213,249
Net income	61,560	84,905	78,085	108,397	127,949
<b>Earnings Per Share</b> <sup>(2)</sup>					
Basic	\$ 1.80	\$ 2.49	\$ 2.30	\$ 3.20	\$ 3.76
Diluted	\$ 1.78	\$ 2.48	\$ 2.29	\$ 3.19	\$ 3.76
<b>Dividends Per Share</b> <sup>(2)</sup>					
	\$ 0.35				
<b>Balance Sheet Data</b> <sup>(1)</sup>					
Total assets	\$ 391,126	\$ 382,286	\$ 502,193	\$ 520,214	\$ 526,168
Long-term debt	464,500	—	—	—	—
Shareholders' equity (deficit)	(221,610)	258,675	379,184	386,565	370,314
<b>Advertising Sales Data</b> (unaudited) <sup>(1,3)</sup>					
Calendar cycle	\$ 995,445	\$ 1,067,242	\$ 1,115,560	\$ 1,145,944	\$ 1,108,705
Publication cycle	993,854	1,086,315	1,081,900	1,078,200	1,044,900

(1) The selected financial data above include amounts related to businesses that were sold prior to 1998.

To facilitate comparison of the financial data, the amounts related to these businesses included above are as follows:

	1997	1996	1995	1994
Revenues	\$ 77,979	\$ 97,263	\$ 140,104	\$ 148,785
Operating income	10,969	18,587	22,250	27,926
Total assets	—	80,962	131,751	138,345
Advertising sales (unaudited, calendar and publication cycle) <sup>(3)</sup>	73,753	89,939	133,389	139,060

(2) Amounts have been adjusted to give effect to a one-for-five reverse split of the Company's common stock executed in 1998.

(3) Advertising sales represent the billing value of advertisements sold by the Company and DonTech. Management reviews the performance of its operating segments on, among other things, the advertising sales generated on a calendar cycle and a publication cycle basis. Calendar cycle advertising sales represent the billing value of advertisements sold stated on the same basis for which revenue is recognized in the consolidated financial statements (that is, when a sales contract is signed where the Company is a sales agent and when a directory is published where the Company is the publisher). Advertising sales on a publication cycle basis represent the billing value of advertisements sold based on when a directory is published, regardless of the Company's role and the recognition of revenue in the consolidated financial statements.

## Common Stock Information

The Company's common stock began trading on the New York Stock Exchange on July 1, 1998, under the symbol "RHD." At March 1, 1999, there were 33,979,883 shares of common stock outstanding and 9,623 shareholders of record. The table below sets forth, for the periods indicated, the high and low sales price of the Company's common stock for each period and the dividends declared.

	Sales Price		Cash Dividends Paid
	High	Low	
<b>1998</b>			
3rd Quarter	\$ 19 <sup>3</sup> / <sub>8</sub>	\$ 10 <sup>3</sup> / <sub>4</sub>	\$ 0.175
4th Quarter	\$ 14 <sup>15</sup> / <sub>16</sub>	\$ 10 <sup>1</sup> / <sub>8</sub>	\$ 0.175



## Board of Directors



**Frank R. Noonan**  
Chairman and  
Chief Executive Officer  
R.H. Donnelley Corporation



**William G. Jacobi** <sup>(3)</sup>  
Chairman  
Nielsen Media Research, Inc.



**Carol J. Parry** <sup>(1,3)</sup>  
Executive Vice President  
The Chase Manhattan Bank



**Diane P. Baker** <sup>(1,2)</sup>  
Former Senior Vice President,  
Chief Financial Officer and Treasurer  
The New York Times Company



**Robert Kamerschen** <sup>(2,3)</sup>  
Chairman  
ADVO, Inc.



**Barry Lawson Williams** <sup>(1,2)</sup>  
President  
Williams Pacific Ventures, Inc.

### Committees of the Board of Directors

*(1) Audit & Finance*

*(2) Compensation & Benefits*

*(3) Nominating*

## Corporate and Executive Officers

**Frank R. Noonan**  
Chairman and  
Chief Executive Officer

**David C. Swanson**  
President  
Directory Services

**Alexander R. Marasco**  
Executive Vice President  
Corporate Development

**Philip C. Danford**  
Senior Vice President and  
Chief Financial Officer

**Judith A. Norton**  
Senior Vice President  
Human Resources

**Stephen B. Wiznitzer**  
Senior Vice President and  
General Counsel

**Lyle P. Wolf**  
Senior Vice President  
Strategic Marketing and  
Business Development -  
Directory Services

**Jane B. Clark**  
Vice President and  
Corporate Secretary

**Frank M. Colarusso**  
Vice President and Treasurer

**Anna M. Patruno**  
Vice President and Controller

## DonTech

**Bruce C. Disbrow**  
President and  
Chief Executive Officer

## Shareholder Information

### Corporate Offices

One Manhattanville Road  
Purchase, New York 10577-2596  
Telephone: 914-933-6400  
Investor Relations: 914-933-3178  
Web site: <http://www.rhd.com>

### Transfer Agent

First Chicago Trust Company  
P.O. Box 2500  
Jersey City, New Jersey 07303-2500  
Telephone: 1-800-519-3111  
TDD Number: TDD 201-222-4955  
E-mail: [fctc@em.fcmbd.com](mailto:fctc@em.fcmbd.com)  
Web site: <http://www.fctc.com>

### Independent Public Accountants

PricewaterhouseCoopers LLP  
1301 Avenue of the Americas  
New York, New York 10019-6013

### Annual Meeting of Shareholders

The 1999 annual meeting  
of shareholders will be  
held at 9:00 a.m.,  
Tuesday, April 27, 1999,  
at 1209 Orange Street,  
Wilmington, Delaware.

### Stock Data

R.H. Donnelley Corporation  
common stock is traded on the  
New York Stock Exchange  
under the ticker symbol RHD.  
Shares outstanding as of  
March 1, 1999, were 33,979,883.  
Shareholders of record as  
of March 1, 1999, were 9,623.

### Form 10-K

R.H. Donnelley's Annual Report  
on Form 10-K as filed with the  
Securities and Exchange  
Commission will be available  
without charge. A copy  
may be viewed and downloaded  
from R.H. Donnelley's Web site  
(<http://www.rhd.com>) or by  
requesting a copy from:  
*Investor Relations Department*  
*R.H. Donnelley Corporation*  
*One Manhattanville Road*  
*Purchase, New York 10577-2596*  
*Telephone: 914-933-3178*

