Annual Report 2002

"My Hero is…"

BERTELSMANN

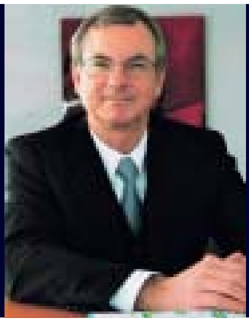
media worldwide

Bertelsmann Financial Highlights

		IAS 2002 € millions	IAS Pro forma 2001 € millions	IAS 7/1/2001 –12/31/2001 € millions	IAS 2000/ 2001 € millions	HGB 1999/ 2000 € millions
Group Development	Revenues	18,312	18,979	9,685	16,748	16,524
	Operating EBITA	936	573	164	826	1,195
	Net income before minority interests	968	1,378	931	987	672
	Cash Flow	1,115	294	127	160	1,317
	Investments	5,263	2,639	1,067	2,744	2,049
	Total assets	22,188	23,734	23,734	17,245	14,692
	Personnel costs	4,574	4,812	2,343	4,319	3,755
Employees	Germany	31,712	31,870	31,870	30,732	30,984
	Other countries	48,920	48,426	48,426	43,816	45,273
	Total	**80,632**	**80,296**	**80,296**	**74,548**	**76,257**
Equity	Subscribed capital 1)	606	606	606	463	463
	Retained earnings	6,079	5,697	5,697	3,222	1,212
	Minority interests	1,059	2,081	2,081	792	1,276
	Equity	**7,744**	**8,384**	**8,384**	**4,477**	**3,638** 2)
	– As percentage of total assets	35	35	35	26	25
	Net financial debt	2,741 3)	859 3)	859 3)	2,298 3)	2,148
	Net financial debt repayment factor (in years) 4)	2.5	2.9	n/m	n/m	1.6
Net Income	**Net income before minority interests**	**968**	**1,378**	**931**	**987**	**672**
	– Minority interests	40	(143)	(18)	246	243
	– Dividends paid	240	n/a	300	50	88
	– Allocation to retained earnings	688	n/a	649	691	265
	Profit participation payments	77 5)	77 5)	39 5)	95 5)	76
	Employee profit sharing 6)	34	n/a	19	44	55

1) of which at December 31, 2002, 57.6 percent belong to the Bertelsmann Foundation, 17.3 percent to the Mohn family, and 25.1 percent to Groupe Bruxelles Lambert (GBL); this reflects the purchase obligation of ZEIT shares.
2) including profit sharing capital of € 687 million
3) including finance leasing obligations
4) net financial debt/cash flow
5) offset in net income according to IAS
6) offset in net income

Annual Report January 1 through December 31, 2002



Gunter Thielen
Bertelsmann AG Chairman & CEO

Dear Friends of Bertelsmann,

Last August, immediately after taking up office, I paid inaugural visits to many of my colleagues throughout the group. The trip took me first to New York, then to Luxembourg, Barcelona, Milan, London and Paris, and finally to Munich, Hamburg and Cologne. My experience was similar wherever I went: The companies' executives and employees let me know that the Executive Board can count on their creativity and enthusiasm, on their willingness to cooperate and their commitment. That is what has always been behind Bertelsmann's success: decentralization, delegation of responsibility, partnership, diversity and cooperation. The Executive Board entrusts the enterprise to its entrepreneurs.

This is as true in our biggest market America as it is in Europe or Asia. In the year just ended, this attitude again ensured that Bertelsmann companies were able to respond swiftly and resolutely to the challenges of the market.

Bertelsmann made a good showing in 2002: earnings were up despite falling revenues. We improved our cost structure and strengthened our profitability. My appreciation goes out to all the employees whose dedicated efforts made this success possible.

As a private company, Bertelsmann has grown to its current proportions on its own steam. Our equity ratio continues at a high level. At 34.9 percent, it is well above our target of 25 percent. Thanks to our conservative financial benchmarks and integrated risk management, we command an excellent competitive position. The integration of RTL Group, the acquisition of the music company Zomba, and the takeover of the Holtzbrinck group's radio and television activities brought investments to € 5.3 billion for 2002. As a result of these capital expenditures, net financial debt at December 31, 2002 was at € 2.7 billion. To quickly pay down our financial debt, we are selling the BertelsmannSpringer specialist publishing group.

2002 was a year of difficult business conditions. Consumer reluctance and the crisis in advertising took their toll on Bertelsmann's companies. So it is all the more encouraging that our divisions were largely able to compensate the revenue declines, and achieved overall earnings that were much higher than during the previous year. Innovation, portfolio measures, cost management, and increased efficiency all played a key role. Above and beyond this, RTL Group garnered a great deal of attention and good results with internationally successful formats such as "Pop Idol." Gruner + Jahr decreased its involvement in the regional newspaper business and successfully launched a major new title in Germany's tough magazine market: "Woman." Random House reduced its expenditure on administration and operative processes without restricting its publishers' options. At the same time, it extended its market positioning: in Japan, through a joint venture with the

Bertelsmann has gathered its strength for continued organic growth – through creative product innovation and reasonable acquisitions. We plan and act with a view to the long term.

Kodansha Ltd. publishing company – Japan's first such venture with a Western book publishing group – and in Germany, through the takeover of Axel Springer Verlag's historic Ullstein Heyne List publishing group.

Bertelsmann Music Group (BMG), whose more than 200 labels in 41 countries make it one of the major global players in the industry, achieved turnaround last year. This positive news is all the more pleasing given the fact that the music industry as a whole continues to suffer from music piracy and dramatic revenue declines in recorded music.

The arvato group once again proved its stability despite the difficult situation of quite a few of its customers. Business is excellent at arvato direct services, one of Europe's biggest providers of customer loyalty systems.

DirectGroup's businesses, too, were impacted by the prolonged consumer slump, especially the club businesses. Meanwhile, DirectGroup has done an excellent job handling its purposeful portfolio streamlining in the e-commerce sector. The Internet continues to be an important distribution channel for us. In fact, it is showing very positive development as an integral part of our core businesses: many new members in the clubs are recruited on the World Wide Web, and the share of club revenues generated on the Internet is growing steadily.

Bertelsmann has gathered its strength for continued organic growth – through creative product innovation and reasonable acquisitions. We plan and act with a view to the long term. The days of great leaps, blockbuster deals and billion-euro acquisitions are over for now. Our focus is firmly on investments that can be swiftly integrated in our existing core businesses. Many recent examples show that the time needed for integration and hence the money that is swallowed up by the merged companies is underestimated in mega-deals. Bertelsmann's history shows that there is a different way. We operate on the principle of doing things simply – and simply doing them.

Bertelsmann launched its Excellence Initiative (BEX) very early on, in spring 2001. BEX stands for a steady and sustainable improvement of our products and services and hence for increased earnings and returns. It takes our strong companies and makes them even stronger, faster and more efficient. The goal is to improve how we do what we do best. This procedure is more conducive to success than the attempt to concentrate one's energy solely on eliminating weak points.

Excellence at Bertelsmann does not just mean optimizing costs and processes. It also means partnership and collaboration. Two examples from the last year show our group's powerful potential for synergy. On the 25th anniversary of Elvis Presley's death, the BMG sold millions of copies worldwide of its “ELV1S 30 # 1 Hits” album. arvato produced the CDs, and an Elvis calendar. Random House published books on Elvis; RTL Group and Gruner + Jahr came out with special Elvis editions. Our Clubs marketed Elvis specials all over the world. The fruit of this carefully planned collaboration was roughly € 100 million in additional revenue.

Another example of excellent collaboration between our companies was the worldwide dissemination of the above-mentioned TV format, “Pop Idol.” RTL Group, BMG and arvato all participated in the quest for Germany’s “Superstar.” In the U.S., Random House and Gruner + Jahr contributed the tie-in publications. Today, more than 50 countries want to adopt the talent-show format conceived by RTL’s production subsidiary, FremantleMedia.

Bertelsmann has also completed a significant step in its historiography. From 1999 to 2002, an Independent Historical Commission headed by the internationally renowned Holocaust expert Prof. Saul Friedlaender meticulously researched Bertelsmann’s role in the Third Reich. The report that resulted from this research and documentation was published in book form by C. Bertelsmann in fall 2002 and is accepted by the Executive Board, without qualification, as the official corporate history. We regret that earlier depictions of our corporate history contained considerable gaps and errors, and that we did not treat our historical legacy with great enough care in the past. The archives accumulated during the research will be made available to the public as the heart of a historical archive in Gütersloh.

Finally, I would like to mention two more examples of how we are internationalizing our corporate culture: In fall 2002, we modified our traditional profit-participation scheme to make it more international and fit for the future. The success of their individual companies will play a much greater role for each employee from now on. Depending on their company’s performance, employees may receive a bonus of up to one-and-a-half months’ salary. At the same time, the idea of solidarity should not be given short shrift; employees should be able to identify with their company and with greater Bertelsmann. Therefore, we are now testing a corporate component in Germany. Depending on the group’s worldwide results, employees can earn a maximum of half a month’s salary on top of their regular annual pay. This new model will go into effect during the current year, 2003. If the new corporate profit participation model is a success in Germany, we plan its step by step introduction at the international level.

For 25 years now, it has been part of our corporate culture of partnership to ask employees in Germany for their opinion on key matters pertaining to their work and to the company. Last fall, the employee survey went international for the first time, and was

BEX takes our strong companies and makes them even stronger, faster and more efficient. The goal is to improve how we do what we do best. This procedure is more conducive to success than the attempt to concentrate one’s energy solely on eliminating weak points.

systematically carried out in 407 companies in 46 countries. At the same time, we achieved a participation rate of 78.7 percent, a new record in the history of our employee surveys. This underscores our employees' commitment to their company. The results differ from division to division and from country to country, but some interesting insights apply for Bertelsmann as a whole. For instance, 74 percent of all employees indicated that they are satisfied or very satisfied with their work. Given the choice, 69 percent would choose their company all over again. The vast majority of employees feel that their companies provide them with a good work environment. More than two thirds believe that Bertelsmann's management is capable of safeguarding success and continuity in the future. The Executive Board is grateful for this vote of confidence. At the same time, the survey clearly showed where there is room for improvement. Areas of criticism will be dealt with in detail and transformed into specific measures, by means of open discussions at all levels, in which all employees are invited to contribute their ideas.

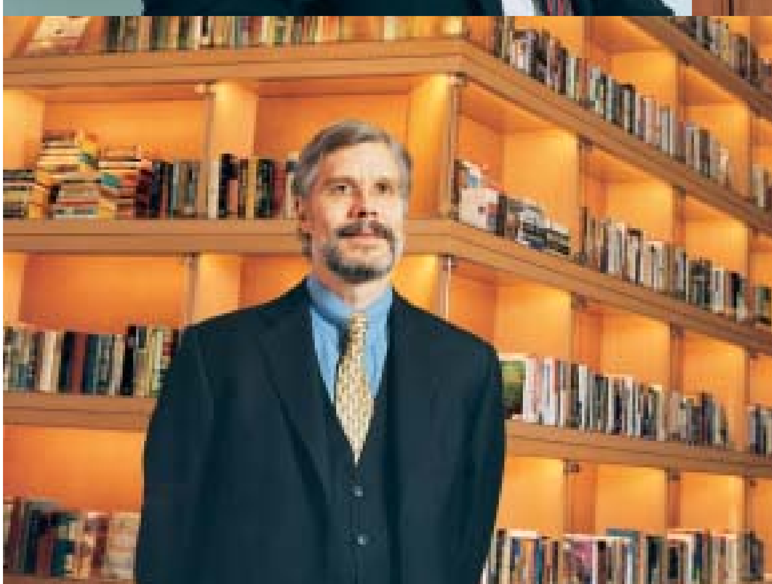
While continuing the evolution of our corporate culture, Bertelsmann is accelerating its rapprochement to the capital market. This stands in connection with our preparations for a possible IPO of the shares held by our shareholder Groupe Bruxelles Lambert (GBL). Our shareholders, Supervisory Board and management are agreed that we want to improve Bertelsmann's earnings and make the company fit for the stock market. The management will continue to keep its eye firmly on customer focus and high-quality products. Bertelsmann will continue to deliver first-class work, first-rate figures and transparent communication.

Sincerely yours

Gunter Thielen
Bertelsmann AG Chairman & CEO

Dr. Gunter Thielen
Born on August 4, 1942 in Quierschied, Germany. Member of the Bertelsmann AG Executive Board since July 1, 1985. Chairman of the Bertelsmann AG Executive Board & Chief Executive Officer since August 5, 2002. Gütersloh

Dr. Siegfried Luther
Born on August 5, 1944 in Hobeck, Germany. Member of the Bertelsmann AG Executive Board since July 1, 1990. Deputy Chairman of the Bertelsmann AG Executive Board since August 5, 2002, and Chief Financial Officer. Gütersloh



Peter Olson J.D./MBA
Born on May 1, 1950 in Chicago, Illinois (USA). Member of the Bertelsmann AG Executive Board since April 1, 2001. Chairman & Chief Executive Officer of Random House Inc. New York

Hartmut Ostrowski
Born on February 25, 1958 in Bielefeld, Germany. Deputy member of the Bertelsmann AG Executive Board since October 1, 2001. Member of the Bertelsmann AG Executive Board and Chairman & Chief Executive Officer of Bertelsmann arvato AG since September 1, 2002. Gütersloh

Dr. Arnold Bahlmann
Born on November 28, 1952 in Cologne, Germany. Member of the Bertelsmann AG Executive Board since January 1, 2001. President & Chief Executive Officer of BertelsmannSpringer. Berlin

Dr. Bernd Kundrun
Born on November 8, 1957 in Wuppertal, Germany. Member of the Bertelsmann AG Executive Board and Chairman & Chief Executive Officer of Gruner + Jahr AG since November 1, 2000. Hamburg

Rolf Schmidt-Holtz
Born on August 31, 1948 in Martinsreuth, Germany. Member of the Bertelsmann AG Executive Board since July 1, 2000. Chairman & Chief Executive Officer of Bertelsmann Music Group (BMG) and Chief Creative Officer of Bertelsmann AG. Hamburg and New York

Dr. Ewald Walgenbach
Born on February 10, 1959 in Neustadt/Wied, Germany. Member of the Bertelsmann AG Executive Board since February 6, 2002. Chief Executive Officer of DirectGroup Bertelsmann. Gütersloh

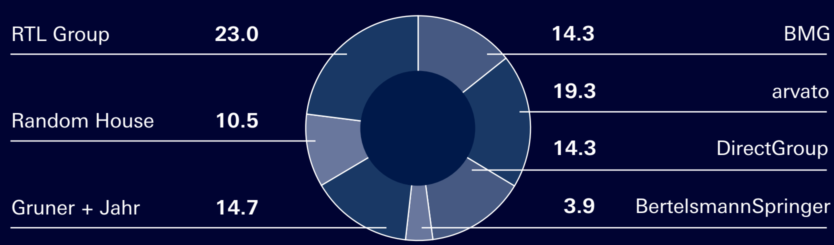
“My Hero is...”

On the following pages, young people from New York, Tokyo, Berlin and Paris present the names of famous authors, musicians, scientists, journalists and radio anchors – their “heroes” in the world of media. Bertelsmann sees itself as a home for creative talent. Our media serve to provide information, education and entertainment around the globe.

Fiscal Year 2002

Management Report | Comparison Fiscal Year 2002 vs. Pro Forma 2001

Total Revenues by Division in percent



Management Report

Bertelsmann managed to improve its operating performance in 2002 despite a difficult business environment. At € 18.3 billion, revenues for 2002 were slightly below the pro forma € 19.0 billion achieved in 2001[1]. This was largely due to the weak dollar. The group managed to increase its Operating EBITA[2] to € 936 million (previous year: € 573 million). Net income before minority interests amounted to € 968 million (previous year: € 1.4 billion).
The number of employees was 80,632 at December 31, 2002 (December 31, 2001: 80,296).

[1] The pro forma figures assume a scope of consolidation as at December 31, 2001, i.e. with RTL Group and France Loisirs shown fully consolidated for the calendar year 2001. The management report's commentary on the Bertelsmann group's economic development is based on these unaudited pro forma figures. For legal purposes, fiscal year 2002 should be compared to the stub period 2001; this is done on pp. 60 ff.

[2] Operating EBITA represents the earnings before financial result, taxes and amortizations of goodwill and similar rights, as well as before capital gains/losses and special items, in particular restructuring costs. Internet losses have been included in the Operating EBITA as from 2002.

Revenues by Division in € millions

Division	2002 Germany € millions	International € millions	Total € millions	Pro forma 2001 Total € millions
RTL Group	2,132	2,230	4,362	4,054
Random House	143	1,852	1,995	2,039
Gruner + Jahr	1,039	1,761	2,800	2,973
BMG	252	2,462	2,714	2,982
arvato	1,629	2,039	3,668	3,520
DirectGroup	395	2,312	2,707	3,089
Total for all divisions except BertelsmannSpringer	**5,590**	**12,656**	**18,246**	**18,657**
BertelsmannSpringer	364	367	731	748
Total for all divisions	**5,954**	**13,023**	**18,977**	**19,405**
Other	46	4	50	192
Intercompany revenues	(309)	(406)	(715)	(618)
Consolidated revenues	**5,691**	**12,621**	**18,312**	**18,979**

Having changed its accounting standards from the German Commercial Code (HGB) to International Financial Reporting Standards (IFRS, formerly IAS) and reported an abbreviated fiscal year (from July through December 2001), Bertelsmann herewith submits its first financial statement during which the fiscal year is identical to the calendar year. To facilitate comparability, pro forma figures were calculated for the calender year 2001.

Revenues

Slightly down, mostly due to the weak dollar

Consolidated revenues declined by 3.5 percent to € 18.3 billion, primarily due to the weak dollar. In addition to this currency effect, the continuing weak economy, the negative trend in the advertising industry, and a decline in sales, particularly at DirectGroup, all contributed to this development. The ad-financed businesses, most of which are part of RTL Group and Gruner + Jahr, contributed less than 25 percent to total sales in 2002.

Operating EBITA

Increased to € 936 million from € 573 million

Bertelsmann was able to improve its Operating EBITA despite the decline in revenues. Much of this was due to the Bertelsmann Excellence Initiative (BEX) to improve operating results. Operating EBITA reached € 936 million vs. € 573 million in 2001. This translates to a 5.1 percent return on sales. 2002 Operating EBITA includes Internet losses of € 138 million, while Operating EBITA for the previous year was calculated without taking into consideration Internet losses totaling € 808 million. This approach reflects the stance of continuing Internet activities as part of the core businesses or phasing them out in the future. The group Operating EBITA is the sum of the Operating EBITA in all divisions including the Corporate items. Beyond expenditures for the Corporate Center, the Corporate items also include the income effects of investments at the corporate level (Corporate Investments).

Analysis of the Net Income in € millions

	2002 € millions	**Pro forma** 2001 € millions
Operating EBITA by division		
RTL Group	465	385
Random House	168	33
Gruner + Jahr	226	198
BMG	125	(79)
arvato	217	167
DirectGroup	(150)	(61)
Total Operating EBITA by division	**1,051**	**643**
BertelsmannSpringer	71	59
Corporate/consolidation	(186)	(129)
Operating EBITA	**936**	**573**
Internet losses	–	(808)
Special items	(111)	(927)
Amortization of goodwill* and similar rights		
– Regular	(784)	(856)
– Impairments	(1,668)	(518)
Capital gains/losses	2,918	5,533
Profit before financial result and taxes	**1,291**	**2,997**
Financial result	(266)	(433)
Taxes on income	(57)	(1,186)
Net income before minority interests	**968**	**1,378**
Minority interests	(40)	(143)
Net income after minority interests	**928**	**1,235**

* Including amortization of goodwill from associated companies.

"Bertelsmann has improved its profitability in challenging market environments."

Siegfried Luther, Chief Financial Officer

Net Income

Below previous year due to lower capital gains

Capital gains totaled € 2.9 billion (previous year: € 5.5 billion), € 2.8 billion of which are proceeds from the sale of the holding in the AOL Europe online service. The step-by-step sale agreed to with AOL Time Warner in 2000 was concluded in 2002. It brought Bertelsmann total proceeds of $ 6.75 billion. Special items were reduced to just minus € 111 million (previous year: minus € 1.7 billion including Internet losses of € 808 million). After amortization of goodwill and similar rights of € 2.5 billion (previous year: € 1.4 billion), earnings before financial results and taxes amounted to € 1.3 billion (previous year: € 3.0 billion). The larger part of the amortization of goodwill was due to an impairment of goodwill resulting from the acquisition of the music company Zomba. After subtracting the financial result and taxes, net income before minority interests totaled € 968 million (previous year: € 1.4 billion).

Investments

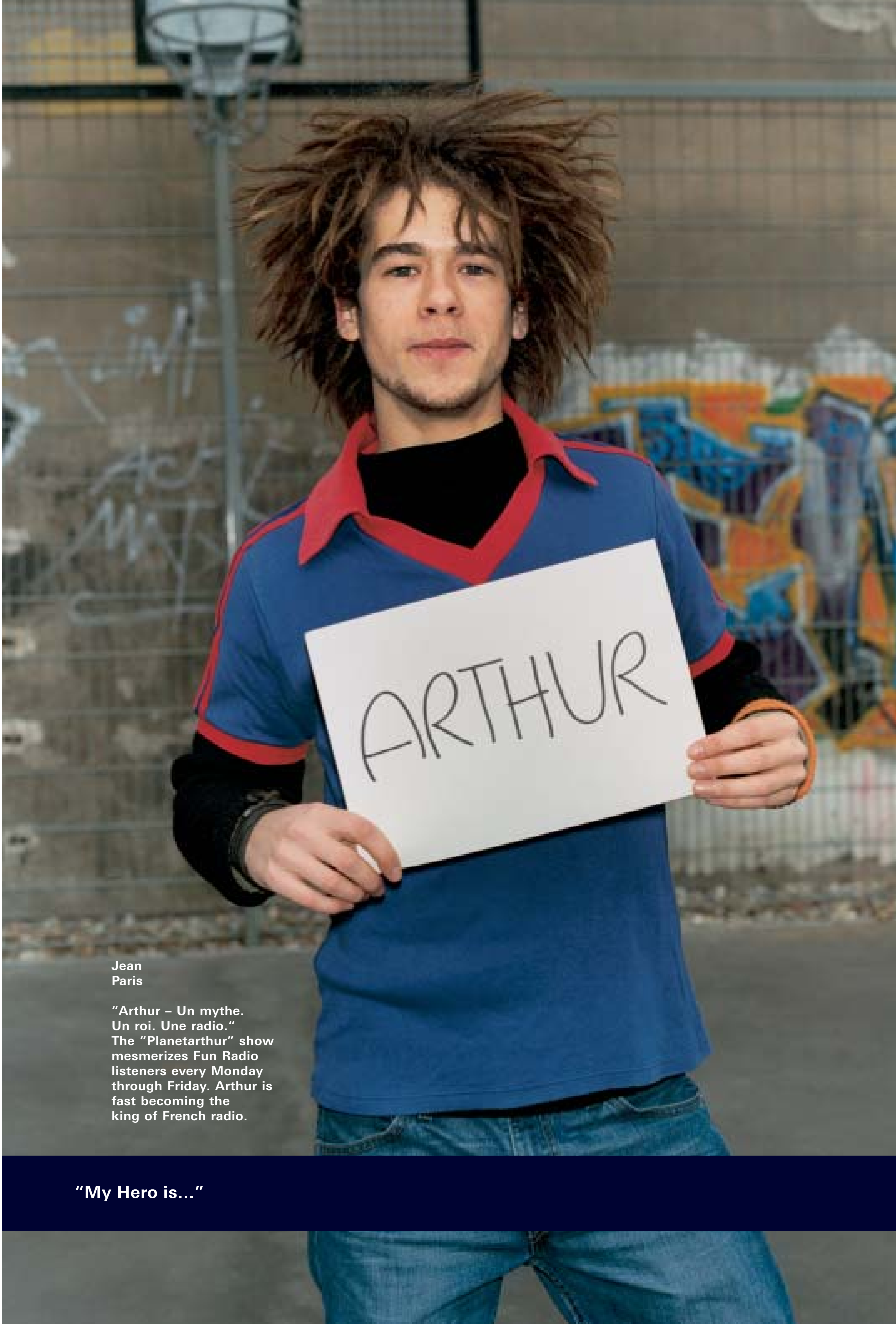
High investment volume due to Zomba acquisition

Investments amounted to € 5.3 billion (previous year: € 2.6 billion). The acquisition of the Zomba music company accounted for € 2.3 billion, while the purchase of another 22 percent in RTL Group accounted for € 1.5 billion.

New Chairman & CEO

Gunter Thielen took over on August 5, 2002

On August 5, 2002, Gunter Thielen took over from Thomas Middelhoff as Chairman & CEO. The Executive Board declared a clear focus on the profitability of its core businesses – television, radio and TV production, book and magazine publishers, music, print and media services, and the Clubs – and proceeded to set the necessary priorities in the operations. At the same time, the Executive Board reinforced the principle of decentralized management.



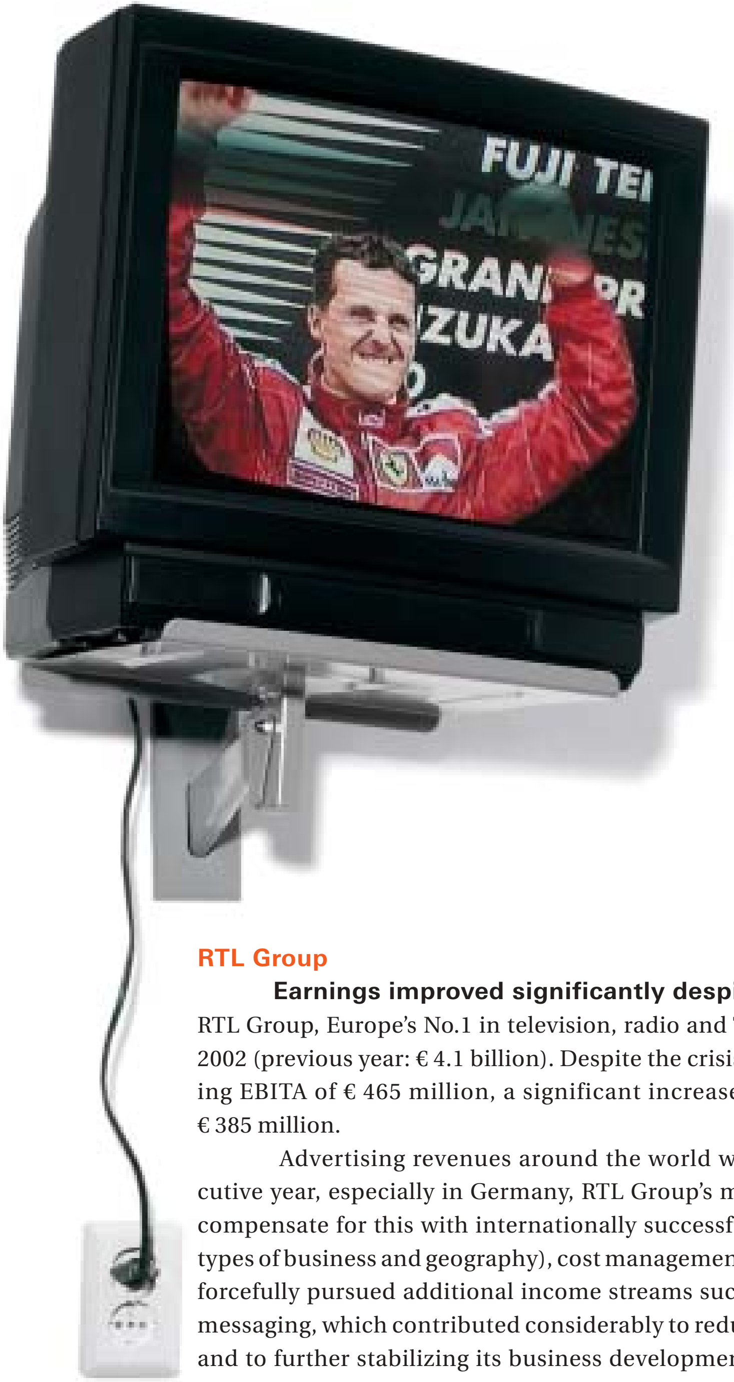
Jean
Paris

“Arthur – Un mythe. Un roi. Une radio.“ The “Planetarthur” show mesmerizes Fun Radio listeners every Monday through Friday. Arthur is fast becoming the king of French radio.

“My Hero is...”

Jamie
New York

Kelly Clarkson was the 2002 winner of the music talent show "American Idol," produced by FremantleMedia. Her debut single "Before Your Love/A Moment Like This," a BMG release, went straight to the top of the Billboard Hot 100 in the first week after entering the charts.



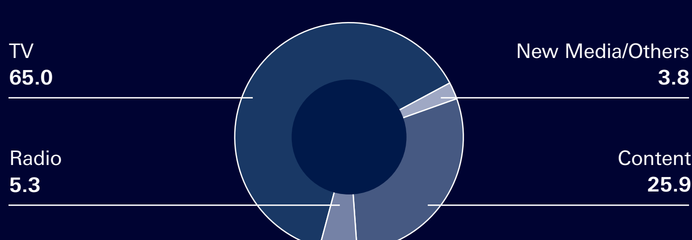
RTL Group

Earnings improved significantly despite slump in advertising

RTL Group, Europe's No.1 in television, radio and TV production, had revenues of € 4.4 billion in 2002 (previous year: € 4.1 billion). Despite the crisis in advertising, the company achieved Operating EBITA of € 465 million, a significant increase over the previous year's Operating EBITA of € 385 million.

Advertising revenues around the world were considerably down for the second consecutive year, especially in Germany, RTL Group's most important market. RTL Group was able to compensate for this with internationally successful formats, a broad portfolio (both in terms of types of business and geography), cost management and a diversified revenue structure. The group forcefully pursued additional income streams such as merchandising, home shopping and SMS messaging, which contributed considerably to reducing its dependence on the advertising market and to further stabilizing its business development. The French channel M6 and RTL Television in Germany in particular have been very successful in pursuing these additional sources of

Revenues by Category in percent



Didier Bellens, Chief Executive Officer, RTL Group (through February 28, 2003) income, and stood out positively from the development of the overall market in 2002. In important markets such as Germany, France and Great Britain, RTL Group's TV channels were able to maintain or extend their audience shares despite the Olympic games and Soccer World Cup, which were mostly broadcast by other providers. For example, the young British channel "five" (formerly Channel 5) registered significant increases in revenue and ratings due to careful investments in its programming and a contemporary market image. RTL Klub in Hungary which, like "five," celebrated its 5th birthday in 2002, also showed growth. In Germany, the RTL family of channels led by the market leader RTL Television managed to add ad-market shares and maintain their audience shares, and RTL Television itself celebrated its 10th year as market leader in the 14–49 demographic. Shows that guaranteed high ratings this year included the quiz show format "Who Wants To Be A Millionaire" and coverage of ski-jumping and Formula One events. VOX looks back on the most successful year in its history. Meanwhile, RTL Group stations in the Netherlands implemented restructuring programs designed to return them to the profit zone.

The difficult advertising economy was felt in RTL Group's radio business as well. In most cases, the stations were able to maintain their respective total listener shares.

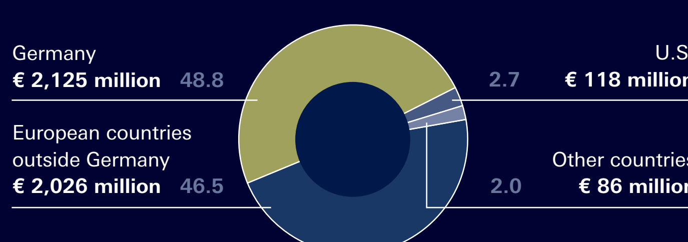
The sports rights business operated throughout Europe by RTL Group's market-leading joint venture Sportfive was hit, as were other sports businesses, by dwindling rights prices.

It was a good year for the FremantleMedia production company. RTL Group subsidiary developed an unprecedented number of program formats and distributed them all over the world. FremantleMedia landed an international coup with the TV format "Pop Idol," which involves would-be pop idols first presenting themselves to a professional jury, then allowing the audience to vote. Following a record-breaking debut in Great Britain in 2001, the TV show's U.S. incarnation, "American Idol," proceeded to set new ratings records in the U.S. over the course of 2002. The winner of "American Idol" not only won a recording contract with BMG, but also a position at the top of the charts. In November, RTL Television launched the format in Germany as "Deutschland sucht den Superstar," again with tremendous success. More than 50 countries have already signed up to create their own version of the talent show or have indicated their interest in doing so.

2002 was a year of important acquisitions for RTL Group. First, the majority shareholder Bertelsmann increased its RTL Group holdings to more than 90 percent in 2002. Secondly, the broadcasting group grew through acquisitions of its own: In August, RTL Group bought the television and radio activities owned by the Georg von Holtzbrinck publishing group. In the process, RTL Group acquired a 47.3 percent stake in the German business and news channel n-tv, as well as in twelve radio stations. Three of these radio acquisitions are still in the regulatory approval process.

rtlgroup.com | m6.fr | RTL.de | channel5.co.uk | fremantlemedia.com

Consolidated Revenues by Region in € millions and in percent



Gerhard Zeiler, Chief Executive Officer, RTL Group (since March 5, 2003)

Patricia
New York

Toni Morrison's six major novels, "The Bluest Eye," "Sula," "Song of Solomon," "Tar Baby," "Beloved," and"Jazz," have received extensive international acclaim. She was awarded the Nobel Prize for Literature in 1993.

"My Hero is..."


Anthony
New York
John Updike is the author of the 2002 novel "Seek My Face" and more than fifty previous books, including collections of short stories, poems, and criticism. His novels have won the Pulitzer Prize, the National Book Award, the American Book award, and the National Book Critics Circle Award.
John
UPDIKE
RANDOM HOUSE
BERTELSMANN

Random House

Success through publishing diversity

Random House, the world's leading trade book publisher, outperformed a persistently weak international book economy to achieve ambitious earnings goals, thanks to excellent publishing performance and rigorous cost management: Revenues, at € 2.0 billion, remained at previous-year levels, due primarily to the weak dollar. Operating EBITA reached € 168 million for 2002 (previous year: € 33 million).

During 2002, Random House made significant reductions in corporate overhead and operating expenses without compromising the editorial accomplishments of its more than 100 publishing imprints worldwide. Book sales were up again after two years of slow growth as recovery in the English-speaking regions offset the recession in the German-speaking book market.

In the U.S. and Germany, Random House placed more than 250 titles on the leading national bestseller lists in 2002. Random House led the publishing industry with the most "New York Times" bestsellers –182 – for the fourth consecutive year in the U.S. Its eighteen No. 1 bestsellers in 2002 is an all-time Random House record. Random House U.S. published 3,500 new titles in 2002. Of these, more than one hundred were first novels and debut short-story collections, underscoring its ongoing commitment to identify and nurture new talent.

In the United Kingdom, the Random House Group solidified its market leadership: a full quarter of all "Sunday Times" bestsellers were by Random House authors; twelve titles reached the No. 1 slot. In 2002, the Random House Group acquired The Harvill Press, publisher of a number of prestigious and bestselling authors, and the highly regarded children's publisher David Fickling, integrated in 2001, launched its first list of books. Random House of Canada and Random House Australia also had a highly successful business and publishing year.

Verlagsgruppe Random House successfully completed its corporate restructuring in 2002 and strengthened its German-speaking publishing programs to further expand its leadership in the German market. As part of its strategic focus on its core publishing activities, the self-help publishers Falken and Mosaik were discontinued and smaller publishing houses, such as Frederking & Thaler (four-color books) and Kremayr & Scheriau (Austria), were spun off. The publishing houses and imprints that comprise Verlagsgruppe Random House had 69 bestsellers in 2002; three titles went to No.1 on the "Spiegel" bestseller list.

The Random House Mondadori joint venture for Spanish-speaking countries, founded in 2001, celebrated many successful publications in 2002, including the two biggest Spanish bestsellers of the decade: Gabriel Garcia Marquez' autobiography "Vivir para contarla" and Isabel Allende's young adult's book "La ciudad de las bestias." Random House Mondadori, now well established in its international market, benefits from a unified infrastructure in the seven countries in which it operates.

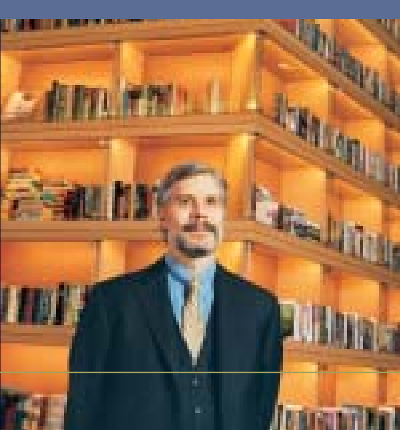
Random House Highlights 2002

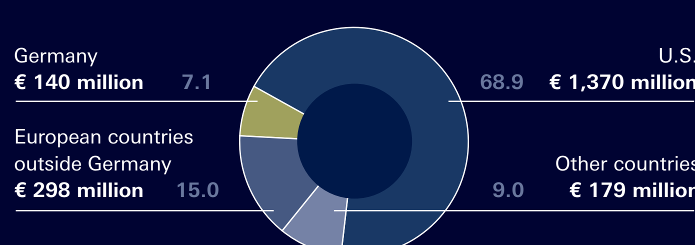
- In the U.S. and Germany, Random House placed more than 250 titles on major national bestseller lists in 2002.
  18 Random House titles made it to the No.1 slot on the "New York Times" bestseller list – a new Random House record.
- In Great Britain, roughly a quarter of all "Sunday Times" bestsellers were by Random House authors.
- In the U.S., Random House brought out more than 3,500 new releases – including more than 100 first novels and debut short story collections.
- Random House Mondadori published the two top selling Spanish-language books of the past decade: Gabriel Garcia Marquez' autobiography "Vivir para contarla" and Isabel Allende's youth novel "La ciudad de las bestias".

Random House authors worldwide were honored with numerous important literary awards during 2002: Richard Russo's "Empire Falls" (Knopf) won the Pulitzer Prize for Fiction. The prestigious National Book Award for General Nonfiction was awarded to Knopf author Robert A. Caro for "Master of the Senate: The Years of Lyndon Johnson," while "Three Junes" by Julia Glass (Pantheon) won in the Fiction category. Elfriede Jelinek received Germany's Heinrich Heine Award for her social criticism. "The Life of Pi" by Random House of Canada author Yann Martel won the "Booker Prize," the most important literary award in Great Britain.

randomhouse.com | randomhouse.de | randomhouse.co.uk | randomhousemondadori.es

Consolidated Revenues by Region in € millions and in percent





Peter Olson, Chairman & Chief Executive Officer, Random House Inc.

Felix
Berlin

Hans-Ulrich Jörges' weekly "Zwischenruf" ("Interjection") column in "stern" magazine is heard by millions. It is exemplary for the political journalism of Germany's most widely read weekly magazine: analytical, opinionated, and to the point.

"My Hero is..."

Maria
New York

In “Fitness,” G+J USA’s wellness and fitness magazine, editor-in-chief Emily Listfield caters to her readers’ interest in everything having to do with “mind, body & spirit.” The payoff is increased circulation on the one hand – and delighted advertisers on the other: In 2002, “Fitness” increased its ad volume by 65 percent in a contracting market.

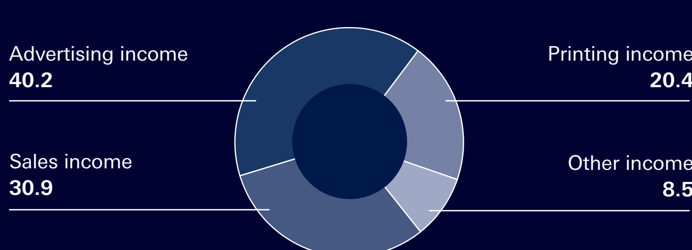
Gruner + Jahr

Strategic focus, investments in publishing

Gruner + Jahr, Europe's biggest magazine publisher, generated revenues of € 2.8 billion in 2002 (previous year: € 3.0 billion). Most of this decline in revenues is the result of the disposal of Berliner Verlag, which was only shown on the books through June 30, 2002. The decline in the advertising industry, especially in Germany, put an additional strain on revenues. Operating EBITA amounted to € 226 million (previous year: € 198 million). 2002 Operating EBITA includes Internet losses, while pro forma Operating EBITA 2001 was adjusted by € 88 million. Taking the Internet losses for 2001 into account, Operating EBITA has doubled year-on-year, increasing by € 116 million.

Gruner + Jahr was able to master the crisis in advertising with a number of countermeasures taken early on. Measures ranged from innovations such as the launch of new magazine titles to extensive cost and efficiency measures. The "Cost and Processes" (CAP) program begun in 2001 resulted in savings of roughly € 70 million over the course of the year 2002.

Total Revenues by Category in percent



Gruner + Jahr Highlights 2002

- Successful launch of the women's magazine "Woman" in Germany: With circulation steady at well over 300,000 copies, the magazine has significantly exceeded expectations.
- G+J USA showed ad sales growth of over 13 percent – 2.5 times the growth in the overall U.S. market (5.2 percent).

Due to the high share of revenues generated outside Germany, i.e. more than 60 percent, Gruner + Jahr was largely able to cushion the negative effects of the recessive German advertising market. While Gruner + Jahr's home country Germany showed no sign of improving, important international markets such as the U.S. and France showed indications of a turnaround or had stable advertising markets.

In October, Gruner + Jahr took a publisher's approach to transcending the crisis by launching a new bi-weekly women's magazine in Germany. With circulation constant at well over 300,000 copies, "Woman" has significantly exceeded all expectations. The move underscored Gruner + Jahr's role as market leader and growth engine for the industry.

"stern" was the only big magazine in the German market to register a growth in advertising volume in 2002. The magazine also extended its reach and had nearly eight million readers at year-end.

In Germany, Gruner + Jahr initiated its withdrawal from the regional newspaper business as the result of a strategy process. In June, the Berlin-based newspaper activities (flagship "Berliner Zeitung") were sold to the Georg von Holtzbrinck publishing group, which also bears the antitrust risk. Talks regarding the sale of the regional newspaper group in Dresden were discontinued due to the strained market situation. As a nationwide paper, the "Financial Times Deutschland" is not affected by the realignment. During 2002, the "Financial Times Deutschland" bucked the crisis in the newspaper sector, increasing its circulation and advertising volume.

Titles lacking economic and journalistic prospects were shut down, e.g. "Online Today" and the business magazine "BIZZ." In the U.S., the women's magazine "Rosie" was discontinued at year-end.

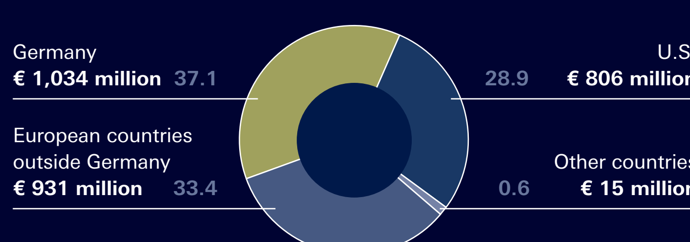
The Gruner + Jahr subsidiary Prisma Presse was the No. 2 among French magazine publishers. Its TV magazine "Télé Loisirs" was able to establish its circulation above the two-million-copy mark, "Gala" and "Voici" showed growth in the ad sales market and were able to increase and maintain their circulation respectively. The youth magazine "GEO Ado" further extended the international "GEO" family.

G+J USA increased its ad sales by over 13 percent – 2.5 times the growth in the overall U.S. market (5.2 percent) – outperforming the Top 3 U.S. magazine publishers by far. Thus, the teen magazine "YM" was able to increase its ad volume by 48 percent year-on-year, while "Child" added more than 20 percent vs. previous year, and "Fitness" increased its ad volume by over 65 percent.

Positive development was also seen in the emerging markets Eastern Europe, Russia and China, where Gruner + Jahr launched new titles. The results of Gruner + Jahr's printing operations remained stable.

guj.com | gjusa.com | prisma-presse.com | stern.de | ftd.de | brigitte.de | parents.com | gala.fr

Consolidated Revenues by Region in € millions and in percent



Bernd Kundrun, Chairman & Chief Executive Officer, Gruner + Jahr AG

Shingo
Tokyo

The energy and commitment of Rock And Roll Hall of Fame inductee Carlos Santana continued to inspire a new generation of fans with "Shaman," his second Arista album. "Shaman" gave Santana the first #1 U.S. chart debut of his long and storied career.

"My Hero is..."

Maria
Berlin

With global sales of her debut album “Let Go” exceeding 9.5 million units in 2002, Avril Lavigne has captured the hearts of teens and adults around the world. The 18-year old singer, songwriter and guitarist has hit #1 on various charts with three singles in a row.

BMG
BERTELSMANN

BMG

Strategic realignment bears fruit

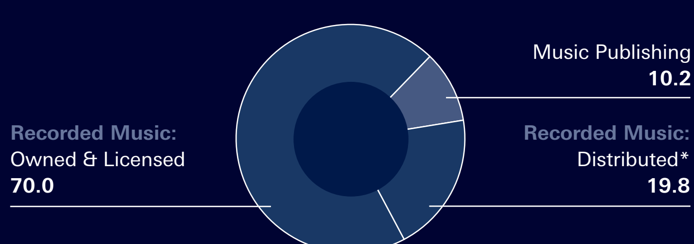
Following extensive restructuring and strategic realignment, the Bertelsmann Music Group (BMG) delivered a year of strong chart performances, increasing market shares and expansion through acquisition. Against the backdrop of globally depressed music sales, increasing product piracy and the weak dollar, revenues were reduced to € 2.7 billion (previous year: € 3.0 billion). However, 2002 Operating EBITA reached € 125 million (previous year: loss of € 79 million). BMG thus successfully managed its return to profitability in 2002.

Over the course of the year, BMG was able to increase its share of the global music market to approx. ten percent from approx. eight percent, while also increasing its share in the world's most important music market, the U.S., to more than 17 percent, making BMG the No.2 music major in the U.S. This was achieved with a series of successful releases by stars including Carlos Santana, Christina Aguilera and Rod Stewart, new CDs commemorating the 25th anniversary of Elvis Presley's death, and the introduction of young, innovative artists such as Avril Lavigne and P!nk. The latter two alone had global sales of 9.5 and 7 million albums respectively.

In November, BMG acquired the world's biggest independent music company, Zomba, for

$ 2.7 billion. Zomba includes top acts such as Britney Spears, *NSYNC and the Backstreet Boys. The purchase was initiated in June, when Zomba's owner exercised a put option for BMG's takeover of the shares originally signed in 1991. Given the projected development of the music market, a review of Zomba's valuation became necessary and resulted in an impairment of € 1.3 billion. The investment in Zomba is decreased by € 470 million in cash and cash equivalents taken over as part of the purchase. By taking over Zomba, BMG not only enhanced its artist roster, but also became the No. 3 music publisher, and came to occupy a globally leading position in the emerging market of gospel and Christian music. The acquisition will not affect BMG's revenues and earnings until 2003.

Revenues by Category in percent



* incl. BMG's revenues from Zomba in North America and from joint venture compilations.

BMG Highlights 2002

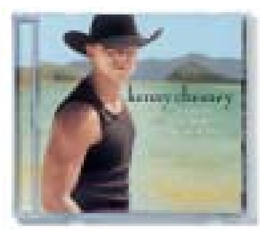
- BMG's share in the worldwide music market rose from approx. 8 to approx. 10 percent in 2002. In the U.S., BMG became the No.2 music major, with a market share of more than 17 percent.
- A total of 22 BMG albums sold more than a million copies each in 2002. The compilation "ELV1S 30 # 1 Hits" went to No.1 on the album charts in 26 countries.

Also in November, BMG bought up the remaining 50 percent in the J Records joint venture, bringing music executive Clive Davis back into the company. Davis was entrusted with managing the RCA Music Group, newly created during the integration of J Records.

Beyond the music publishing business BMG/Zomba Publishing Group, the Bertelsmann Music Group is now comprised of the RCA Music Group, Jive/Zomba Records, RLG-Nashville and Arista Records – four noted label groups that together run more than 200 individual labels in 41 countries.

BMG artists left plenty of tracks on the charts in 2002: In October, BMG artists Santana, Foo Fighters, Rod Stewart and Elvis Presley had four of the five top-selling albums in the U.S. and three of the top five albums in Europe. A commemorative compilation of thirty No.1 hits by Elvis Presley, the "King of Rock 'n' Roll," shot to the top of the charts in 26 countries and sold 8.5 million albums worldwide.

A total of 22 BMG albums sold more than a million copies each in 2002 – a significant improvement over 2001, when the company had 15 million-seller albums. Other big sellers were Alicia Keys, who dominated the "Grammy Awards" in February 2002 by winning five of the coveted

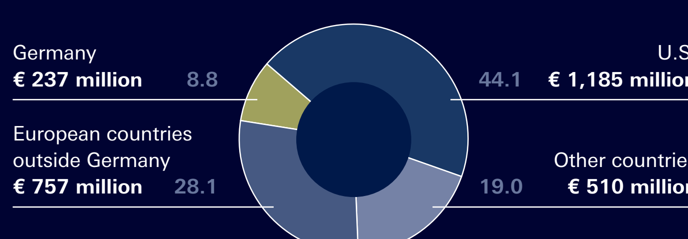


prizes, alongside the Dave Matthews Band and award-winning Country star Alan Jackson. BMG took a pioneering role in the music industry in the fall 2002, when it introduced an updated royalty accounting system for artists. The company also introduced an improved "Parental Advisory Program" labeling system in the U.S., which gives CD buyers additional information about whether album lyrics are harmful to minors.

BMG stepped up the licensing of its titles for online distribution, to services including MusicNet, OD2, Listen.com's Rhapsody, Streamwaves, MusicMatch, FullAudio and Pressplay.

bmg.com | arista.com | zomba.de | jrecords.com | rcarecords.com | bmgmusicsearch.com

Consolidated Revenues by Region in € millions and in percent

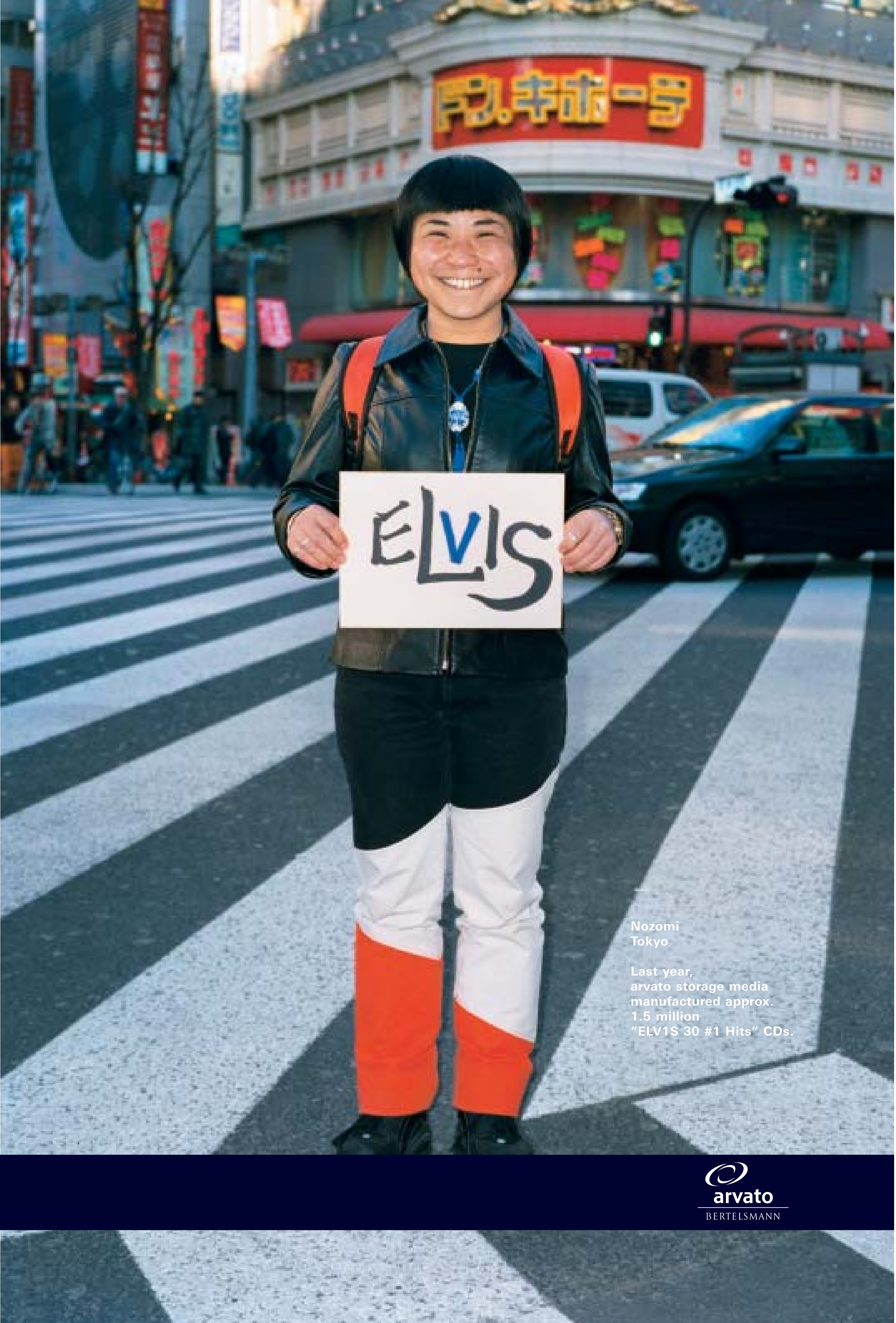


Rolf Schmidt-Holtz, Chairman & Chief Executive Officer, BMG

Iddo
New York

In 2002, arvato print produced a 700,000 paperback print run of John Grisham's "The Summons."

"My Hero is..."


ドン.キホーテ
ELVIS
Nozomi
Tokyo
Last year,
arvato storage media
manufactured approx.
1.5 million
"ELV1S 30 #1 Hits" CDs.
arvato
BERTELSMANN

arvato

Dynamic growth in the services sector

In 2002, the media services provider arvato achieved revenues of € 3.7 billion (previous year: € 3.5 billion) and Operating EBITA of € 217 million, well above previous year (€ 167 million).

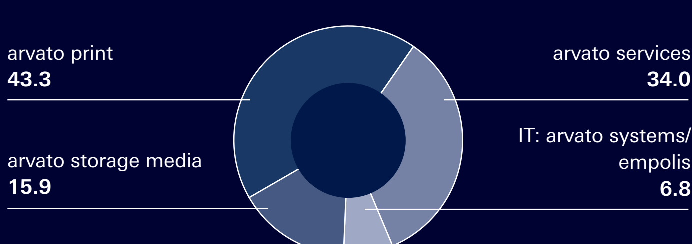
In 2002, all of arvato's divisions grappled with negative macroeconomic effects, insolvent customers and pricing pressure. However, overall growth in revenues and income once again proved the corporate division's dynamic force. In particular, the Services segment was able to increase its growth rate again following a weaker previous year.

In September 2002, Hartmut Ostrowski succeeded Gunter Thielen as chief executive of arvato. Mr. Thielen took over as Chairman & CEO of Bertelsmann AG. As the new arvato management took up its work, a new organizational structure was introduced. The Bertelsmann Services Group was broken down into the arvato direct services and arvato logistics services divisions; the printing division now does business as arvato print; Bertelsmann mediaSystems became arvato systems; and the former Storage Media division has been renamed arvato storage media.

arvato logistics services offers the entire spectrum of Supply Chain Management services to major corporations, ranging from order procurement, warehousing and order entry, to distribution and associated financial services. The distribution division showed particularly strong growth during the year. Vereinigte Verlagsauslieferung (VVA), part of arvato logistics services, extended its market leadership in supply services by acquiring Verlegerdienst München and taking over Libri-Distribution.

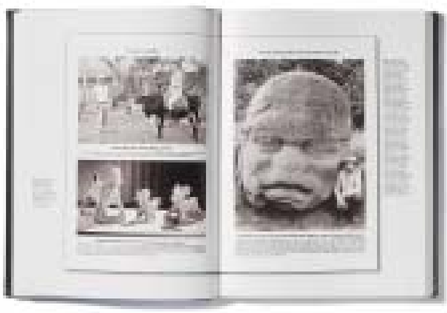
The arvato direct services division, which services some 35 million consumers in more than 20 languages with its customer retention programs and service centers, was able to further stabilize its position as one of Europe's biggest services providers for Customer Relationship Management. Important portfolio decisions in 2002 included buying a share in Eurodirect Marketing's Letter-

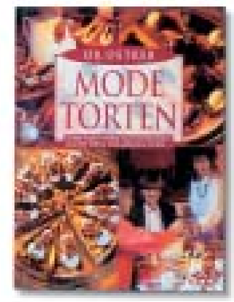
Revenues by Category in percent



arvato Highlights 2002

- arvato direct services operates customer programs and service centers servicing approx. 35 million consumers in more than 20 languages.
- More than € 75 million spent on expansion and modernization – in mid-2002, MOHN Media concluded its biggest capital expenditure program ever.





shops, the takeover of PVS Mailmanagement in Neckarsulm, and the sale of the “Trust” hotel reservation system. The Service Center business experienced especially strong growth in Germany and France.

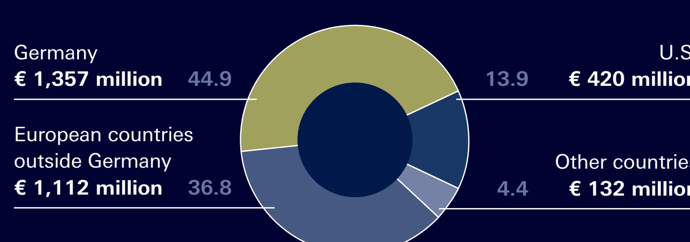
arvato print’s printing facilities were largely working at capacity in 2002, but the price level continued to drop all over the world as the year progressed. Printers in the United States developed above plan, which is attributable mainly to the long-term increase in printing volume and the successful integration of Coral Graphic Services, a company taken over in 2001. Towards the middle of the year, the printing services provider MOHN Media completed its biggest capital expenditure program ever: more than € 75 million were invested in enlargement and modernization; the positive effects already made themselves felt in the second half of the year. The maul-belser media combine implemented an extensive cost-cutting program in 2002, successfully reorganized the Deutscher Supplement Verlag and inaugurated a big photo-studio complex in Pforzheim at mid-year. The Spanish and Portuguese printers were combined under a shared management and umbrella brand, arvato print iberica.

In the arvato storage media division, Sonopress achieved turnaround in the U.S. Its Asian businesses were not operating at capacity in 2002, and businesses in South America were impacted by the local economic crisis. The overall decrease in CD production volumes was compensated by increased production in the DVD sector.

Although arvato systems suffered declines in revenue due to cost pressure and the dwindling investment budgets of its increasingly external customers, it was able to meet income targets thanks to stringent cost management.

arvato.com | arvato-logistics-services.com | mohnmedia.com | sonopress.com | arvato-systems.com

Consolidated Revenues by Region in € millions and in percent



Hartmut Ostrowski, Chairman & Chief Executive Officer, Bertelsmann arvato AG

Fiete
Berlin

In 2002, Der Club published an exclusive Günter Grass reader containing writings and drawings spanning five decades: "Wenn ich Pilze und Federn sammle" (Gathering Mushrooms and Feathers).

"My Hero is..."

Shupra
New York

J Records artist Alicia Keys was the top selling artist in 2002 at BMG Music Service with her CD "Songs In A Minor." Keys got exposure to over six million club members as a featured artist appearing on the cover of club magazines as well as online at bmgmusic.com.

DIRECTGROUP
BERTELSMANN

DirectGoup

Continued restructuring and portfolio streamlining

DirectGroup, which comprises book clubs, music clubs and e-commerce activities in 20 countries, generated revenues of € 2.7 billion (previous year: € 3.1 billion) with its direct-to-customer businesses in 2002. The decline in revenue is attributable to a cyclical decline in consumer spending on the one hand and a deliberate reduction of the membership base on the other. Operating EBITA amounted to minus € 150 million, well below the previous year's negative Operating EBITA of minus € 61 million. Operating EBITA 2002 includes Internet losses, while the pro forma Operating EBITA 2001 was adjusted for Internet losses of € 399 million. Taking the Internet losses for 2001 into account, the Operating EBITA has improved € 310 million.

This year-on-year comparison shows that DirectGroup was able to effectively reduce its Internet losses during the year. Key factors in this were a strategic realignment with a focus on Club businesses, the portfolio cleanup, and restructuring. In August 2002, Ewald Walgenbach, formerly Bertelsmann's Chief Operating Officer, succeeded Klaus Eierhoff as DirectGroup CEO. The restructuring measures undertaken as part of this management changeover included, first and foremost, a withdrawal from pure e-commerce with media products in Europe. DirectGroup sold its online vendor BOL in Germany, Sweden, Austria and Switzerland, and announced the proposed sale of BOL in the Netherlands. In Great Britain, BOL was converted into the BCA book club's first pure online club. BOL's sites in Italy and China remained in place due to their strong interweaving with the local Clubs.

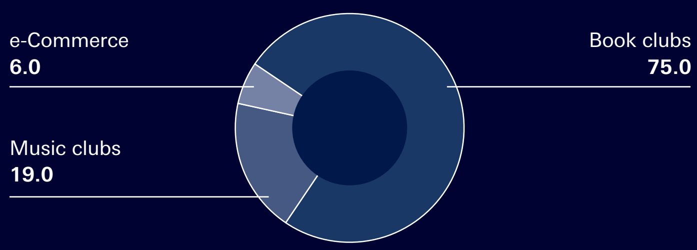
CDNOW signed a cooperation agreement with Amazon near the end of the year. In South Korea, DirectGroup and Gruner + Jahr both sold their holdings in the listed Internet portal DAUM. A takeover of Napster's assets as part of that company's bankruptcy proceedings failed to materialize due to objections by the bankruptcy court.

The break with pure media-e-commerce notwithstanding, the importance of the Internet to the Clubs' business continued to grow. The share of revenues generated on the Internet ranged between 4 percent and 20 percent for the various Clubs. At the same time, a growing number of new members was recruited on the worldwide web.

Most of the Club businesses were able to improve their earnings year-on-year; the French Club France Loisirs and Circulo de Lectores in Spain in particular increased their revenues and income. DirectGroup's two biggest Clubs, the U.S. book club Bookspan and the U.S. music club BMG Music Service, managed a return to profitability. Meanwhile, Germany and Great Britain suffered considerable revenue declines and ended the year with high losses. The German Club was given a new management at the end of the year.

DirectGroup increased its reliance on selective growth and targeted program campaigns in 2002. In December, the Chinese book club joined partners in Peking in opening two shops outside

Revenues by Category in percent



DirectGroup Highlights 2002

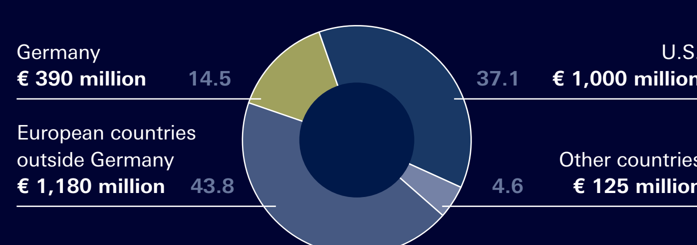
- DirectGroup's two biggest Clubs, the U.S. book club Bookspan and the U.S. music club BMG Music Service, managed their operative return to profitability.
- Four of France's five top-selling books in 2002 were France Loisirs titles offered exclusively to members.

Shanghai. The newly launched Mosaico Club very successfully targets the Spanish-speaking population in the U.S. Four of the five top-selling books in France in 2002 were France Loisirs titles offered exclusively to members. In Germany, Der Club was the main sponsor behind a new one-hour TV literature program entitled “Welcome to the Club.” The exclusive Club premiere of “Die Farm” (“A Painted House”) by John Grisham sold some 500,000 copies in the German Club.

A decentralized restructuring of the Clubs’ IT system has also been initiated. Although a shared IT system for the Clubs had just been introduced, it failed to meet expectations and amplified IT expenditure in the Clubs disproportionately. Der Club in Germany, ECI in the Netherlands and BCA in UK were particularly hard hit by this. Starting in 2003, Wissen Media Group, including its Internet company Wissen.de and the publisher Wissen Media Verlag, will be transferred from arvato to the German Clubs. This greatly strengthens the “advice” segment as well as the “own publishing” activities in the Club business.

directgroup-bertelsmann.de | bookspan.com | bmgmusic.com | franceloisirs.com | circulo.es | derclub.de

Consolidated Revenues by Region in € millions and in percent



Ewald Walgenbach, Chief Executive Officer, DirectGroup Bertelsmann

Kaoru
Tokyo

150 Nobel Prize laureates have published their works through BertelsmannSpringer. Albert Einstein's theory of relativity was published by Vieweg Verlag in 1917. Today, it may be read in any language.

“My Hero is...”


SIR NORMAN FOSTER
Sean
New York
World-famous architects publish with BertelsmannSpringer. Norman Foster's award-winning buildings often become the symbol for their city.
Springer
Science+Business Media
BERTELSMANN

BertelsmannSpringer

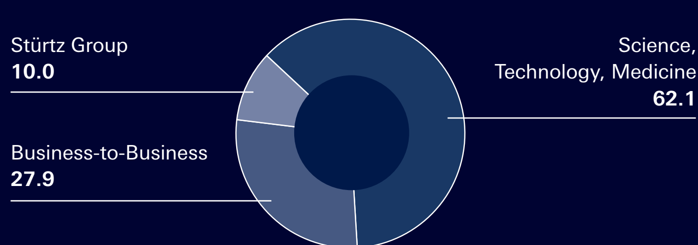
Profitability continues high

The specialist-publishing division BertelsmannSpringer, an internationally renowned provider of science and trade information, achieved revenues of € 731 million in 2002 (previous year: € 748 million). This decline is attributable to a significant deterioration in business-to-business advertising, which constitutes a considerable portion of BertelsmannSpringer's revenue. Operating EBITA amounted to € 71 million (previous year: € 59 million). In August, Arnold Bahlmann took over the management of BertelsmannSpringer.

The division, which publishes approx. 25,000 book titles and 700 magazines, is to be divested during the first half of 2003 and is therefore shown separately as a "Discontinuing Operation" in the group financial statements.

BertelsmannSpringer's mainstays of income are books, magazine and online products from the fields of medicine, natural sciences and technology. As part of the process of internationalizing the company's business, the Science division pressed ahead with its global program development. Commercial and logistical functions were centralized to cut costs. Birkhäuser Verlag, a publisher in the Science division, enhanced its architecture and design program by taking over the renowned magazine "form" and two book series in the sector. The Science division was able to increase its online revenues thanks to new distribution models. In 2002, 130 networking agreements were signed

Revenues by Category in percent



BertelsmannSpringer Highlights 2002

- With 70 publishing companies, 700 trade magazines and more than 4,000 new book releases, BertelsmannSpringer is one of the world's leading providers of science and specialist literature.
- BertelsmannSpringer Medizin Online reported its first profits in 2002.

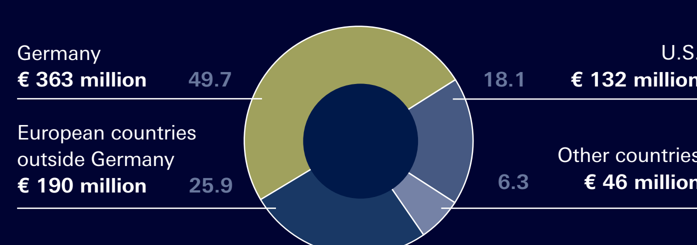
with libraries and research institutes all over the world. The business and technology trade segment submitted good results despite negative cyclical effects on GWV Fachverlage, Gabler's book and advertising business, and on the subscription business of the stock-market newsletters "Platow Brief" and "Fuchsbriefe." Likewise, the medicine and health publishing segment was able to transcend the difficult market environment. BertelsmannSpringer Medizin Online booked its first profits in the year under review.

In the Business-to-Business (B2B) publishing sector, the traffic segment in particular managed to increase its revenues and earnings. In general, the trade magazine publishers suffered from the downturn in advertising business. However, this was partially mitigated by strict cost management and the creation of new mainstays of sales such as Corporate Publishing and online offerings. The company strengthened its market position in Austria by taking over Kompetenz Verlag.

In the construction segment, B2B publishing was still subject to difficult overall conditions due to the continuing recession in the construction industry, but was able to add market shares and show positive earnings. A construction trade publisher taken over from the British media company Emap was successfully integrated and is now operating at a profit.

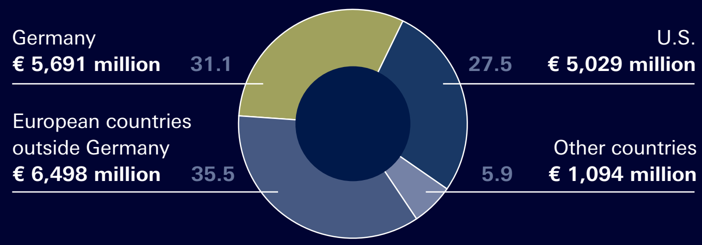
bertelsmannspringer.de | link.springer.de | bsmo.de | baunetz.de

Consolidated Revenues by Region in € millions and in percent



Arnold Bahlmann, President & Chief Executive Officer, BertelsmannSpringer

Consolidated Revenues by Region, in € millions and in percent



Corporate

Corporate Center, Corporate Investments

Corporate includes expenditure on the Corporate Center and on investments in venture capital activities and Internet holdings that affect the balance sheet at the group level. The Corporate Operating EBITA for 2002 amounted to minus € 180 million (previous year: minus € 135 million). 2002 includes the effects of venture capital activities and Internet holdings totaling minus € 68 million, while the pro forma Operating EBITA of the previous year was adjusted for these items.

Revenues by Region

31.1 percent in Germany, 27.5 percent in the U.S.

In 2002, 31.1 percent of the € 18.3 billion in total revenues were generated in Germany, 35.5 percent in the other European countries, 27.5 percent in the U.S. and 5.9 percent in other countries. This reflects a slightly reduced revenue contribution from the U.S. region. Exchange rate developments are the main reason behind this decline. Revenues achieved outside Germany amounted to € 12.6 billion (previous year: € 13.2 billion).

Special Items and Internet Losses

Significant reduction

In the previous year, the group had to cope with special items of minus € 927 million; in 2002, these totaled minus € 111 million and were caused by restructuring and write-offs. The expenses included under special items were all unscheduled and are the result of one-off business occurrences and special projects. The major special items pertain to DirectGroup, RTL Group and Corporate Investments. At DirectGroup, special items totaled minus € 84 million (previous year: minus € 371 million) and are the result of write-offs on the Club's IT system, restructuring at BeMusic, and the disposal of the online vendor BOL in Germany, Sweden, Austria and Switzerland. Special items at RTL Group amounted to minus € 43 million (previous year: minus € 45 million), and write-downs on various former Bertelsmann Capital holdings now listed under Corporate Investments (the BeCapital unit has since been dissolved) resulted in charges of € 36 million (previous year: € 187 million). This is partly offset by income at BMG from provisions created last year to adjust the value of the Zomba holdings, which have now been released.

Unlike in 2001, the Internet losses are included in the 2002 Operating EBITA and amount to € 138 million in all (previous year: € 808 million).

Bertelsmann has strengthened its operating business while also significantly reducing Internet losses and special items.

Amortization of Goodwill and Similar Rights

Shaped by impairment of Zomba

In all, amortization of goodwill and similar rights amounted to € 2.5 billion (previous year: € 1.4 billion). Key factors included the impairment of Zomba goodwill (€ 1.3 billion) as well as other impairments amounting to € 376 million.

Capital Gains/Losses

Sale of AOL Europe holding concluded

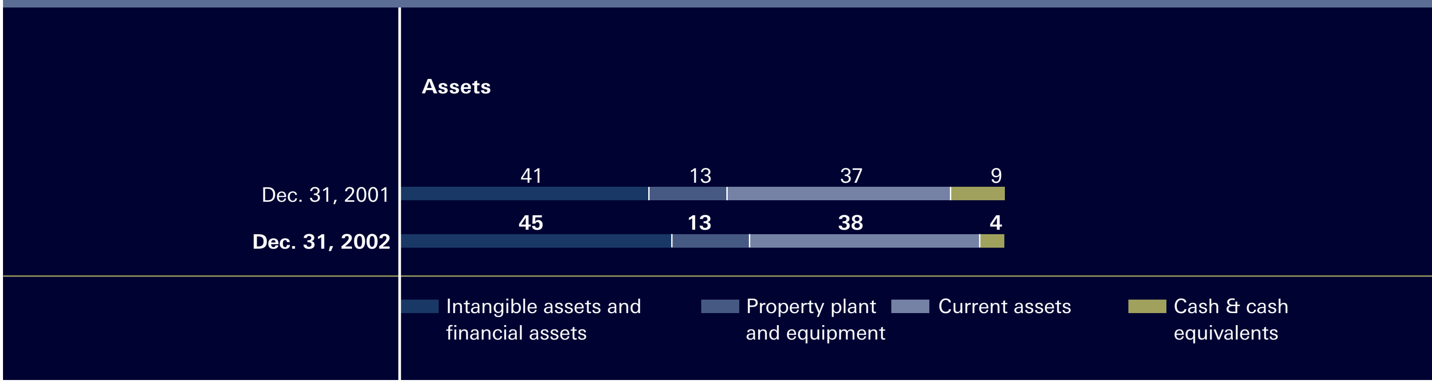
Capital gains, offset by minor losses, totaled € 2.9 billion (previous year: € 5.5 billion). Of this, € 2.8 billion derived from the now fully concluded sale of holdings in the online service AOL Europe to its U.S. parent company AOL Time Warner Inc. In 2002, Bertelsmann received the last installment from the transaction, which has brought Bertelsmann a total of $ 6.75 billion since 2001. Other gains included proceeds from Gruner + Jahr's sale of the Berlin-based newspaper operations (€ 138 million) and the sale of Gruner + Jahr's and DirectGroup's holdings in the South Korean Internet portal, DAUM (€ 59 million). This was set off by capital losses, e.g. at BMG from the sale of the Bad Boys label (minus € 56 million), and the losses from reducing the Pixelpark AG holdings from 60.3 percent to 20.0 percent, listed under Corporate Investments.

Investments

Extraordinarily high, mainly due to Zomba acquisition

At € 5.3 billion (previous year: € 2.6 billion), investments were extraordinarily high in 2002, mainly due to the Zomba acquisition. In November 2002, BMG acquired Zomba for € 2.7 billion. The purchase price was based on a put option signed in 1991. When acquiring Zomba, Bertelsmann also acquired cash and cash equivalents of € 470 million, which reduced the investment volume for Zomba to € 2.3 billion. In the television business, Bertelsmann bought a 22 percent stake in RTL Group from the British media group Pearson for € 1.5 billion in January 2002. The group's total RTL Group holdings rose to over 90 percent. In addition, RTL Group bought up the Holtzbrinck group's radio and television activities. Thus net investments in financial assets totaled € 4.5 billion. Capital expenditures on tangible assets amounted to € 543 million (previous year: € 922 million), e.g. the modernization and extension of printing facilities at arvato print and Gruner + Jahr, as well as the construction of Random House's new headquarters in New York. Capital expenditure in film and publishing rights amounted to € 236 million (previous year: € 390 million).

Asset Structure and Financing Mix in percent



Total Assets

Equity ratio remains high

At December 31, 2002, total assets amounted to € 22.2 billion, i.e. slightly below previous year (€ 23.7 billion). This was due primarily to a decrease in current assets and a reduction in cash and cash equivalents. Net of cash and cash equivalents, current assets amounted to 38 percent of total assets, slightly above previous year. On the liabilities side, equity was at € 7.7 billion (December 31, 2001: € 8.4 billion). While shareholders' equity increased by € 382 million to € 6.7 billion, the share of minority interests decreased when holdings in RTL Group were increased by € 1.0 billion. At 34.9 percent, the equity ratio was slightly below the previous year's ratio of 35.3 percent, but well above the 25 percent target. Financial debt including finance leasing liabilities rose to 16.7 percent due to capital expenditures. This represents an increase of 4.5 percentage points over the previous year.

Financing and Key Financial Figures

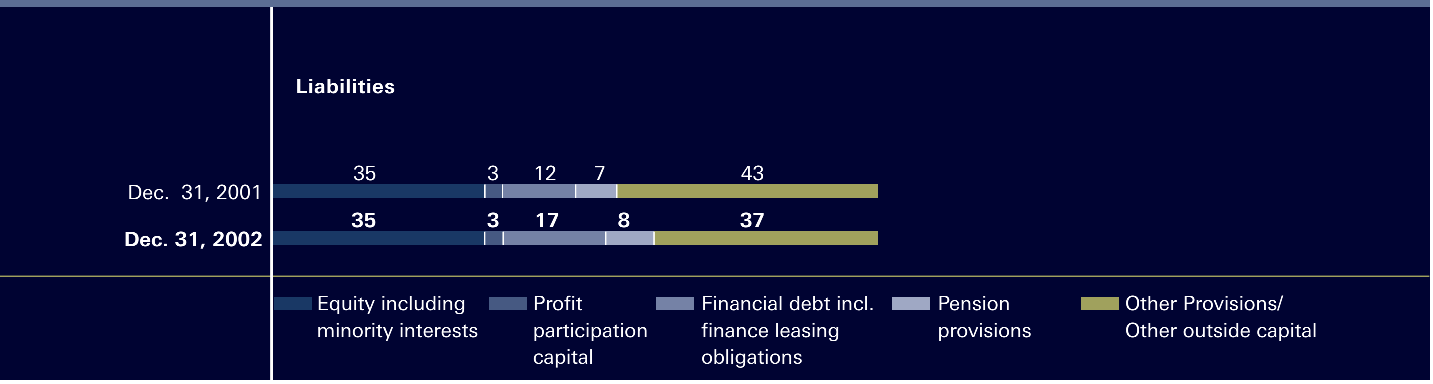
Maturity profile improved

Bertelsmann's first rating was published in June 2002. The Standard & Poor's rating agency gave Bertelsmann a BBB+, while Moody's gave Bertelsmann a comparable Baa1 rating. By attaining these ratings, Bertelsmann continues its focus on the capital market and creates the conditions for a stronger diversification of its sources of financing.

During the year, the group's net financial debt – i.e. the financial debt including finance leasing obligations offset against cash and cash equivalents – rose from € 859 million to € 2.7 billion. The increase is a result of the high volume of investmens, which exceeded the gains from sales.

For many years Bertelsmann has managed its operations according to self-imposed financial targets. These targets pertain primarily to the capital structure and financial debt. At 34.9 percent, the equity ratio was well above the target of 25 percent. The company also reviews the equity-to-goodwill ratio in acquired companies (including rights similar to goodwill). At € 7.7 billion (previous year: € 8.4 billion), equity was nearly € 800 million below goodwill and similar rights.

At a factor of 2.5, the financial debt repayment factor, i.e. the ratio of net financial debt to cash flow as defined by DVFA/SG (German Association of Financial Analysts; Schmalenbach Gesellschaft) did not meet the group's conservative internal target of max.1.5. At 33.3, the interest coverage ratio, which according to internal targets should exceed a factor of 9, was well above the self-imposed goal. The interest coverage rate is defined as the ratio of EBITDA to net interest income. Bertelsmann's goal is to quickly return to its self-imposed target debt redemption factor. Individual measures to this effect refer to the pay-down of financial debt e.g. through the instigated sale of the BertelsmannSpringer publishing group on the one hand, and through improvements in profitability on the other.



To secure financing for the purchase of Zomba, a bridge loan in the amount of € 2.5 billion was agreed to with a group of six banks in June 2002. Shortly after the bridge loan was negotiated, the company planned to issue a medium-term euro benchmark bond with a volume of some € 1 billion. Despite high investor interest, the issue was postponed as current developments at other companies in the TMT sector (Technology/Media/Telecommunications) had greatly increased the volatility of the capital markets.

In preparing for the scheduled euro benchmark bond issue, the company had authorized a new debt issuance program with a maximum volume of € 3 billion. This umbrella program gives Bertelsmann AG and its financing vehicles Bertelsmann U.S. Finance, Inc. and Bertelsmann Capital Corporation N.V. the option of flexibly issuing loans under a shared documentation.

The debt issuance program was first used in July, when the financing vehicle Bertelsmann Capital Corporation N.V. placed a three-year, € 200 million loan as a private placement.

In November, Bertelsmann obtained a five-year syndicated credit line of € 1.5 billion. The offer was very positively received in the market and was oversubscribed to € 1.9 billion. This facility partially replaced the bridge loan signed in June. A total of 19 banks with varying business and geographical focuses participated in the syndicated line. Bertelsmann's debut on the European market for syndicated loans also served to define its future group of key banks. The long maturity term of the credit line helps to further improve the maturity structure of Bertelsmann's financing instruments.

BEX Extended

An entrepreneurial approach

The BEX Initiative begun in spring 2001 was systematically extended in 2002. The aim of BEX is to continually and sustainably enhance the quality of Bertelsmann's products and services, to improve cooperation and processes within the group, and to raise earnings and returns in all areas of the group, including the Corporate Center. The target is to achieve an average operative return on sales of 10 percent (2002: 5.1 percent) throughout the group within three years.

The management changeover was accompanied by a trimming-down of Corporate Center staff and administrative functions. For example, the Bertelsmann Capital unit, which chiefly concerned itself with mergers & acquisitions, strategy and venture capital, was dissolved. Its tasks were taken over by the Chairman & CEO and his deputy. The Executive Board position of Chief Operating Officer was also eliminated, along with the Office of the Chairman. Units serving the Chairman & CEO, except Corporate Communications, which reports directly to the Chairman & CEO, were bundled in the Executive Board Council.

The bundle of measures to commemorate Elvis alone generated additional revenue of € 100 millions in 2002.

Group-wide Cooperation

Added income from Elvis Presley and Pop Idol

Synergy potentials within the group were vigorously exploited. One big success was the cooperation of nearly all corporate divisions for the occasion of the 25th anniversary of Elvis Presley's death on August 16, 2002. BMG released a compilation of 30 No.1 hits ("ELV1S # 1 Hits"), which sold millions of copies worldwide, and a 4-CD box ("Today, Tomorrow & Forever") with 100 previously unpublished versions of Elvis songs. arvato manufactured the CDs and also produced an Elvis calendar. Random House published Elvis books, while RTL Group's TV and radio stations aired special programs and DirectGroup came up with Elvis specials for its Club customers all over the world. Many Gruner + Jahr magazines published reports and special publications about the artist. The bundled measures generated additional revenues of approx. € 100 million in 2002.

Likewise, several corporate divisions are part of the worldwide success of the "Pop Idol" TV format (see page 17). The talent show is produced by the RTL Group subsidiary FremantleMedia; the winners of the show are each guaranteed a recording contract with BMG. In Germany, the "Pop Idol" variant "Deutschland sucht den Superstar" was broadcast by RTL Television, while an arvato subsidiary produced a tie-in Superstar magazine. In the U.S., Random House and Gruner + Jahr were involved in publications tying in to "American Idol."

Employees

Slight increase, mostly from Zomba

At the end of the year, the number of employees totaled 80,632, or 336 employees more than twelve months earlier (80,296). The Zomba music company brought in an additional 1,889 employees. The media services provider arvato also added jobs. The payroll increase at BMG and arvato was offset by job cuts at Gruner + Jahr, Random House, DirectGroup and central services units. At the end of the fiscal year, Bertelsmann employed 918 trainees (year-end 2001: 943).

Status of Bertelsmann AG

Equity amounted to € 7.2 billion

Bertelsmann AG is a management holding company without any operating businesses of its own. Its major sources of revenue are dividend payouts and services provided to its subsidiaries. Total equity amounted to € 7.2 billion, which corresponds to 89.9 percent of non-current assets.

Profit Participation Capital

Target payout of 15 percent achieved

The par value of profit participation capital was approx. € 516 million at the balance sheet date. Including the premium, the total volume of profit participation capital at December 31, 2002 remained unchanged at approx. € 706 million.

Profit participation capital is divided into Profit Participation Certificates from 2001 (SIN 522 994; "PPC 2001") and Profit Participation Certificates from 1992 (SIN 522 990; "PPC 1992"). Over 90 percent of the par value of profit participation capital is accounted for by the PPC 2001, which are authorized for trading on the Düsseldorf and Frankfurt stock exchanges and are among the most frequently traded profit participation certificates in the market.

The terms and conditions governing the PPC 2001 stipulate that a dividend of 15 percent of par value be paid for each full fiscal year provided there is sufficient consolidated net income and Bertelsmann AG net income. This condition was met for 2002. A 15 percent payout is also forthcoming for the PPC 1992. Thus, a total dividend of € 77 million will be paid out on both types of Profit Participation Certificates in May 2003.

This marks the conclusion of the shift in the payout schedule. For the six-month stub period from July to December 2001, a pro-rated payout of 7.5 percent, i.e. exactly half of the annual target payout, was made in May 2002. The last payout for a twelve-month fiscal year occurred in October 2001, for fiscal year 2000/01. In future, dividends will be paid out in spring, for the calendar year just ended.

Under the terms and conditions governing the Profit Participation Certificates, Bertelsmann AG's auditors must review whether the dividend payout was correctly determined. The auditors have issued an unqualified opinion on this matter.

In 2002, the stock-market performance of PPC 2001 was determined largely by the overall development of the capital market. Until mid-year, the Profit Participation Certificate was able to buck the overall downward trend in the stock markets; its trading range remained stable between 220 and 210 percent. In the second half of the year, the Profit Participation Certificate succumbed to the overall nervousness governing the securities exchanges. Much like the Profit Participation Certificates issued by other big German companies, Bertelsmann's PPC 2001 registered a significant price decline, while its market price fluctuated widely.

Risk Management

A substantial element in the corporate philosophy

Bertelsmann has an integrated risk management system, which is complemented by an annual risk inventory and compulsory ad-hoc reporting at all companies involved. As in past years, the risk management system was subjected to intense scrutiny in selected segments, both by auditors from KPMG and by Bertelsmann's Corporate Audit and Consulting division.

The basic concept behind Bertelsmann's existing system has remained the same over the past few years and has become an essential element in the company's corporate philosophy.

As part of routine risk reporting, the divisions identified the following material risks, among others. Measures have been taken to control, reduce or prevent these risks.

During 2002, the steep decline in the advertising market had a considerable impact on **RTL Group's** operations. Due to poor macroeconomic conditions, no significant recovery is expected for this revenue stream – a key source of income for RTL Group – in fiscal year 2003. This risk is being countermanded with cost-cutting measures, as well as with the tapping of new revenue streams through secondary businesses.

Another risk RTL Group faces is the postponement or cancellation of programs by customers who find themselves forced to take cost-cutting measures due to the overall weak consumer climate.

In addition, the far-reaching changes and consolidation in the competitive environment, and the associated repercussions for RTL Group's main business, can result in an added impact on its profits. Continuing technological progress and the volatility of exchange rates represent added risk potentials, which, however, may be controlled through proactive measures.

Likewise, **Random House** as a global provider suffers from the recessive trend in the global economy. Regional markets such as Germany, as well as Argentina and Venezuela, failed to deliver satisfactory development in the year now ended. At the moment, no significant recovery of these markets is in sight. In this connection, Random House sees a weakening of the North American economy as a key risk, as this would mean the loss of additional compensation potential.

Random House was able to maintain its economic position in North America in 2002. Management is continuously monitoring the attendant sales-/procurement-related partial risks, including any risks from disruption of business, and controlling them with targeted countermeasures.

Much like the TV sector, **Gruner + Jahr** is and will continue to be exposed to the risk of a much more fiercely competitive advertising market. Combined with increasing consumer reluctance, this not only holds the risk of diminishing circulation, revenues and earnings, but also has implications for other production steps such as the printing operations.

In 2002, the **Bertelsmann Music Group** continued its cost reduction program "Fast & Flexible." Risks such as those from online music file-sharing platforms, the illegal reproduction of music and musical tastes that change at an ever-accelerating pace ("fashion" industry) can work against such efforts. The measures taken, particularly those against music piracy in all its manifestations, have borne first fruit, but must be continued resolutely and sustained for the long term. Strategic alternatives and new business models are being evaluated on an ongoing basis and are intended to strengthen BMG's competitive position.

The **arvato** group is especially hard hit by the poor cyclical trend, which impacted its core lines of business in particular: arvato print and arvato storage media. For fiscal year 2003, too, the aim is to ensure that its businesses operate at capacity in a difficult market environment – however, this is frequently only possible by coming down with prices. Meanwhile, the pricing pressure is not merely a result of the weak overall economy, but is also exacerbated by surplus capacity on the supply side. In the storage media industry, the worldwide decline in CD volume presents a risk that cannot be completely recompensed even with compensation options in the DVD sector.

DirectGroup significantly reduced its risk position during fiscal year 2002, by streamlining its e-commerce portfolio and adjusting its CCIT operating software to changed market conditions. In some countries, there are risks from intensified competition as well as the persistent consumer slump. This could continue to impact the strategic realignment and/or consolidation process – above all in Great Britain and Germany, as well as the U.S. music club – in fiscal year 2003, resulting in inadequate profitability.

BertelsmannSpringer faces the challenge of counteracting its dependence on a market that is stagnant overall and contracting in parts. To do so, it is tapping new market segments and creating new types of products and marketing. This difficult market environment prevents a speedy recovery of the advertising markets, which are crucial for BertelsmannSpringer. Budget cuts and budget shifts result in stagnant buying power on the part of BertelsmannSpringer's institutional customers. The risk associated with new types of products and marketing and the attendant capital expenditure are being controlled by means of a long-term business strategy. The aim of this strategy is to guide the gradual evolution of existing means of distribution, in order to organically grow BertelsmannSpringer's core business while safeguarding profitability.

After the End of the Fiscal Year

Random House, BMG, RTL Group

In January 2003, Random House became the first Western book publishing group to enter into a joint venture with the leading Japanese publisher Kodansha. As a result, Random House now publishes books in four of the leading languages of the worldwide book market – English, German, Spanish and Japanese. Random House Kodansha will publish both non-fiction and fiction titles, by international authors as well as Japanese writers.

In spring, BMG gave itself a new structure intended to bring management and artists closer together. Its former corporate organization by region was replaced with operating units, in particular the Label Group and Territory Management units.

In February 2003, Random House agreed to take over the Ullstein Heyne List publishing group from Axel Springer Verlag AG. The integration of Ullstein Heyne List into the Random House publishing group (Verlagsgruppe Random House) in Germany will be backdated to the beginning of the year. Ullstein Heyne List had revenues of € 178 million in 2001. Verlagsgruppe Random House reported turnover of € 243 million for the same year. Antitrust authorization for the takeover was still pending at time of print.

Also in February 2003, Bertelsmann learned from the press that several music publishers are apparently taking Bertelsmann AG to court in New York over loans granted to Napster by Bertelsmann. Bertelsmann believes that the complaint is without merit.

In early March, Gerhard Zeiler was appointed the new CEO of RTL Group. He will also remain in place as managing director of RTL Television, Cologne. Zeiler succeeds Didier Bellens, who left RTL Group in late February to join the Belgian telecommunications corporation, Belgacom.

Outlook

Stable revenues, rising earnings

As Bertelsmann sees it, the international media markets will remain stagnant in fiscal year 2003. Bertelsmann expects stable consolidated revenues (before currency effects) and a growth in operating income. The turnaround in profitability achieved in 2002 will be substantiated in 2003 with further strengthening and cost optimization in the core areas of television and radio, books, music, magazines, media services and direct-to-customer businesses.

Bertelsmann is preparing a variety of financing measures to further improve the maturity profile of its financing, and to switch financing to various capital market instruments.

The company does not expect a lasting upturn in the advertising industry in the near future, even if regional markets show clear signs of improvement. Accordingly, the RTL Group and Gruner + Jahr corporate divisions, with their heavy dependence on the advertising market, will stay focused on increasing their market shares, controlling costs, diversifying revenues, and increasing synergies and product innovations.

Random House is preparing for a continuingly difficult book market, especially in the German-speaking countries and in Latin America. BMG, given the backdrop of declining music sales and the still-unsolved piracy problem, is dedicating itself primarily to extending its market position, the promotion of promising artists and the integration of Zomba.

arvato expects continued pricing pressure in the print sector, but is counting on overall growth in revenues and income. In Germany, plans include the reorganization of the book-printing activities. In Italy, a sophisticated rotogravure project is planned. DirectGroup Bertelsmann hopes to achieve turnaround by year-end 2003. The intention is to achieve this with a combination of increased operating efficiency and quality in the company, portfolio management, and stabilized membership figures in the Clubs.

Consolidated Income Statement

	1/1/2002 – 12/31/2002 € millions	1/1/2001 – 12/31/2001 Pro forma € millions
Revenues	18,312	**18,979**
– of which from discontinuing operations	731	739
Other operating income	768	1,191
Change in inventories	(69)	28
Own costs capitalized	22	33
Costs of materials	(5,347)	(6,362)
Royalty and licence fees	(1,655)	(1,868)
Personnel costs	(4,574)	(4,812)
Amortization of intangible assets and depreciation of property, plant and equipment	(1,520)	(1,835)
Other operating expenses	(5,837)	(6,807)
Impairments of goodwill and similar rights	(1,661)	(232)
Capital gains/losses	2,918	5,533
Income from operating activities	**1,357**	**3,848**
Results of associated companies	(99)	(327)
Income from other participations	33	(524)
Profit before financial result and taxes	**1,291**	**2,997**
– of which from discounting operations	(12)	35
Net interests	(50)	(271)
Other financial expenses and income	(216)	(162)
Financial result	**(266)**	**(433)**
Income taxes	(57)	(1,186)
Net income after minority interests	**968**	**1,378**
Minority interests	(40)	(143)
Net income after minority interests	**928**	**1,235**

The charts shown here are not part of the audited Management Report.
They are provided solely as supplementary information

Segment Reporting 2002

	RTL Group € millions	Random House € millions	G+J € millions	BMG € millions	arvato € millions	Direct Group € millions	Total Segments € millions	Corporate € millions	Consoli-dation € millions	Bertelsmann Springer € millions	Total Group € millions
Revenues	**4,362**	**1,995**	**2,800**	**2,714**	**3,668**	**2,707**	**18,246**	**50**	**(715)**	**731**	**18,312**
Operating EBITA	**465**	**168**	**226**	**125**	**217**	**(150)**	**1,051**	**(180)**	**(6)**	**71**	**936**
Internet losses	–	–	–	–	–	–	–	–	–	–	–
Operating EBITA incl. Internet losses	465	168	226	125	217	(150)	1,051	(180)	(6)	71	936
Special items	(43)	–	–	66	(14)	(84)	(75)	(36)	–	–	(111)
Capital gains/ losses	(50)	4	173	(58)	11	27	107	2,811	–	–	2,918
Total result	**372**	**172**	**399**	**133**	**214**	**(207)**	**1,083**	**2,595**	**(6)**	**71**	**3,743**

Segment Reporting Pro Forma 2001

	RTL Group € millions	Random House € millions	G+J € millions	BMG € millions	arvato € millions	Direct Group € millions	Total Segments € millions	Corporate € millions	Consoli-dation € millions	Bertelsmann Springer € millions	Total Group € millions
Revenues	**4,054**	**2,039**	**2,973**	**2,982**	**3,520**	**3,089**	**18,657**	**192**	**(618)**	**748**	**18,979**
Operating EBITA	**385**	**33**	**198**	**(79)**	**167**	**(61)**	**643**	**(135)**	**6**	**59**	**573**
Internet losses	(110)	(16)	(88)	(9)	(40)	(399)	(662)	(130)	–	(16)	(808)
Operating EBITA incl. Internet losses	275	17	110	(88)	127	(460)	(19)	(265)	6	43	(235)
Special items	(45)	(25)	–	(267)	(32)	(371)	(740)	(187)	–	–	(927)
Capital gains/ losses	240	–	–	–	–	–	240	5,293	–	–	5,533
Total result	**470**	**(8)**	**110**	**(355)**	**95**	**(831)**	**(519)**	**4,841**	**6**	**43**	**4,371**

Robert Miles News Voici Yann Martel Gareth Gates Eros Ramazzotti E-Media Rondo Veneziano Alice Sebold
Susanna Tamaro Will Young Justin Timberlake essen & trinken Eurythmics Tiziano Terzani Family Circle Terry P
Niemi télé loisirs Catherine Millet Schöner Wohnen Tanja Kinkel Michael Jürgs Joy Fielding Usher Femme Actu
Alan Parson Project Nicci French TV Today Gloria Gaynor Frederick Forsyth Gala Noah Gordon Impulse W.G Seb
Kenny G John Updike art Pop Idol Toni Morrison Aaron Carter Börse Online Alabama American Idol Deutschl
Brigitte Michael Crichton Lou Reed Estopa H-Blockz Wer wird Millionär Lisa Stansfield mia John Irving Brigit
Avril Lavigne Unter Uns V. S. Naipaul Dave Matthews Band Verbotene Liebe Norman Mailer Luther Vandross
Danielle Steel Heather Nova Eltern Los Razos Die Quiz Show Peter Maffay Capital Charlotte Link Herzblatt W
Caro child Etta James Natalie Imbruglia The Price Is Right Jean M. Auel Boyz II Men The Bill Neighbours Wom
Diana Gabaldon Busta Rhymes Gabriel Garcia Márquez Cosmopolitan Patrick Bruel Michel Houellebecq Pink Ian
Günter de Bruyn Naj Nick Carter Richard Russo Christina Aguilera Backstreet Boys Cuisine Actuelle Julia Glass
Ramazzotti E-Media Rondo Veneziano Alice Sebold Parents George Winston Peter Ackroyd Juan Gabriel prima
ken Eurythmics Tiziano Terzani Family Circle Terry Prachett profil Rod Stewart Yann Queffélec Fast Company
Kinkel Michael Jürgs Joy Fielding Usher Femme Actuelle Waylon Jennings Martin Cruz Smith Fitness GEO J
Today Gloria Gaynor Frederick Forsyth Gala Noah Gordon Impulse W.G Sebald Inc. Anne Rice Donna Tartt Ja
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H-Blockz Wer wird Millionär Lisa Stansfield mia John Irving Brigitte Young Miss Monica Annie Lennox Gute Z
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Die Quiz Show Peter Maffay Capital Charlotte Link Herzblatt Walter Kempowski Barry Manilow Misia Bella Blo
Is Right Jean M. Auel Boyz II Men The Bill Neighbours Woman Outkast Siba Shakib stern TV Dionne Warwick
Gabriel Garcia Márquez Cosmopolitan Patrick Bruel Michel Houellebecq Pink Ian McEwan Elvis Presley Stephe
Carter Richard Russo Christina Aguilera Backstreet Boys Cuisine Actuelle Julia Glass N'Sync National Geograp
Alice Sebold Parents George Winston Peter Ackroyd Juan Gabriel prima Minette Walters Gilbert Becaud Dary
Circle Terry Prachett profil Rod Stewart Yann Queffélec Fast Company Glenn Miller Santana Hakan Nesser ster
Femme Actuelle Waylon Jennings Martin Cruz Smith Fitness GEO James Clavell Willie Nelson Westlife Form
Impulse W.G Sebald Inc. Anne Rice Donna Tartt Jack Guido Knopp Mitch Albom Arthur Living At Home
American Idol Deutschland sucht den Superstar Alicia Keys John Grisham Jefferson Airplane A la recherche Fo

Supervisory Board

Supervisory Board Report | Corporate Governance at Bertelsmann

Supervisory Board Report

During fiscal year 2002, the Supervisory Board fulfilled the duties incumbent upon it by law, the articles of corporation, and rules of internal procedure. The Supervisory Board was involved in all decisions of key relevance to the company. The Supervisory Board received regular oral and written reports on the business developments, the state of the company, and plans for major investments. It also reviewed the company's significant business transactions and strategic alignment with the Executive Board, and monitored the management of the company.

During fiscal year 2002, the Supervisory Board convened for four regular sessions and two special sessions. The Supervisory Board chairman was also in contact with the Executive Board beyond the Supervisory Board sessions and regularly obtained information about current developments and important business transactions. Between sessions, the Supervisory Board was notified about projects and plans that were of special relevance and urgency to the company, and – if applicable – asked for its opinion and/or decision.

The Bertelsmann AG consolidated financial statement and the group management report for the fiscal year from January 1 through December 31, 2002 were audited by KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and received an unqualified auditor's opinion.

The Supervisory Board Audit and Finance Committee determined the main focuses of the annual audit, together with the auditors. The committee discussed the findings of the audit in detail. The auditors attended the Supervisory Board Audit and Finance Committee's financial review meeting and submitted their report. The Supervisory Board noted and accepted the findings of the audit. After its own, final scrutiny of consolidated financial statement and the group management report, the Supervisory Board raises no objections. The Supervisory Board approves the consolidated financial statement as prepared by the Executive Board.

Another review conducted in 2002 involved the risk management system set up by the Executive Board to provide early detection of developments that threaten the continued existence of Bertelsmann AG. The auditor concluded that the Executive Board has taken all measures demanded under Paragraph 91 Sect. 2 AktG in the divisions under review and that the early risk detection system is basically suited for detecting developments that threaten the continued existence of Bertelsmann AG.

During the year under review, the Bertelsmann AG Supervisory Board underwent further internationalization, and its composition was adjusted to more strongly reflect media and capital market experience. Upon the suggestion of the Supervisory Board, the Bertelsmann AG Annual General Meeting on June 10, 2002 unanimously elected three new members to the governing body. Since July 1, 2002 the following members are new to the Supervisory Board: IBM's Chief Financial Officer John R. Joyce (US), Sir Peter Job (UK), long-time head of the Reuters group, and Richard Sarnoff (US), Executive Vice President of the Random House book publishing group and new chairman of the Bertelsmann Management Representative Committee. They replaced the departing Supervisory Board members Dr. Hugo Bütler, managing director and editor-in-chief of the Neue Zürcher Zeitung, Bernd Wrede, former chairman of the Hapag-Lloyd AG executive board, Dr. Heinrich Weiss, SMS AG CEO, and Dr. Uwe Swientek, former chairman of the Bertelsmann Management Representative Committee, all of whom relinquished their seats on the board in June 2002. The Supervisory Board thanks the four departing members for their long years of commitment to the company's welfare. A new member will be appointed in Fiscal Year 2003 to fill the vacant 15th seat on the Bertelsmann AG Supervisory Board.

Gerd Schulte-Hillen
Chairman of the Supervisory Board of Bertelsmann AG

The fiscal year just past also saw significant personnel changes in Bertelsmann's senior management. In early August 2002, the former Chairman & CEO Dr. Thomas Middelhoff left the company. The reason behind the separation was a difference in opinions about the company's future strategy and the collaboration between the Supervisory and Executive Boards. The Bertelsmann AG Supervisory Board thanks Thomas Middelhoff for his achievements and his dedication.

Effective August 5, 2002, the Supervisory Board appointed Dr. Gunter Thielen as the new Chairman & CEO and Dr. Siegfried Luther as his deputy. Gunter Thielen has been a member of the Bertelsmann AG Executive Board since 1985 and was in charge of arvato AG prior to his appointment as CEO. Upon the suggestion of the new Chairman & CEO, the Supervisory Board transferred the management of DirectGroup Bertelsmann to Dr. Ewald Walgenbach in early August 2002, effective immediately. Earlier, in February, Ewald Walgenbach was appointed to the Bertelsmann AG Executive Board as Chief Operating Officer (COO). The CEO of DirectGroup division at the time, Dr. Klaus Eierhoff, ceded his seat on the Executive Board with immediate effect and left the company by mutual agreement on December 31, 2002. The Supervisory Board expresses its appreciation to Klaus Eierhoff for his past efforts.

Business developments in the year 2002 were shaped by the continuing weak economy and the regressive development in the advertising industry. Against this backdrop, the Supervisory Board supports the decisions, made after the management changeover, to largely withdraw from stand-alone e-commerce businesses and focus on Bertelsmann's core businesses including their Internet operations. The Supervisory Board closely supervised the Executive Board's Bertelsmann Excellence Initiative (BEX) to lastingly strengthen profitability. The corporate divisions managed to considerably improve their earnings year-on-year, thanks to measures taken to cut losses and improve operating results. Group earnings for fiscal year 2002 were significantly shaped by the last capital gains from the sale of the remaining AOL Europe holdings. These gains were offset by considerable financial investment e.g. in increasing the holding in RTL Group and Bertelsmann Music Group's (BMG) complete takeover of the Zomba music company. Additional Bertelsmann shares were bought back from the ZEIT Foundation. The takeover of Zomba carried out in November 2002 was triggered in June when a put option dating back to 1991 was exercised. It resulted in added financial requirements and an increase in net financial debt for the group. The Executive and Supervisory Boards both seek to reduce the financial debt rapidly.

Against the backdrop of an economy that continues to be difficult, Bertelsmann took resolute entrepreneurial steps during fiscal year 2002 to lay the key foundations for continued profitable growth. The Supervisory Board acknowledges the achievements of the company's Executive Board, executives and employees with gratitude and appreciation.

Gütersloh, March 19, 2003

Gerd Schulte-Hillen

Corporate Governance at Bertelsmann

The quest for excellent, effective Corporate Governance is firmly embodied in our corporate culture and part of our entrepreneurial identity at Bertelsmann.

Over the past few years, we reviewed the structures and processes defined in the rules of procedure of the Supervisory Board: We adjusted the working methods and jurisdiction of the committees and spelled out the reporting requirements. We gave special priority to a more open and factual discussion both with the Executive Board and within the Supervisory Board itself. Presentation times were shortened for all items on the agenda, to increase the time available for discussion. We also introduced a regular strategy dialog with the Executive Board. At Bertelsmann, we are not only content to merely fulfill the relevant structural and semantic demands of contemporary, active corporate governance as outlined in the Transparency and Disclosure Law and in the German Corporate Governance Codex – we also strive to cultivate a culture of discussion to promote frank exchange among professionals and steadily improve the quality of our Supervisory Board work.

Focuses of Corporate Governance activities in 2002 included the renewal of the Supervisory Board and a thorough review of Supervisory Board work at Bertelsmann (“Board Review”).

The professional and personal competence of our Supervisory Board members is a key prerequisite for excellent corporate governance. To ensure that the strategic challenges of the future are reflected in the makeup of the Board, we hired specialized HR consultants and initiated a meticulous selection process. This helped us to find new members whose personality, leadership experience and professional skills match our strategy. In the process, we made especially sure that the new members understand and support our corporate culture.

We have shortened the terms of office of Supervisory Board members to three years. Members may be reelected up to two times, to ensure the necessary continuity even in the face of regular renewal. These shortened terms of office do not apply for employee representatives on the Supervisory Board and representatives of Bertelsmann shareholder Group Bruxelles Lambert (GBL).

Focuses of Corporate Governance activities in 2002 included the renewal of the Supervisory Board and a thorough review of Supervisory Board work at Bertelsmann (“Board Review”).

The quest for excellent, effective Corporate Governance is firmly embodied in our corporate culture and part of our entrepreneurial identity at Bertelsmann.

We believe the performance of supervisory bodies needs to be reviewed on a regular basis. Bertelsmann has repeatedly used systematic self-assessment as an effective tool to increase the efficiency and effectiveness of its Supervisory Board's work. During the business year just past, we became one of the first big stock corporations in Germany to carry out a comprehensive review of our Supervisory Board's work, assisted by an HR consultancy with experience in this field. The consultants held carefully prepared and confidential interviews with all Supervisory Board and Executive Board members in an atmosphere of complete openness. Critique and recommendations were summarized in a report that was discussed in the Supervisory Board and contained suggestions for the further improvement of our work.

In summary, the work done in the plenary assembly and in the committees was rated as exemplary. A number of suggestions have already been put into practice: For instance, once a year, in addition to the regular Supervisory Board sessions, there will be a separate strategy retreat with the Executive Board. Based on the evaluation results for the first time we also introduced a Supervisory Board retreat concerning the common objectives of the Supervisory Board and possibilities for improving its work. At its first session 2003 there was already an increased emphasis on focal points in the plenary assembly, to further improve the scope and quality of debate in this area. Furthermore, in the future each plenary session will end with a short Executive Session for the Supervisory Board members, to sum up and review the major topics and discussion items.

The Supervisory Board and Executive Board hope that the current fiscal year 2003 will bring added impulses for the continued evolution of Corporate Governance at Bertelsmann. To this end, we have initiated a benchmark study of eight companies that are considered leaders in the area of Corporate Governance in their countries.

The Supervisory Board

Consolidated Financial Statements as of December 31, 2002

Financial Statements

Consolidated Income Statement

	Notes	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Revenues	1	18,312	9,685
– of which from discontinuing operations	29	731	369
Other operating income	2	768	826
Change in inventories		(69)	(15)
Own costs capitalized		22	18
Cost of materials	3	(5,347)	(3,267)
Royalty and license fees		(1,655)	(1,015)
Personnel costs	4	(4,574)	(2,343)
Amortization of intangible assets and depreciation of property, plant and equipment	5	(1,520)	(893)
Other operating expenses	6	(5,837)	(3,598)
Impairments of goodwill and similar rights	7	(1,661)	(55)
Capital gains/losses	8	2,918	2,225
Income from operating activities		**1.357**	**1,568**
Results of associated companies	9	(99)	(257)
Income from other participations	9	33	(179)
Profit before financial result and taxes		**1,291**	**1,132**
– of which from discontinuing operations	29	(12)	–
Net interest	10	(50)	(108)
Other financial expenses and income	11	(216)	(100)
Financial result		(266)	(208)
Income taxes	12	(57)	7
Net income before minority interests		**968**	**931**
Minority interests		(40)	18
Net income after minority interests		**928**	**949**

Reconciliation to Operating EBITA

	Notes	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Profit before financial result and taxes		**1,291**	**1,132**
Capital gains/losses	8	(2,918)	(2,225)
Special items	32	111	432
Internet losses	32	not stated	254
Amortization of goodwill and similar rights		2,432	451
Amortization of goodwill from associated companies		20	120
Operating EBITA	32	**936**	**164**
Operating EBITDA	33	**1,666**	**642**

Consolidated Balance Sheet

	Notes	12/31/2002 € millions	12/31/2001 € millions
Assets			
Non-current assets	13		
Goodwill	14	7,787	7,289
Other intangible assets	15	1,231	1,158
Property, plant and equipment	16	2,802	3,017
Investments in associates	17	582	579
Other financial assets	17	404	737
		12,806	**12,780**
Current assets			
Inventories	18	1,961	1,941
Trade accounts receivable	19	3,251	3,631
Other receivables and other assets	19	2,780	2,959
Cash and cash equivalents	20	977	2,044
		8,969	**10,575**
Deferred tax assets	12	237	190
Prepaid expenses		176	189
		22,188	**23,734**
Equity and Liabilities			
Equity	21		
Subscribed capital		606	606
Capital reserve		2,725	2,725
Retained earnings		2,426	2,023
Net income after minority interests		928	949
Shareholders' equity		**6,685**	**6,303**
Minority interests		1,059	2,081
		7,744	**8,384**
Third-party liabilities			
Profit participation certificates	22	**706**	**706**
Provisions			
Provisions for pensions and similar obligations	23	1,737	1,682
Other provisions	24	2,944	3,854
		4,681	**5,536**
Liabilities			
Financial debt	25	3,718	2,903
Trade accounts payable	26	2,693	2,713
Other liabilities	26	2,031	2,862
		8,442	**8,478**
Deferred tax liabilities	12	83	150
Deferred income		532	480
		22,188	**23,734**

Consolidated Cash Flow Statement

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Net income before minority interests	**968**	**931**
Depreciation/amortization/write-ups of non-current assets	3,178	1,142
Change in long-term provisions	(83)	41
Other cash/non-cash items	(2,948)	(1,987)
Cash flow according to DVFA/SG	**1,115**	**127**
Result from disposal of non-current assets	(4)	(13)
Change in inventories	27	50
Change in receivables, other assets and prepaid expenses	336	(14)
Change in short-term provisions, other liabilities and deferred income	(260)	76
Net cash from operating activities	**1,214**	**226**
Investments in:		
– intangible assets	(236)	(221)
– property, plant and equipment	(543)	(392)
– financial assets	(72)	(155)
– purchase price for acquired entities (net of acquired cash)	(4.412)	(299)
Proceeds from disposals of non-current assets	2,552	2,390
Net cash from investing activities	**(2,711)**	**1,323**
Issue of bonds and promissory notes	145	–
Change in financial debt	905	(320)
Change in shareholders' equity	(199)	233
Dividends for Bertelsmann AG and minority interests	(353)	(75)
Net cash from financing activities	**498**	**(162)**
Change in cash and cash equivalents	**(999)**	**1,387**
Exchange rate movements and other changes in cash and cash equivalents	(68)	258
Cash and cash equivalents at the beginning of the period	2,044	399
Cash and cash equivalents	**977**	**2,044**

Consolidated Statement of Changes in Shareholders' Equity

	Subscribed capital	Capital reserve	Retained earnings	Other comprehensive income			Net income after minority interests	Share-holders' equity
				Currency translation differences	Available-for-sale-securities	Derivate financial instruments		
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Balance at June 30, 2001	**463**	**17**	**1,526**	**121**	**804**	**13**	**741**	**3,685**
Change in shareholders' equity due to								
– Dividends	–	–	–	–	–	–	(50)	**(50)**
– Capital increases	143	2,708	–	–	–	–	–	**2,851**
– Obligation to purchase ZEIT shares	–	–	(409)	–	–	–	–	**(409)**
Other comprehensive income								
– Currency translation differences	–	–	–	(10)	–	–	–	**(10)**
– Other changes	–	–	–	–	(745)	32	–	**(713)**
Change recognized in income								
– Transfer to retained earnings	–	–	691	–	–	–	(691)	**–**
– Net income after minority interests	–	–	–	–	–	–	949	**949**
Balance at Dec. 31, 2001	**606**	**2,725**	**1,808**	**111**	**59**	**45**	**949**	**6,303**
Change in shareholders' equity due to								
– Dividends	–	–	–	–	–	–	(300)	**(300)**
Other comprehensive income								
– Currency translation differences	–	–	–	(97)	–	–	–	**(97)**
– Other changes	–	–	–	–	(55)	(94)	–	**(149)**
Change recognized in income								
– Transfer to retained earnings	–	–	649	–	–	–	(649)	**–**
– Net income after minority interests	–	–	–	–	–	–	928	**928**
Balance at Dec. 31, 2002	**606**	**2,725**	**2,457**	**14**	**4**	**(49)**	**928**	**6,685**

Notes

General Principles

The consolidated financial statements of Bertelsmann AG have been prepared in accordance with International Financial Reporting Standards (IFRS), including all currently applicable standards and interpretations issued by the International Accounting Standards Board (IASB). Except for the measurement of financial instruments, the consolidated financial statements have been prepared on an historical basis.

The consolidated financial statements prepared in accordance with IFRS are consistent with the European Union's directives on group accounting and reporting (Directive 83/349/EEC). The main differences between IFRS and HGB are set out in note 34. As the conditions for applying § 292a of the German Commercial Code (HGB) are met, no consolidated financial statements have been prepared in accordance with the regulations set out in HGB.

The financial year is the same as the calendar year, from January 1 through December 31, 2002. As required, the consolidated financial statements and notes show comparative figures for the preceding period. As the preceding period, from July 1 through December 31, 2001, was only a stub period covering six months, the figures are not directly comparable. For this reason pro-forma, unaudited financial data for the previous twelve months is set out on pages 50–51, which are the basis for disclosures in the management report.

The consolidated financial statements have been prepared in euro; all amounts are stated in millions of euro (€ million). In order to increase clarity, certain positions in the income statement and in the balance sheet have been reclassified. These positions are disclosed in more detail and explained in the notes. The income statement is classified using the nature of expense method.

Due to their significance, goodwill write-downs and capital gains/losses of subsidiaries and investments are shown separately. In order to ensure comparability, the prior period figures have been adjusted accordingly.

Consolidation

Consolidation Methods

All material subsidiaries controlled either directly or indirectly by Bertelsmann AG as defined by IAS 27 have been consolidated. Material jointly controlled companies as defined by IAS 31 have been proportionately consolidated. Material associated companies as defined by IAS 28 are reported using the equity method. This is deemed to be the case if between 20 percent and 50 percent of the company's voting stock is held. A list of material subsidiaries and participations is set out in note 36 (pages 109–112). The consolidated financial statements of Bertelsmann AG, as parent company, and the financial statements of its consolidated subsidiaries are prepared in accordance with uniform accounting policies.

Investments in subsidiaries are consolidated using the purchase method, by which, at the time of purchase, the acquisition cost of the investment is offset against the interest in the fair values of the net assets shareholders' equity acquired. Deferred taxes are recognized on temporary differences arising as a result of stating the proportion of assets and liabilities acquired at fair values at the time of acquisition, to the extent such fair value adjustments are not also recognized for tax purposes. Any remaining difference is recognized as goodwill and is amortized straight-line over its estimated useful life. Differences arising as a result of stating assets and liabilities acquired at their fair values are carried forward, depreciated or released in the periods following the acquisition, depending on the nature of the assets and liabilities to which they relate. To the extent it does not relate to expected future losses, any negative goodwill is presented as a deduction from assets in the balance sheet and recognized as income on a systematic basis in accordance with IAS 22. Investments in proportionately consolidated companies are consolidated according to the same principles.

Investments in associated companies using the equity method are included at the proportionate share of the shareholders' equity of the investment. The same method as for fully-consolidated subsidiaries is used when accounting for differences between the purchase cost at the time of acquisition and the share of net assets acquired. Associated company losses which exceed their carrying values are not recognized unless there is an obligation to make additional contributions.

All intercompany gains, losses, revenues, expenses, income, assets, liabilities, and provisions falling within the scope of the consolidation are eliminated. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12. Proportionate consolidations are carried out according to the same principles.

Scope of Consolidation

The scope of consolidation, including Bertelsmann AG, comprises 1,080 (previous year: 1,034) fully consolidated companies. All domestic and international affiliated companies are consolidated, with the exception of 157 (previous year: 165) companies which are not consolidated because they do not have significant business operations of their own and overall have no material impact on the Group's net worth, financial position and results of the company.

The scope of consolidation changed during the year as follows:

Change in Scope of Consolidation

	Domestic	Foreign	Total
Consolidated at December 31, 2001	311	723	1,034
Additions	62	123	185
Disposals	57	82	139
Consolidated at December 31, 2002	316	764	1,080

Total investments leading to consolidation amounted to € 2,909 million during the year, the largest amount being for the purchase of shares in Zomba.

On November 26, 2002 Bertelsmann Music Group acquired the remaining shares in Zomba Publishing (75 percent) and Zomba Records (80 percent) from Summer Shore N.V. The purchase price of € 2,737 million was based on an agreement made in the year 1991 and led to goodwill of € 2,023 million.

The RTL Group acquired participations in 12 radio stations from the Holtzbrinck Group for € 75 million. This resulted in goodwill of € 46 million on initial consolidation at December 31, 2002.

Effective July 1, 2002, Gruner + Jahr sold its Berlin newspaper activities centered around "Berliner Zeitung," the regional newspaper, to the Holtzbrinck Group. The gain on sale was € 138 million.

arvato disposed off its hotel reservation service, included in TRUST GmbH, to Cendant Corporation also effective July 1, 2002, and the gain on disposal amounted to € 11 million.

In the first half of 2002 Bertelsmann Music Group disposed off Arista Good Girls Inc., which owns the "Bad Boys" label, for a loss of € 56 million.

A further loss of € 30 million arose from deconsolidation of Pixelpark effective July 1, 2002. Bertelsmann reduced its investment in Pixelpark from 60.3 percent to 20 percent.

Acquisitions and disposals during the year had the following effect on Bertelsmann Group's assets and liabilities as at the date of their initial consolidation or de-consolidation:

Effects of Acquisitions and Disposals

	Additions 1/1/2002 –12/31/2002 € millions	Disposals 1/1/2002 –12/31/2002 € millions	Net 1/1/2002 –12/31/2002 € millions	Additions 7/1/2001 –12/31/2001 € millions	Disposals 7/1/2001 –12/31/2001 € millions	Net 7/1/2001 –12/31/2001 € millions
Non-current assets	591	173	418	4,523	3	4,526
Current assets	907	61	846	1,754	34	1,788
Liabilities	783	146	637	2,407	48	2,455

106 joint ventures (previous year: 91) were proportionately consolidated in the consolidated financial statements.

The proportionate consolidation of joint ventures had the following effect on the Bertelsmann Group's assets, liabilities, income and expenses:

Effects of Proportionate Consolidation on the Balance Sheet

	12/31/2002 € millions	12/31/2001 € mllions
Non-current assets	265	727
Current assets	1,089	988
Liabilities	1,237	1,322

Effects of Proportionate Consolidation on the Statement of Income

	1/1/2002 –12/31/2002 € millions	7/1/2001 –12/31/2001 € mllions
Income	1,781	650
Expenses	1,762	700

Of the 183 (previous year: 183) associated companies, 93 (previous year: 75) are reported using the equity method; the remaining are reported at acquisition cost owing to their minor importance to the Bertelsmann consolidated financial statements.

A list of the Bertelsmann Group's shareholdings will be filed with the commercial register at the district court in Gütersloh (department B no. 3100). For 2002, those domestic subsidiaries listed in note 37 took advantage of the exemption from having their annual financial statements audited and published pursuant to § 264 para. 3 HGB and § 264b no. 4 HGB.

Currency Translation

In Bertelsmann AG's consolidated financial statements, the financial statements of foreign subsidiaries are translated into euros using the reporting currency concept as described in IAS 21. Since all subsidiaries conduct their financial, commercial and organizational activities independently, their respective local currency is the functional currency. Assets and liabilities are translated at the closing-date rate, while the income statement is translated at the average rate for the year. Currency translation differences are charged or credited directly to shareholders' equity. Such differences arise from translating items in the balance sheet at different rates compared with the previous year, and from using different rates to translate the income statement and balance sheet. When subsidiaries are deconsolidated, any related cumulative translation differences are reversed and recognized in income.

The following euro exchange rates were used to translate the currencies of those countries which are most significant to the Bertelsmann Group:

Euro Exchange Rates for Major Foreign Currencies

Foreign currency unit per € 1		Average rate 1/1/2002 –12/31/2002	Average rate 7/1/2001 –12/31/2001	Closing date rate 12/31/ 2002	Closing date rate 12/31/ 2001
US dollars	USD	0.9416	0.8889	1.0487	0.8813
Canadian dollars	CAD	1.4793	1.3889	1.6550	1.4077
British pounds	GBP	0.6277	0.6173	0.6505	0.6085
Japanese yen	JPY	117.79	109.65	124.39	115.33
Swiss francs	CHF	1.4673	1.4924	1.4524	1.4829

Accounting Policies

Revenue Recognition

Revenues and other operating income are recognized when the service has been performed and the risks have been transferred, except for revenues recognized using the percentage-of-completion method as set out in IAS 11. Revenues are stated net of discounts and allowances. Expenses are deferred based on underlying facts or the period of time to which they relate.

Interest income and expense are allocated to the period to which they relate. Dividends are recognized in the period in which the distribution is received.

Intangible Assets

Internally generated intangible assets are recognized at their development cost if the conditions for recognition as set out in IAS 38 have been met. Related borrowing costs are generally included as set out in IAS 23, but the amounts involved are insignificant to the Group. Purchased intangible assets are stated at acquisition cost. Intangible assets are amortized on a straight-line basis over their useful lives. Capitalized software is amortized over a 3 to 4 year period, and licenses are amortized over the term of the respective license agreement. Trademarks are amortized over a maximum period of 15 years, supply rights and long-term subscribers over a maximum of 5 years, and music rights over a maximum period of 15 years. In accordance with IAS 22, goodwill arising on acquisition is recognized and amortized straight-line over probable useful lives of between 3 and 20 years. Goodwill arising on the acquisition of foreign subsidiaries is translated into the Group's reporting currency at foreign exchange rates ruling at the time of initial consolidation.

Property, Plant and Equipment

Property, plant and equipment is measured at acquisition or manufacturing cost less depreciation. The cost of property, plant and equipment produced internally within the Group includes direct costs and a portion of overheads directly attributable to their production. The cost of property, plant and equipment whose production takes place over a longer period of time includes third-party interest accrued up to the time of completion. The amounts involved are insignificant to the Group. Maintenance expenses are recorded as expense in the period in which they are incurred, whereas costs incurred resulting in a prolongation of the asset's useful life or in an improvement to its use, is recognized as an increase in the carrying value of the asset.

Items included in property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Such depreciation is based on the following Group-wide useful lives:

–Buildings	10 to 35 years
–Plant, technical equipment and machinery	3 to 10 years
–Office furniture and other equipment	3 to 12 years

Leasing

To the extent the Bertelsmann Group assumes all significant opportunities and risks relating to a leased asset and is thus to be seen as the economic owner of the asset (finance lease), the leased asset is recognized in the balance sheet in the amount of the asset's fair value at the inception of the lease or the present value of future lease payments, if lower. Payment obligations arising from the finance lease are recognized in the same amount as leasing liabilities.

If it is sufficiently certain that ownership of the leased asset will pass to the lessee at the end of the lease term, the asset is depreciated over its useful life. Otherwise, it is depreciated over the term of the lease. There are no conditional lease payments.

The leased assets consist mainly of buildings. The finance leases are generally subject to a non-cancelable minimum lease term of approximately 20 years. Upon expiry of this term, the lessee is entitled to purchase the leased asset at its residual value. The installments paid by the lessee under the lease vary in accordance with changes in interest rates paid by the lessor. The leases do not contain any prolongation options.

In addition to finance leases, the Group has also entered into operating lease agreements. This means that economic ownership of the leased assets lies with the lessor and lease installments are recorded as expenses in the period in which they are due for payment. The total amount of lease installments due over the minimum non-cancelable lease terms of these operating leases is disclosed in the notes as part of other financial commitments.

Write-downs

As set out in IAS 36, write-downs are made to items included in property, plant and equipment if their recoverable amount is lower than their carrying value. The recoverable amount is the higher of the asset's net selling price and the present value of expected future cash flows from the asset. If cash flows cannot be attributed to the asset itself, the amount of any write-down is computed based on the cash flows of the next higher cash generating unit to which the asset can be allocated. Expected cash flows are discounted using an average pre-tax cost of capital (weighted-average cost of capital, WACC) for the group of 12.3 percent. If the reason for making a write-down no longer exists, the write-down is reversed unless it related to goodwill. Any reversal does not exceed the carrying amount that would have been determined if no impairment loss had been recognized in previous years.

Participations and Securities

Significant participations are included using the equity method, and all other participations and other securities included in non-current assets and in current assets in the Bertelsmann Group's consolidated financial statements are classified as available-for-sale or held-to-maturity.

Available-for-sale financial assets are stated at fair value on the balance sheet date in accordance with IAS 39, to the extent fair value can be determined. Any resulting unrealized gains and losses are recorded, net of deferred taxes, directly in shareholders' equity. However, any probable impairment losses which are other than temporary are recognized as an expense in the income statement. If the reasons for charging the write-down no longer exist, the write-down is reversed. Unrealized gains and losses on such financial assets are reclassified to income upon disposal of the asset concerned. If a fair value cannot be determined, the participations and securities are stated at amortized acquisition cost.

Financial assets held to maturity, are stated at amortized cost using the effective interest method.

Inventories

Inventories are stated at acquisition or manufacturing cost. Similar inventories are reported at average cost or using the FIFO (first-in, first-out) method. Inventories originating from intra-Group suppliers are adjusted to eliminate intercompany profits and are measured at Group manufacturing cost.

If the acquisition or manufacturing cost exceeds their current fair value at the balance sheet date, inventories are written down to their net realizable value.

Customer-specific Contracts

A small volume of customer-specific contracts are reported in the IAS financial statements using the percentage-of-completion method, which requires revenues and profits from contracts to be recognized according to the percentage of completion of the respective project. The percentage of completion is calculated as the ratio of contract costs incurred up to the end of the year to total estimated project costs (cost-to-cost method). Irrespective of a project's percentage of completion, losses resulting from customer-specific contracts are immediately recognized in full in the period in which the loss is identified.

Receivables
Other receivables and other assets are stated at their nominal value or, where appropriate, at their fair value. Long-term receivables are discounted. Foreign currency receivables are translated at closing-date rates. Allowances are recognized for any discernible risks.

Cash and Cash Equivalents
Cash and cash equivalents include securities with an original maturity of less than three months, bank balances and cash on hand. Amounts in foreign currency are translated using rates ruling at the end of the year.

Deferred Taxes
As set out in IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between carrying amounts reported for tax purposes and those reported in the IFRS consolidated balance sheet (with the exception of goodwill not recognizable for tax purposes) and for tax loss carryforwards. Through the deduction of a valuation allowance, deferred tax assets are only reported to the extent to which they can be subsequently utilized. Such taxes are calculated using enacted tax rates that will apply in the future. The effect of changes in tax rates on deferred tax assets and liabilities is recognized in the period in which the relevant legislation has been enacted.

Other Comprehensive Income
Other comprehensive income includes – without affecting the income statement – foreign currency translation gains and losses, unrealized gains and losses from the fair value recognition of available-for-sale securities and derivatives acting as cash flow hedges, as set out in IAS 39.

Provisions
Provisions for pensions and similar obligations are calculated actuarially using the projected unit credit method as set out in IAS 19, which, in contrast to the entry-age-normal method, includes expected future salary increases. This method involves use of biometric calculation tables, current long-term market interest rates and current estimates of future increases in salaries and pensions. The interest element of pension expense is included in financial expense in the income statement.

With the exception of the other personnel-related provisions calculated as set out in IAS 19, all other provisions have been recognized in line with IAS 37 and to the extent there is a legal or constructive obligation to a third party.

Liabilities
Liabilities are stated at nominal values. Long-term liabilities are discounted. Liabilities in foreign currency are translated into the reporting currency at rates ruling at the end of the year.

Derivative Financial Instruments
As set out in IAS 39, all derivative financial instruments are recognized at fair value on the balance sheet. At the time a contract involving a derivative is entered into, it is determined whether it is intended to serve as a fair value hedge or as a cash flow hedge. However, some derivatives do not meet the requirements included in IAS 39 for recognition as a hedge, despite it being their economic purpose. Changes in fair values of derivatives are recorded as follows:

1. Fair value hedge: Fair value changes of these derivatives, which serve as hedges of assets or liabilities, are recorded in the income statement, thereby offsetting the change in fair value of the underlying balance sheet items also included in the income statement.

2. Cash flow hedge: Changes in fair values of these derivatives, which act as hedges of future cash flows, are recorded directly in other comprehensive income. These amounts are released to income in the same period as the underlying transaction effects the income statement.

3. Stand alone (no hedge relationship): Fair value changes of these derivatives, which do not meet the conditions for being recognized as hedges, are recognized in the income statement as held-for-trading financial instruments.

Notes to the Income Statement and Balance Sheet

1 Revenues

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Revenues from selling goods and merchandise	11,372	6,332
Revenues from providing services	6,927	3,316
Revenues from use of assets	437	226
Gross revenues	**18,736**	**9,874**
Discounts and allowances	(424)	(189)
Revenues	**18,312**	**9,685**

2 Other Operating Income

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Extra and supplementary income	200	106
Operating foreign exchange gains	26	135
Prior year income and reimbursements	186	197
Release of provisions	123	132
Gains from disposal of non-current assets	4	13
Sundry income	229	243
	768	**826**

3 Cost of Materials

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Raw materials and supplies	3,765	2,144
Purchased services	1,582	1,123
	5,347	**3,267**

4 Personnel Costs

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Wages and salaries	3,828	1,962
Social security contributions	582	288
Profit sharing	34	19
Pensions and similar expenses	101	51
Other employee benefits	29	23
	4,574	**2,343**

5 Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Amortization/depreciation of		
– goodwill	701	363
– other intangible assets	331	257
– property, plant and equipment	488	273
	1,520	**893**

Amortization of other intangible assets includes amortization of step ups arising on initial consolidation as set out in IAS 22. For Group management reporting purposes this is classified as amortization of rights similar to goodwill and is treated in the same manner as goodwill. Thus, this amortization does not reduce the Operating EBITA. Amortization for the year was € 70 million (previous year: € 33 million), impairments are shown separately.

6 Other Operating Expenses

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Rental and leasing expense	431	232
Administrative expenses	2,040	826
Consulting and audit fees	211	265
Operating foreign exchange losses	32	110
Advertising costs	1,136	712
Selling expenses	1,004	532
Additions to other provisions	59	46
Allowances on current assets	334	312
Operating taxes	88	44
Losses on disposal of non-current assets	58	14
Sundry expenses	444	505
	5,837	**3,598**

Administrative expenses include travel costs, insurance premiums and communication expenses. Sundry expenses include repair and maintenance costs and donations.

7 Impairments of Goodwill and Similar Rights

	Amortization of goodwill 1/1/2002 – 12/31/2002 € millions	Amortization of rights similar to goodwill 1/1/2002 –12/31/2002 € millions	Total 1/1/2002 –12/31/2002 € millions	Total 7/1/2001 –12/31/2001 € millions
Zomba, BMG	1,225	67	1,292	–
"Fast Company", G+J	85	–	85	–
London Playout Center, RTL Group	70	–	70	–
Various, BertelsmannSpringer	49	2	51	–
CDNOW, DirectGroup	39	–	39	–
myplay, DirectGroup	20	7	27	–
Handy.de, Corporate Center	20	–	20	–
"McCall's", ("Rosie"), G+J	–	–	–	20
Pixelpark, Corporate Center	–	–	–	30
Other	74	3	77	5
	1,582	**79**	**1,661**	**55**

The impairment of € 1,292 million for Zomba was required as the purchase price, which was calculated based on an agreement made in 1991, no longer reflected current market conditions. The recoverable amount was calculated based on estimated cash flows.

8 Capital Gains/Losses

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
AOL Europe, Corporate Center	2,827	1,412
AOL Time Warner, Corporate Center	–	669
UFA Sports/Sportfive, RTL Group	–	144
DAUM, G+J/DirectGroup	59	–
"Berliner Zeitung", G+J	138	–
Bad Boy, BMG	(56)	–
Other	(50)	–
	2,918	**2,225**

"Other" includes gains and losses resulting from a number of smaller transactions, together with transaction costs incurred to date relating to the intended disposal of BertelsmannSpringer in the first half of 2003.

The disposal gain on the sale of AOL Europe and AOL Time Warner shares in 2001 was included in investment income in last year's financial statements, whereas the gain on disposal of Sportfive was included in other operating income.

9 Results of Associated Companies and Participations

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Income from associated companies	49	24
Expenses from associated companies	(128)	(161)
Amortization of goodwill from associated companies	(20)	(120)
Results of associated companies	**(99)**	**(257)**
Income from participations	37	15
Expenses from participations	(24)	–
Depreciation of investments	(66)	–
Write-ups of participations	86	(194)
Results of participations	**33**	**(179)**

Most of the share of profits of affiliated companies came from RTL II, with € 27 million (previous year: € 5 million), and from RTL Klub Hungary, with € 7 million (previous year: € 3 million). The share of losses of associated companies included Lycos Europe, at € 32 million (previous year: € 12 million), barnesandnoble.com, at € 28 million (previous year: € 68 million), and Bertelsmann Ventures at € 5 million (previous year: € 31 million). The share of losses of J Records up to the date of its acquisition amounted to € 43 million (previous year: € 7 million). The Group's share of associated companies' contingent liabilities amounted to € 10 million at December 31, 2002.

10 Net Interest

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Interest and similar income	217	73
Interest on finance leases	(22)	(13)
Interest and similar expenses	(245)	(168)
	(50)	**(108)**

Finance lease liabilities are included in financial debt, so that the related interest expense is included here. The previous year's amounts have been reclassified.

11 Other Financial Expenses and Income

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Interest on provisions for pensions and similar obligations	(122)	(61)
Dividend entitlement on profit participation certificates	(77)	(39)
Other	(17)	–
	(216)	**(100)**

12 Income Taxes

Income taxes, divided between domestic and foreign, current and deferred, are as follows:

Income Taxes

	Domestic 2002 € millions	Foreign 2002 € millions	Total 2002 € millions	Domestic 2001 € millions	Foreign 2001 € millions	Total 2001 € millions
Net income before income taxes	**1,077**	**(52)**	**1,025**	**1,739**	**(815)**	**924**
Current income taxes	53	(243)	(190)	10	6	16
Deferred income taxes	31	102	133	(33)	24	(9)
Total income taxes	**84**	**(141)**	**(57)**	**(23)**	**30**	**7**
Net income after income taxes	**1,161**	**(193)**	**968**	**1,716**	**(785)**	**931**

Tax loss carryforwards of € 152 million (previous year: € 170 million) were utilized in 2002, reducing current tax expenses by € 45 million (previous year: € 61 million). Of the tax loss carryforwards utilized, € 30 million related to domestic corporation tax, € 24 million to domestic trade tax and € 98 million to foreign income tax.

Deferred tax assets and liabilities resulted from the following items and factors:

Deferred Taxes

	Assets 12/31/2002 € millions	**Liabilities** 12/31/2002 € millions	**Assets** 12/31/2001 € millions	**Liabilities** 12/31/2001 € millions
Intangible assets	109	62	49	84
Property, plant and equipment	22	141	7	178
Investments	25	3	39	68
Inventories	80	4	140	3
Accounts receivable	215	560	223	58
Prepayments and other assets	89	80	122	96
Provisions	138	47	144	119
Financial debt	88	6	180	–
Accounts payable	56	6	145	19
Prepayments and other liabilities	197	15	203	38
Loss carryforwards	3,722	–	3,693	–
Valuation allowance	(3,663)	–	(4,242)	–
Total	**1,078**	**924**	**703**	**663**
Netting	(841)	(841)	(513)	(513)
Carrying amount	**237**	**83**	**190**	**150**

Deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and can be offset.

Valuation allowances are deducted from deferred tax assets to the extent it is improbable they can be utilized in the foreseeable future.

The amounts for the previous year have been adjusted for RTL Group tax loss carryforwards for which a valuation allowance was made in full. This adjustment had no effect on the amounts recognized in the financial statements in the current and previous years.

The temporary differences and tax loss carryforwards against which a valuation allowance was made can be carried forward for the following limited periods of time:

Maturity

	12/31/2002 € millions	12/31/2001 € millions
Can be carried forward for more than 5 years	11,049	10,984
Can be carried forward for up to 5 years	138	207

Reconciliation of Expected Net Tax Income/Expense

	1/1/2002 – 12/31/2002 € millions	7/1/2001 – 12/31/2001 € millions
Earnings before income taxes	1,025	924
Income tax rate applicable to Bertelsmann AG	38.29%	38.29%
Expected tax expense	**(392)**	**(354)**
Differences from the expected tax expense:		
Different national tax rates	4	30
Changes in tax regulations or tax status	(7)	–
Amortization of goodwill not recognized for tax purposes	(770)	(150)
Tax-free disposal gains	1,101	–
Changes tax-related factors in previous year	67	111
Tax reduction because of dividends	50	–
Valuation allowance on deferred tax assets	(83)	(471)
Permanent differences on consolidation	(58)	75
Tax adjustment for AOL Europe in 1999/2000 and 2000/2001	–	782
Other	31	(16)
Total	**335**	**361**
Actual tax expense	**(57)**	**7**

The income tax rate applicable to Bertelsmann AG consists of corporation tax, solidarity surcharge and trade tax, which is a deductible expense for corporation tax purposes. The effective tax rate only changes in 2003, due to the limited period of time to which the change in tax law applies:

Effective Tax Rate

	2002	2003	2004 et seq.
Corporation tax including solidarity surcharge	26.38%	27.96%	26.38%
Trade tax	11.91%	11.65%	11.91%
Effective income tax rate	**38.29%**	**39.61%**	**38.29%**

As of December 31, 2003 there were still corporation tax credits available on distributions of € 117 million.

13 Non-current Assets

	Goodwill € millions	Other intangible assets € millions	Property, plant and equipment € millions	Investments in associates € millions	Other financial assets € millions	Total € millions
Acquisition/ production cost						
Balance at January 1, 2002	**13,972**	**3,191**	**6,544**	**1,012**	**1,280**	**25,999**
Currency differences	(481)	(199)	(381)	(23)	(26)	(1,110)
Acquisitions/disposals of entities	2,945	132	3	127	(31)	3,176
Additions	–	569	543	117	174	1,403
Disposals	(1,015)	(105)	(331)	(208)	(634)	(2,293)
Reclassifications	17	(4)	(5)	(5)	(3)	–
Balance at December 31, 2002	**15,438**	**3,584**	**6,373**	**1,020**	**760**	**27,175**
Depreciation/amortization						
Balance at January 1, 2002	**6,683**	**2,033**	**3,527**	**433**	**543**	**13,219**
Currency differences	(272)	(128)	(193)	(14)	(8)	(615)
Acquisitions/disposals of entities	(56)	76	(2)	1	(11)	8
Expenses for the year	701	314	482	13	–	1,510
Impairments	1,582	96	6	7	66	1,757
Disposals	(1,003)	(22)	(245)	(5)	(146)	(1,421)
Write-ups	–	–	(3)	–	(86)	(89)
Reclassifications	16	(16)	(1)	3	(2)	–
Balance at December 31, 2002	**7,651**	**2,353**	**3,571**	**438**	**356**	**14,369**
Book value at Dec. 31, 2002	**7,787**	**1,231**	**2,802**	**582**	**404**	**12,806**
Book value at Dec. 31, 2001	7,289	1,158	3,017	579	737	12,780

14 Goodwill

The main part of additions to goodwill relates to the acquisition of Zomba at € 2,023 million, and the purchase of additional RTL shares (€ 593 million). In total Bertelsmann acquired the 22 percent interest in RTL Group held by the British Pearson Group and other shares in the Group for € 1,555 million. Bertelsmann's holding thus rose from 67 percent to more than 90 percent. Goodwill on this purchase is being amortized over fifteen years.

15 Other Intangible Assets

	Music and movie rights € millions	Other rights and licences € millions	Advance payments € millions	Total € millions
Acquisition/ production cost				
Balance at January 1, 2002	**1,991**	**1,136**	**64**	**3,191**
Currency differences	(134)	(63)	(2)	(199)
Acquisitions/disposals of entities	151	(17)	(2)	132
Additions	428	105	36	569
Disposals	(37)	(49)	(19)	(105)
Reclassifications	25	21	(50)	(4)
Balance at December 31, 2002	**2,424**	**1,133**	**27**	**3,584**
Depreciation/amortization				
Balance at January 1, 2002	**1,491**	**541**	**1**	**2,033**
Currency differences	(105)	(23)	–	(128)
Acquisitions/disposals of entities	87	(11)	–	76
Expenses for the year	199	115	–	314
Impairments	67	29	–	96
Disposals	12	(33)	(1)	(22)
Write-ups	–	–	–	–
Reclassifications	–	(16)	–	(16)
Balance value at Dec. 31, 2002	**1,751**	**602**	**–**	**2,353**
Book value at Dec. 31, 2002	**673**	**531**	**27**	**1,231**
Book value at Dec. 31, 2001	500	595	63	1,158

16 Property, Plant and Equipment

	Land, rights equivalent to land and buildings € millions	Plant, technical equipment and machinery € millions	Other equipment, fixtures, furniture and office equipment € millions	Advance payments and construction in progress € millions	Total € millions
Acquisition/ production cost					
Balance at January 1, 2002	**1,782**	**2,847**	**1,494**	**421**	**6,544**
Currency differences	(95)	(166)	(96)	(24)	(381)
Acquisitions/disposals of entities	(26)	(48)	77	–	3
Additions	74	165	166	138	543
Disposals	(4)	(93)	(194)	(40)	(331)
Reclassifications	283	62	89	(439)	(5)
Balance at Dec. 31, 2002	**2,014**	**2,767**	**1,536**	**56**	**6,373**
Depreciation					
Balance at January 1, 2002	**583**	**1,924**	**1,019**	**1**	**3,527**
Currency differences	(19)	(116)	(58)	–	(193)
Acquisitions/disposals of entities	(2)	(34)	34	–	(2)
Expenses for the year	68	227	187	–	482
Impairments	1	2	3	–	6
Disposals	(1)	(88)	(156)	–	(245)
Write-ups	(3)	–	–	–	(3)
Reclassifications	(2)	3	(1)	(1)	(1)
Balance value at Dec. 31, 2002	**625**	**1,918**	**1,028**	**0**	**3,571**
Book value at Dec. 31, 2002	**1,389**	**849**	**508**	**56**	**2,802**
Book value at Dec. 31, 2001	1,199	923	475	420	3,017

17 Financial Assets

	Affiliated companies		Associates		Other participations		Securities	Other loans	Total
	Shares in € millions	Loans to € millions	Shares in € millions	Loans to € millions	Shares in € millions	Loans to € millions	€ millions	€ millions	€ millions
Acquisition/ production cost									
Balance at January 1, 2002	**143**	**409**	**1,012**	**15**	**389**	**–**	**85**	**239**	**2,292**
Currency differences	–	(1)	(23)	(1)	(10)	–	(2)	(12)	(49)
Acquisitions/disposals of entities	(7)	–	127	2	–	–	–	(26)	96
Additions	7	7	117	1	86	5	28	40	291
Disposals	(39)	(1)	(208)	(11)	(185)	–	(95)	(303)	(842)
Reclassifications	–	(376)	(5)	–	27	–	37	309	(8)
Balance at Dec. 31, 2002	**104**	**38**	**1,020**	**6**	**307**	**5**	**53**	**247**	**1,780**
Write-downs									
Balance at January 1, 2002	**90**	**–**	**433**	**–**	**278**	**–**	**–**	**175**	**976**
Currency differences	–	–	(14)	–	(4)	–	–	(4)	(22)
Acquisitions/disposals of entities	1	–	1	–	–	–	–	(12)	(10)
Expenses for the year	–	–	13	–	–	–	–	–	13
Impairments	4	–	7	–	60	–	–	2	73
Disposals	(14)	(18)	(5)	–	(9)	–	–	(105)	(151)
Write-ups	(16)	–	–	–	(66)	–	–	(4)	(86)
Reclassifications	(9)	18	3	–	(27)	–	24	(8)	1
Balance at Dec. 31, 2002	**56**	**0**	**438**	**0**	**232**	**0**	**24**	**44**	**794**
Book value at Dec. 31, 2002	**48**	**38**	**582**	**6**	**75**	**5**	**29**	**203**	**986**
Book value at Dec. 31, 2001	53	409	579	15	111	0	85	64	1,316

On August 13, 2002, RTL Group acquired 47.3 percent of n-tv, the news station, from the Georg von Holtzbrinck publishing group. This company is included using the equity method. With a purchase price of € 95 million, goodwill amounted to € 97 million.

As set out in IAS 39, available-for-sale investments and securities are measured at fair value or at acquisition cost if a market price cannot be determined:

Financial Assets: Available-for-Sale

	Historical cost		Fair value		Total	
	12/31/2002 € millions	12/31/2001 € millions	12/31/2002 € millions	12/31/2001 € millions	12/31/2002 € millions	12/31/2001 € millions
Investments	–	93	205	18	205	111
Securities	6	19	23	66	29	85
Total	**6**	**112**	**228**	**84**	**234**	**196**

18 Inventories

	12/31/2002 € millions	12/31/2001 € millions
Movie rights	1,134	1,061
Raw materials and supplies	161	180
Work in process	149	160
Finished goods and merchandise	495	517
Advance payments	22	23
	1,961	**1,941**

19 Receivables and Other Assets

	Maturing after more than one year € millions	12/31/2002 € millions	12/31/2001 € millions
Trade accounts receivable	64	3,039	3,399
Accounts receivable from royalties and licenses	2	212	232
Total trade accounts receivable	**66**	**3,251**	**3,631**
Accounts receivable from participations	–	49	119
Advance payments for royalties and licenses	231	1,172	1,191
Tax receivables	–	758	538
Securities	–	10	373
Derivative financial instruments	40	175	99
Assets from pension plans	20	43	21
Other receivables	16	573	618
Other receivables and other assets	**307**	**2,780**	**2,959**

Available-for-sale securities are stated as follows:

Other Assets: Available-for-Sale

	Historical cost		**Fair value**		**Total**	
	12/31/2002 € millions	12/31/2001 € millions	12/31/2002 € millions	12/31/2001 € millions	12/31/2002 € millions	12/31/2001 € millions
	–	373	10	–	10	373

The change in available-for-sale securities is due to the sale of AOL Europe shares. No market price could be calculated for these shares and hence they were stated at historical cost until they were sold. All other securities were valued at acquisition cost.

20 Cash and Cash Equivalents

	12/31/2002 € millions	12/31/2001 € millions
Cash	906	1,928
Other securities	71	116
	977	**2,044**

21 Equity

Subscribed Capital

	Ordinary shares	Preference	Total
Type A	83,760	149	83,909
Type B	4,332	27,920	32,252
Total	**88,092**	**28,069**	**116,161**

Bertelsmann AG's subscribed capital remained at € 606 million as of December 31, 2002 and is made up of 116,161 no-par value shares of various types. The ordinary shares are bearer shares, whereas the preference shares are registered shares. The type B ordinary shares have guaranteed rights to a dividend until December 31, 2004, whereas the type B preference shares have preferred profit rights through December 31, 2010. The preference profit-sharing rights of the type A preference shares are not limited in time. The type A preference shares have no voting rights. 2,388 of the type B ordinary shares were cancelled during 2002 without reducing the share capital.

Capital Reserve

The capital reserve includes additional paid-in capital, or share premium, received on the issue of preference and ordinary shares in excess of their par values. A significant part of the capital reserve stems from the injection of 29.88 percent of the RTL Group by Group Bruxelles Lambert (GBL) in the previous period.

Retained Earnings

The retained earnings also include the past results of those companies included in the consolidated financial statements, to the extent they have not been distributed as well as the other comprehensive income. The obligation by Bertelsmann AG to repurchase and cancel 3,360 (previous year: 6,720) Bertelsmann ordinary shares currently held by the ZEIT-Stiftung has been deducted from retained earnings. This obligation is included in other liabilities and amounts to € 204 million (previous year: € 409 million).

Other Comprehensive Income

Movements in Other Comprehensive Income

	Available-for-sale securities Pre-tax amount € millions	Available-for-sale securities Taxes € millions	Available-for-sale securities Post-tax amount € millions	Cash Flow hedges Pre-tax amount € millions	Cash Flow hedges Taxes € millions	Cash Flow hedges Post-tax amount € millions	Currency € millions	Total € millions
June 30, 2001	**811**	**(7)**	**804**	**23**	**(10)**	**13**	**121**	**938**
Changes in value	(80)	7	(73)	30	2	32	(10)	(51)
Disposals recognized in income	(672)	–	(672)	–	–	–	–	(672)
December 31, 2001	**59**	**–**	**59**	**53**	**(8)**	**45**	**111**	**215**
Change in minorities (RTL Group)	(3)	–	(3)	8	(3)	5		2
Changes in value	(5)	–	(5)	(122)	23	(99)	(97)	(201)
Impairments	32	–	32	–	–	–		32
Recognized in income	(79)	–	(79)	–	–	–		(79)
December 31, 2002	**4**	**–**	**4**	**(61)**	**12**	**(49)**	**14**	**(31)**

Of the disposals amounting to a loss of € 79 million and recognized in the income statement from other comprehensive income, was mainly due to the disposal of the participation in DAUM. The impairment of € 32 million related to the participation in Via Digital.

Treasury Shares
Bertelsmann AG holds 972 type B ordinary shares with a book value of € 59 million as treasury shares.

Minority Interests
Minority interests in the consolidated subsidiaries' shareholders' equity essentially consist of minority interests in the RTL Group, Gruner + Jahr and maul-belser.

Stock Option Plans at Subsidiaries
Various stock option plans are in operation at subsidiaries. At RTL Group in particular, stock option plans for senior management were introduced in 2000. The option price is derived from the market price at the time the options are granted. Within RTL Group there are also stock option plans at Metropole Television (M6) and Sportfive.

RTL Group Stock Option Plan
RTL Group established a stock option plan for certain directors and employees on July 25, 2000.

Eligibility
All participants in the stock option plan (SOP) must be employed by the RTL Group or one of its subsidiaries at the date the options are granted.

Grant
The number of options granted to a participant in the SOP is determined by the compensation committee. The compensation committee is made up of the company's board of directors or a duly constituted committee thereof. Participants may renounce options granted to them. Participants do not have to make any payments for options granted under the SOP.

Scheme Limits

The number of ordinary shares which may be placed under option under the SOP in any one year may not exceed one-half of one percent of the company's issued ordinary share capital.

Exercise Price

The exercise price of options granted under the SOP to be paid by the participants is the average closing middle market price of the company's shares on the London stock exchange, determined over the period of twenty trading days before the options are granted. The exercise price may be another, higher or lower amount to be determined by the compensation committee.

Exercise

One-third of the options granted may be exercised on each of the second, third and fourth anniversaries of the date the options were granted, or as otherwise determined by the compensation committee. The options granted must normally be exercised within ten years of the date the options were granted, or within a shorter period of time to be determined by the compensation committee. Options can be exercised earlier in the event of death.

Movements on stock options:

Number of Options in Thousands (RTL Group)

	2002	2001
Options outstanding at the beginning of the year	450	492
Options granted during the year	–	14
Options exercised during the year	–	–
Options expired during the year	(59)	(56)
Options outstanding at the end of the year	**391**	**450**

The options outstanding at the end of the year (in thousands) have the following conditions attached to them:

Conditions for Stock Options (RTL Group)

	Exercise price (in EUR)	Number of options
Expiry date		
Before 2010	120.00	12
2010	120.00	62
2010	85.24	317
		391

Metropole Television (M6) Employee Stock Option Plan

M6 introduced an employee stock option plan for directors and certain employees.

The number of options granted to participants is determined by Metropole Television's executive board in conjunction with the general meeting of shareholders.

Options were granted in September 1998, December 1998, June 1999, January 2000 and June 2001. Options granted in September and December 1998 can only be exercised following a vesting period of three years from the date of grant and must be exercised within seven years of the grant date. Options granted in June 1999 and January 2000 can only be exercised following a vesting period of five years from the date of grant. Options granted in June 2001 can only be exercised following a vesting period of four years from the date of grant and must be exercised within seven years of the grant date.

The exercise price of the remaining options amounts to 95 percent of the average price of the shares in Metropole Television on the Paris stock exchange, calculated over the twenty days preceding the grant date.

Movements on stock options during the year:

Number of Options in Thousands (M6)

	2002	2001
Options outstanding at the beginning of the year	2,771	2,434
Options granted during the year	750	552
Options exercised during the year	(220)	(215)
Options expired during the year	(300)	–
Options outstanding at the end of the year	**3,001**	**2,771**

The options outstanding at the end of the year (in thousands) have the following conditions attached to them:

Conditions for Stock Options (M6)

	Exercise price (in EUR)	Number of options
Expiry date		
September 2, 2005	14.10	415
December 4, 2005	13.64	480
June 4, 2006	18.80	525
January 19, 2007	44.63	50
May 26, 2007	58.58	294
June 6, 2008	30.80	498
June 1, 2009	28.60	739
		3,001

22 Profit Participation Certificates of Bertelsmann AG

	12/31/2002 € millions	12/31/2001 € millions
Par value	516	516
Premium	190	190
	706	**706**

The profit participation capital is made up of 2001 profit participation certificates (listing code SIN 522 994, or "PPC 2001") and 1992 profit participation certificates (listing code SIN 522 990, or "PPC 1992"). PPC 2001 have a par value of € 10, whereas the par value of PPC 1992 is € 0.01. As of December 31, 2002 the par value of PPC 2001 was € 488 million and the par value of PPC 1992 was € 28 million. PPC 1992 and PPC 2001 have been admitted for trading on the stock exchange.

23 Provisions for Pensions and Similar Obligations

	12/31/2002 € millions	12/31/2001 € millions
Pensions	1,682	1,636
Similar obligations	55	46
	1,737	**1,682**

The Bertelsmann Group operates various forms of pension plans for current and former employees and their surviving dependants, which are determined by the legal, tax and economic situation of each country concerned. These company pension plans include both defined contribution and defined benefit schemes.

In the case of defined contribution plans, the company makes payments into an external fund or other welfare fund on a statutory, contractual or voluntary basis. Once the company has paid the contributions due, it is not obliged to provide any further benefits and hence no provision is recognized in the balance sheet. Contribution plan expenses for 2002 amounted to € 13 million.

All other pension plans are defined benefit schemes. Some are funded via an external fund (plan assets), others are unfunded. Provisions are set aside for these plans, most of which are fixed-salary plans.

The provisions are actuarially calculated in accordance with IAS 19. The amount of provisions depends on employees' period of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, which, in contrast to the entry-age-normal method, assumes increasing salary costs over the period of service. The calculation also uses biometric calculations, prevailing long-term capital market interest rates and assumptions about future salary and pension increases. In Germany, the biometric calculations are based on mortality tables issued by Prof. Dr. Klaus Heubeck in 1998. The following actuarial assumptions have been used:

Actuarial Assumptions

	12/31/2002 Germany	12/31/2002 Abroad	12/31/2001 Germany	12/31/2001 Abroad
Discount rate	5.75%	4.0–7.0%	6.0%	4.0–7.0%
Expected return on plan assets	5.75%	3.0–8.25%	6,0%	4.0–9.0%
Rate of salary increase	2.5%	2.5–6.0%	2.5%	2.5–6.0%
Rate of pension increase	1.7%	1.7–2.5%	1.7%	1.7–2.5%
Fluctuation	Based on experience	Based on experience	Based on experience	Based on experience

The corridor method is used to calculate provisions for defined benefit plans and related costs. This method does not take into account actuarial gains and losses resulting from the difference between actual amounts and the assumptions underlying the calculations unless they exceed ten percent of either the amount of the defined benefit obligation or plan assets, whichever is the greater. The amount in excess of this corridor is spread over the employees' average remaining period of service.

The expense for defined benefit plans in 2002 was € 165 million (previous year: € 67 million), comprising personnel costs of € 69 million (previous year: € 19 million) and interest expense of € 121 million (previous year: € 61 million). The expected return on plan assets of € 25 million (previous year: € 13 million) was included in other income. These costs are broken down as follows:

Expenses for Defined Benefit Plans

	1/1/2002 –12/31/2002 € millions	7/1/2001 –12/31/2001 € millions
Current service cost	65	16
Interest cost	121	61
Expected return on plan assets	(25)	(13)
Expected return on reimbursement rights	–	3
Amortized actuarial gains/losses	4	(1)
Amortized past service cost	1	2
Effect of curtailments or settlements	(1)	(1)
	165	**67**

The net pension liability reported on the balance sheet is made up as follows:

Net Pension Obligation Recognized

	12/31/2002 € millions	12/31/2001 € millions
Defined benefit obligation of unfunded plans	1,687	1,629
Defined benefit obligation of funded plans	440	385
Total defined benefit obligation	**2,127**	**2,014**
Fair value of plan assets	(298)	(336)
Actuarial gains/losses not yet recognized	(192)	(64)
Past service cost not yet recognized	(1)	–
Amount not yet recognized as an asset because of the limit set out in IAS 19.58 (b)	3	–
Net pension liability	**1,639**	**1,614**

The net pension liability of € 1,639 million (previous year: € 1,614 million) is made up of provisions of € 1,682 million (previous year: € 1,636 million) and assets of € 43 million (previous year: € 22 million). The assets are included under other assets in the balance sheet.

Movements in Net Pension Liability

	12/31/2002 € millions	12/31/2001 € millions
Net pension liability at the beginning of the year	1,614	1,536
Pension expense	165	67
Correction of expected return on reimbursement rights	–	(3)
Pension payments	(82)	(37)
Contributions to plan assets	(14)	(8)
Transferred obligations	(34)	16
Change from acquisitions and disposals of entities	3	47
Currency-related effects	(13)	(4)
Net pension liability at end of year	**1,639**	**1,614**

Breakdown of Net Pension Liability by Region

	12/31/2002 € millions	12/31/2001 € millions
Germany	1,502	1,463
USA	67	106
Other Europe	57	32
Other countries	13	13
Net pension liability	**1,639**	**1,614**

The U.S. subsidiaries' liabilities for their employees' healthcare costs once they have retired constitute defined benefit obligations and account for € 74 million (previous year: € 90 million) of the provisions. They have been calculated according to the international standards described above. Healthcare cost increase trends have been assumed to be between 5.5 percent and 9.5 percent (previous year: straight-line trend of 6 percent), depending on the period of time assumed.

Similar obligations include provisions for employees' anniversaries, old age part-time schemes and amounts due but not yet paid for defined contribution plans. Provisions for employees' long-service awards are calculated in the same manner as liabilities for defined-benefit plans, but without using the corridor method.

Employees in Germany who are at least 55 years old and have an unlimited employment contract with the company qualify for its old age part-time scheme. The part-time employment period lasts for between two and five years. Average normal working hours during this period are half the regular weekly working hours and are usually organized in such a way that they are performed in the first half of the part-time retirement period, so that the employee is subsequently exempted from work in the second half (block model). Employees receive half of their previous gross compensation for the duration of the part-time retirement period. During the period the employee is still working, the employer sets aside a provision to cover the liability amounting to the working hours for which the employee has not yet been compensated. Under IAS 19, this provision is stated at its present value. In addition, employees receive top-up payments in proportion to their underlying net income. These top-up payments constitute termination benefits as defined by IAS 19 and are recognized at their present value at the time the obligation arises.

24 Other Provisions

	12/31/2001 € millions	Consolida-tion scope € millions	Other effects € millions	Usage € millions	Additions € millions	Accrued interest € millions	Release € millions	12/31/2002 € millions	Thereof long-term
Provisions for taxes	1,175	11	(78)	(802)	184	–	(142)	348	117
Personnel-related provisions	524	4	(45)	(305)	392	1	(21)	550	111
Restructuring provisions	149	(11)	(21)	(92)	73	–	(5)	93	3
Provisions for fees and licenses	1,106	158	(154)	(936)	919	–	(10)	1,083	6
Other provisions	900	(13)	(38)	(517)	613	3	(78)	870	172
	3,854	**149**	**(336)**	**(2,652)**	**2,181**	**4**	**(256)**	**2,944**	**409**

The decrease in tax provisions is primarily due to tax payments of € 632 million on the taxable gains on disposal of AOL Europe and mediaWays.

The short-term personnel-related provisions include employee profit participations, bonuses and outstanding vacation entitlements. The long-term personnel-related provisions mainly relate to severance pay of € 82 million (previous year: € 43 million) and obligations arising from the Virtual Stock Option Plan (VSOP).

The virtual stock option plan (VSOP) is a program aimed at granting a long-term performance-related compensation component to executives.

In addition to the number of "options" granted, compensation is based on value added, measured in terms of Operating EBITA and capital invested, by the business managed by the executive and on value added for the entire Bertelsmann Group. If value has been added at the end of the period, the executive concerned receives a payment.

Expected benefits arising from the VSOP are expensed evenly over a period of five financial years. Because of the long-term nature of the provisions, they are discounted using country-specific interest rates. Provisions for two tranches totaling € 23 million (previous year: € 22 million) are reported at December 31, 2002. These tranches expire effective December 31, 2003 and December 31, 2004.

An "option" under the VSOP constitutes neither an ownership interest nor an option to acquire an ownership interest in the employer, Bertelsmann AG or other companies. It serves solely to calculate the compensation component.

As set out in IAS 37, restructuring provisions include employee severance costs and other costs incurred in connection with the discontinuation of business activities. Total provisions of € 93 million (previous year: € 149 million) were set aside for various restructuring programs within the Bertelsmann Group. A major element is the reorganization at the DirectGroup, at € 40 million, and this relates primarily to outplacement and exit costs at BeMusic. The other provisions include among other things interest on profit participation certificates, legal costs and rebates.

25 Financial Debt

Financial debt includes all of the Bertelsmann Group's interest-bearing liabilities at the balance sheet date. In contrast to the previous year, liabilities from finance lease contracts have been included in financial debt. Comparative figures have been restated to make them comparable. Carrying values are as follows:

Financial Debt

	Remaining term in years < 1 € millions	1 – 5 € millions	> 5 € millions	12/31/2002 € millions	12/31/2001 € millions
Bonds	–	564	198	762	746
Promissory notes	95	100	145	340	277
Syndicated loan facility	–	668	–	668	–
Bridge loan	763	–	–	763	–
Liabilities to banks	577	57	19	653	810
Finance leases	34	103	155	292	437
Other financial debt	3	97	140	240	633
	1,472	**1,589**	**657**	**3,718**	**2,903**

Long-term financial debt, including transaction costs, is measured at present value and is amortized to nominal value at maturity. The related financial expense recorded in the income statement is equivalent to the effective interest rate. Foreign currency liabilities are translated into reporting currency at rates ruling at the end of the year. Financial debt is unsecured and is of equal ranking.

Bertelsmann Group has access to floating-rate funds via a number of contractual agreements. The overall volume of financing reserves was increased during the year, with a corresponding prolongation of maturity structure, as follows:

A term loan of € 2.5 billion was agreed within the framework of a bridge loan to finance the Zomba acquisition. The agreement has a term of 364 days and the Bertelsmann Group has a six-month prolongation option. Due to early cancellation by Bertelsmann AG, the overall credit line has been reduced to € 800 million, of which $ 800 million had been drawn at December 31, 2002.

Furthermore, a € 1.5 billion syndicated loan facility with a term of 5 years was agreed in November, 2002. The credit line can be utilized by Bertelsmann AG and the foreign financing vehicles (Bertelsmann U.S. Finance, Inc., Bertelsmann Capital Corporation N.V.) by draw-downs in EUR, USD and GBP. The amounts drawn down in EUR bear interest at EURIBOR (Euro Interbank Offered Rate). LIBOR (London Interbank Offered Rate) is used as the interest reference rate for the other currencies. $ 700 million had been drawn down as of December 31, 2002.

Additionally, the Bertelsmann Group has bilateral credit facilities with international banks, mainly involving Bertelsmann AG and Bertelsmann U.S. Finance, Inc.. These credit lines can be utilized to draw down revolving floating rate loan facilities based on EURIBOR or LIBOR. The unutilized funding potential from these facilities amounts to some € 1,650 million and is freely available for use in operations. The remaining terms and utilization of these agreements at December 31, 2002 are set out in the following table:

Remaining Term

	Credit line 12/31/2002	**Drawn down** 12/31/2002	**Available credit line** 12/31/2002
< 1 year	1,242	185	1,057
1 to 2 years	172	–	172
2 to 3 years	48	48	–
3 to 4 years	45	–	45
4 to 5 years	60	20	40
> 5 years	438	103	335
	2,005	**356**	**1,649**

The amount drawn down at December 31, 2002 totals € 356 million and is divided by currency into US dollars (233 million) and euros (123 million). These balances are included in the balance sheet as part of liabilities to banks (€ 653 million).

A € 3.0 billion debt issuance program was signed by Bertelsmann AG and the Group's financing companies in June, 2002. The program has been given a rating of BBB+ (Standard & Poor's) and Baa1 (Moody's) and replaces the umbrella documentation from 1996 (€ 750 million), which will no longer be used for issuing bonds.

The first bond under the new documentation was issued by Bertelsmann Capital Corporation N.V. in July, 2002, as a 5.07 percent coupon bond for € 200 million in the form of a private placement. The bond's term is three years. The issue price was agreed at 99.98 percent.

Promissory notes were issued during 2002 based on separate documentation. The total volume of these transactions is € 100 million and they have a term of five years.

Bertelsmann AG has issued an unconditional guarantee for all outstanding issues made by the financing vehicles with respect to the obligations arising under the terms of the bonds.

Bonds, Promissory Notes

	Due date	Effective interest rate in %	Book value 12/31/2002 € millions	Book value 12/31/2001 € millions
4.500 % Bertelsmann U.S. Finance, Inc. (DEM 200 million bond) 97/02	2/19/2002	4.87	–	102
5.125 % RTL Group S. A. (LUF 2.5 billion) 97/02	12/27/2002	4.90	–	62
Floating rate Bertelsmann U.S. Finance, Inc. (USD 100 million promissory note) 98/03	12/15/2003	–	95	114
5.375 % Bertelsmann U.S. Finance, Inc. (USD 200 million bond) 99/04	1/28/2004	5.60	198	233
5.07 % Bertelsmann Capital Corp. N.V. (EUR 200 million bond) 02/05	7/25/2005	5.07	209	–
4.500 % Bertelsmann U.S. Finance, Inc. (DEM 300 million bond) 98/05	11/25/2005	4.62	157	151
Floating rate Bertelsmann U.S. Finance, Inc. (EUR 50 million promissory note) 02/07	12/20/2007	–	50	–
4.70 % Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 02/07	12/27/2007	4.91	50	–
Floating rate Bertelsmann U.S. Finance, Inc. (USD 100 million promissory note) 99/09	2/11/2009	–	95	113
4.48 % Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 99/09	5/7/2009	4.49	50	50
4.375 % Bertelsmann U.S. Finance, Inc. (EUR 200 million bond) 99/09	5/12/2009	4.53	198	198
			1,102	**1,023**

As of December 31, 2002, the Bertelsmann Group had only issued fixed-interest bonds with a nominal volume of € 744 million. Promissory notes with a nominal volume of € 240 million were issued via Bertelsmann U.S. Finance, Inc. The notes bear interest at variable rates. In addition, Bertelsmann Capital Corporation N.V. has outstanding promissory notes with a nominal volume of € 100 million, of which 50 percent are fixed interest loans and the other 50 percent bear interest at floating rates.

The bonds issued by Bertelsmann U.S. Finance, Inc. have been converted into US dollar liabilities by means of currency swaps. These have been determined as hedge relationships as set out in IAS 39. The effect of changes in the fair value of the bonds and the corresponding derivatives are recognized in the income statement (fair value hedge) or in shareholders' equity (cash flow hedge).

The following table sets out the effective interest on the bonds and promissory notes issued after taking account of the interest swap agreements entered into:

Interest on Bonds and Promissory Notes

	Book value at 12/31/2002			Book value at 12/31/2001		
	Fixed-interest € millions	Floating rate € millions	Total € millions	Fixed-interest € millions	Floating rate € millions	Total € millions
Bonds	407	355	762	164	582	746
Promissory notes	195	145	340	50	227	277
Total	**602**	**500**	**1,102**	**214**	**809**	**1,023**

Amounts for liabilities from finance leases are as follows:

Minimum Lease Payments Finance Lease

	12/31/2002			12/31/2001		
	Nominal value of lease payments € millions	Discount amounts € millions	Present value € millions	Nominal value of lease payments € millions	Discount amounts € millions	Present values € millions
Up to 1 year	41	7	34	53	17	36
1 to 5 years	136	33	103	249	124	125
Over 5 years	276	121	155	329	53	276
	453	**161**	**292**	**631**	**194**	**437**

The decrease in leasing liabilities is due to a finance lease agreement not being classified as a finance lease as set out in IAS 17 based on SIC 27. FremantleMedia, the film production company, sold its internally-produced films to a leasing company and, at the same time, leased them back as finance leases through 2016. The cash received by FremantleMedia was deposited with a bank as funds available to meet the lease installments. As this cash deposit of € 130 million cash is not freely available, it has to be offset against the leasing liabilities in the balance sheet in accordance with SIC 27.

26 Liabilities

	more than 1 year € millions	12/31/2002 € millions	12/31/2001 € millions
Trade accounts payable	**73**	**2,693**	**2,713**
Liabilities to participations	1	83	92
Repurchase obligation for ZEIT-Stiftung shares	204	204	409
Tax liabilities	–	327	266
Derivative financial instruments	35	161	130
Social security contributions	–	95	83
Personnel-related liabilities	–	75	64
Payment in advance	–	74	53
Other liabilities	514	1,012	1,765
Miscellaneous liabilities	**754**	**2,031**	**2,862**

Other liabilities include obligations arising from long-term production contracts, credit balances in accounts receivable and liabilities to non-group companies.

Off-Balance Commitments

27 Contingent Liabilities

	12/31/2002 € millions	12/31/2001 € millions
Guarantees	383	596
Warranties	29	44
Other obligations	3	6
	415	**646**

It is considered unlikely that the contingent liabilities listed will crystallize. The guarantees include guaranties for € 26 million bank credit lines for participations.

28 Other Financial Commitments

	12/31/2002 € millions	12/31/2001 € millions
Rental and leasing commitments	1,332	1,371
Other commitments	3,922	3,698
	5,254	**5,069**

In addition to the rental and leasing commitments set out above, there is a long-term lease for real estate located in New York expiring in 2098. Total lease installments payable over the term of this lease amount to $ 485 million, but the present value of the total commitment over the entire period of the lease, using a discount rate of 5.5, is only € 51 million.

Of the other commitments, € 2,378 million (previous year: € 2,591 million) relates to RTL Group's supply agreements for rights, (co-) productions and programming, and € 603 million (previous year: € 443 million) relates to contracts for TV licenses, transmission rights and other services. Other commitments for Random House amount to € 487 million (previous year: € 567 million) and represent the portion of commitments to authors for which no payments have yet been made and future payments depends on further events (such as delivery and acceptance of manuscripts).

There are the following payment obligations under all long-term rental commitments classified as operating leases:

Minimum Payments Under Operating Leases

	12/31/2002 Nominal value € millions	12/31/2001 Nominal value € millions
Up to 1 year	219	228
1 to 5 years	691	741
Over 5 years	422	402
	1,332	**1,371**

These obligations essentially relate to long-term real estate rental agreements.

Certain third parties have put options for the sale of shares in entities to Bertelsmann Group. As no fair values, as set out in IAS 39, can be determined for these options, they are not recognized in the consolidated balance sheet. The following table sets out the significant options and their underlying conditions:

Object of Option

	Percent acquired	Exercise period	Estimated purchase price € millions
BW-TV Verwaltungs GmbH	20	Until end of 2022	504
Mondolibri, Italy	50	Exercisable at any time	65
Sportfive	5	June 30, 2005 through November 30, 2005	50

BW-TV Verwaltungs GmbH, in which Bertelsmann has an 80 percent share, holds 37 percent of the shares in RTL Group. Under certain preconditions the minority shareholder of BW-TV has the right to sell its holding to Bertelsmann. The cost of this put option is currently € 504 million, equivalent to a price per RTL Group share of € 44.

29 Discontinuing Operation

In July 2002 it was announced that the BertelsmannSpringer segment was to be sold. In view of the advanced stage of negotiations, it is expected that the sale will be completed in the first half of 2003. As a result, the expenses and income relating to this discontinuing operation have been shown separately, as set out in IAS 35.

Consolidated Income Statement BertelsmannSpringer

	1/1/2002 –12/31/2002 € millions	7/1/2001 –12/31/2001 € millions
Revenues	**731**	**369**
Other operating income	34	12
Change in inventories	6	1
Own costs capitalized	3	1
Cost of materials	(206)	(99)
Royalty and license fees	(27)	(17)
Personnel costs	(258)	(137)
Amortization of intangible assets, and depreciation of property, plant and equipment	(67)	(35)
Other operating expenses	(188)	(100)
Impairments of goodwill and similar rights	(40)	–
Income from operating activities	**(12)**	**(5)**
Results of associated companies	1	1
Income from other participations	(1)	4
Profit before financial result and taxes	**(12)**	**–**
Net interest	(7)	(2)
Other financial expenses and income	(7)	(3)
Financial result	**(14)**	**(5)**
Income taxes	18	1
Net income before minority interests	**(8)**	**(4)**
Minority interests	(8)	(5)
Net income after minority interests	**(16)**	**(9)**

The assets and liabilities of the discontinuing operation at the end of the periods can be summarized as follows:

Assets

	12/31/2002 € millions	12/31/2001 € millions
Non-current assets	465	551
Current assets	442	480
Prepaid expenses	3	5
	910	**1,036**

Liabilities

	12/31/2002 € millions	12/31/2001 € millions
Provisions	175	192
Financial debt	31	37
Liabilities	196	364
Deferred income	152	82
	554	**675**

The statement of cash flows for BertelsmannSpringer is as follows:

Cash Flow Statement BertelsmannSpringer

	1/1/2002 –12/31/2002 € millions	7/1/2001 –12/31/2001 € millions
Net income	**(8)**	**(4)**
Depreciation/amortization/write-ups of non-current assets	107	35
Change in long-term provisions	9	5
Other cash/non-cash items	–	–
Cash flow according to DVFA/SG	**108**	**36**
Result from disposal of non-current assets	–	(1)
Change in inventories	7	(4)
Change in receivables, other assets and prepaid expenses	34	(41)
Change in short-term provisions	(27)	14
Change in other liabilities and deferred income	(99)	46
Net cash from operating activities	**23**	**50**
Investments in:		
– intangible assets	(9)	(15)
– property, plant and equipment	(12)	(13)
– financial assets	(7)	–
Proceeds from disposals of non-current assets	6	2
Net cash used in investing activities	**(22)**	**(26)**
Change in financial debt	(25)	2
Change in shareholders' equity	3	(2)
Dividend payments	–	–
Net cash from financing activities	**(22)**	**0**
Change in cash and cash equivalents	**(21)**	**24**
Exchange rate movements and other changes in cash and cash equivalents	9	–
Cash and Cash equivalents at the beginning of the period	60	36
Cash and Cash equivalents	**48**	**60**

30 Financial Instruments

Financial Risk Management

Because of its international activities, the Bertelsmann Group is exposed to a variety of financial risks, especially the effects of movements in foreign exchange rates and interest rates. The aim of the Bertelsmann Group's risk management function is to reduce these risks.

The executive board sets out overall risk management guidelines and stipulates the general procedures for hedging foreign exchange rate and interest rate risk and for the use of derivative financial instruments.

A treasury department located at corporate headquarters advises subsidiaries on financial risk and, where appropriate, hedges risks using derivatives. However, the subsidiaries are not obliged to use the services provided by this department. Although certain companies, in particular the RTL Group, have their own treasury departments, they must report their hedging activities to the treasury department located at corporate headquarters on a quarterly basis.

Exchange Rate Risk

The Bertelsmann Group is exposed to exchange rate risk in various currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against exchange rate risks in the local reporting currency by concluding forward agreements with banks of impeccable credit standing. The treasury department located at corporate headquarters bundles and manages those forward transactions concluded in Germany.

The Bertelsmann Group operates internationally. The net assets of its subsidiaries outside Germany are exposed to exchange rate risk. This risk is managed in accordance with the currency hedging guidelines laid down by the executive board. Loans within the Bertelsmann Group that are exposed to exchange rate risk are hedged using derivatives.

Interest Rate Risk

Interest rate risk is managed in accordance with the Group's planned net financial debt and the expected interest rate. Most of the financial debt bears interest at floating rates. The historically comparatively low level of interest rates were used in 2002 to swap part of the financial debt to fixed interest. This change is made as at the start of the next variable interest period and includes interest rate swap agreements, the commencement date for which was agreed for the first quarter of 2003. Financial debt includes loans with maturities of up to seven years.

Funds are generally invested on a floating-rate basis for periods of less than one year.

Counter Party Risk

The Bertelsmann Group is exposed to default risks amounting to the positive fair value of derivatives used. However, as financial instruments are only concluded with banks of impeccable credit standing, these risks are deemed to be minimal.

Accounting for Derivative Financial Instruments and Hedges

All derivatives are reported at their fair value. When a contract is entered into for a derivative, it is stipulated whether it is intended to be a fair value hedge or a cash flow hedge. However, some derivatives do not qualify as hedges despite the fact that they do economically represent a hedge.

The Bertelsmann Group documents all relationships between hedging instruments and hedged positions as well as its risk management objectives and strategies in connection with the various hedges. This method includes linking all derivatives used for hedging purposes to specific assets, liabilities, firm commitments and foreseeable transactions. Furthermore, the Bertelsmann Group assesses and documents, both when derivatives are concluded and on an ongoing basis, to what extent the derivatives used are either fair value hedges or cash flow hedges.

Financial Derivatives

The vast majority of financial derivatives used by the Bertelsmann Group are derivatives which are not traded on an organized exchange (so-called OTC instruments). These mainly consist of forward agreements, currency swaps and interest rate swaps. They are only concluded with banks of impeccable credit standing that have been approved by the executive board. Nominal volumes are the total of all underlying buying and selling amounts.

The great majority of the financial derivatives serve as hedges of foreign currency and interest rate risks arising from existing financial debt (47.4 percent). Foreign exchange fluctuation risks on internal funding within the group is normally hedged by foreign currency forward transactions. The volume of such transactions is € 1,398 million (29.1 percent). Additionally, subsidiaries use financial derivatives to hedge against current and future foreign currency risks arising from operating receivables or payables. Transactions entered into amount to 23.5 percent of the total volume are mature between 2003 and 2008. No financial derivatives are used for speculative purposes.

Nominal Amounts of Financial Derivates

	Nominal amounts at 12/31/2002				Nominal amounts at 12/31/2001			
	< 1 year € millions	1–5 years € millions	> 5 years € millions	**Total** € millions	< 1 year € millions	1–5 years € millions	> 5 years € millions	**Total** € millions
Currency derivatives								
Forward contracts and currency swaps	2,519	603	175	**3,297**	4,726	375	204	**5,305**
Interest rate derivatives								
Interest rate swaps	95	457	892	**1,444**	271	472	197	**940**
Interest rate options	–	–	–	**–**	47	–	–	**47**
	2,614	**1,060**	**1,067**	**4,741**	**5,044**	**847**	**401**	**6,292**

Determination of Fair Value

The fair values of traded financial derivatives are determined on the basis of published market prices at the balance sheet date.

In order to determine the fair values of derivatives that are not publicly traded, the Bertelsmann Group uses various financial-related mathematical models that are based on market conditions and risks prevailing at the balance sheet date.

Fair Values of Financial Derivates

	Nominal amounts		Present value	
	12/31/2002 € millions	12/31/2001 € millions	12/31/2002 € millions	12/31/2001 € millions
Currency derivatives				
Forward contracts and currency swaps	3,297	5,305	46	(27)
Interest rate derivatives				
Interest rate swaps	1,444	940	(32)	(2)
Interest rate options	–	47	–	–
	4,741	**6,292**	**14**	**(29)**

Factoring

In exceptional situations Bertelsmann Group sells receivables to banks as a source of financing. These exceptions are limited to agreements in which Bertelsmann grants long-term financing to its customers. The volume of receivables sold is limited contractually to € 365 million and amounted to € 311 million at December 31, 2002. The contractual conditions provide for transfer of the credit and interest risk to the buyer of the receivables. Bertelsmann Group only bears a part of the credit risk from these receivables. The resulting liabilities are included in provisions. The carrying value of these liabilities at December 31, 2002 amounts to € 12 million (previous year: € 20 million). As required by IAS 39, all receivables sold were de-recognized at December 31, 2002.

31 Cash Flow Statement

The cash flow statement of the Bertelsmann Group is based on IAS 7 and is intended to enable the reader to assess the Group's ability to generate cash and cash equivalents. Cash flows are divided into net cash provided or used by operating, investing and financing activities. The net cash provided or used by operating activities is shown using the indirect method, which adjusts net income for the year for items not generating or using cash. The amount of cash flow according to DVFA/SG is included voluntarily in the cash flow statement. Cash flow per DVFA/SG is defined by the Deutsche Vereinigung für Finanzanalyse/Schmalenbach-Gesellschaft as cash flow from operating activities based on net earnings for the year adjusted for significant items of income and expense not providing or using funds.

The cash flow statement recognizes the effects of movements in exchange rates and changes in the scope of consolidation. Hence, the figures in the cash flow statement flows cannot be determined by comparing balance sheet items with the comparative figures for the previous year. Investing activities include purchases of non-current assets, payments for the acquisition of participations, and proceeds from disposals of non-current assets. Financing activities include changes in shareholders' equity affecting cash and changes in financial debt.

Cash and cash equivalents comprise the total volume of liquid funds as set out in note 20. Interest payments of € 230 million (previous year: € 260 million), interest receipts of € 199 million (previous year: € 67 million) and income tax payments of € 354 million (previous year: € 359 million) are included in the net cash provided/used by operating activities. Another € 632 million (previous year: € – million) were offset against gains from disposals.

32 Segment Reporting

Segment reporting disclosures are made in accordance with IAS 14. The primary reporting format used is business segments of the Bertelsmann Group. The secondary reporting format is broken down by geographical segment and by the main markets in which the Bertelsmann Group operates.

Information on Segments

Segment reporting, comprising six operating segments, is based on the internal management and reporting structures applied within the Bertelsmann Group. Due to the financial management of the Group, the segments are different from the Group's legal structure. There have been the following changes affecting primary segments compared with the previous period.

BertelsmannSpringer was shown as a separate segment in the previous period. Due to the intended disposal of BertelsmannSpringer, it is no longer shown as a separate segment, but rather as a discontinuing operation in the reconciliation of the segment data to the balances shown in the Bertelsmann Group financial statements. The BeCapital executive board responsibility has been dissolved as part of the reorganization in the executive board of Bertelsmann AG. Those entities allocated to this executive board responsibility have been partly re-allocated to other operating segments and partly allocated to the "corporate" segment, together with Bertelsmann AG.

Information on Segment Data

The definition of the various segment data is the same as that used for the Group's management system. Segment data are reconciled to the relevant Group figures in the "consolidation" column.

Intercompany revenues are generally recognized at normal market conditions, as applied to transactions with third parties.

Various figures are shown for segment results. Operating EBITA is the earnings before financial result, taxes, amortization of goodwill and similar rights, gains and losses on disposals, and special items. Adding back the special items results in earnings before financial results, taxes, amortization of goodwill and similar rights, and gains and losses on disposals. A further amount shown is total earnings, which consists of earnings before financial results, taxes, amortization of goodwill and similar rights, but including gains and losses on disposals. Earnings before financial results and taxes are calculated as total earnings less amortization of goodwill, similar rights and associated company goodwill. Segment results as set out in IAS 14 are earnings before financial results and taxes and excluding gains or losses on disposals.

The previous year's amounts have been adjusted to reflect the changes in definition of the results shown. As gains and losses on disposals have been allocated to segments, € 144 million gains relating to Sportfive are no longer shown in the consolidation column, but have been included in the RTL Group segment.

The depreciation, amortization and write-downs reported for each segment includes depreciation of property, plant and equipment, amortization of intangible assets, goodwill and similar rights, and amortization and write-downs of investments. Write-downs are disclosed separately.

Segment assets constitute the operating assets for each segment. They consist of property, plant and equipment, intangible assets, including goodwill and investments. They also include current assets with the exception of cash and cash equivalents, tax receivables and other non-operating assets.

Segment liabilities consist of operating liabilities and operating provisions. They therefore do not include provisions for pensions and similar obligations, deferred tax liabilities, financial debt, or other non-operating liabilities and provisions.

Each segment shows the earnings of, and investments in, associated companies, provided these companies can be clearly allocated to the segment concerned. Capital expenditures consist of purchases of property, plant and equipment, intangible assets including goodwill, and investments. For the secondary reporting format, revenues are shown by customer location, while segment assets and segment capital expenditures are included by company location. In addition, the number of employees both at the balance sheet date and as an average for the period is disclosed for the primary reporting format.

Segment Reporting 1/1/2002 – 12/31/2002 Primary Format

	RTL Group € millions	Random House € millions	Gruner + Jahr € millions	BMG € millions
Consolidated revenues	4,355	1,987	2,786	2,689
Intercompany revenues	7	8	14	25
Revenues	**4,362**	**1,995**	**2,800**	**2,714**
Operating EBITA	**465**	**168**	**226**	**125**
Internet losses	–	–	–	–
Special items	(43)	–	–	66
Profit before financial result, taxes and amortization of goodwill and similar rights and capital gains/losses	**422**	**168**	**226**	**191**
Capital gains/losses	(50)	4	173	(58)
Total result	**372**	**172**	**399**	**133**
Amortization of goodwill and similar rights	(321)	(72)	(165)	(1,354)
Amortization of goodwill from associated companies	(8)	–	(5)	(1)
Profit before financial result and taxes				
Financial result				
Taxes				
Net income before minority interests				
Profit before financial result, taxes and capital gains/losses	**93**	**96**	**56**	**(1,164)**
Depreciation, amortization and impairments	(625)	(97)	(266)	(1,318)
– thereof impairments	(70)	(7)	(107)	(1,300)
Investments	2,277	120	99	2,338
Segment assets	9,115	1,998	1,721	3,145
Segment liabilities	1,984	639	606	1,756
Result from associates	26	–	(9)	(50)
Investments in associates	458	2	26	12
Employees (at closing date)	7,378	5,626	11,367	6,452
Employees (average)	7,199	5,723	12,056	5,131

	arvato € millions	DirectGroup € millions	Total Segments € millions	Corporate € millions	Consolidation € millions	Bertelsmann Springer € millions	Total Group € millions
	3,021	2,695	**17,533**	49	-	730	**18,312**
	647	12	**713**	1	(715)	1	-
	3,668	**2,707**	**18,246**	**50**	**(715)**	**731**	**18,312**
	217	(150)	**1,051**	(180)	(6)	71	**936**
	–	–	–	–	–	–	–
	(14)	(84)	**(75)**	(36)	–	–	(111)
	203	**(234)**	**976**	**(216)**	**(6)**	**71**	**825**
	11	27	107	2,811	–	–	2,918
	214	**(207)**	**1,083**	**2,595**	**(6)**	**71**	**3,743**
	(56)	(173)	**(2,141)**	(209)	1	(83)	(2.432)
	(6)	–	**(20)**	–	–	–	(20)
							1,291
							(266)
							(57)
							968
	141	**(407)**	**(1,185)**	**(425)**	**(5)**	**(12)**	**(1,627)**
	(268)	(247)	**(2,822)**	(251)	1	(107)	**(3,178)**
	(32)	(80)	**(1,596)**	(32)	–	(40)	**(1,668)**
	258	64	**5,156**	79	–	28	**5,263**
	1,802	1,022	**18,803**	838	33	676	**20,350**
	940	573	**6,498**	645	(2)	265	**7,406**
	1	(1)	**(33)**	(67)	–	1	**(99)**
	6	11	**515**	67	–	2	**584**
	31,174	12,309	**74,306**	1,044	–	5,282	**80,632**
	30,710	12,442	**73,261**	1,317	–	5,364	**79,942**

Secondary Format 1/1/2002 – 12/31/2002

	Germany € millions	Other European Countries € millions	USA € millions	Other Countries € millions	Group € millions
Consolidated revenues	5,691	6,498	5,029	1,094	**18,312**
Segment assets	9,013	6,868	4,053	416	**20,350**
Investments	1,115	1,726	2,287	135	**5,263**

Segment Reporting 7/1/2001 – 12/31/2001 Primary Format

	RTL Group € millions	Random House € millions	Gruner + Jahr € millions	BMG € millions
Consolidated revenues	2,044	1,080	1,467	1,620
Intercompany revenues	10	5	9	13
Revenues	**2,054**	**1,085**	**1,476**	**1,633**
Operating EBITA	**107**	**(15)**	**98**	**(43)**
Internet losses	(59)	(4)	(40)	–
Special items	(23)	(25)	–	(66)
Profit before financial result, taxes and amortization of goodwill and similar rights and capital gains/losses	**25**	**(44)**	**58**	**(109)**
Capital gains/losses	144	–	–	–
Total result	**169**	**(44)**	**58**	**(109)**
Amortization of goodwill and similar rights	(129)	(24)	(121)	(27)
Amortization of goodwill from associated companies	(114)	(1)	(2)	(1)
Profit before financial result and taxes				
Financial result				
Taxes				
Net income before minority interests				
Profit before financial result, taxes and capital gains/losses	**(218)**	**(69)**	**(65)**	**(137)**
Depreciation, amortization and impairments	(368)	(46)	(179)	(116)
– thereof impairments	(135)	(7)	(35)	(77)
Investments	318	126	64	62
Segment assets	9,048	2,075	2,161	2,346
Segment liabilities	1,981	694	611	1,834
Result from associates	(109)	(1)	–	(41)
Investments in associates	333	23	67	35
Employees (at closing date)	6,625	6,121	13,033	5,010
Employees (average)	6,625	6,171	13,371	5,175

	arvato € millions	DirectGroup € millions	Total Segments € millions	Corporate € millions	Consolidation € millions	Bertelsmann Springer € millions	Total Group € millions
	1,578	1,492	9,281	35	–	369	9,685
	311	2	350	1	(352)	1	-
	1,889	1,494	9,631	36	(352)	370	9,685
	114	(40)	221	(90)	5	28	164
	(14)	(127)	(244)	(4)	–	(6)	(254)
	(32)	(297)	(443)	11	–	–	(432)
	68	(464)	(466)	(83)	5	22	(522)
	–	–	144	2,081	–	–	2.225
	68	(464)	(322)	1,998	5	22	1,703
	(2)	(48)	(351)	(92)	14	(22)	(451)
	(1)	(1)	(120)	–	–	–	(120)
							1,132
							(208)
							7
							931
	65	(513)	(937)	(175)	19	–	(1,093)
	(120)	(90)	(919)	(203)	15	(35)	(1,142)
	(6)	(9)	(269)	(119)	–	(2)	(390)
	118	242	930	119	–	18	1,067
	1,913	1,500	19,043	1,593	(25)	663	21,274
	894	779	6,793	1,569	(285)	290	8,367
	5	(69)	(215)	(43)	–	1	(257)
	12	39	509	69	–	1	579
	28,892	13,535	73,216	1,724	–	5,356	80,296
	29,037	13,240	73,619	1,793	–	5,351	80,763

Secondary Format 7/1/2001 – 12/31/2001

	Germany € millions	Other European Countries € millions	USA € millions	Other Countries € millions	Group € millions
Consolidated revenues	3,027	3,097	3,031	530	9,685
Segment assets	8,370	7,527	4,721	656	21,274
Investments	331	380	329	27	1,067

Primary Reporting Format – Reconciliation to Consolidated Financial Statements	12/31/2002 € millions	12/31/2001 € millions
Segment assets	**20,350**	**21,274**
Other current assets (not allocated)	624	226
Cash and cash equivalents	977	2,044
Deferred tax assets	237	190
Total assets	**22,188**	**23,734**
Segment liabilities	**7,406**	**8,367**
Equity inclusive minority interests	7,744	8,384
Profit participation capital	706	706
Provisions for pensions and similar obligations	1,737	1,682
Other provisions (not allocated)	359	1,307
Financial debt	3,718	2,903
Other liabilities (not allocated)	435	235
Deferred tax liabilities	83	150
Total liabilities	**22,188**	**23,734**

33 Reconciliation to Operating EBITDA

The depreciation and amortization shown in the statement of movements in non-current assets is divided into amortization of goodwill and similar rights, which is not included in Operating EBITA, and other depreciation and amortization, as follows:

Amortization, Depreciation

	Amortization of goodwill and similar rights			**Depreciation**			**Total amortization/ depreciation**
	as scheduled € millions	impairment € millions	Total € millions	as scheduled € millions	impairment € millions	Total € millions	€ millions
Goodwill	701	1,582	2,283	–	–	–	2,283
Other intangible assets	70	79	149	244	17	261	410
Property, plant and equipment	–	–	–	482	6	488	488
Investments in associates	13	7	20	–	–	–	20
Other financial assets	–	–	–	–	66	66	66
	784	**1,668**	**2,452**	**726**	**89**	**815**	**3,267**

Starting with Operating EBITA, Operating EBITDA is determined by adding other depreciation and amortization, less any write-ups, including the adjustment of any depreciation, amortization and write-ups included in the special items or internet losses, as follows:

Reconciliation to Operating EBITDA

	1/1/2002 –12/31/2002 € millions	7/1/2001 –12/31/2001 € millions
Operating EBITA	**936**	**164**
Amortization of intangible assets	410	257
Amortization of rights similar to goodwill	(149)	(33)
Depreciation of property, plant and equipment	488	273
Depreciation of investments in associated companies	20	136
Amortization of goodwill from associated companies	(20)	(120)
Depreciation of other financial assets	66	194
Write-ups of non-current assets	(89)	–
Write-ups/amortization/depreciation included in special items	4	(187)
Amortization/depreciation included in Internet losses	–	(42)
Operating EBITDA	**1,666**	**642**

34 Significant Differences from German Accounting Principles

Consolidation of Investments in Subsidiaries
IAS 22 states that the acquisition of holdings in companies by an exchange of marketable shares must be accounted for at fair value. Under HGB, by contrast, such acquisitions are reported at book value. In contrast to HGB, IAS does not allow goodwill to be offset against shareholders' equity. Under IAS, hidden reserves and liabilities identified at the time of the initial consolidation are subject to deferred taxes, unless such reserves and liabilities are recognized for tax purposes. In addition, deferred tax assets must be reported on loss carryforwards of the acquired company, provided their future utilization is probable.

Internally-Generated Intangible Assets
Research costs are expensed in the period in which they are incurred, whereas development costs as set out in IAS 38 are to be recognized as internally-generated intangible assets to the extent future economic benefits will probably flow to the Group and their cost can be measured reliably.

Finance Leases
Long-term leases of assets which, viewed economically, represent a purchase using third-party financing, are recognized in the balance sheet as an asset and an equivalent liability as set out in IAS 17. Due to other definitions of economic ownership, all leasing contracts in the Group are classified as rental contracts in accordance with German accounting practice.

Participations and Securities
Participations and other securities included in non-current assets and in current assets in the Bertelsmann Group financial statements are shown as available-for-sale or as held-to-maturity. As set out in IAS 39, available-for-sale securities are measured at their fair value on the balance sheet date. The resulting unrealized gains and losses are recorded direct to shareholders' equity, net of any applicable deferred taxes. If fair values cannot be determined, the participations or securities concerned are measured at amortized acquisition cost. Financial investments with fixed payments and fixed maturity, which are intended to be held to maturity, are measured at amortized cost using the effective interest rate method. The regulations set out in HGB require assets to be stated at amortized cost or their net realizable value, if lower.

Factoring
IAS 39 states that receivables sold may only be de-recognized if a substantial part of the risk inherent in the receivables portfolio is transferred to the buyer.

Derivative Financial Instruments
As set out in IAS 39, all derivative financial instruments are recorded on the balance sheet at fair value, even if they act as a hedge of an underlying transaction. Changes to the fair value of these hedging instruments are recognized in the income statement for fair value hedges and are recorded directly in shareholders' equity for cash flow hedges. German accounting principles only require financial derivatives to be recognized on the balance sheet to the extent that, after offset against the underlying, any balance represents a probable loss, and a provision is recognized accordingly. On the other hand, unrealized gains are not recognized.

Long-term Receivables, Provisions and Liabilities
Unless they yield market interest rates, long-term receivables, provisions and liabilities are discounted in accordance with IAS, whereas under HGB they are stated at nominal values.

Deferred Taxes
As set out in IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts reported for tax purposes and those reported in the IAS consolidated balance sheet, with the exception of goodwill which is not recognizable for tax purposes, and for tax loss carryforwards. Through the deduction of a valuation allowance, deferred tax assets are only reported to the extent to which they can be subsequently utilized. Such taxes are calculated using enacted future tax rates. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in the period in which the relevant legislation has been enacted.

Profit Participation Capital
IAS does not permit Bertelsmann AG's profit participation capital to be reported as a component of shareholders' equity. Therefore, in contrast to HGB, distributions payable for the year relating to the profit participation capital is reported as a provision.

Provisions for Pensions
IAS 19 requires provisions for pensions and similar obligations to be measured using the projected unit credit method. This method uses biometric calculations, prevailing long-term capital market interest rates for discounting purposes, and the latest assumptions about future salary and pension increases. By contrast, recognition of provisions for pensions in accordance with HGB accounting rules is based on § 6a German Income Tax Act, which assumes a constant discount rate of 6 percent and does not recognize future increases in salaries and pensions.

35 Related-Party Transactions

Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh, a non-operating holding company, exercises control over the Bertelsmann Group. Johannes Mohn GmbH and Reinhard Mohn Verwaltungsgesellschaft mbH have informed Bertelsmann AG that they each own more than one-quarter of its share capital. Transactions with related parties and associated companies mainly related to deliveries of goods and services. They are made under normal market conditions. From a group viewpoint, the related income and expense amounts are insignificant.

The remuneration paid to the supervisory board for the year ended December 31, 2002 totaled € 1,370,000 plus value added tax. During 2002, the members of the executive board received remuneration totaling € 26,816,920, of which € 15,009,103 was paid by Bertelsmann AG. A loan of $ 5 million, currently bearing interest at 5.06%, has been granted to one member of the executive board. This loan is repayable in full in 2010. There is no collateral on the loan. Former members of the executive board or their surviving dependants received pensions totaling € 14,832,665 from Bertelsmann AG. The provision established by Bertelsmann AG for pension obligations to former members of the executive board amounted to € 32,661,788. The members of the supervisory board and the executive board are listed on pages 114–116.

36 Material Subsidiaries and Participations at December 31, 2002

RTL Group

Television			
GZSZ Vermarktungsgesellschaft GmbH, Cologne	Germany	82.69	v
IP Deutschland GmbH, Cologne	Germany	82.69	v
IP NEWMEDIA GmbH, Cologne	Germany	82.69	v
N-TV Nachrichtenfernsehen GmbH & Co. KG, Berlin	Germany	39.13	e
RTL 2 Fernsehen GmbH & Co. KG, Munich	Germany	29.69	e
RTL Club GmbH, Rheda-Wiedenbrück	Germany	91.27	v
RTL Disney Fernsehen GmbH & Co. KG, Cologne	Germany	41.30	q
RTL NEWMEDIA GmbH, Cologne	Germany	82.69	v
RTL Shop GmbH, Cologne	Germany	71.33	v
RTL Television GmbH, Cologne	Germany	82.69	v
UFA Sports Television GmbH, Hamburg	Germany	38.48	q
VOX Film- und Fernseh GmbH & Co.KG, Cologne	Germany	82.44	v
Westdeutsche Universum-Film GmbH, Cologne	Germany	82.69	v
Antena 3 de Televisión S.A., Madrid	Spain	14.27	e
Audiomedia S.A., Luxembourg	Luxembourg	82.94	v
Bayard d'Antin S.A., Paris	France	82.69	v
Broadcasting Center Europe S.A., Luxembourg	Luxembourg	82.69	v
Channel 5 Broadcasting Limited, London	UK	53.50	q
CLT-UFA Holding S.A., Luxembourg	Luxembourg	82.94	v
CLT-UFA S.A., Luxembourg	Luxembourg	82.69	v
Holland FM Produktie B.V., Hilversum	Netherlands	82.69	v
Holland Media Groep Business Nieuws B.V., Hilversum	Netherlands	82.69	v
IP Belgium S.A., Brussels	Belgium	54.57	v
IP France S.A., Paris	France	82.69	v
IP Luxembourg S.A.R.L., Luxembourg	Luxembourg	82.69	v
London Playout Center Limited, London	UK	82.94	v
M6 Editions S.A., Neuilly sur Seine	France	39.65	q
M6 Films S.A., Neuilly sur Seine	France	39.65	q
M-RTL Rt (RTL Klub), Budapest	Hungary	40.47	e
RTL 9 S.A., Luxembourg	Luxembourg	28.95	e
RTL4 Beheer B.V., Hilversum	Netherlands	82.69	v
Sky Five Text Limited, Middlesex	UK	26.79	q
Télévision Indépendante (TVI) S.A., Brussels	Belgium	54.57	v
Télévision Par Satellite S.N.C., Issy les Moulineaux	France	9,37	q
Yorin FM B.V., Hilversum	Netherlands	82.69	v
Content			
CLOU Entertainment TV Produktion GmbH, Cologne	Germany	46.28	v
CLT-UFA Multi Media GmbH, Hamburg	Germany	82.69	v
Fremantle (D) Fernsehproduktions GmbH, Hürth	Germany	82.94	v
Grundy UFA TV Produktions GmbH, Berlin	Germany	82.69	v
Sportfive GmbH, Hamburg	Germany	38.48	q
Sportfive Tixx GmbH, Hamburg	Germany	38.48	q
Teamworx Produktion für Kino und Fernsehen GmbH, Berlin	Germany	63.70	v
UFA Entertainment GmbH, Berlin	Germany	82.69	v
UFA Fernsehproduktion GmbH, Berlin	Germany	82.69	v
UFA Film- und Fernseh GmbH, Cologne	Germany	82.69	v
Football France Promotion S.A., Paris	France	38.48	q
Fremantle Media Australia Pty. Limited, St. Leonard, NSW	Australia	82.94	v
Fremantle Productions Asia Limited, Hong Kong	Hong Kong	82.94	v
FremantleMedia Limited, London	UK	82.94	v
FremantleMedia North America, Inc., Wilmington	USA	82.94	v
Groupe JC Darmon S.A., Paris	France	38.48	q
Grundy Productions Limited, London	UK	82.94	v
SportFive S.A., Paris	France	38.48	q
Talkback Productions Limited, London	UK	82.94	v
UFA Sports France S.A., Paris	France	38.48	q
Radio			
RTL Radio Deutschland GmbH, Berlin	Germany	82.69	v
AVE Gesellschaft für Hörfunkbeteiligungen, Berlin	Germany	82.26	v
Ediradio S.A., Paris	France	82.69	v
Contact S.A., Brussels	Belgium	40.64	e

Random House

Random House North America			
Books on Tape, Inc., Santa Ana	USA	100.00	v
Content Link, Inc., Delaware	USA	100.00	v
Crayon Box LLC, New York	USA	50.00	e
Fodors LLC, New York	USA	100.00	v
Golden Books Publishing (Canada) Inc., Cambridge	Canada	100.00	v
McClelland & Stewart Limited, Toronto	Canada	25.00	e
Presidio Press, Inc., California	USA	100.00	v
Random House Direct, Inc., New Jersey	USA	100.00	v
Random House of Canada Limited, Toronto	Canada	100.00	v
Random House TPR, Inc., New York	USA	100.00	v
Random House Ventures LLC, New York	USA	100.00	v
Random House, Inc., New York	USA	100.00	v
Xlibris Corporation, Philadelphia	USA	41.50	e
Verlagsgruppe Random House Germany			
Berlin Verlag Beteiligungsgesellschaft mbH, Berlin	Germany	100.00	v
BERLIN VERLAG GmbH & Co. KG, Berlin	Germany	100.00	v
Gütersloher Verlagshaus GmbH, Gütersloh	Germany	100.00	v
Limes Verlag GmbH, Munich	Germany	100.00	v
Luchterhand Literaturverlag GmbH, Munich	Germany	100.00	v
MBV Media Berlin Verlag GmbH, Berlin	Germany	100.00	v
Routing GmbH, Gütersloh	Germany	98.00	v
Verlag RM GmbH, Gütersloh	Germany	100.00	v
Verlag Volk und Welt GmbH, Berlin	Germany	100.00	v
Verlagsgruppe Random House GmbH, Munich	Germany	100.00	v
Random House Great Britain, Australia, New Zealand, South Africa			
Chatto, Virago, Bodley Head & Jonathan, Melbourne	Australia	100.00	v
Cape Australia Pty. Limited, Melbourne	Australia	100.00	v
Random Century Australia Pty. Limited, Melbourne	Australia	100.00	v
Random House (Proprietary) Limited, Parktown (Johannesburg)	South Africa	75.00	v
Random House Australia Pty. Limited, Melbourne	Australia	100.00	v
Random House New Zealand Limited, Glenfield	New Zealand	100.00	v
RHA Holdings Pty. Limited, Melbourne	Australia	100.00	v
The Random House Group Limited, London	UK	100.00	v
Random House Mondadori/Spanish speaking countries			
Editorial Sudamericana, S.A., Buenos Aires	Argentina	49.38	q
Digrisa, S.A. de C.V., Mexico City	Mexico	50.00	q
Distribuidora Exclusiva Grijalbo, S.A., Bogotá	Colombia	50.00	q
Editorial Grijalbo Colombia LTDA, Bogotá	Colombia	49.50	q
Editorial Grijalbo, S.A. de C.V., Mexico City	Mexico	50.00	q
Editorial Lumen, S.A., Barcelona	Spain	50.00	q
Editorial Sudamericana Uruguaya, S.A., Montevideo	Uruguay	49.38	q
Grijalbo, S.A., Caracas	Venezuela	50.00	q
Grupo Editorial Random House Mondadori, S.L., Barcelona	Spain	50.00	q
Market Self S.A., Buenos Aires	Argentina	24.78	e
Nueva Galaxia Gutenberg, S.A., Barcelona	Spain	45.00	q
Plaza y Janés Mexico, S.A. de C.V., Mexico City	Mexico	50.00	q
Random House Mondadori S.A., Barcelona	Spain	50.00	q
Random House Mondadori S.A., Santiago de Chile	Chile	50.00	q

As of December 31, 2002

Ownership of Group companies by percentage.

* = operating department

Consolidation method is defined as follows:

v = fully consolidated

q = proportionally consolidated

e = associated companies recognized at equity

Gruner + Jahr

Magazines Germany			
Berliner Presse Vertrieb GmbH, Berlin	Germany	74.90	v
Börse Online Verlag GmbH & Co., Munich	Germany	74.90	v
DPV Deutscher Pressevertrieb GmbH, Hamburg	Germany	74.90	v
Ehlich & Sohn GmbH & Co., Hamburg	Germany	74.90	v
G+J Corporate Media GmbH, Hamburg	Germany	74.90	v
G+J Electronic Media Sales GmbH, Hamburg	Germany	74.90	v
G+J Wirtschaftspresse Online GmbH, Munich	Germany	74.90	v
G+J Woman Verlag GmbH, Hamburg	Germany	74.90	v
G+J Women Mew Media GmbH, Hamburg	Germany	74.90	v
G+J Zeitschriften-Verlagsgesellschaft mbH, Hamburg	Germany	74.90	v
G+J/RBA GmbH & Co. KG, Hamburg	Germany	37.45	e
Gruner + Jahr AG & Co., Hamburg	Germany	74.90	v
IPV Inland Pressevertrieb GmbH, Hamburg	Germany	74.90	v
Living at Home Multi Media GmbH, Hamburg	Germany	74.90	v
M.C. Verlagsgesellschaft mbH, Munich	Germany	37.45	e
Norddeutsche Verlagsgesellschaft mbH, Hamburg	Germany	74.90	v
"Picture Press" Bild- und Textagentur GmbH, Hamburg	Germany	74.90	v
stern.de GmbH, Hamburg	Germany	74.90	v
travelchannel GmbH, Hamburg	Germany	37.45	e
W.E. Saarbach GmbH, Cologne	Germany	18.65	e
Gruner + Jahr Verlagsgesellschaft m.b.H., Vienna	Austria	74.90	v
Gruner + Jahr (Schweiz) AG, Zurich	Switzerland	74.90	v
Magazines International			
G y J Espana Ediciones, S.L., S. en C., Madrid	Spein	74.90	v
G y J Publicaciones Internacionales, S.L. y Cia., S. en C., Madrid	Spain	37.45	v
G y J Revistas y Comunicaciones, S.L., Sociedad Unipersonal, Madrid	Spain	74.90	v
G+J - CLIP (Beijing) Publishing Consulting Co., Limited, Bejing	China	38.20	v
G+J RBA Sp. z o.o. & Co. Spolka komanditowa, Warsaw	Poland	37.45	e
G+J/RBA Publishing C.V. National Geografic Nederland, Amsterdam	Netherlands	74.90	e
G+J/RBA S.N.C., Paris	France	37.45	e
G+J USA Publishing, New York	USA	74.90	v
Gruner + Jahr / Mondadori S.p.A., Milan	Italy	50.00	q
Gruner + Jahr Polska Sp. z o.o. & Co. Spolka Komandytowa, Breslau	Poland	74.90	v
Gruner + Jahr ZAO, Moscow	Russia	74.90	v
Prisma Presse S.N.C., Paris	France	74.90	v
Shanghai G+J Consulting and Service Co., Limited, Shanghai	China	74.90	v
VSD S.N.C., Paris	France	74.90	v
Newspapers			
BerlinOnline Stadtportal GmbH & Co. KG, Berlin*	Germany	33.71	e
Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden	Germany	44.94	v
Dresdner Magazin Verlag GmbH, Dresden	Germany	44.94	v
Financial Times Deutschland GmbH & Co. KG, Hamburg	Germany	50.00	q
Saxo-Phon Telefonmarketing und Veranstaltungsservice GmbH, Dresden	Germany	44.94	v
S.C. Expres s.r.l., Bucharest	Romania	58.02	v
S.C. Infopress Romania s.r.l., Bucharest	Romania	45.51	v
Blic Press, d.o.o., Belgrade	Jugoslavia	36.70	e
Vydavatelstvo casopisov a novin spol. sr.o., Bratislava	Slovakia	38.20	v
Printing			
Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden (Printing)	Germany	44.94	v
Gruner + Jahr AG & Co., Hamburg (Printing Itzehoe)	Germany	74.90	v
Brown Printing Company, Waseca	USA	74.90	v
Central			
Druck- und Verlagshaus Gruner + Jahr AG, Hamburg	Germany	74.90	v
Hamburger Journalistenschule Gruner + Jahr – DIE ZEIT GmbH, Hamburg	Germany	71.16	v
manager magazin Verlagsgesellschaft mbH, Hamburg	Germany	18.65	e
SPIEGEL-Verlag Rudolf Augstein GmbH & Co. KG, Hamburg	Germany	18.54	e
Verlagsgruppe NEWS Ges.m.b.H., Vienna	Austria	41.96	v

* Sale scheduled for December 31, 2002

BMG

BMG North America			
Arista Records, Inc., Wilmington	USA	100.00	v
BMG Canada Inc., Toronto	Canada	100.00	v
BMG Distribution, New York	USA	100.00	v
BMG Songs, Inc., Sacramento	USA	100.00	v
BMG US Latin, Miami	USA	100,00	v
Brentwood Music Essential, Franklin	USA	100.00	v
Brentwood Music Inc, Franklin	USA	100.00	v
Brentwood-Benson Music Publishing Inc, Franklin	USA	100.00	v
J Records, LLC, Delaware	USA	100.00	v
LaFace Records, Inc., New York	USA	100.00	v
RCA Label Group, Nashville	USA	100.00	v
RCA Record Label, New York	USA	100.00	v
RCA Victor Group, New York	USA	100.00	v
Reunion Records Inc, Nashville	USA	100.00	v
Volcano Entertainment, LLC	USA	100.00	v
Zomba Recording Corporation, New York	USA	100.00	v
Zomba Records Jive, New York	USA	100.00	v
BMG Europa			
Arabella Musikverlag GmbH, Munich	Germany	100.00	v
BMG Ariola München GmbH, Munich	Germany	100.00	v
Bertelsmann Music Group Belgium N.V., Brussels	Belgium	100.00	v
BMG Ariola (Schweiz) AG, Zurich	Switzerland	100.00	v
BMG Ariola Austria Gesellschaft m.b.H., Vienna	Austria	100.00	v
BMG Czech Republic, Prague	Czech Republic	100.00	v
BMG Denmark A/S, Copenhagen	Denmark	100.00	v
BMG Finland Oy, Helsinki	Finland	100.00	v
BMG France S.A.S.U, Paris	France	100.00	v
BMG Music Publishing B.V., Hilversum	Netherlands	100.00	v
BMG Music Publishing France SARL, Paris	France	100.00	v
BMG Music Publishing Limited, London	UK	100.00	v
BMG Music Spain, S.A., Madrid	Spain	100.00	v
BMG Nederland B.V., Hilversum	Netherlands	100.00	v
BMG Norway AS, Oslo	Norway	100.00	v
BMG Poland Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	100.00	v
BMG Portugal - Actividades Audiovisuais, Lda., Lisbon	Portugal	100.00	v
BMG RICORDI S.p.A., Rome	Italy	100.00	v
BMG Sweden Aktiebolag, Stockholm	Sweden	100.00	v
BMG UK & Ireland Limited, London	UK	100.00	v
Cezame Argile Productions Editions S.A., Paris	France	100.00	v
Editio Musica Budapest Zenemükiado Kft., Budapest	Hungary	100.00	v
Editions Durand S.A., Paris	France	100.00	v
Pinnacle Software Limited, Orpington	UK	100.00	v
Windsong Holdings Limited, Orpington	UK	75.00	v
Zomba Music Publishers Limited, London	UK	100.00	v
Zomba Records Limited, London	UK	100.00	v
BMG Latin America			
Ariola, S.A. de C.V., Mexico City	Mexico	100.00	v
BMG Ariola Argentina, S.A., Buenos Aires	Argentina	100.00	v
BMG Brasil Ltda., Rio de Janeiro	Brazil	100.00	v
BMG Asia / Pacific			
BMG Australia Limited, North Sydney	Australia	100.00	v
BMG Entertainment (Thailand) Limited, Bangkok	Thailand	75.00	v
BMG FUNHOUSE, Inc., Tokyo	Japan	100.00	v
BMG Hong Kong Limited, Hong Kong	China	100.00	v
BMG Korea Co. Limited, Seoul	South Korea	100.00	v
BMG Music (Malaysia) SDN BHD, Kuala Lumpur	Malaysia	100.00	v
BMG Music Taiwan, Inc., Taipeh	Taiwan	100.00	v
BMG New Zealand Limited, Newton, Parnell, Auckland	New Zealand	100.00	v
BMG Records Africa (Proprietary) Limited, Sunninghill (Johannesburg)	South Africa	100.00	v
BMG Singapore Pte. Limited, Singapore	Singapore	100.00	v

arvato

arvato print			
Artur Wahl GmbH Reproduktionen Satzherstellung, Munich	Germany	100.00	v
Deutscher Supplement Verlag GmbH, Nuremberg	Germany	75.00	v
Fernwärme GmbH, Gütersloh	Germany	51.00	v
GGP Media GmbH, Pößneck	Germany	100.00	v
maul + co – Chr. Belser GmbH, Nuremberg	Germany	75.00	v
maul + co – Chr. Belser Klebebindung GmbH, Nuremberg	Germany	75.00	v
maul + co – Chr. Belser Studios GmbH, Nuremberg	Germany	75.00	v
Medienfabrik Gütersloh GmbH, Gütersloh	Germany	90.00	v
Mobilitäts-Verlag GmbH, Berlin	Germany	100.00	v
MOHN Media Elsnerdruck GmbH, Berlin	Germany	100.00	v
MOHN Media Kalender & Promotion Service GmbH, Gütersloh	Germany	100.00	v
MOHN Media Mohndruck GmbH, Gütersloh	Germany	100.00	v
Präsenta Promotion International GmbH, Solingen	Germany	60.00	v
ProBind Professional Binding GmbH, Gütersloh	Germany	95.00	v
TV Information Services GmbH, Nuremberg	Germany	75.00	v
WOSCHEK Verlags GmbH, Mainz	Germany	90.00	v
ASTROSAT, spol. s r.o., Prague	Czech Republic	36.75	e
Berryville Graphics, Inc., Wilmington	USA	100.00	v
Cobrhi, S.L., Madrid	Spain	100.00	v
Coral Graphic Services, Inc., Hicksville	USA	95.10	v
Dynamic Graphic Finishing, Inc., Horsham	USA	95.10	v
Editoriale Johnson S.p.A., Seriate	Italy	98.82	v
Eurogravure S.p.A., Bergamo	Italy	69.18	v
Eurohueco, S.A., Castellbisbal (Barcelona)	Spain	65.00	v
Nuovo Istituto Italiano d'Arti Grafiche S.p.A., Bergamo	Italy	98.82	v
OAO Jaroslawskij Poligraphitscheskij Kombinat, Jaroslawl	Russia	50.90	v
Offset Paperback MFRS., Inc., Dallas	USA	100.00	v
OOO Distribuziony zentr Bertelsmann, Jaroslawl	Russia	100.00	v
Printer Colombiana, S.A., Santa Fé de Bogotá	Colombia	50.89	v
Printer Industria Gráfica, S.A., Sant Vicenc dels Horts (Barcelona)	Spain	100.00	v
Printer Portuguesa-Indústria Gráfica, Limitada, Mem Martins (Algueirao)	Portugal	100.00	v
Publicisterna Söderberg & Co. Aktiebolag, Stockholm	Sweden	69.75	v
Rotedic, S.A., Madrid	Spain	100.00	v
arvato direct services / arvato logistics services			
arvato direct services Dortmund GmbH, Dortmund	Germany	100.00	v
arvato direct services Eiweiler GmbH, Heusweiler-Eiweiler	Germany	100.00	v
arvato direct services GmbH, Gütersloh	Germany	100.00	v
arvato direct services Gütersloh GmbH, Gütersloh	Germany	100.00	v
arvato direct services Münster GmbH, Münster	Germany	100.00	v
arvato direct services Stuttgart GmbH, Kornwestheim	Germany	100.00	v
arvato direct services Wilhelmshaven GmbH, Schortens	Germany	100.00	v
arvato direct services Wuppertal GmbH, Wuppertal	Germany	100.00	v
arvato distribution GmbH, Harsewinkel	Germany	100.00	v
arvato logistics services GmbH, Gütersloh	Germany	100.00	v
arvato media GmbH, Gütersloh	Germany	100.00	v
arvato technology ELC GmbH, Düren	Germany	100.00	v
arvato technology GmbH, Gütersloh	Germany	100.00	v
AZ Direct GmbH, Gütersloh	Germany	100.00	v
bedirect GmbH & Co. KG, Gütersloh	Germany	50.00	q
BFS finance Münster GmbH, Münster	Germany	100.00	v
BFS finance, Verl	Germany	100.00	v
BFS risk & collection GmbH, Verl	Germany	100.00	v
BFS risk management GmbH, Verl	Germany	74.80	v
Deutsche Post Adress GmbH, Bonn	Germany	49.00	e
inmediaONE] GmbH, Gütersloh	Germany	100.00	v
Media Log Spedition GmbH, Gütersloh	Germany	100.00	v
NIONEX GmbH, Gütersloh	Germany	100.00	v
PVS Mailmanagement GmbH, Neckarsulm	Germany	100.00	v
Verlegerdienst München GmbH, Gilching	Germany	100.00	v
webmiles GmbH, Munich	Germany	87.53	v
wissen Media Verlag GmbH, Gütersloh	Germany	100.00	v
wissen.de GmbH Gesellschaft für Online-Information, Munich	Germany	100.00	v
ALLDIREKT Telemarketing GmbH, Salzburg	Austria	100.00	v
arvato communication services France SARL, Noyelles sous Lens	France	100.00	v
arvato services (UK) Limited, Warley	UK	100.00	v
arvato services Asia Pacific Pte. Limited, Singapore	Singapore	100.00	v
arvato services Australia Pacific Pty. Limited, Castle Hill (Sydney)	Australia	100.00	v
arvato services France S.A.R.L., Noyelles sous Lens	France	100.00	v
arvato services Iberia, S.A., Barcelona	Spain	100.00	v
arvato services, Inc., Valencia	USA	100.00	v
BD Medien-Service AG, Münchenstein	Switzerland	100.00	v
BenefitNation, Inc., Fairfax Station	USA	60.00	v
Bertelsmann Media Sp. z o.o z siedziba w Warszawie Oddzial arvato services Polska, Plewiska k/Poznania	Poland*	100.00	v
Bertelsmann Österreich GmbH, Vienna	Austria	100.00	v
BFS finance Limited, Dublin	Ireland	100.00	v
DISTODO, Distribuicao e Logistica, LDA., Vila Nova de Rainha	Spain	33.33	e
Eurodirect Marketing Lettershop SAS, Geispolsheim	France	60.00	v
EUROMEDIA GROUP k.s., Prague	Czech Republic*	100.00	v
Forms Facility Group B.V., Abcoude	Netherlands	60.00	v
SPDS AG, Luzern	Switzerland	100.00	v
Total Distribución, S.A., Alcorcón (Madrid)	Spain	66.67	v
Verlagsservice für Bildungssysteme und Kunstobjekte GmbH & Co. KG, Vienna	Austria	75.00	v
Verlagsservice Süd AG, Glattbrugg	Switzerland	100.00	v
arvato systems			
arvato systems GmbH, Gütersloh	Germany	100.00	v
arvato systems Technologies GmbH, Rostock	Germany	100.00	v
empolis GmbH, Gütersloh	Germany	100.00	v
SSB Software Service und Beratung GmbH, Munich	Germany	54.71	e
arvato Middle East Sales FZE, Dubai	V.A.E.	100.00	v
arvato systems (Shanghai) Co. Limited, Shanghai	China	100.00	v
arvato systems France S.A.R.L., Paris	France	100.00	v
arvato systems Global 24 North America LLC, Wilmington	USA	100.00	v
arvato systems Hungary Tanácsado és Szolgáltató Kft., Budapest	Hungary	51.00	e
arvato systems North America, Inc., Wilmington	USA	100.00	v
arvato systems UK & Ireland Limited, London	UK	100.00	v
empolis NA, Inc., Burlington	USA	100.00	v
empolis Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	95.05	v
empolis scandinavia AS, Oslo	Norway	100.00	v
empolis UK Limited, Swindon	UK	100.00	v
arvato storage media			
arvato storage media GmbH, Gütersloh	Germany	100.00	v
Digital World Services GmbH, Hamburg	Germany	100.00	v
FlexStorm GmbH, Gütersloh	Germany	100.00	v
Sonopress Data Replication Gesellschaft für Informationsträgervervielfältigung mbH, Gütersloh	Germany	100.00	v
Sonopress Produktionsgesellschaft für Ton- und Informationsträger mbH, Gütersloh	Germany	100.00	v
topac MultimediaPrint GmbH, Gütersloh	Germany	100.00	v
Digital World Services LLC, Delaware	USA	100.00	v
Sonopress - Rimo Argentina, S.A., Buenos Aires	Argentina	52.00	v
Sonopress (UK) Limited, Wednesbury (Birmingham)	UK	100.00	v
Sonopress France SAS, Paris	France	100.00	v
Sonopress Iber-Memory S.A., Coslada (Madrid)	Spain	51.00	v
Sonopress Ireland Limited, Dublin	Ireland [1]	100.00	v
Sonopress LLC, Wilmington	USA	100.00	v
Sonopress Pan Asia Limited, Hong Kong	China	100.00	v
Sonopress Pan Asia Tokyo Co., Limited, Tokyo	Japan	100.00	v
Sonopress Shanghai Multimedia Technology Co. Limited, Shanghai	China	100.00	v
Sonopress Singapore Pte. Limited, Singapore	Singapore	100.00	v
Sonopress South Africa (Proprietary) Limited, Bromhof (Johannesburg)	South Africa	100.00	v
Sonopress-Rimo Indústria e Comércio Fonográfica Ltda., Sao Paulo	Brazil	52.00	v

1) The company has availed of exemptions under Section 17 of the Irish Companies' (Amendment) Act 1986 from publicly filing its financial statements.

DirectGroup Bertelsmann

Clubs Central and Eastern Europe			
Bertelsmann Multimedia GmbH, Gütersloh	Germany	100.00	v
FCB FREIZEIT-CLUB Betreuungs-GmbH & Co., Hamburg	Germany	50.00	q
RM Buch und Medien Vertrieb GmbH, Gütersloh	Germany	100.00	v
Bertelsmann Media Moskau AO, Moscow	Russia	100.00	v
Bertelsmann Media - Swiat Ksiazki, Warsaw	Poland	100.00	v
Bertelsmann Medien (Schweiz) AG, Zug	Switzerland	100.00	v
Buchgemeinschaft Donauland Kremayr & Scheriau, Vienna	Austria	75.00	v
EUROMEDIA GROUP k.s., Prague	Czech Republic	100.00	v
IKAR a.s., Bratislava	Slovakia	100.00	v
Clubs / Direct Sales South West Europe			
Bertelsmann OnLine B.V., Vianen	Netherlands	100.00	v
BOL Books On Line Italia S.p.A., Milan	Italy	50.00	e
Circulo de Lectores, S.A., Barcelona	Spain	100.00	v
Circulo de Leitores, S.A., Lisbon	Portugal	100.00	v
ECI voor Boeken en Platen B.V., Vianen	Netherlands	89.80	v
France Loisirs (Suisse) S.A., Crissier	Switzerland	100.00	v
France Loisirs Belgique S.A., Ath	Belgium	100.00	v
FRANCE LOISIRS S.A.R.L., Paris	France	100.00	v
Lexicultural - Actividades Editoriais, Limitada, Buraca (Lisbon)	Portugal	100.00	v
Mondolibri S.p.A., Milan	Italy	50.00	q
Québec Loisirs Inc., Ville St. Laurent	Canada	100.00	v
Société Générale d'Edition et de Diffusion SGED, s.n.c. (i.L.), Paris	France	50.00	q
Clubs Asia			
Bertelsmann Korea Co., Limited, Seoul	Korea	100.00	v
Shanghai Bertelsmann Culture Industry Co. Limited, Shanghai	China	80.00	v
Shanghai Bertelsmann Information Technology Co. Limited, Shanghai	China	100.00	v
English Speaking Clubs			
bol. limited, London	UK	100,00	v
Book Club Associates, London	UK	100,00	v
Bookspan (Partnership), Delaware	USA	50,00	q
Doubleday Australia Pty. Limited, Lane Cove (Sydney)	Australien	100,00	v
Doubleday Canada Limited, Toronto	Canada	100,00	v
BeMusic / eCommerce			
buch.de AG, Münster	Germany	25,10	e
barnesandnoble.com llc, New York	USA	36.80	e
BeMusic, Inc., Dauphin County	USA	100.00	v
Other			
bol.com AG, Gütersloh	Germany	100.00	v
Bertelsmann DealTime Holding B.V., Amsterdam	Netherlands	89.33	v

BertelsmannSpringer

Science, Technology, Medicine			
BertelsmannSpringer Medizin Online GmbH, Berlin	Germany	76.90	v
B.G. Teubner GmbH, Wiesbaden	Germany	100.00	v
Dr. Dietrich Steinkopff Verlag GmbH & Co. KG, Darmstadt	Germany	87.08	v
FUCHSBRIEFE Dr. Hans Fuchs GmbH, Berlin	Germany	100.00	v
GWV Fachverlage GmbH, Wiesbaden	Germany	100.00	v
InfoChem Gesellschaft für chemische Information mbH, Gröbenzell	Germany	69.67	v
MED.KOMM. Gesellschaft für medizinische Kommunikation mbH, Munich	Germany	93.54	v
Springer GmbH & Co. Auslieferungs-Gesellschaft, Heidelberg	Germany	87.08	v
Springer-Verlag GmbH & Co. KG, Berlin	Germany	87.08	v
Urban & Vogel Medien und Medizin Verlagsgesellschaft mbH & Co.KG, Munich	Germany	93.54	v
Verlag Aktuelle Information GmbH, Frankfurt	Germany	100.00	v
Westdeutscher Verlag GmbH, Wiesbaden	Germany	100.00	v
GROUPE IMPACT MEDECIN S.A., Paris	France	100.00	v
Minerva wissenschaftliche Buchhandlung GmbH, Vienna	Austria	67.87	v
ÄRZTEWOCHE Zeitungsverlagsgesellschaft m.b.H., Vienna	Austria	100.00	v
Birkhäuser Boston, Inc., Cambridge	USA	86.42	v
Birkhäuser Verlag AG, Basel	Switzerland	87.08	v
Eastern Book Service, Inc., Tokyo	Japan	87.08	v
Ferdinand Springer GmbH, Vienna	Austria	67.08	v
Key Curriculum Press, Inc., Emeryville	USA	68.27	v
MMV 2 Medien & Medizin Verlag AG, Basel	Switzerland	93.74	v
Princeton Architectural Press, Inc., New York	USA	44.08	v
Springer-Verlag (London) Limited, Farncombe, Godalming	UK	87.08	v
Springer-Verlag France S.A.R.L., Paris	France	87.08	v
Springer-Verlag Hong Kong Limited, Hong Kong	China	87.08	v
Springer-Verlag Italia S.r.l., Milan	Italy	87.08	v
Springer-Verlag KG, Vienna	Austria	67.87	v
Springer-Verlag New York, Inc., New York	USA	86.42	v
Springer-Verlag Tokyo, Inc., Tokyo	Japan	87.08	v
Business-to-Business (B2B)			
Auto Business Verlag GmbH & Co. KG, Ottobrunn	Germany	100.00	v
BauNetz Online-Dienst GmbH & Co. KG, Berlin	Germany	100.00	v
BertelsmannSpringer Bauverlag GmbH, Gütersloh	Germany	100.00	v
HEINZE GmbH, Celle	Germany	100.00	v
Verlag Heinrich Vogel GmbH Fachverlag, Munich	Germany	100.00	v
Wendel-Verlag GmbH, Kassel	Germany	100.00	v
ABI Building Data Limited, Neston	UK	100.00	v
BAU-DATA GmbH, Vigaun	Austria	100.00	v
Bertelsmann Information Professionnelle S.A.S., Paris	France	100.00	v
BertelsmannSpringer Business-to-Business (Benelux) N.V., Kortrijk	Belgium	100.00	v
BertelsmannSpringer Business-to-Business (Schweiz) AG, Schlieren	Switzerland	100.00	v
BertelsmannSpringer CZ s r.o., Prague	Czech Republic	100.00	v
BertelsmannSpringer Magyarország Kiadó Kft., Budapest	Hungary	100.00	v
CoboSystems N.V., Zaventem	Belgium	100.00	v
Codes Rousseau S.A.S., Les Sables d'Olonne	France	100.00	v
Editorial Trafico Vial, S.A., Móstoles (Madrid)	Spain	100.00	v
Fachmedien Verlag GmbH, Klosterneuburg	Austria	95.00	v
Grupa Image Spólka z o.o., Warsaw	Poland	100.00	v
Media-Daten AG, Zurich	Switzerland	100.00	v
MediaOffice N.V., Lasne	Belgium	100.00	v
Plus Point Marketing B.V.B.A., Kortrijk	Belgium	100.00	v
Schück Söhne AG Druckerei und Verlag, Rüschlikon	Switzerland	100.00	v
Stürtz Group			
design & production GmbH Verlagsservice, Heidelberg	Germany	82.73	v
Saladruck GmbH, Berlin	Germany	87.08	v
Stürtz Verlag GmbH, Würzburg	Germany	87.08	v
Universitätsdruckerei H. Stürtz AG, Würzburg	Germany	87.08	v
Scientific Publishing Services (P) Limited, Bangalore	India	78.38	v

37 Exemption of Domestic Companies from preparation, Audit and Publication of Financial Statements

The exemption provisions set out in § 264 para. 3 HGB regarding the supplementary requirements for limited liability companies to prepare financial statements and a management report and on audit and publication by limited liability companies were implemented by the following subsidiaries for the year ended December 31, 2002:

Arabella Musikverlag GmbH	Munich
Arbor TV-Filmproduktion GmbH	Tutzing
arvato AG	Gütersloh
arvato direct services Dortmund GmbH	Dortmund
arvato direct services GmbH	Gütersloh
arvato direct services Gütersloh GmbH	Gütersloh
arvato direct services Gütersloh GmbH	Springe
arvato direct services Münster GmbH	Münster
arvato direct services Neumünster GmbH	Neumünster
arvato direct services Stuttgart GmbH	Ludwigsburg
arvato direct services Wilhelmshaven GmbH	Wilhelmshaven
arvato direct services Wuppertal GmbH	Wuppertal
arvato distribution GmbH	Gütersloh
arvato logistics services GmbH	Gütersloh
arvato media GmbH	Gütersloh
arvato storage media GmbH	Gütersloh
arvato systems GmbH	Gütersloh
arvato systems Technologies GmbH	Rostock
arvato technology ELC GmbH	Düren
AZ Direct GmbH	Gütersloh
AZ Direct GmbH	Bad Homburg
AZ Direct GmbH	Munich
B.G. Teubner Gesellschaft mit beschränkter Haftung	Wiesbaden
Bavariaton-Verlag Gesellschaft mit beschränkter Haftung	Munich
Bertelsmann arvato middle east sales GmbH	Gütersloh
Bertelsmann Buch Aktiengesellschaft	Gütersloh
Bertelsmann Capital Holding GmbH	Hamburg
Bertelsmann Immobilien GmbH	Gütersloh
Bertelsmann Interactive Studios GmbH	Gütersloh
Bertelsmann Korea Beteiligungs GmbH	Gütersloh
Bertelsmann Multimedia GmbH	Gütersloh
Bertelsmann Music Group GmbH	Gütersloh
Bertelsmann Music Group GmbH	Munich
Bertelsmann Online Beteiligungsgesellschaft mbH	Gütersloh
Bertelsmann Online International GmbH	Gütersloh
Bertelsmann Valley GmbH	Gütersloh
BertelsmannSpringer Science+Business Media GmbH	Gütersloh
BertelsmannSpringer Science+Business Media GmbH	Berlin
BFS finance GmbH	Gütersloh
BFS risk & collection GmbH	Gütersloh
BIP Industrieplanungs-GmbH	Gütersloh
BMG Berlin Musik GmbH	Berlin
BMG Deutschland GmbH	Gütersloh
BMG Music International Service GmbH	Munich
bol.com AG	Gütersloh
CLT-UFA Multimedia GmbH	Cologne
Creation GmbH	Cologne
Crescendo Musikverlag GmbH	Munich
Cutup GmbH	Cologne
Darpar 128 GmbH	Cologne
Die Berliner Produktion GmbH	Berlin
Dreiklang-Dreimasken, Bühnen- und Musikverlag Gesellschaft mit beschränkter Haftung	Munich
empolis GmbH	Gütersloh
Fremantle Licensing Germany GmbH	Berlin
FUCHSBRIEFE Dr. Hans Fuchs GmbH	Berlin
GGP Media GmbH	Gera
Grundy Light Entertainment GmbH	Cologne
Grundy UFA TV Produktions GmbH	Berlin
Gun Records Musikproduktions GmbH	Bochum
Gütersloher Verlagshaus GmbH	Gütersloh
Gyula Trebitsch Fernsehproduktion GmbH	Ludwigsburg
HEINZE Gesellschaft mit beschränkter Haftung	Celle
Hotel & Gastronomie Gütersloh GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
Interworld Musik-Verlag Gesellschaft mit beschränkter Haftung	Munich
Luchterhand Literaturverlag GmbH	Munich
MBV Media Berlin Verlag GmbH	Berlin
Media Log Spedition GmbH	Gütersloh
Medien Dr. phil. Egon Müller Service GmbH	Gütersloh
Mohn Media Bindery GmbH	Gütersloh
Mohn Media Elsnerdruck GmbH	Berlin
Mohn Media Energy GmbH	Gütersloh
Mohn Media Print GmbH	Gütersloh
Mohn Media Sales GmbH	Gütersloh
Musik Edition Discoton, Gesellschaft mit beschränkter Haftung	Munich
OSB Olympische Sportbibliothek Gesellschaft mbH	Munich
Phoebus Geschäftsführungs GmbH	Berlin
PRO FUTURA GmbH	Gütersloh
ProBind Professional Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Gera
Reinhard Mohn GmbH	Gütersloh
RM Buch und Medien Vertrieb GmbH	Gütersloh
RM Buch und Medien Vertrieb GmbH Rheda-Wiedenbrück	Rheda-Wiedenbrück
RTL Group Verwaltungs und Holding GmbH	Cologne
RTL Hessen GmbH	Cologne
RTL Nord GmbH	Cologne
RTL Radio Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
Sonopress Data Replication Gesellschaft für Informationsträgervervielfältigung mbH	Gütersloh
UFA - International Gesellschaft mit beschränkter Haftung	Munich
UFA Entertainment GmbH	Berlin
UFA Fernsehproduktion GmbH	Berlin
UFA Film & Fernseh GmbH	Hamburg
UFA Film & Medienproduktion GmbH	Leipzig
UFA Film & TV Produktion GmbH	Berlin
UFA Film Finance GmbH	Berlin
UFA Film München GmbH	Munich
UFA Filmproduktion GmbH	Berlin
UFA International Film & TV Produktions GmbH	Berlin
UFA non fiction Productions GmbH	Berlin
UFA Sport Television GmbH	Hamburg
Ufaton-Verlagsgesellschaft mit beschränkter Haftung	Munich
Universum Film Beteiligungs GmbH	Munich
Verlag Aktuelle Information Gesellschaft mit beschränkter Haftung	Frankfurt
Verlag Heinrich Vogel GmbH Fachverlag	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlagsgruppe Random House GmbH München	Munich
Westdeutsche Universum-Film GmbH	Cologne
Wiener Bohème Verlag Gesellschaft mit beschränkter Haftung	Munich
Wilhelm Goldmann Verlag GmbH	Munich
wissen Media Group GmbH	Munich

The exemption provisions set out in § 264b HGB were again implemented by the following companies for the year ended December 31, 2002:

ANDSOLD GmbH & Co. KG	Gütersloh
Börse Online Verlag GmbH & Co.	Munich
Deutsche Synchron Filmgesellschaft mbH & Co. Produktions KG	Berlin
Dresdner Druck- und Verlagshaus GmbH & Co. KG	Dresden
eB2B market place GmbH & Co. KG	Hamburg
Ehrlich & Sohn GmbH & Co.	Hamburg
Gruner+Jahr AG & Co.	Hamburg
Pantheon Film GmbH & Co. Produktions KG	Berlin
Phoebus Film GmbH & Co. Produktions KG	Berlin
Phoebus Film Karlheinz Brunnemann GmbH & Co. Produktions KG	Berlin
Universum Film GmbH & Co. KG	Munich
Verlegerdienst München Gesellschaft mit beschränkter Haftung & Co. KG	Munich

38 Supervisory Board

Reinhard Mohn
Honorary Chairman

Gerd Schulte-Hillen
Chairman
Vice-Chairman of the Bertelsmann Foundation Executive Board, and Shareholder Bertelsmann Verwaltungsgesellschaft mbH (BVG)
- Druck- und Verlagshaus Gruner + Jahr AG (Chairman)
- Hamburg-Mannheimer Versicherung-AG
- Hamburg-Mannheimer Sachversicherungs-AG

Dr. Dieter H. Vogel
Vice-Chairman,
Managing Partner of Bessemer, Vogel und Treichl GmbH
- ABB AG (Chairman)
- Gerling Industrie-Service AG (Vice-Chairman)
- Mapress GmbH (Chairman)
- Mobilcom AG
- Blücher Aps
- Ernst & Young – Deutsche Allgemeine Treuhand AG
- HSBC Trinkaus & Burkhardt KGaA

Dr. Rolf-E. Breuer
Chairman of the Supervisory Board, Deutsche Bank AG
- DB Industrial Holdings AG (Chairman) (until 5/21/2002)
- Deutsche Bank AG (Chairman) (since 5/22/2002)
- Deutsche Börse AG (Chairman)
- Deutsche Lufthansa AG
- E.ON AG
- Münchner Rückversicherungs-Gesellschaft AG (until 12/6/2002)
- Siemens AG (Vice-Chairman)
- Compagnie de Saint-Gobain S.A.
- Kreditanstalt für Wiederaufbau (since 5/10/2002)
- Landwirtschaftliche Rentenbank

Dr. Hugo Bütler
(until 6/30/2002)
Editor-in-Chief and Managing Director of Neue Zürcher Zeitung
- Robert Bosch Internationale Beteiligungen AG
- LZ Medien Holding (since 6/18/2002)

André Desmarais
President and Chief Executive Officer, Power Corporation of Canada
- Bombardier Inc.
- CITIC Pacific Limited
- Great-West Life & Annuity Insurance Company
- Great-West Lifeco Inc.
- Groupe Bruxelles Lambert S.A.
- Investors Group Inc.
- Pargesa Holding S.A.
- Power Financial Corporation
- Power Financial Europe B.V.
- Parjointco N.V.
- The Great-West Life Assurance Company

Prof. Dr. Michael Hoffmann-Becking
Lawyer
- Delton AG
- Rheinische Bahngesellschaft AG
- C.H. Boehringer Sohn
- de Haen-Carstanjen GmbH
- Felix Schoeller Holding GmbH & Co. KG

Sir Peter Job
(since 7/1/2002)
Former Chairman of the Executive Board, Reuters Group PLC
- Deutsche Bank AG
- GlaxoSmithkline PLC
- Instinet Group, Inc.
- Multex.com, Inc.
- RVC
- Schroders PLC
- Shell Transport and Trading PLC
- Tibco Software, Inc.

John R. Joyce
(since 7/1/2002)
Chief Financial Officer IBM

Oswald Lexer
Vice-Chairman of the Bertelsmann Corporate Works Council

- **Supervisory Board mandates in accordance with § 100, para. 2 of the German Stock Coporation Act (AktG)**
- **Membership in comparable domestic and foreign supervisory bodies of commercial enterprises**

As of December 31, 2002

Liz Mohn
Member of the Bertelsmann Foundation Executive Board and Chairwoman of the Board of Bertelsmann Verwaltungsgesellschaft mbH (BVG)

Willi Pfannkuche
Member of the Bertelsmann Corporate Works Council

Erich Ruppik
Chairman of the Bertelsmann Corporate Works Council

Gilles Samyn
Managing Director and Vice-Chairman, Compagnie Nationale à Portefeuille S.A
- Fomento de Construcciones y Contratas
- Groupe Bruxelles Lambert S.A.
- Imerys S.A.
- Petrofina S.A.
- Pargesa Holding S.A.
- Quick S.A.
- RTL Group S.A.

Richard Sarnoff
(since 7/1/2002)
Chairman of the Bertelsmann AG Management Representative Committee (since 5/1/2002)
Executive Vice President Random House
- Audible, Inc.
- Classic Medin, Inc.
- ebrary, Inc.
- Princeton Review
- Random House Mondadori Group (until 6/30/2002)
- Xlibris, Inc.

Prof. Dr. Jürgen Strube
Chairman of the Board of Executive Directors, BASF AG
- Allianz Lebensversicherungs-AG
- BMW AG
- Commerzbank AG
- Hapag-Lloyd AG
- Hochtief AG
- Linde AG

Dr. Uwe Swientek
(until 6/30/2002)
Chairman of the Bertelsmann AG Management Representative Committee (until 4/30/2002)
Chief Executive Officer arvato storage media (until 4/30/2002)
- CEYONIQ AG (Chairman)
- Sonopress Ibermemory S.A. (until 4/30/2002)
- Sonopress Rimo Industria e Comercio Fonografica Ltda. (until 4/30/2002)
- Sonopress Pan Asia Limited (until 4/30/2002)
- Sonopress Pan Asia Tokyo Limited (until 4/30/2002)

Dr.-Ing. E.h. Heinrich Weiss
(until 6/30/2002)
Chairman of the Management Board, SMS AG
- Commerzbank AG
- Deutsche Bahn AG
- Ferrostaal AG
- Hochtief AG
- J.M. Voith AG
- SMS Demag AG (Chairman)
- Thyssen-Bornemisza Group
- Concast Holding AG
- Concast AG

Bernd Wrede
(until 6/30/2002)
Former Chairman of the Executive Board, Hapag-Lloyd AG
- Bankgesellschaft Berlin AG (since 3/28/2002)
- Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG
- ERGO Versicherungsgruppe AG
- Goldschmidt AG
- Landesbank Berlin (since 3/28/2002)
- Kühne & Nagel International AG

Committees of the Supervisory Board

Personnel Committee
Gerd Schulte-Hillen (Chairman)
André Desmarais
Liz Mohn
Prof. Dr. Jürgen Strube

Audit and Finance Committee
Dr. Dieter H. Vogel (Chairman)
Dr. Rolf-E. Breuer
Prof. Dr. Michael Hoffmann-Becking
John R. Joyce
Erich Ruppik
Gilles Samyn

Strategy and Investment Committee
Gerd Schulte-Hillen (Chairman)
Dr. Rolf-E. Breuer
André Desmarais
Sir Peter Job
Gilles Samyn
Richard Sarnoff
Dr. Dieter H. Vogel

Working Group of the Employee Representatives on the Supervisory Board
Gerd Schulte-Hillen (Chairman)
Oswald Lexer
Liz Mohn
Willi Pfannkuche
Erich Ruppik
Richard Sarnoff

39 Executive Board

Dr. Gunter Thielen
Chairman & Chief Executive Officer
(since 8/5/2002)
- arvato AG (since 12/5/2002)
- KarstadtQuelle AG [1)]
- Leipziger Messe GmbH [1)]
- Berryville Graphics, Inc. (until 9/1/2002)
- Bertelsmann Holding Spain, S.A. (until 5/6/2002)
- Bertelsmann Inc. (since 8/5/2002)
- Cobrhi, S.A. (until 5/6/2002)
- Coral Graphic Services, Inc. (until 9/1/2002)
- Coral Graphic Services of Virginia, Inc. (until 9/1/2002)
- Dynamic Graphic Finishing, Inc. (until 9/1/2002)
- Eurohueco, S.A. (until 7/15/2002)
- Hannover'sche Leben [1)]
- Istituto Italiano d'Arti Grafiche S.p.A. (until 9/1/2002)
- maul + co – Chr. Belser GmbH (until 11/19/2002)
- Novo Sistema Actuaciones y Servicios, S.L. (until 5/6/2002)
- Offset Paperback MFRS., Inc. (until 9/1/2002)
- Printer Colombiana S.A. (until 11/5/2002)
- Printer Industria Gráfica, S.A. (until 5/6/2002)
- RTL Group S.A. (since 9/3/2002)
- Rotedic, S.A. (until 5/6/2002)
- Saarländische Landesbank [1)]
- Stampers, Limited (until 9/1/2002)

Dr. Siegfried Luther
Deputy Chairman
(since 8/5/2002)
- Bertelsmann Buch AG
- Druck- und Verlagshaus Gruner + Jahr AG
- Springer Verlag GmbH & Co. KG
- WestLB AG (since 8/1/2002) [1)]
- Bertelsmann Inc.
- Lycos Europe N.V.
- RTL Group S.A.

Dr. Arnold Bahlmann
President & Chief Executive Officer
BertelsmannSpringer
- Stürtz AG (Chairman) (since 12/18/2002)

- **Supervisory Board mandates in accordance with § 100, para. 2 of the German Stock Coporation Act (AktG)**
- **Membership in comparable domestic and foreign supervisory bodies of commercial enterprises**

1) External mandates

As of December 31, 2002

Dr. Klaus Eierhoff
(until 8/9/2002)
- bol.com AG (Chairman) (until 10/31/2002)
- barnesandnobles.com (until 8/9/2002)
- BOOKSPAN (until 8/9/2002)
- DealTime.com, Inc. (until 8/9/2002)
- Donauland – Geschäftsführungsgesellschaft mbH (until 8/9/2002)
- ECI voor boeken en platen B.V. (until 8/9/2002)
- Shanghai Bertelsmann Culture Industry Co. Limited (until 8/9/2002)

Dr. Bernd Kundrun
Chairman & Chief Executive Officer
Gruner + Jahr AG
- Gruner + Jahr Holding AG
- Gruner + Jahr USA Group Inc.
- News Networld Internetservice AG (until 12/16/2002)
- Stern Magazine Corporation

Dr. Thomas Middelhoff
(until 8/5/2002)
- Bertelsmann Buch AG (Chairman) (until 8/5/2002)
- Bertelsmann Inc. (until 7/27/2002)
- Bertelsmann Ventures L.P. (until 8/5/2002)
- RTL Group S.A. (until 8/5/2002)

Peter Olson, J.D./MBA
Chairman & Chief Executive Officer
Random House Inc.
- barnesandnobles.com (since 8/8/2002)
- Bertelsmann Inc.
- Random House, Inc.
- Random House Direct, Inc.
- Random House TPR, Inc.

Hartmut Ostrowski
Chairman & Chief Executive Officer
Bertelsmann arvato AG
- Webmiles GmbH (Chairman)
- arvato Services Inc.
- Bertelsmann Holding Spain, S.A. (since 5/6/2002)
- Berryville Graphics, Inc. (since 9/1/2002)
- Coral Graphic Services of Kentucky, Inc (since 9/1/2002)
- Coral Graphic Services, Inc. (since 9/1/2002)
- Coral Graphic Services of Virginia, Inc. (since 9/1/2002)
- Dynamic Graphic Finishing, Inc. (since 9/1/2002)
- Eurohueco, S.A. (since 7/15/2002)
- Nuovo Istituto Italiano d'Arti Grafiche S.p.A. (since 9/1/2002)
- maul + co – Chr. Belser GmbH (since 11/19/2002)
- Printer Industria Gráfica, S.A. (since 5/6/2002)
- Offset Paperback MFRS, Inc. (since 9/1/2002)
- Stampers, Limited (since 9/1/2002)

Rolf Schmidt-Holtz
Chairman & Chief Executive Officer
Bertelsmann Music Group (BMG),
Chief Creative Officer Bertelsmann AG
- Druck- und Verlagshaus Gruner + Jahr AG
- Ariola Eurodisc, Inc.
- Arista Records, Inc.
- Bertelsmann, Inc. (since 8/15/2002)
- Bertelsmann Music Group, Inc.
- Bertelsmann TJS, Inc.
- BMG Australia Limited
- BMG J LLC
- BMG Music
- BMG New Zealand Limited
- BMG Songs, Inc.
- BMG Special Products, Inc.
- Careers-BMG Music Publishing, Inc.
- RTL Group S.A.
- Zomba Enterprises, Inc.
- Zomba Music Publishers Limited (until 8/28/2002)
- Zomba Record Holdings B.V. (until 7/17/2002)
- Zomba Recording Corporation
- Zomba Records Limited

Dr. Ewald Walgenbach
(since 2/6/2002)
Chief Executive Officer
DirectGroup Bertelsmann
- bol.com AG (Chairman) (since 11/1/2002)
- barnesandnobles.com (since 11/1/2002)
- Bertelsmann Corea Co. Limited (since 8/28/2002)
- CLT-UFA S.A. (until 2/8/2002)
- CLT-UFA Los Angeles Inc. (until 2/22/2002)
- CLT-UFA UK Television Limited (until 2/22/2002)
- Delux Productions S.A. (until 2/22/2002)
- ECI voor boeken en platen B.V. (since 11/13/2002)
- Ediradio S.A. (until 2/22/2002)
- FCB Freizeitclub
- International Film Productions S.A. (until 2/8/2002)
- IP Deutschland GmbH (until 2/22/2002)
- IP Medien GmbH (until 2/22/2002)
- Métropole Television S.A. (until 2/22/2002)
- RTL De Holland Media Groep S.A. (until 2/8/2002)
- RTL Group S.A
- RTL New Media GmbH (until 2/22/2002)
- RTL Plus S.A. (until 2/8/2002)
- RTL Television GmbH (until 2/22/2002)
- Shanghai Bertelsmann Culture Industry
- SPORTFIVE S.A. (until 2/22/2002)
- Studio Luxembourg S.A. (until 2/22/2002)

40 Events After the Balance Sheet Date

In February 2003 Random House agreed with Axel Springer Verlag AG to acquire the Ullstein Heyne List publishing group. It will be integrated into the Random House publishing group in Germany as from the beginning of 2003. Approval by the merger authorities was still outstanding at time of print.

41 Recommendation on Appropriation of Retained Earnings

On May 20, 2003 and as provided by the statutes, € 77 million, being 15 percent of € 516 million, will be distributed to holders of the profit participation certificates out of Bertelsmann AG's retained earnings of € 914 million. The Executive Board recommends to the annual general meeting that the remaining retained earnings of € 837 million after the distribution to holders of the profit participation certificates be appropriated as follows:

Appropriation of Retained Earnings

	€ millions
Dividends to shareholders	240
Carry forward to new fiscal year	597
	837

Gütersloh, March 7, 2003

Bertelsmann Aktiengesellschaft
The Executive Board:

Dr. Thielen	Dr. Luther	Dr. Bahlmann	Dr. Kundrun
Olson	Ostrowski	Schmidt-Holtz	Dr. Walgenbach

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Bertelsmann AG for the business year from January 1 to December 31, 2002. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2002, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2002 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Bielefeld, March 10, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke	Kämpf
German Public Auditor	German Public Auditor

Select Terms at a Glance

BEX
Short for Bertelsmann Excellence Initiative, aimed at achieving a continuous improvement in cooperation and processes within the Group, together with a steady increase in profitability and return on investment.

Benchmark Bond
Large volume bond with issue proceeds of € 500 million or more.

Bridge Loan
Credit lines granted to provide interim short- and medium-term funds.

Cash Flow per DVFA/SG
Net cash flow from operating activities as defined by the German Association of Financial Analysts and the Schmalenbach-Gesellschaft.

Debt Issuance Program
Program enabling flexible placements of promissory notes on the market.

Discontinuing Operation
Significant component of operations which can be distinguished operationally and for financial reporting purposes.

Rights Similar to Goodwill
Intangible assets determined as a result of fair value accounting at the time of a business combination, as set out in IAS 22. These are treated in the same way as goodwill for Group controlling purposes.

Total Earnings
Earnings before financial result, taxes and amortization of goodwill and similar rights, including capital gains/losses.

Operating EBITA
Earnings before financial result, taxes, amortization of goodwill and similar rights, capital gains/losses and special items, in particular restructuring expenses. Internet losses have been included in Operating EBITA as from 2002.

Operating EBITDA
Earnings before financial result, taxes, amortization of goodwill and similar rights, depreciation of property, plant and equipment, depreciation of financial assets, capital gains/losses and special items, in particular restructuring expenses. Internet losses have been included in Operating EBITDA as from 2002.

Rating
Estimate of the creditworthiness of a creditor, made as a result of a credit analysis carried out by a specialist agency.

Syndicated Credit Line
Credit line granted by a group of banks. Also called syndicated loan facility.

VSOP
Short for virtual stock option plan: Program for granting management a long-term, earnings-related component of their remuneration.

Imprint

Editing and Coordination Bertelsmann AG, Corporate Communications/Media Relations, Gütersloh
Design ringzwei, Hamburg
Production medienfabrik Gütersloh GmbH, Gütersloh
Printed by MOHN Media · Mohndruck GmbH, Gütersloh

Information

Current information on Bertelsmann is available at:
www.bertelsmann.com

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