Annual Report 2003

BERTELSMANN

media worldwide

Bertelsmann Financial Highlights in € millions

	IFRS **2003**	IFRS 2002	IFRS Pro forma 2001	IFRS 7/1/2001 –12/31/2001	IFRS 2000/ 2001
Business Development					
Revenues	16,801	18,312	18,979	9,685	16,748
Operating EBITA	1,123	936	573	164	826
Net income before minority interests	208	968	1,378	931	987
Cash Flow	1,373	1,115	294	127	160
Investments	761	5,263	2,639	1,067	2,744
Total assets	20,164	22,188	23,734	23,734	17,245
Personnel costs	4,151	4,554	4,812	2,343	4,319
Employees (in absolute numbers)					
Germany	27,064	31,712	31,870	31,870	30,732
Other countries	46,157	48,920	48,426	48,426	43,816
Total	**73,221**	**80,632**	**80,296**	**80,296**	**74,548**
Equity					
Subscribed capital 1)	606	606	606	606	463
Retained earnings	6,060	6,079	5,697	5,697	3,222
Minority interests	965	1,059	2,081	2,081	792
Equity	**7,631**	**7,744**	**8,384**	**8,384**	**4,477**
As percentage of total assets	38	35	35	35	26
Net financial debt	820	2,741	859	859	2,298
Debt payback factor 2)	0.6	2.5	2.9	n/m	n/m
Net Income					
Net income before minority interests	**208**	**968**	**1,378**	**931**	**987**
Minority interests	54	40	(143)	(18)	246
Dividend	220	240	n/a	300	50
Profit participation payments 3)	76	77	77	39	95
Employee profit sharing 3)	29	34	n/a	19	44

1) 57.6 percent Bertelsmann Foundation, 17.3 percent Mohn family, 25.1 percent Groupe Bruxelles Lambert (GBL) (as of 12/31/2003)

2) Net financial debt/Cash Flow

3) Offset in net income

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Annual Report January 1 through December 31, 2003

Dear Friends of Bertelsmann,

Berlin is a fascinating city. In November 2003, Bertelsmann opened its new representative premises in the heart of this vibrant metropolis: Since then, "Unter den Linden 1" has quickly become a very popular place for communications. Men and women from business and politics, from science, culture and the media meet here to share information, views and opinions.

Last December, Bertelsmann's top executives convened in this building for a congress that centered on growth and innovation and thereby established the future strategy of Europe's biggest media corporation.

Dr. Gunter Thielen
Bertelsmann AG Chairman & CEO

At the Management Congress, it became clear that focusing on our core businesses has created optimum conditions for new growth. Our management is suffused with energy and entrepreneurial spirit. We will continue to build on Bertelsmann's distinctive strengths – a corporate culture of partnership, decentralization and entrepreneurship – in the future as well. That is how we will foster the systematic development of our business and safeguard our employees' jobs.

We have put the current strategy under the acronymic heading "GAIN": Growth And Innovation – the company's stable situation now allows for new expansion. The objective is not size for its own sake, although we are sticking to our goal of taking the lead in all relevant markets. Growth is necessary to increase the company's value and maintain financial strength. We will proceed to generate organic growth in revenues and earnings with new products, attractive content and improved services. Thanks to our solid financial structure, we have additional investment potential of at least € 2 billion available for new projects in the next three years, above and beyond the regular investment budget. These resources will be used to put business concepts into practice and extend market shares. We will open up new markets related to our core businesses, especially those that show high growth potential or promise above-average development in combination with core businesses.

Bertelsmann's businesses performed well in 2003 and generated significantly higher results and yields. Nevertheless, we intend to continue increasing the group's average return on sales and the company's value in the years ahead. The six corporate divisions will have to continue improving their operating business. Strategies have been drawn up to this end.

We can only achieve these goals if we and our 73,000 employees devote our efforts to the future of Bertelsmann. We have always believed that corporate culture goes hand in hand with corporate success. Our most recent large-scale, anonymous employee survey once again delivered proof for the thesis that there is a direct correlation between employee identification with their job and company on the one hand and that company's economic success on the other. Companies with an exceptional degree of employee identification also enjoy above-average economic success.

This identification with the company is rooted in our corporate culture of partnership. Essential elements in employee satisfaction are on-the-job freedom and self-fulfillment, along with opportunities for professional development. Beyond this, the conduct of direct supervisors and the management's focus on employees are crucial in shaping the corporate culture and hence the employees' identification with their company. Bertelsmann's management concept is and will remain the prerequisite for its successful corporate development.

Bertelsmann will rely on growth and innovation in the years ahead. The Management Congress in Berlin showed that ideas and strategies are being developed in all six corporate divisions, promising attractive growth rates and return on sales.

million, now operate at a profit. In the business year just past, the group managed an impressive turnaround. In particular, France Loisirs in France and Circulo de Lectores in Spain generated attractive earnings. The German and British clubs, as well as the start-ups in the emerging markets, are not yet profitable. We are looking into the potential for new clubs in Eastern Europe, especially in Russia and the Ukraine. In China, Direct Group is the first and only foreign media group with permission to set up a nationwide chain of stores in addition to its Club operations. This gives us a chance to increase the number of Club

Bertelsmann businesses performed well and generated significantly higher results and yields.
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Strategies have been drawn up to this end.

In 2003, the Bertelsmann Music Group delivered outstanding creative triumphs and proved that it is on a good course. The months ahead call for peak entrepreneurial performance in a market that is experiencing considerable change through technological transformation. We now plan to merge BMG and Sony's recorded-music business into Sony BMG. If the antitrust authorities approve this transaction, it will be a big step towards safeguarding our music business. Following the integration process, Sony BMG's task will be to develop a future-proof business model for music. Our success will still be founded in our appeal for artists who can trust us to provide the best possible support for their talents.

Direct Group is back on track. The performance of its clubs was significantly improved thanks to a focus on core business, withdrawal from pure e-commerce, and enhanced decentralization. Most of the clubs, which have a total worldwide membership of 32

members in China from currently 1.5 million to five million in the next few years.

RTL Group intends to continue its growth, after having delivered the second-best performance in its history in 2003. Its TV and radio stations put the group at No. 1 or No. 2 in all of its markets except two. A major portion of its revenues and earnings is still generated in the two core markets Germany and France. Therefore, extending its operations in the UK, Spain and Eastern Europe is on the agenda for the next few years. The development of additional sources of revenues and earnings beyond broadcasting ad-financed TV programming offers a chance at lessening the group's dependence on the advertising market.

Innovations and customer focus have always been the driving force behind the media services provider Arvato, which has increased its revenues by a factor of 2.5 between 1990 and 2003. Key forces driving this dynamic growth include services for major international clients, expansion to new groups of products and customers, and the extension of Arvato's offerings to other countries e.g. in Eastern Europe, India and China. The goal for the future has been clearly stated: By 2010, Arvato plans to be the worldwide No. 1 in media services.

In a year that was difficult for the whole book-publishing industry, the revenue and earnings declines at Random House are attributable exclusively to currency effects. Adjusted for these effects, the group managed to improve both revenue and earnings. The more globally Random House does business, the greater the chances for its authors to gain international fame. The group currently publishes books in English, German, Spanish and Japanese. Tapping into new markets and opening up new countries is the top strategic priority. Japan, where we already operate the Random House Kodansha joint venture with our Japanese partner Kodansha, as well as Korea and India, all offer attractive growth opportunities in the years ahead. Random House will continue to concentrate on compelling, creative content while exploiting into new sales channels such as audiobooks to inspire young people – tomorrow's readers – as well.

Since the turn of the year 2000/2001, the magazine industry, especially in Germany, has experienced the most severe market decline in the past 50 years. Steady growth in the 1980s and the subsequent New Economy boom with new titles and an expanding advertising market were followed by a steep collapse, which confronted Gruner + Jahr with major challenges. However, its clear course of consolidation, cost cuts and portfolio streamlining has ensured that G+J looks back on a successful 2003 and faces 2004 with confidence. Crisis notwithstanding, the printing and publishing house launched a program offensive for new publications in spring of 2003, which is already bearing first fruit. By extending existing brands, trans-

Bertelsmann is on the right path with its innovations and growth. We will continue to concentrate on the markets in which we have experience and expertise. However, we are now also tackling new, rapidly growing markets with proven products.

ferring successful brands to new markets, and launching new titles such as “Woman” and “Neon” in Germany, “Tele 2 semaines” in France, and “Glamour” in Poland, G+J will demonstrate that innovative magazine concepts lead to interesting new business.

Bertelsmann is on the right path with its innovations and growth. We will continue to concentrate on the markets in which we have experience and expertise. However, we are now also tackling new, rapidly growing markets with proven products. In the process, creativity remains a guarantor for success. This race for the best ideas, along with the courage to take entrepreneurial risks, will lead to innovative new content, products and services.

At Bertelsmann, we have competent entrepreneurs who are not only given great freedom and scope of action, but actually take advantage of it. Our special appreciation goes out to our employees, who backed our tough decisions with understanding and professional consideration during the difficult years. This is the best possible provision for the future.

Our strategy is clear, and the financial scope opens up every possible opportunity. We are restarting the growth engine and embarking on another chapter in our company’s success story. We are committed to safeguarding both the continuity of our company and its ability to change and evolve.

Sincerely yours

Gunter Thielen
Bertelsmann AG Chairman & CEO

The Executive Board of Bertelsmann AG

1

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

2

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

3

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

4

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 of the Bertelsmann Arvato AG Executive Board since September 1, 2002, Gütersloh

5
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
since August 5, 2002,
Gütersloh

6
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
Direct Group Bertelsmann,
Gütersloh

7
Dr. Siegfried Luther
Born on August 5, 1944
in Hobeck (Germany),
Member of the Executive
Board since July 1, 1990,
Deputy Chairman of the
Executive Board
since August 5, 2002,
Chief Financial Officer and
Head of the Bertelsmann AG
Corporate Center,
Gütersloh

8
Gerhard Zeiler
Born on July 20, 1955
in Vienna (Austria),
Chief Executive Officer
of RTL Group,
Luxembourg and Cologne,
permanent guest
on the Bertelsmann AG
Executive Board

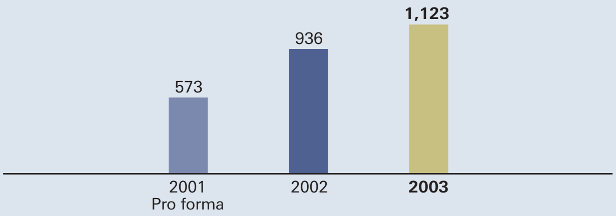
Management Report | Supervisory Board Report | Corporate Governance

Management Report

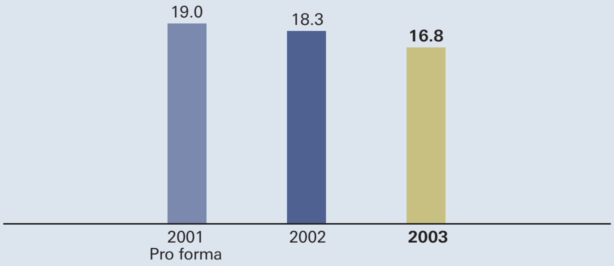
In 2003, Bertelsmann further strengthened its core businesses and achieved an operating result above previous year. At € 1,123 million, Operating EBITA was up by 20.0 percent over the previous year's level of € 936 million. Revenues declined to € 16.8 billion (previous year: € 18.3 billion), mainly due to currency effects. Operating Return on Sales (ROS) rose to 6.7 percent (previous year: 5.1 percent). Net income before minority interests amounted to € 208 million after € 968 million in 2002. The group again met all its key financial targets.

Overview of Group Performance

Operating EBITA in € millions



Revenues in € billions



Business Development

In light of the current state of the economy, Bertelsmann made overall satisfactory progress in 2003.

The outset of a global economic recovery observed during the year differed strongly by geographic region. While the US economy recovered appreciably, especially in the second half of the year, the euro region was slow to follow suit. In Germany, the economy failed to rise above previous-year level, in particular due to a lack of domestic demand.

This varying performance was reflected in the media industry as well. In the US, advertising markets, in particular magazines, registered stronger growth than their European counterparts. In Germany, the TV advertising market was more responsive than that for magazines. And while the book market in Germany declined slightly, it essentially remained at previous-year levels in the US. The worldwide music business continued to labor under the negative impact of a number of special factors; Germany was especially hard hit.

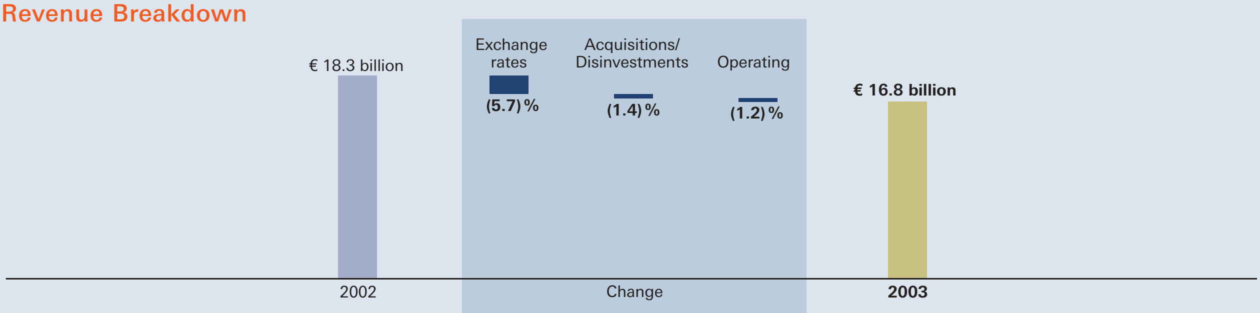
In 2003, Bertelsmann came one step closer to its declared strategic goal of safeguarding its music business. Bertelsmann and Sony agreed to merge their recorded music operations in a joint venture. The transaction is pending antitrust approval.

Through the sale of the academic & professional publishing division, Bertelsmann Springer, the media content businesses are now focused on entertainment. Joint ventures by Random House in Japan and Korea and by Direct Group in China allowed further strategic steps to be taken in Asia. Bolt-on acquisitions such as the purchase of Heyne Verlag by Random House were successfully concluded. Gruner + Jahr continued its withdrawal from the regional newspaper business by selling its Eastern European newspaper titles. With the withdrawal from pure

Revenues by Division in € millions

	2003			2002		
	Germany	International	Total	Germany	International	Total
RTL Group	2,004	2,448	4,452	2,132	2,230	4,362
Random House	139	1,637	1,776	143	1,852	1,995
Gruner + Jahr	929	1,552	2,481	1,039	1,761	2,800
BMG	261	2,451	2,712	252	2,462	2,714
Arvato	1,630	2,009	3,639	1,629	2,039	3,668
Direct Group	383	1,903	2,286	395	2,312	2,707
Total revenues by division	**5,346**	**12,000**	**17,346**	**5,590**	**12,656**	**18,246**
Bertelsmann Springer	78	80	158	364	367	731
Corporate/Consolidation	(258)	(445)	(703)	(263)	(402)	(665)
Consolidated revenues	**5,166**	**11,635**	**16,801**	**5,691**	**12,621**	**18,312**

Revenue Breakdown



e-commerce businesses, Direct Group now concentrates its direct-to-customer operations on book and music clubs. Cross-divisional cooperation continued to develop in 2003.

Revenues

Especially due to the weakening of the US dollar against the euro, the group's revenues declined by 8.3 percent, from € 18.3 billion to € 16.8 billion. Changes to the portfolio (including the sale of Bertelsmann Springer) also played a role. Adjusted for currency and portfolio effects, group revenues remained largely unchanged year-on-year.

Due to the development of the US dollar, the share of US-based revenue as part of total consolidated revenues declined to 25.1 percent (previous year: 27.5 percent). Revenue contribution generated in Germany dropped slightly from 31.1 percent to 30.7 percent. The other European countries contributed 38.6 percent of the € 16.8 billion in consolidated revenues (previous year: 35.5 percent), and the remaining countries accounted for 5.6 percent (previous year: 5.9 percent).

The contribution of the various income streams to total group revenue remained largely stable.

Results Breakdown in € millions

	2003	2002
Operating EBITA by division		
RTL Group	503	465
Random House	147	168
Gruner + Jahr	234	226
BMG	110	125
Arvato	261	217
Direct Group	4	(150)
Total Operating EBITA by division	**1,259**	**1,051**
Bertelsmann Springer	0	71
Corporate/Consolidation	(136)	(186)
Group Operating EBITA	**1,123**	**936**
Amortization of goodwill and rights similar to goodwill*		
– Regular	(717)	(784)
– Impairments	(220)	(1,668)
Special items	547	2,807
Earnings before interest and taxes	**733**	**1,291**
Financial result	(322)	(266)
Taxes on income	(203)	(57)
Net income before minority interests	**208**	**968**
Minority interests	(54)	(40)
Net income after minority interests	**154**	**928**

*including amortization of goodwill from associated companies

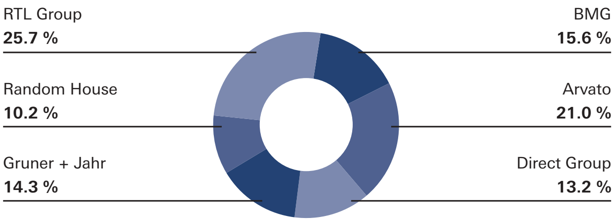
Operating EBITA

Despite a challenging market environment, Operating EBITA amounted to € 1,123 million, exceeding the previous year's € 936 million by 20.0 percent. This translates to operating ROS of 6.7 percent, well above the 5.1 percent generated during the previous year. Major contributors to this rise in earnings were Direct Group, Arvato and RTL Group. RTL Group and Arvato each reported one of their best results ever. Random House was able to essentially maintain its profit contribution from core business. Gruner + Jahr slightly increased its earnings thanks to ongoing cost management. BMG is still faced with the structural problems in the music business. Operating performance was also improved by a group-wide optimization of business processes and cost structures. Group Operating EBITDA amounted to € 1,866 million.

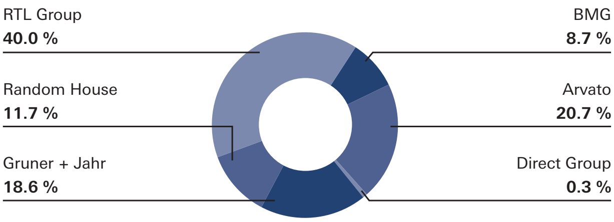
Net Income

After amortization of goodwill and rights similar to goodwill of € 937 million (previous year: € 2.5 billion) and special items that in sum resulted in a positive contribution of € 547 million (previous year: € 2.8 billion), earnings before interest and taxes amounted to € 733 million (previous year: € 1.3 billion). After adjusting for financial results and taxes, net income before minority interests totaled € 208 million (previous year: € 968 million). In the previous year, net income was dominated by capital gains from the sale of shares in AOL Europe. After minority interests, mainly due to minority shareholders in RTL Group and Gruner + Jahr, net income amounted to € 154 million (previous year: € 928 million).

Revenue Share by Division in percent*

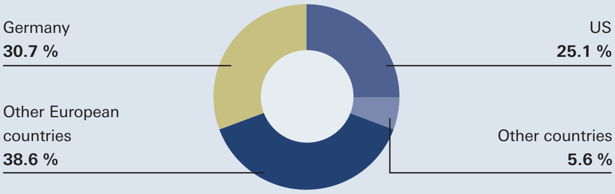


Share of Total Operating EBITA by Division in percent*

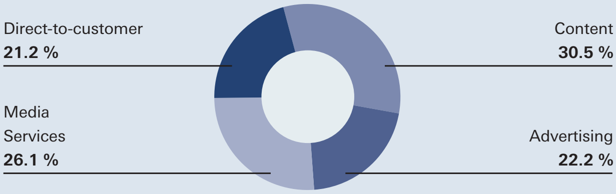


*Based on total from divisions not including Bertelsmann Springer and Corporate/Consolidation

Consolidated Revenues by Region in percent



Consolidated Revenues by Category in percent*



Amortization of Goodwill and Rights Similar to Goodwill

Net income includes regular amortization of goodwill and rights similar to goodwill of € 717 million (previous year: € 784 million). Impairments amounted to € 220 million (previous year: € 1.7 billion). The previous year's comparative figure included € 1.3 billion impairments of goodwill at Zomba, the music company acquired in 2002.

Special Items

In addition to operational improvements, net income for the year was influenced significantly by special items resulting from capital gains amounting to € 620 million. These were generated mainly by the sale of the academic & professional publishing division, Bertelsmann Springer (€ 628 million), Direct Group's disposal of its shareholding in Barnesandnoble.com (€ 145 million) and Gruner + Jahr's sale of its Eastern European newspaper businesses to the Swiss publisher Ringier. Special items also include a € 234 million provision for a lawsuit against Bertelsmann AG, in which two former AOL Germany executives were granted damages in a court of first instance. In the previous year, capital gains were mainly derived from the sale of shares in AOL Europe. Other special items due to one-time charges and restructurings amounted to minus € 73 million (previous year: minus € 111 million) and were solely from integrating the music company Zomba, and restructuring at BMG.

Investments

Investments totaled € 761 million (previous year: € 5.3 billion). The group practiced a restrained investment policy in 2003. In the previous year, € 3.8 billion were invested for the purchase of the music company Zomba and the takeover of a 22 percent share in RTL Group, which essentially affected the extraordinarily high investment level. Investments in tangible assets totaled € 413 million (previous year: € 543 million) and were largely for modernization and capacity extension purposes in the printing operations of the Arvato and Gruner + Jahr divisions. Investments in intangible assets of € 166 million (previous year: € 236 million) were made primarily by RTL Group and BMG, for the purchase of film and music rights. Net investments in financial assets totaled € 182 million (previous year: € 4.5 billion) and included the purchase of additional shares in the French TV channel M6 by RTL Group (€ 35 million) and the purchase of Heyne Verlag by Random House.

Consolidated Cash Flow Statement

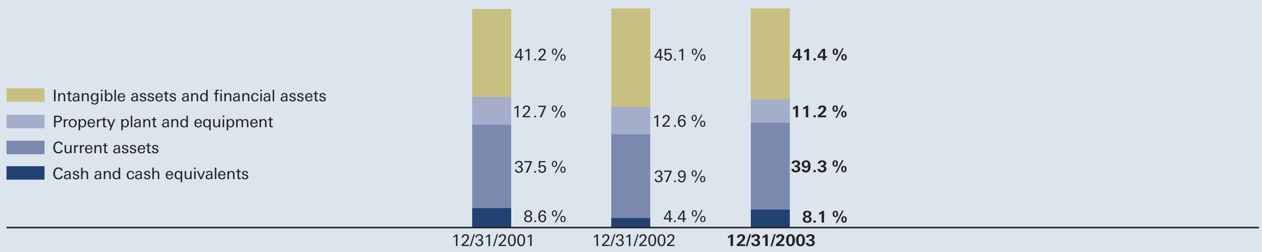
In 2003, cash flow from operating activity increased to € 1.4 billion (previous year: € 1.2 billion). At € 1.4 billion cash flow according to DVFA/SG was 23.1 percent above previous year (€ 1.1 billion).

Net cash from investing activities resulted in a cash inflow of € 876 million for the year (previous year: € 2.7 billion outflow). The inflow was achieved through a combination of disposals of non-current assets and conservative investment practices. The year saw sales proceeds of € 1.6 billion (previous year: € 2.6 billion) against € 182 million in funds paid out for acquisitions and financial assets (previous year: € 4.5 billion). Payments for investments in tangible and intangible assets amounted to € 579 million, a year-on-year decrease (previous year: € 779 million).

Net cash from financing activities resulted in an outflow of € 1.5 billion (previous year: € 498 million inflow). This reflects the resolute debt reduction practiced during 2003. € 925 million were used to pay down financial debt (previous year: € 1.1 billion inflow), while the buyback of the remaining Bertelsmann AG shares held by the ZEIT Foundation led to an outflow of € 208 million. € 337 million were paid out in dividends to Bertelsmann AG shareholders and co-owners of consolidated companies.

As a result of the above-described developments, the group's cash and cash equivalents at December 31, 2003 totaled € 1.6 billion (previous year: € 977 million).

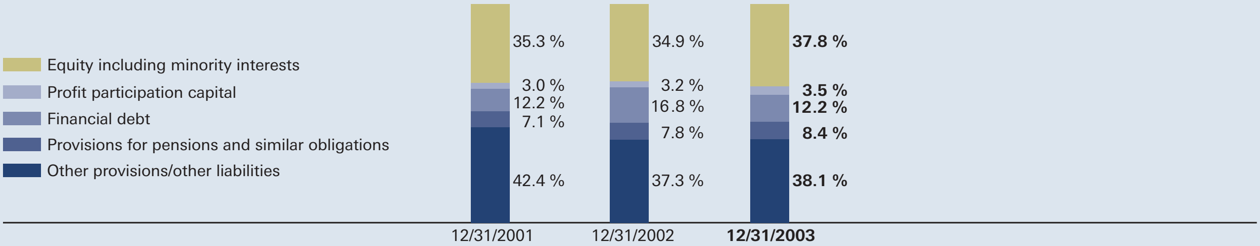
Asset and Liability Structure
Assets



Cash Flow Statement (Summary) in € millions

	2003	2002
Net cash from operating activities	1,362	1,214
Net cash from investing activities	876	(2,711)
Net cash from financing activities	(1,478)	498
Change in cash and cash equivalents	760	(999)
Cash and cash equivalents	1,642	977

Liabilities



Balance Sheet

At the end of 2003, total assets amounted to € 20.2 billion, 9.1 percent below previous year (€ 22.2 billion). This decline is largely due to the sale of Bertelsmann Springer and currency effects, in particular related to the US dollar. The equity ratio increased by 2.9 percentage points to 37.8 percent year-on-year. The gross financial debt now accounts for 12.2 percent of total assets, down from 16.8 percent the previous year.

Financial Targets

For many years Bertelsmann has pursued financial targets related to capital structure and financial debt. They are designed to ensure a balanced relationship between financial security, return on equity, and growth, and are geared towards the characteristics of a "Single A" credit rating category.

The group reduced its net financial debt from € 2.7 billion in 2002 to € 820 million in 2003. This represents a decrease of € 1.9 billion in comparison to the previous year, in which net financial debt rose steeply due to the acquisitions of Zomba and the Pearson's holding in RTL Group. Major contributing factors included the disposal of Bertelsmann Springer and the participation in Barnesandnoble.com. The sale of the Random House Tower in New York City was another positive factor that contributed to reducing the financial debt. A 15-year rental contract was signed with the building's new owners. In addition, the weakened US dollar had a positive effect on net financial debt.

By reducing its net financial debt, Bertelsmann has reattained a financial goal that was not met in the previous year: a maximum debt payback factor of 1.5. This factor describes the relationship of net financial debt to cash flow according to DVFA/SG, and amounted to 0.6 in 2003 (previous year: 2.5). The interest coverage ratio, which according to internal targets should exceed a factor of 9, amounted to 19.6 (previous year: 33.3). This ratio is calculated as Operating EBITDA to net interest. These self-imposed targets reflect the company's conservative financing policy. The existence of other financial commitments such as pension provisions and operating leases were also taken into account in formulating the financial targets. At balance sheet date, provisions for pensions and similar obligations amounted to € 1.7 billion (previous year: € 1.7 billion). The present value of operating lease obligations totaled € 1.3 billion (previous year: € 1.2 billion), most of which result from office lease contracts.

At 37.8 percent, the equity ratio clearly exceeded the 25-percent target and the previous year (34.9 percent). Bertelsmann also strives to ensure that total equity exceeds goodwill from acquisitions. This goal was achieved in 2003, when total equity exceeded goodwill and rights similar to goodwill by € 497 million (previous year: € 779 million shortfall).

Financial Targets

	Target	2003	2002
Debt payback factor Net financial debt/Cash flow according to DVFA/SG	< 1.5	**0.6**	2.5
Interest coverage ratio Operating EBITDA/Net interest	> 9.0	**19.6**	33.3
Equity ratio Equity to consolidated total assets (in percent)	> 25.0	**37.8**	34.9

Financing

In April, Bertelsmann US Finance, Inc. raised $ 500 million with a Private Placement in the United States. The issuance, by then the biggest Private Placement by a German company in the US, is broken down into three different tranches with maturities between seven and twelve years.

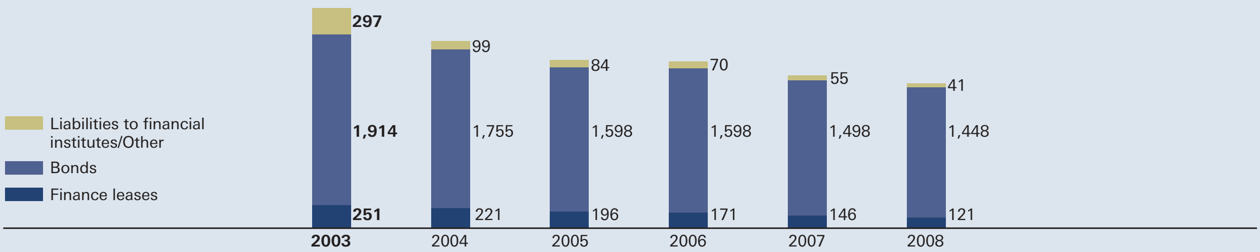
In May, a € 650 million benchmark bond was placed in the capital market. The bond was issued by Bertelsmann US Finance, Inc. under the existing debt issuance program. Due to the strong demand from investors, the issuance was increased by € 100 million in June. At € 750 million, it is currently the biggest €-bond issued by a media company. The €-bond was rated BBB+ and Baa1 respectively by Standard & Poor's and Moody's, corresponding to the issuer credit rating of Bertelsmann AG.

Profit Participation Capital

The par value of profit participation capital remained unchanged at € 516 million at December 31, 2003. Including the premium, the total volume of profit participation capital at balance sheet date was € 706 million. It is divided between profit participation certificates 2001 (PPC 2001, ISIN DE0005229942) and, to a lesser extent, profit participation certificates 1992 (PPC 1992, ISIN DE0005229900).

The terms and conditions governing the PPCs 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 the fiscal year ended December 31, 2003. A 15 percent payout will thus again be made on the par value of the PPCs 2001.

Maturity Structure of Financial Debt in € millions



The funds from the two issuances were used in particular to entirely replace the bridge loan signed in June 2002 and to pay down bank loans. They also enabled the premature buy-back, in October, of a € 200 million bond issued in July 2002.

With its Private Placement in the US and issuance of the benchmark bond, Bertelsmann has extended the maturity terms of its financing instruments, while also systematically continuing its capital market alignment.

The distribution on PPCs 1992 depends on the group's return on total assets. As a return on total assets of 5.92 percent was achieved in 2003, the payout on PPCs 1992 is 6.92 percent of par value. In January 2001, in view of the change in the Bertelsmann financial management system used for controlling purposes, and the resulting possible fluctuation in payouts on PPCs 1992, Bertelsmann made an offer to all holders of this profit participation certificate to exchange their holdings for PPCs 2001.

Distributions totaling € 76 million will be paid out to holders of both forms of profit participation certificates in May 2004. The terms and conditions governing Bertelsmann's PPCs require that Bertelsmann AG's external auditors verify whether the profit distribution has been correctly calculated. A confirmatory report from the external auditors has been received for both types of profit participation certificates.

Sale of Bertelsmann Springer

In May 2003, Bertelsmann sold its academic & professional publishing division, Bertelsmann Springer, to the private equity investors Cinven and Candover. The transaction was effective to April 1, 2003. The purchase price amounted to € 1.05 billion, and all existing pension commitments were transferred with the sale. All in all, after deducting related expanses the gain from the disposal amounted to € 628 million. The effect of this sale, shown on the books as a Discontinuing Operation, on the group's assets, financial and earnings situation, is explained in detail in the Notes on the Consolidated Financial Statements.

Status of Bertelsmann AG

Bertelsmann AG is a management holding company with no operating businesses of its own. Its tasks include supervisory and service functions for the Bertelsmann group as well as the management of its participations and financing. Its major sources of income are dividend payouts from subsidiaries as well as proceeds from services provided to subsidiaries. At December 31, 2003, Bertelsmann AG's subscribed capital amounted to € 606 million, while equity totaled € 9.4 billion. Bertelsmann AG reports its figures according to the German Commercial Code HGB.

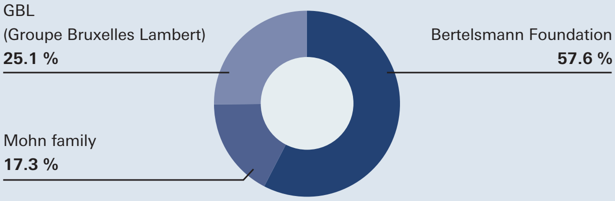
Corporate

Corporate includes the costs of the Corporate Center and result from investments made at corporate level. Corporate Center expenditure arises from corporate management and governance tasks. Corporate Investments includes holdings formerly managed under Bertelsmann Capital as well as additional holdings that are not assigned to any corporate division. Corporate Operating EBITA totaled minus € 87 million in 2003 (previous year: minus € 180 million). This improvement is attributable primarily to reduced charges resulting from Corporate Investments as well as to the restructuring and continued streamlining of cost structures during the business year.

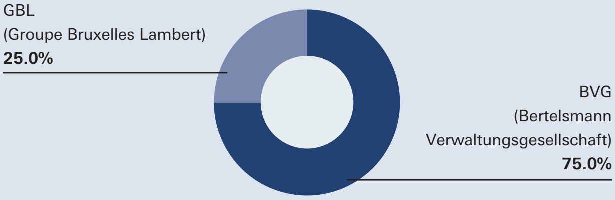
Ownership Structure

In November 2003, Bertelsmann AG bought back and redeemed the ZEIT Foundation's remaining shares in Bertelsmann AG for € 208 million. Bertelsmann had announced the agreement for a complete buyback of the shares held by the ZEIT Foundation in December 1999. The first tranche of the sale was concluded in August 2000, the second in October 2002. The buyback obligation was accounted for under "Other Liability." Indirectly owned capital shares are now distributed as follows: 57.6 percent Bertelsmann Foundation, 25.1 percent Groupe Bruxelles Lambert, 17.3 percent Mohn family. 75.0 percent of the voting rights are held by Bertelsmann Verwaltungsgesellschaft (BVG), the other 25.0 percent by Groupe Bruxelles Lambert (GBL).

Ownership Structure Capital Shares



Voting Rights



Employees

At the end of 2003, the group had 73,221 employees, of which 37.0 percent are employed in Germany. This decline by 7,411 employees vs. the previous year is largely attributable to the sale of Bertelsmann Springer, which had 5,125 employees worldwide at the time of sale. Other factors contributing to this development were restructuring measures, especially at BMG, as well as smaller divestments. At year-end, the company had 783 trainees in Germany (previous year: 918). Again, the decline is attributable to the sale of Bertelsmann Springer.

Since 1977, Bertelsmann has surveyed its employees in Germany about their satisfaction with the working conditions, their supervisors and the management of their company and the group. This survey is carried out every five years. A detailed analysis of the results from the first worldwide employee survey carried out in fall of 2002 substantiated the connection between corporate culture and corporate success. In companies where employees perceive their supervisors as "leading through partnership," employee identification with the company is stronger. Companies with higher employee identification are proven to have greater economic success. This confirmation of the "leadership through partnership" concept inspired the company to develop and offer its leadership program for young executives, already a success in Germany and the US, as well as for other countries. Bertelsmann University, the forum for Bertelsmann's international executives, will also assign the topic of "Leadership through Partnership" a greater priority in its programs from now on.

Profit sharing has played a central role in Bertelsmann's corporate concept since 1970. This principle of letting employees participate in the success of shared goals is hoped to promote their identification with the company and the group. In 2003, the employees profit sharing in Germany was put on a new footing, making it more dependent on the success of the individual companies. A corporate component has been added, which is contingent on Bertelsmann's worldwide performance. For the first time since 2000/2001, there will be a small profit-sharing payout again in 2003. Starting in 2003 the company no longer uses Bertelsmann Profit Participation Certificates as an instrument for profit sharing. Employees now have a choice between receiving their share of profits in cash or investing it in a pension fund as a provision for retirement. In total, 42,000 employees take part in profit-participation schemes.

Anne-Laure Andreutti, 1st Editorial Assistant


Magloire, Animator

RTL GROUP
Discover, Develop, Produce, Broadcast, Inform, Entertain


Robin Arnold, Operational Engineer

Laurent Boyer, Radio Presenter

RTL GROUP

Céline Fougère, Final Editing

Graham Geddes, Camera Operator

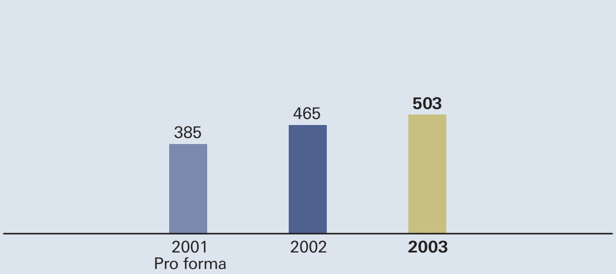
RTL Group, Europe's leading television, radio and TV production group, was able to improve its revenues and earnings in 2003 in a challenging market environment: Revenues amounted to € 4.5 billion vs. € 4.4 billion the previous year, while Operating EBITA rose to € 503 million from € 465 million the previous year.

RTL Group's companies relied on innovative programming, a more diversified revenue structure and strict cost control to counteract continuing weak advertising volume, most notably in Germany.

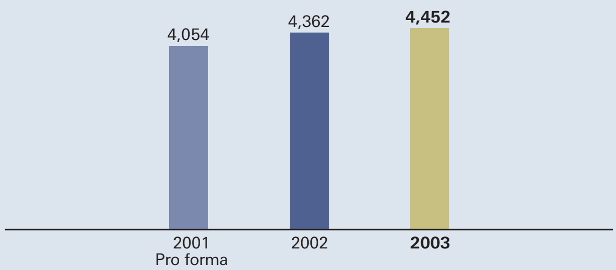
Rising viewer market shares and the profitability of all stations in the group bear testimony to the success of its approach.

In March, Gerhard Zeiler was appointed RTL Group's new Chief Executive Officer (CEO). Zeiler succeeds Didier Bellens, who left to join the telecommunications industry.

Operating EBITA in € millions



Revenues in € millions



Highlights 2003

- RTL Television contributed 62 of the 100 most-watched programs of the year in Germany.
- For the first time, M6 generated more than half of its revenues with products and services not related to advertising.
- RTL Group strengthened its influence in Spain's Antena 3 group of channels and was granted a TV broadcast license in Croatia.

2003 saw a number of small corporate transactions paving the way for continued growth outside the two important television markets of Germany and France. By mutual agreement with the new majority owner Grupo Planeta, RTL Group strengthened its influence in Spain's Antena 3 group of channels, after Telefónica initiated its withdrawal from the company. Following a phase of restructuring, Antena 3 expects to reach turnaround the following year. The group went public on the Madrid stock exchange in October 2003.

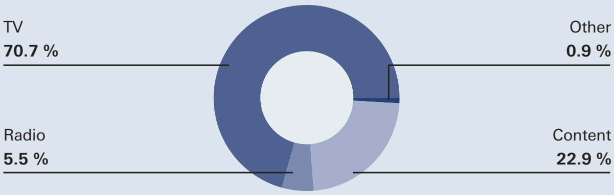
In September, RTL Group was awarded a license for a TV channel in Croatia. The new privately-run channel is scheduled to launch with a full program during the first half of 2004, and to follow the example of Hungary's RTL Klub, which within a few years took the lead in its chief target audience and now generates double-digit ROS. In the Netherlands, RTL Group prevailed in an auction for the license for a new radio station and the option of further extending the reach of its existing radio license.

In its core operations, many RTL Group companies outperformed the competition. The German family of channels anchored by RTL Television again managed to add viewers and ad-market shares. In 2003, RTL Television scored the highest ratings since 1997 among 14 to 49-year-old audiences, the important target group for advertisers, once again securing its leadership of the market. RTL Television contributed 62 of the year's 100 most-watched programs. The channel garnered exceptionally high viewer ratings with its music talent show "Deutschland sucht den Superstar," whose finale was watched by up to 15 million viewers. RTL Television thus drew a roughly 50 percent market share of its chief target audience.

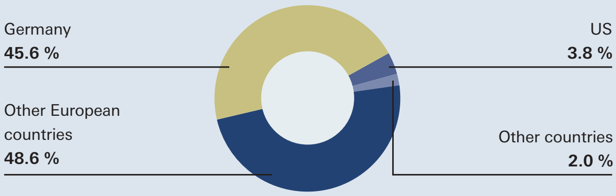
growth in both revenues and result, with products and services other than advertising generating more than half of its revenue for the first time. With its high viewer ratings, M6 cemented its No. 2 position in the French market. The British TV channel Five, which during the period under review achieved a first-time positive result, and the Holland Media Group (HMG) channels in the Netherlands also added viewer and ad-market shares. The channels in the Belgian RTL-Tvi group had an extraordinarily good year.

In TV production, Fremantle Media continued to profit from the worldwide rollout of the "Pop Idol" format. In 2003, the talent show was produced not only in Germany ("Deutschland sucht den Superstar") and France, but also in Canada, Denmark, Russia, Iceland and many other countries, scoring high ratings in all of them. Second

Revenues by Category in percent



Revenues by Region in percent*



*Without intercompany revenues

Its sister channel VOX and the TV holdings that are part of the family of channels (RTL II and Super RTL) also generated viewer and ad-sales shares above previous year.

During the period under review RTL Television was able to significantly increase its non-advertising-related revenues. The company did so primarily by means of online services, merchandising, premium rate services, home-shopping offerings and the video and DVD distribution. RTL Television developed these lines of business in cooperation with the French channel M6. In a similar collaboration, RTL Radio in France and the TV channel RTL Klub in Hungary developed their merchandising businesses.

Due to these measures, the share of ad-related revenues in RTL Group's total revenue dropped to 61 percent (previous year: 62 percent).

Thanks to a broad revenue base, France's M6 was again able to set itself apart positively from developments in the industry. The company registered double-digit

seasons have already been planned or produced, e.g. in the US, the UK and Germany. In 2003, the company picked up the thread of "Idol" success with the dating show "Cupid" and new formats like "How Clean is Your House?" and "Finally Friday." Fremantle Media further strengthened its portfolio by acquiring the Australian production company Crackerjack.

In radio, the RTL Group channels in the core market of France stabilized listener market shares and improved their profits. In Germany, the focus was on integrating the radio holdings taken over in 2002 from the Georg von Holtzbrinck publishing group.

Milena Alberti, Corporate Development

Melanie Chang, Associate Publicity Director RHCB;
Glenn Ellis, Vice President, Director of Field Sales Children's Division;
Kerry Milliron, Director, Brand Management;
Elmer Caceres, Sales Manager

Random House
Read, Write, Edit, Rhyme, Educate, Enthrall

An Meyers, Actress, Reading Book on Tape

Rob Waddington, Sales

RANDOM HOUSE

BERTELSMANN

Gail Rebuck, Chairman and CEO,
Random House Group UK

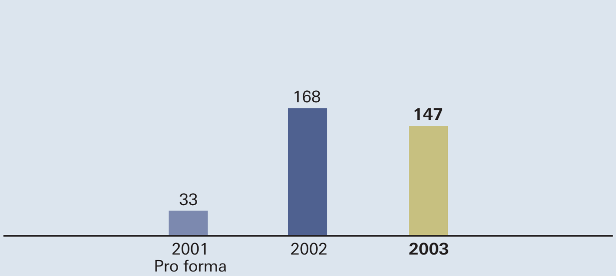
Ben Lee, Marketing Coordinator;
Katharine Ziga, Business Manager

Random House In 2003, an economically challenging year for the book industry, Random House enhanced its position as the global leader in trade book publishing. Revenues amounted to € 1.8 billion after € 2.0 billion the previous year, while Operating EBITA reached € 147 million after € 168 million the previous year. The decline in revenues and profits is attributable to foreign currency effects, which result mainly from the conversion of dollars to euro for the greatest part of Random House's business, which is done in the US. The euro results therefore do not reflect the underlying strength in the business. Adjusted for currency effects, Random House revenues and profits increased slightly year-on-year.

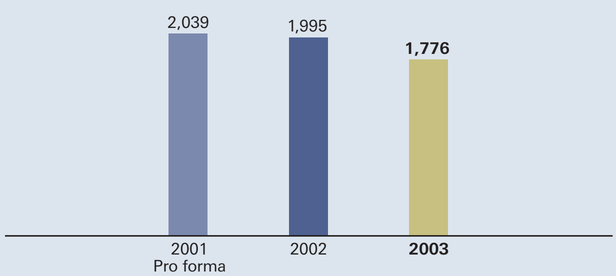
In North America, where book retail was slowed down by a weak first-half economy, Random House was able to increase its book sales, achieving its best year-end holiday book sales ever. In the US, systematic cuts in administrative spending contributed to keeping profitability stable and counteracted the growing pressure on margins. For the sixth consecutive year, Random House placed more of its titles on the various New York Times bestseller lists than any of its publishing group competitors. Of these 176 titles, 28 reached No. 1. Random House authors John Grisham and Danielle Steel contributed 13 major bestsellers, seven of which were No. 1.

Random House's Doubleday imprint published the book that was not only the biggest-selling adult fiction title of the year but is on course to become one of the best-selling hardcover novels of all time: "The Da Vinci Code" by Dan Brown had 5.1 million copies in print at year's end, just nine months after publication. Random House Audio's Listening Library edition of "Harry Potter

Operating EBITA in € millions



Revenues in € millions



Highlights 2003

- In the US, Random House placed 176 titles on the "New York Times" bestseller lists. 28 of these titles made it to No.1.
- Doubleday published the thriller "The Da Vinci Code" by Dan Brown, which became the year's top-selling adult title in the fiction market.
- In Germany, Verlagsgruppe Random House extended its business by acquiring Heyne Verlag.
- The Random House Kodansha joint venture made Random House the first Western publishing company to enter the Japanese book market. A similar cooperation was signed in late 2003 with the Korean publishing company JoongAng Ilbo Publishers.

and the Order of the Phoenix" by J. K. Rowling, published in June, is on its way to becoming the format's biggest seller ever. Ballantine's paperback edition of "The Lord of the Rings" enjoyed another year of strong sales, as the release of the final film in the trilogy drew millions of moviegoers for the third consecutive year.

Random House of Canada had its best year ever in sales and profits and showed particular strength with its Canadian publishing program. In the United Kingdom, the Random House Group maintained market leadership and increased its share of the general retail market. A quarter of all Sunday Times weekly bestsellers were by Random House authors, of which 24 reached No. 1. New books by such established authors as Bill Bryson, Robert Harris, and Terry Pratchett sold especially well. Random House Australia, New Zealand, and South Africa all performed well in fragile markets.

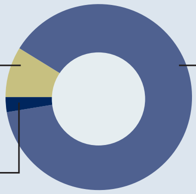
In a flat German book market marked by further consolidation among publishers and booksellers, Verlagsgruppe Random House extended its operations significantly by acquiring Heyne Verlag. Thus, famous German authors like Wolfgang Hohlbein and Amelie Fried, as well as best-selling Anglo-American authors including John Grisham, Mary Higgins Clark, Stephen King and Nicholas Sparks, are now published by Random House in Germany. The acquisition will influence Verlagsgruppe Random House's revenues and earnings beginning in 2004. The group divested Berlin Verlag in March. Verlagsgruppe Random House improved its results in 2003, especially in hardcover fiction. Including Heyne, the group had more titles on Germany's major hardcover and paperback bestseller lists than any other publishing group, including nine No. 1 titles.

In Spain and Latin America, the joint venture Grupo Editorial Random House Mondadori strengthened its market-leading share of the paperback sector in Spain with a launch of a new imprint. Major organizational restructuring and a strong bestseller line-up enhanced the company's competitive position.

In January 2003, Random House became the first Western trade book publisher to enter the Asian book market by forming a joint venture with Kodansha, Japan's leading book publisher. Random House Kodansha published its first booklist in Japanese in November and will steadily grow its publishing program each year. A similar landmark collaboration was signed in December in Korea with JoongAng Ilbo Publishers. Random House JoongAng's publishing program will be comprised of 80 percent original Korean titles and 20 percent translations of international works.

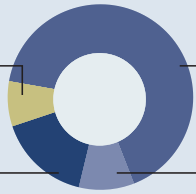
Random House authors received many of the world's most prestigious literary awards in 2003. J. M. Coetzee, whom Random House has long published in the UK, Canada, Australasia, and Spain won the Nobel Prize for Literature. The Pulitzer Prize for Biography was awarded to Robert A. Caro for "Master of the Senate: The Years of Lyndon Johnson."

Revenues by Language Region in percent*



*Without intercompany revenues

Revenues by Region in percent*



*Without intercompany revenues

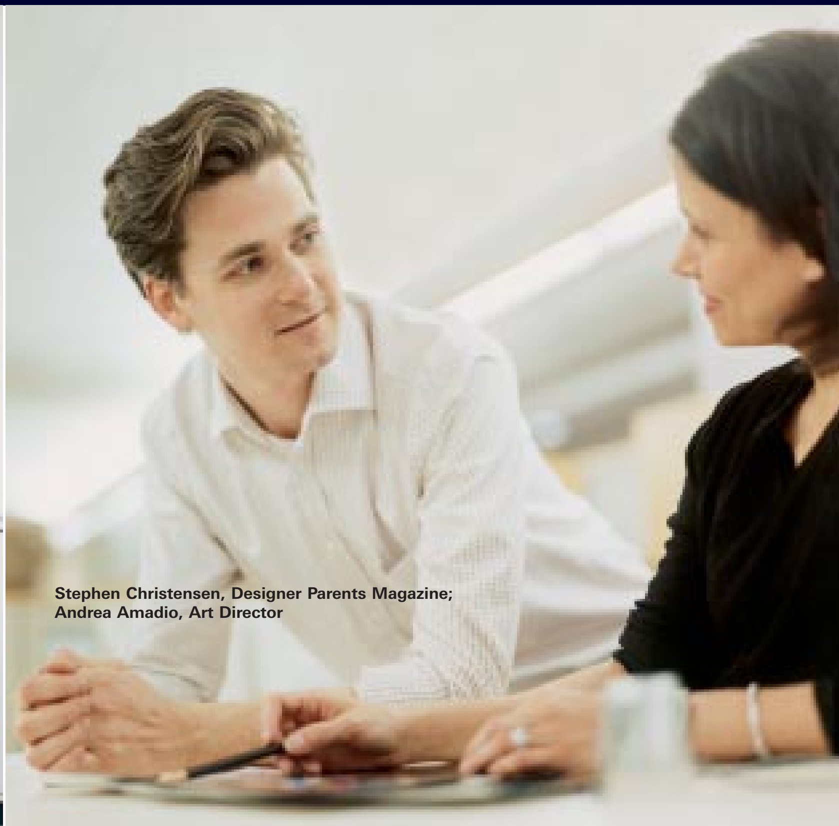
Helmut Monkenbusch, News Editor; Karin Finkenzeller, Front Page Editor; Ludwig Greven, Editor; Benjamin Dierks, Editor

GRUNER + JAHR
Research, Take Pictures, Comment, Design, Fascinate

Ralf Bitter, Cartographer

Susanne Hoppe, Assistant Fashion Editor

Martin Meister, Managing Editor Science and TV;
Tina Ahrens, Picture Editor

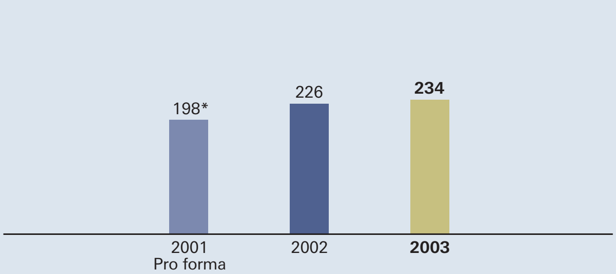


Stephen Christensen, Designer Parents Magazine;
Andrea Amadio, Art Director

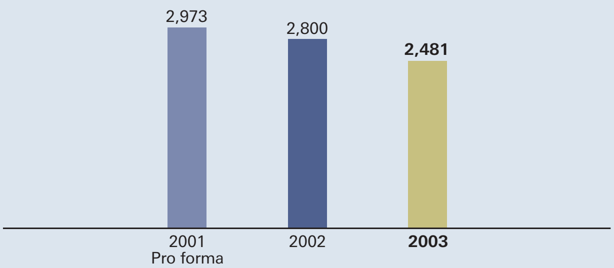
G+J

Virginie Sellier, Assistant Managing Editor

Operating EBITA in € millions



Revenues in € millions



*Adjusted for Internet losses of minus € 88 million

Highlights 2003

- "Innovation Now!" campaign launched with the aim of strengthening established titles and creating new titles and line extensions.
- Successful examples: "Stern" magazine's line extensions "Neon" and "Gesund Leben," "Femme Actuelle Shopping" in France, and the children's magazine "GEOLenok" in Russia.
- The launch of France's first biweekly TV guide "Télé 2 semaines" marked the start of a promising new title for Prisma Presse. Following a successful test phase, the first issue in January 2004 sold over one million copies.
- The nationwide daily "Financial Times Deutschland" continued its growth against the market trend in ad sales and total circulation.

Innovations, along with unwavering cost discipline, were at the heart of business activities for the international magazine publisher Gruner + Jahr in 2003. Although revenues declined to € 2.5 billion (previous year: € 2.8 billion) due to diminished advertising income, portfolio streamlining and currency effects, and despite further steep investments, the company managed to improve its Operating EBITA to € 234 million (previous year: € 226 million).

Gruner + Jahr continued its policy of concentrating on the magazine business, begun in 2002 with the disposal of Berliner Verlag: At year-end 2003, the company sold its Central and Eastern European newspaper holdings to the Swiss publisher Ringier. 2003 revenues were impacted among other things by the discontinuation of the US women's magazine "Rosie" at year-end 2002.

One important measure on the publishing front was the "Innovation Now!" initiative launched in spring of

2003. The program not only involved strengthening established titles, but also the launch of new titles and line extensions. Successful examples for this include “Femme Actuelle Shopping” and “Télé 2 semaines” in France and the new bilingual children’s magazine “National Geographic World” in Germany. Gruner + Jahr also transferred established brands and magazine concepts to new markets, e.g. the children’s magazine “GEOLenok” and the popular-science magazine “GEOfocus” to Russia.

Market response to new and relaunched titles in Germany was positive. “Neon,” an innovative magazine for young men and women initially tested in two pilot issues in summer 2003, is now a fixture in the “stern” family.

In France, the G+J subsidiary Prisma Presse followed up its successful launch of “Femme Actuelle Shopping” – a quarterly line extension to the “Femme Actuelle” flagship – with several other special magazines that also sold well. With the launch of France’s first biweekly TV guide “Télé 2 semaines,” Gruner + Jahr managed to introduce another promising new title to the market. Following a successful test phase at the end of the year, the first issue in January 2004 sold over a million copies. “Télé 2 semaines” promises to become an important pillar in Gruner + Jahr’s French and European magazine business. In Poland, “Glamour” magazine, published under license by G+J, was hailed as the “Debut of the Year 2003” by Poland’s trade press. The magazine instantly became the No. 1 high-end women’s magazine by number of copies sold.

In 2002, Gruner + Jahr had already successfully augmented its important women’s segment with the biweekly title “Woman.” In October 2003, its first line extension, the pocket-sized “Woman Shopping,” was launched in Germany.

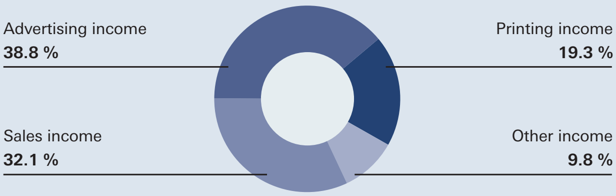
Gruner + Jahr’s established, powerful brands in Germany were able to stand their ground in 2003, in a market characterized by tougher competition. The German weekly “stern” managed to increase its circulation, while the women’s magazine “Brigitte” furthered its umbrella brand strategy (“Brigitte Young Miss,” “Brigitte Cookie,” “Brigitte Kultur”). This brand family expansion is modeled on the magazine “Geo,” which has been systematically and successfully positioning sub-brands under the Geo umbrella for decades.

With a heightened market orientation and an editorial evolution of “Capital,” “Impulse” and “Börse Online,” Gruner + Jahr laid the groundwork in 2003 for growing its business press sector, in preparation for an economic recovery. The nationwide daily “Financial Times Deutschland” continued its growth against the market trend in ad sales and total circulation. In France, sturdy growth in sales and advertising was seen particularly in traditional people titles like “Voici” and “Gala.”

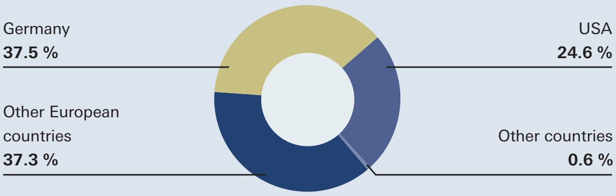
In the US, where the advertising market was already experiencing a slight recovery by year-end 2003, the magazines “Family Circle,” “Parents,” “Fitness,” “YM” and others outperformed the overall US magazine business tangibly, registering double-digit growth rates in ad sales. G+J USA’s business publications “Fast Company” and “Inc.” increased their market shares.

In Europe, G+J’s printing operations were able to sustain their market shares, but registered diminished earnings in Germany in light of a persistent surplus capacity in the market. The US printing division grew during 2003; additional printing volume from the Time Inc. publishing group has been added for 2004 and beyond.

Revenues by Category in percent

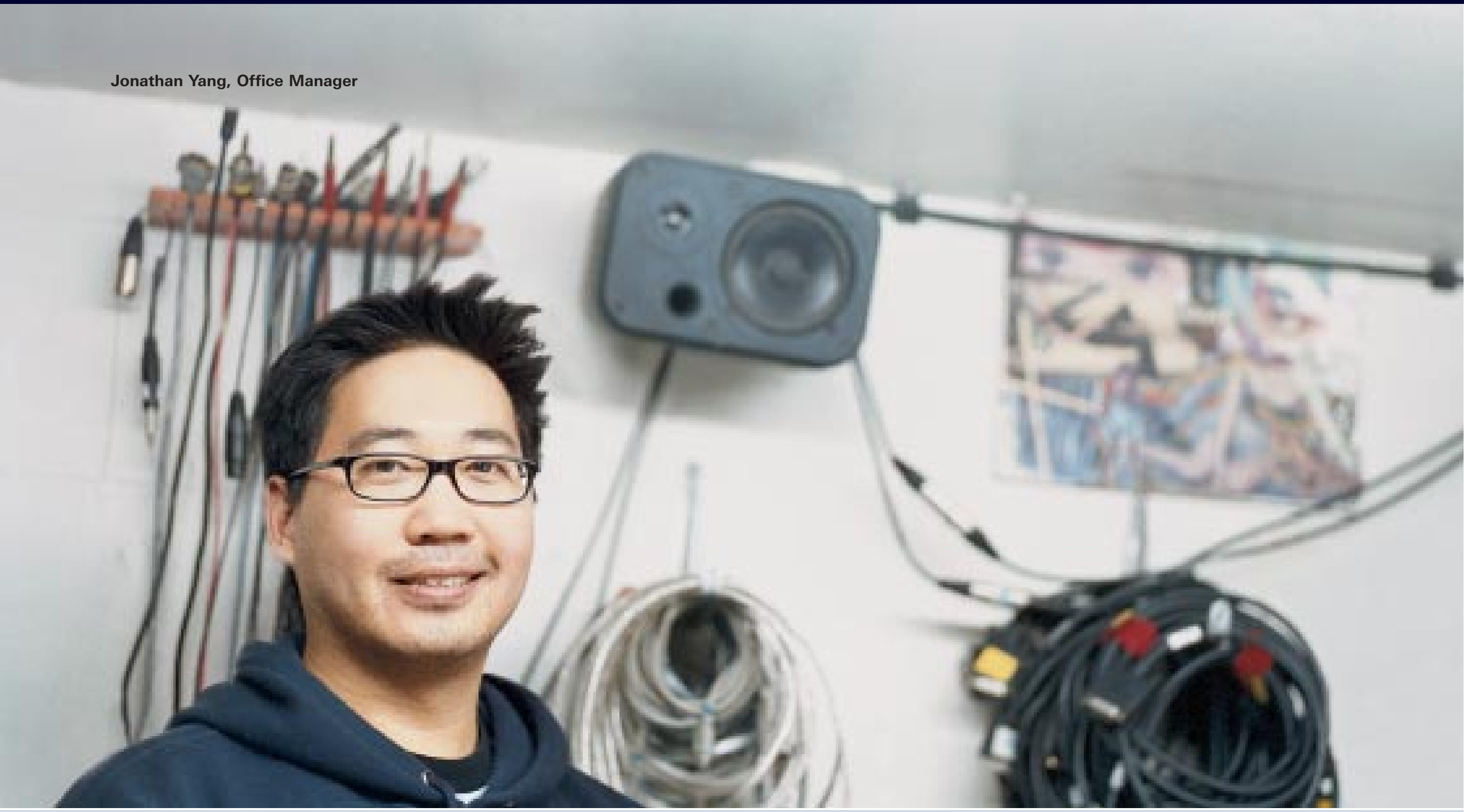


Revenues by Region in percent*



*Without intercompany revenues

Jonathan Yang, Office Manager



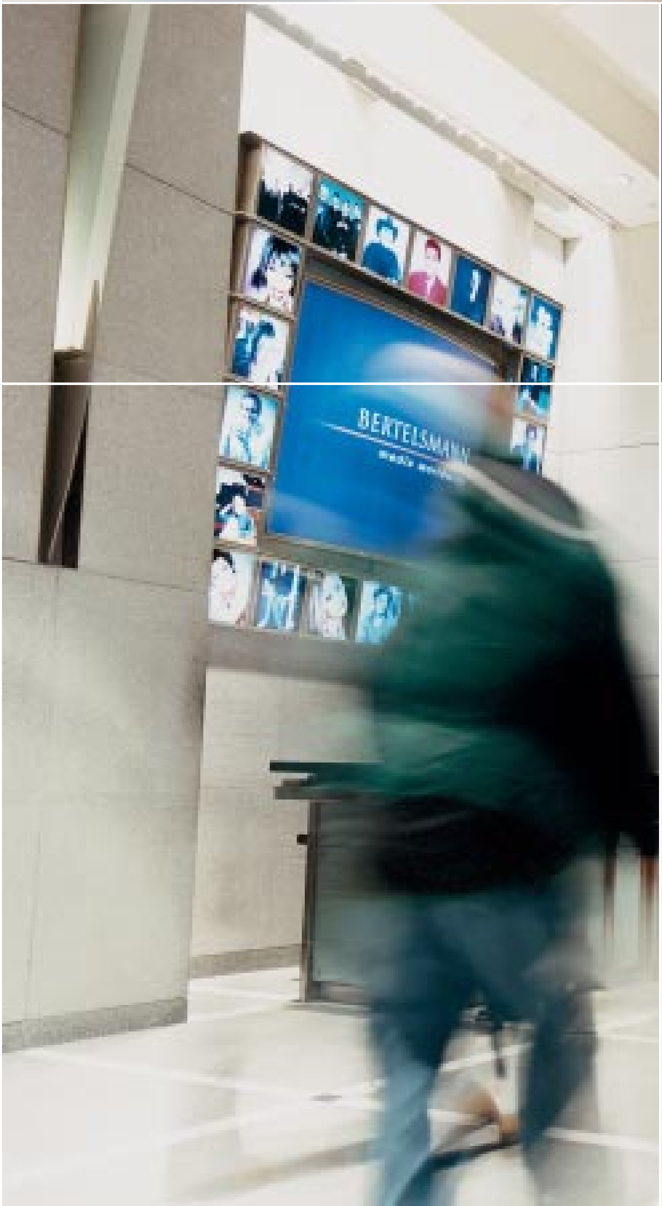
BMG

Compose, Sing, Dance, Inspire, Excite

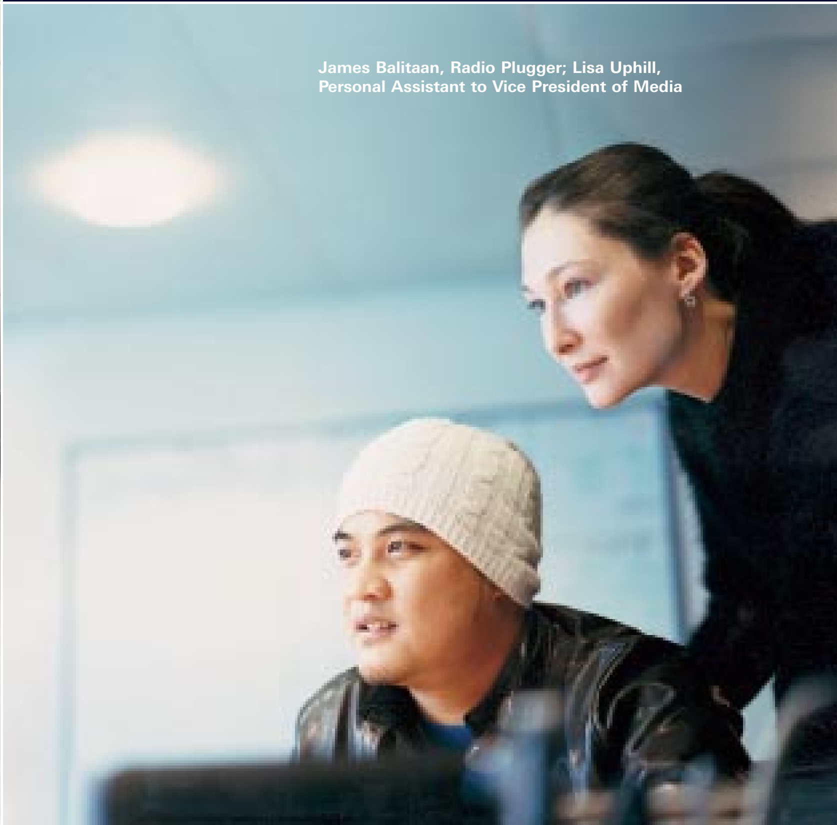
Michael Cimicata, Editor

Matt Fowler, Assistant Mastering Engineer

Louise Hart, Director of Pop Marketing; Ged Doherty, President Music Division BMG UK



BMG
BERTELSMANN

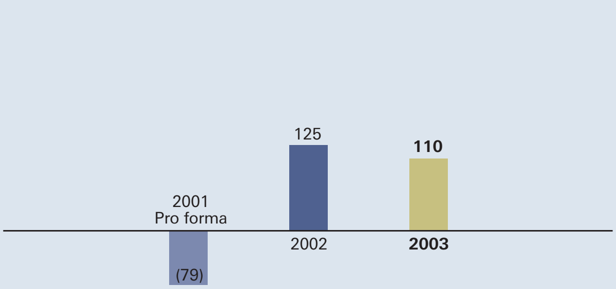


James Balitaan, Radio Plugger; Lisa Uphill,
Personal Assistant to Vice President of Media

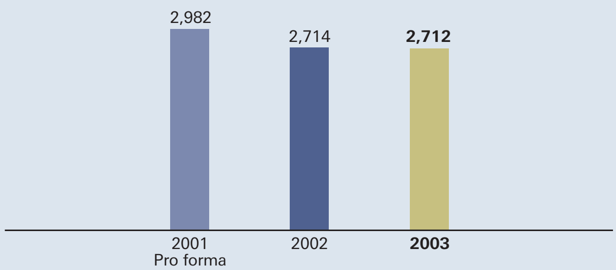
In 2003, the Bertelsmann Music Group (BMG) continued to do business in a strongly shrinking market. Yet revenues stayed level with the previous year at € 2.7 billion. Revenues from Zomba, the music company acquired in 2002, were fully included for the first time this year. BMG's total revenue remained nearly on par with previous year even after adjusting for currency and portfolio effects. Operating EBITA amounted to € 110 million, after € 125 million in 2002.

At year-end, a far-reaching strategic decision was taken to ensure BMG's continued success in light of difficult times in the music industry: In December, Bertelsmann and Sony Corporation of America agreed to merge their music divisions. BMG and Sony Music Entertainment plan to contribute their respective recording divisions to the "Sony BMG" joint venture, which will be headquartered in

Operating EBITA in € millions



Revenues in € millions



Highlights 2003

- Strategic decision: BMG and Sony Music Entertainment plan to contribute their respective recording divisions to the "Sony BMG" joint venture.
- Great creative triumphs in 2003: 17 top albums had sales of more than two million copies each, 22 Grammys.
- In the US, nine of the 30 top-selling albums in 2003 were by BMG artists.
- In Europe, Dido's latest album "Life for Rent" was at No.1 for eleven consecutive weeks.

New York. The aim is to create a strong, healthy music major with an outstanding artist roster. The closing of this deal is subject to antitrust review.

The integration of Zomba was achieved more rapidly than expected during the period under review. Likewise, the assimilation of RCA and J Records into the RCA Music Group went off smoothly. Organizational streamlining at BMG resulted in high restructuring costs in 2003. By eliminating regional corporate groups around Europe, Asia and Latin regions, BMG enhanced its ability to bring music to global music markets quickly and more efficiently. The company bundled all marketing activities in a new Global Marketing Group.

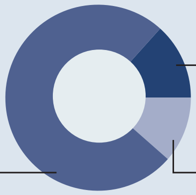
BMG was able to increase its share of the global market from 11.1 to 11.6 percent in 2003, thanks to a string of artistic successes. In the world's biggest music market, the US, the group was able to further cement its position as the second-biggest music major, with a market share of 18.4 percent in Current Albums (vs. 17.3 percent the previous year). 17 top albums that sold in excess of two million copies each and a record 22 Grammy Awards testify to creative excellence across all musical genres and regional borders at RCA Music Group, Arista Records, Jive Records, RLG-Nashville, BMG UK and others. The year's top sellers were the work of BMG stars including Avril Lavigne, Pink, Britney Spears, Alicia Keys, R. Kelly, OutKast, Dido, Christina Aguilera, Justin Timberlake, Dave Matthews and Eros Ramazzotti.

In the US market, nine of the 30 top-selling albums in 2003 were by BMG acts. In Europe, Dido dominated the No. 1 position for eleven weeks running; the artist thus did her part to raise BMG's share in the European album charts by nearly two percentage points, to 12.2 percent. BMG also increased its market shares in Latin America and Asia.

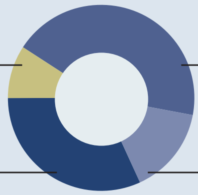
In music publishing, BMG expanded its revenues by 33 percent during the period under review. This is attributable both to the integration of Zomba Publishing and to the large number of hits that BMG songwriters and composers were able to place in the worldwide charts in 2003. Among the famous artists who publish their lyrics and music through BMG Music Publishing in the US are Justin Timberlake, Robbie Williams and Christina Aguilera.

Meanwhile, BMG's economic environment in 2003 was still shaped by challenges including copying, file-sharing and counterfeits, and industry-side price dumping and competition from new entertainment products. To curb unauthorized copying, BMG stepped up its efforts to educate public authorities, business and consumers. During the period under review, the company intensified its cooperation with online music vendors that work on a licensing basis and are enjoying increasing consumer acceptance.

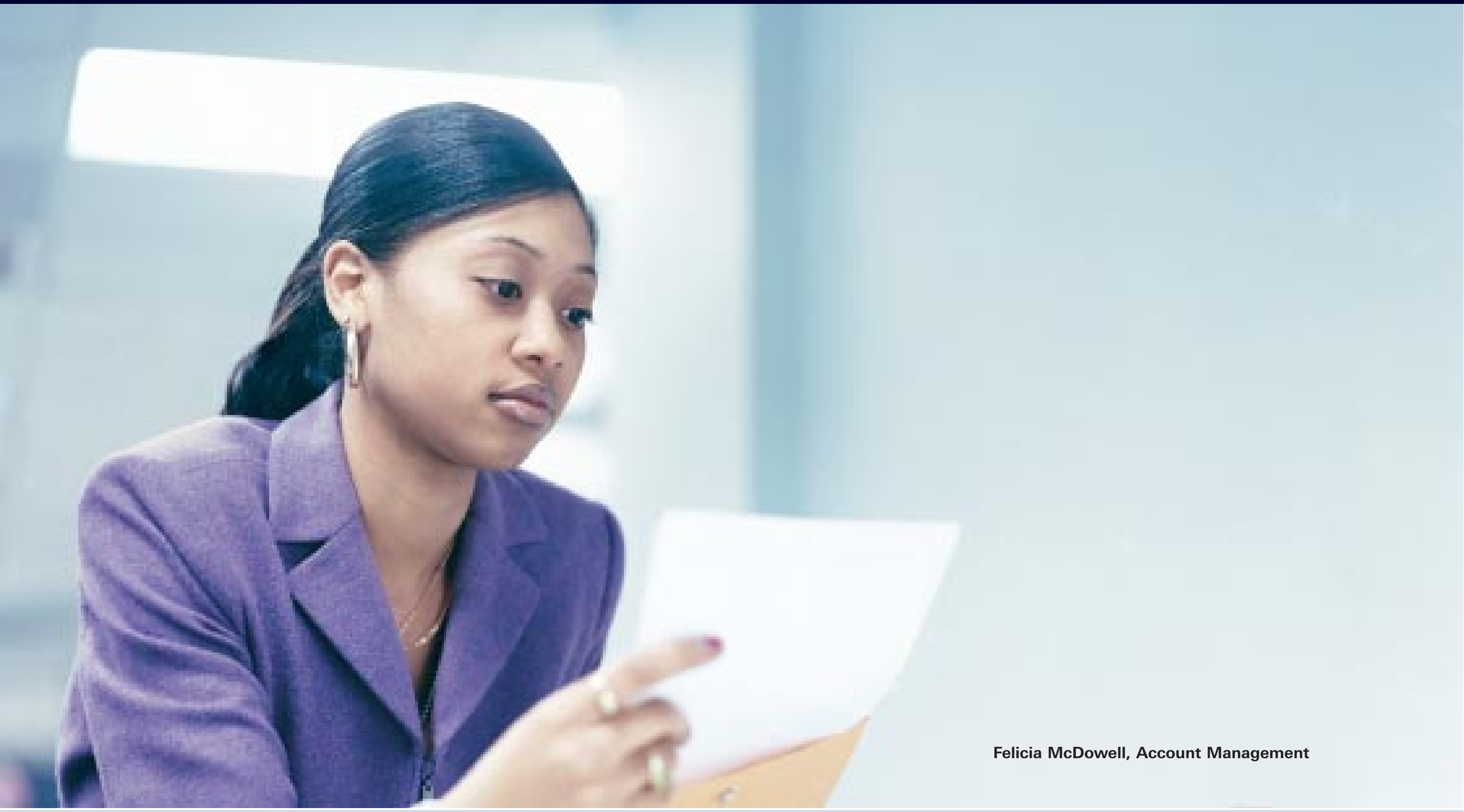
Revenues by Category in percent



Revenues by Region in percent*



*Without intercompany revenues



Felicia McDowell, Account Management

Arvato
Consult, Print, Press, Distribute, Network, Render Services

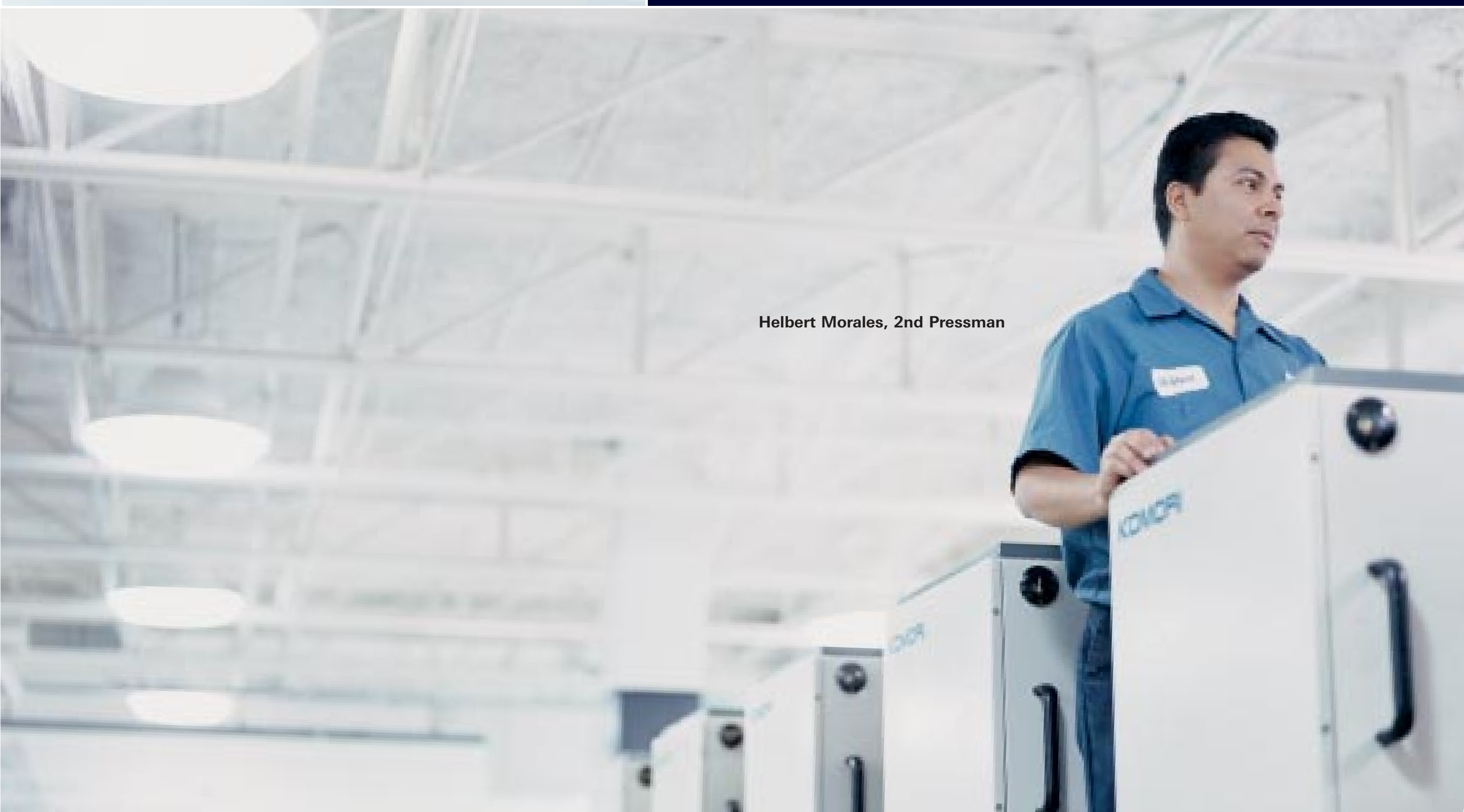
Bobby Thomas, Holger Simons, System Engineers

Vanessa Höhnen, Executive Assistant

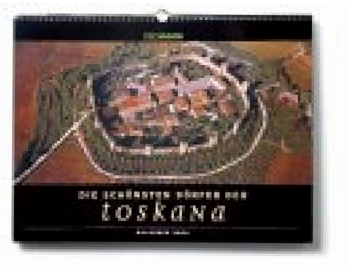
Sikrü Das, Dispatch Worker

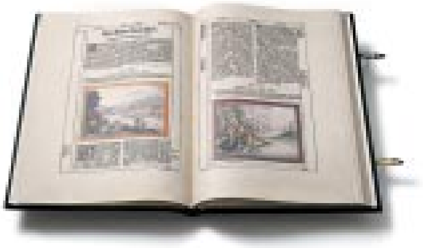
Walter Wenning, Glass Master Control

arvato
BERTELSMANN



Helbert Morales, 2nd Pressman





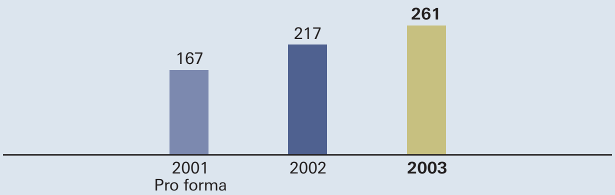
In 2003, the media service provider Arvato generated revenues of € 3.6 billion, slightly down from the previous year (€ 3.7 billion), but was able to improve its Operating EBITA to a record € 261 million (previous year: € 217 million).

The Arvato Services unit again proved to be an important growth engine. The unit is comprised of Arvato Direct Services, one of the world's biggest service providers in Customer Relationship Management, and Arvato Logistics Services, a global provider of Supply Chain Management. In Services, Arvato continued its strategy of internationalization: For example, it built and expanded service plants in Toronto (Canada), Liverpool (UK), New Delhi (India) and Beijing (China), most of them multilingual call centers for international customers. Existing service contracts with key customers in the IT and wireless logistics sectors were extended and new ones were signed. In wireless logistics, repair services were added to the portfolio. Arvato Services also concentrated on building and extending its logistics services for the pharmaceuticals sector.

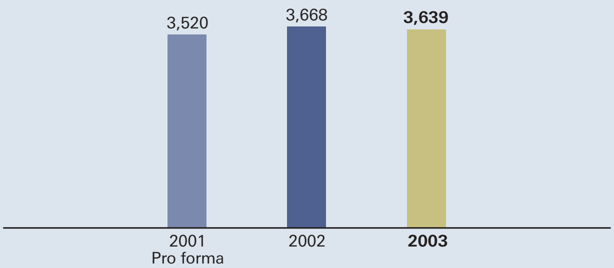
Arvato's Services unit intensified its efforts to offer customers a concept that covers the handling of entire process chains. These range from comprehensive customer loyalty programs (clubs, bonus programs etc.) to the creation, storage and distribution of advertising and information instruments for major financial services providers.

The Arvato Direct Services subsidiary Webmiles, an online bonus program company, achieved turnaround in

Operating EBITA in € millions



Revenues in € millions



Highlights 2003

- Continued pursuit of internationalization strategy at Arvato Services: service plants were built and extended in Toronto (Canada), Liverpool (UK), New Delhi (India) and Beijing (China)
- The online bonus program company Webmiles, part of Arvato Direct Services, managed a turnaround in 2003.
- Holdings in the Eurodirect group in France including its Lettershop services were increased to 100 percent.
- At the end of 2003, construction on a state-of-the-art rotogravure plant was begun in Treviglio, Italy; the investment volume for the New Eurogravure project totals approx. € 100 million.

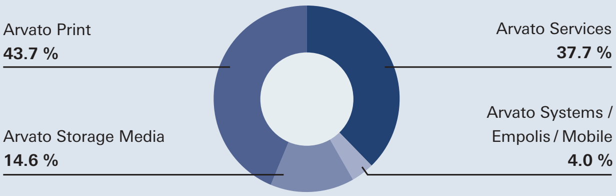
2003. Last year also saw the incorporation of Zomba Records' sales and distribution activities in Germany, Austria and Switzerland and in the UK Holdings in the Eurodirect Group in France with its Lettershop services, were stocked up to 100 percent.

Arvato Print found itself facing massive fluctuations in capacity utilization, along with increasing pricing pressure. Nevertheless, the printing unit was able to bolster its leading position with investments in state-of-the-art technology. The reorganization of its book-printing operations in Germany was concluded with the integration of the Elsnerdruck paperback printing plant into the GGP Media book-printing unit. The Maul-Belser media group adopted a € 55 million investment package in 2003, with the primary aim of building two state-of-the-art gravure printing presses at the Nuremberg location in the years ahead. At the end of 2003, construction began on a high-tech gravure printing plant in Treviglio, Italy. The New Eurogravure project involves investments totaling approximately € 100 million. In Barcelona, the Spanish offset-printing business pressed ahead with its restructuring efforts. Arvato's US book-printing business was stable in 2003.

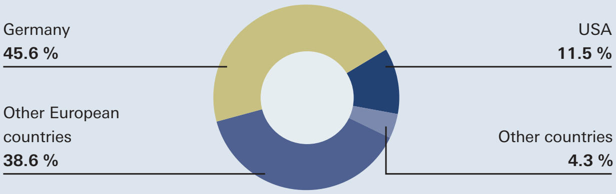
In the Arvato Storage Media unit, the storage media manufacturer Sonopress substantially increased its DVD volume while also expanding CD volume counter to the industry trend. The latter is attributable chiefly to the addition of US market shares in CD manufacturing. Sonopress was able to significantly increase revenues and earnings in the US, Brazil and Mexico. Arvato Storage Media's German business was dominated by consolidation in 2003. The cost situation was significantly improved thanks to optimized organizational structures and adjustments to workflow. In Asia, start-up was concluded and a first-time positive result achieved.

In the IT sector, Arvato Systems furthered its structural transformation from an in-house IT service provider for Bertelsmann to a separate Profit Center, by broadening its external customer base in core markets. Empolis, a leading provider of corporate content and knowledge management solutions, which is also part of Arvato's IT unit, systematically continued its transition from product to solutions provider. Arvato also made significant progress in the building and extension of Arvato Mobile, a full-service wireless provider with the brands Handy.de and TJ Net. The increase in both revenues and earnings were above average in 2003.

Revenues by Category in percent



Revenues by Region in percent*



*Without intercompany revenues

Melanie Werner, Program Assistant

Bertram Münzer, Chief Copywriter/Head of Production Catalogue Agency

Direct Group
Select, Publish, Prepare, Promote, Build Community

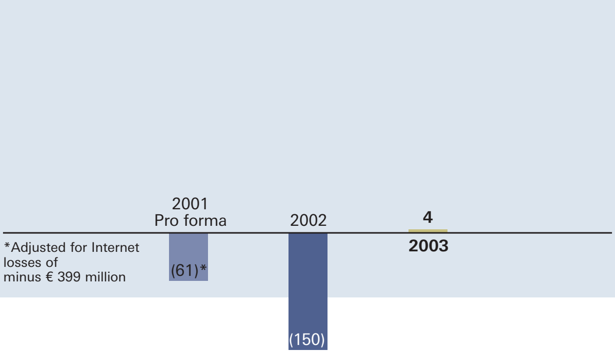
Karsten Diettrich, General Manager Editions France Loisirs

Emmanuelle Cony, Communications

DirectGroup
BERTELSMANN

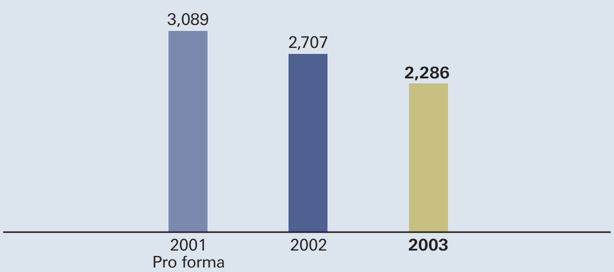
Michaela Werner, Book Production

Operating EBITA in € millions



*Adjusted for Internet losses of minus € 399 million

Revenues in € millions



Highlights 2003

- The great majority of Club businesses were profitable in 2003. The Clubs in Germany and Great Britain reduced their losses by about 70 percent.
- Investments into increasing the appeal of the Clubs: Measures included the overhaul of numerous Club stores, sweeping media campaigns, revised Internet homepages, more up-to-date books, and a greater number of exclusive titles for Club members.
- Growth strategy in China: The 21st Century Bookchain joint venture entered into with a Chinese partner opens up the possibility of building a nationwide bookstore business.

By focusing on Club businesses, Direct Group generated an earnings leap in 2003 despite a revenue decline to € 2.3 billion (previous year: € 2.7 billion): Operating EBITA, which in 2002 was minus € 150 million, improved to € 4 million despite a tough economic climate, bringing the group to break even.

The contracting revenues reflect a market impacted by economic decline and consumer reluctance, a weak dollar, and portfolio streamlining. In 2002, Direct Group had disposed of the online bookseller BOL in many countries. Meanwhile, the improved operating results are evidence of successful restructuring measures: a focus on core business, systematic withdrawal from pure e-commerce, and the increased delegation of responsibility to local management as part of strengthening the decentralized organization.

In 2003, Direct Group sold its holdings in the US online bookseller Barnesandnoble.com and disposed of

BOL in the Netherlands. This concludes the group's withdrawal from media e-commerce. The division also relied on active cost management, further reducing its administrative expenditure both at the head office and in the individual operations.

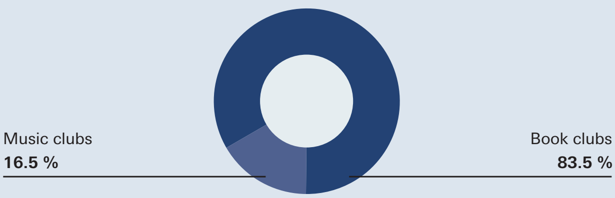
Parallel to its reorganization, Direct Group began enhancing the appeal of its Clubs by modernizing numerous Club stores and launching large-scale media campaigns, especially in France and Germany. Clubs all over the world revised and updated their catalogs and online presence. Club members are now offered a more up-to-date range of books and a broader spectrum of exclusive titles. The Clubs intensified their own publishing activities and collaboration with authors. For the first time, selected books were promoted worldwide as part of a joint marketing initiative. The Clubs' membership bases were selectively trimmed to enable a focus on loyal customers. At year-end, the worldwide book and music clubs of the group counted approx. 32 million members.

As a result of these measures, the Clubs showed significantly improved earnings for the year. The great majority of Club operations were profitable in 2003. The German and British Clubs reduced their losses by roughly 70 percent, but have not yet reached break even.

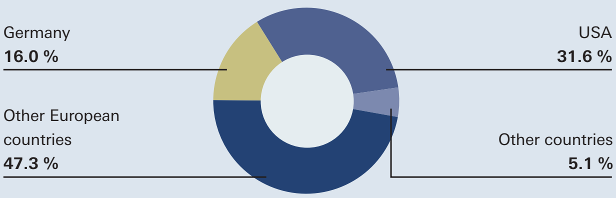
The French Club France Loisirs, Spain's Circulo de Lectores, ECI in the Netherlands, the US book club Bookspan and the US music club BMG Music Service generated comparatively high income. France Loisirs relied on a number of best-selling exclusive titles (Edition France Loisirs), while the Spanish book club Circulo de Lectores extended its business by adding exclusive book series. In the Netherlands, ECI continued the restructuring process begun in 2002, and established its own publishing company, "House of Books." Bookspan in the US had a restrained first half, due chiefly to consumer reluctance related to the Iraq War, but was able to compensate this with brisk business in the second half of the year. In a market that is still contracting, the music club BMG Music Service nearly doubled its earnings. This success is the result of a program that was well received by its customers, improved management of accounts receivable, manifold savings measures, and an intensified use of the Internet for recruiting customers.

The lung disease SARS and ensuing consumer insecurity impacted the business of the Club in China. Nevertheless it managed to increase membership numbers and improve its results. The 21st Century Bookchain joint venture set up with a Chinese partner in December 2003 is expected to bring further growth. Having gained the government's permission, the Club will now extend its chain of stores beyond the borders of Shanghai for the first time and significantly broaden its member base. Bertelsmann is the first international media company to be given the opportunity to build a nationwide book retail chain since the Chinese book market was opened in May 2003.

Revenues by Category in percent



Revenues by Region in percent*



* Without intercompany revenues

GAIN Initiative Launched

Towards the end of the year, Bertelsmann launched a "Growth and Innovation" (GAIN) initiative to promote organic growth. The basic idea of the initiative is to encourage entrepreneurs in Bertelsmann's companies and divisions to develop ideas for new content, products and services, and to support them in putting their business ideas into practice. GAIN will supplement a continued optimization of existing businesses, and systematic portfolio management.

In the two previous years, the group-wide "Bertelsmann Excellence Initiative" (BEX) had provided the foundation for new growth. Its goal was to improve the profitability of core businesses. Over the course of the initiative, which has since been concluded, the group's loss-making businesses were returned to the profit zone, shut down or sold. Additional BEX savings were achieved by streamlining central administrative offices and staff functions.

Risk Management and Risks of Future Development

Bertelsmann AG has an integrated risk management system. This system is established as a fixed part of the company's management structure. As in previous years, a voluntary audit was carried out in major areas by KPMG, the external auditors. A major part of the risk identification process is a complete risk inventory, to be carried out annually by the profit centers. The risks are then aggregated step-by-step for each business segment and for the whole group. This bottom-up process ensures that risks are recorded where they have an effect. A uniform framework is used for identifying risks, in order to make the risks identified comparable with each other and to be able to combine them sensibly as a further part of the process.

As a result of the risk reporting, the following significant risks for the Bertelsmann group and for Bertelsmann AG were identified. Measures are continuously taken to monitor, reduce or eliminate these risks, which are subject to constant observation.

The overall decline in the advertising industry over the past few years had a significant influence on RTL Group's potential revenue growth. Although it can be assumed that this trend will not continue, there is nevertheless a risk that advertising revenues could decrease further. This has to do with the overall weakness of the entire advertising market, as well as with the use of new forms of advertising, using new forms of media. The RTL Group purchases considerable amounts of movie rights from major US film studios on a US dollar basis. As any significant change in the exchange rate of the dollar versus the euro would directly affect the RTL Group profitability, currency fluctuation risks are hedged by RTL Group, using appropriate financial instruments. In France, RTL Radio France could lose key advertising customers due to the planned deregulation of TV advertising.

Random House is dependent on the economic climate in North America and in particular on consumer spending. Weakness in the smaller markets in Great Britain, Germany and the Spanish-speaking countries would also have a negative influence on income for this segment. Limited perspectives for growth in the book market in many regions and a process of concentration for many large customers lead to intensive competition with related procurement and sales risks.

At Gruner + Jahr, advertising and sales revenues, as well as the pattern of sales at printers, are directly dependent on growth of the sales and advertising markets for magazines. This is particularly true for the core markets of Germany, France and the US. It can be assumed that competition will grow in the expanding Russian and Chinese markets. An appropriate marketing strategy and improvements to individual products are intended to maintain or even improve this segment's market position.

BMG continues to operate in a challenging environment. The group generates a major part of its revenues from the sale of CDs and DVDs. In addition to other factors, the unlicensed use of copyrights owned by BMG in the form of burning CDs, among other activities, leads to a shrinking market for recorded music and hence to a decrease in revenues for BMG. As all other record companies, BMG is engaged in efforts to staunch such unlicensed copying activities. Although significant efforts have been made and some advances gained, the risk to BMG and the entire industry remains high. Changes in musical tastes and new trends in consumer behavior are a great challenge to BMG. Hence, new forms of artists' contracts are being examined, to bind the interests of artists and BMG closer to one another and secure new sources of revenue.

To ensure BMG's continued success in light of difficult times in the music industry, Bertelsmann and Sony Corporation of America agreed in December to merge their music divisions. BMG and Sony Music Entertainment plan to contribute their respective recording divisions to the "Sony BMG" joint venture, to be headquartered in New York. This merger and formation of a new company, Sony BMG, is subject to antitrust approval. BMG will continue to operate its business in the ordinary course until the regulatory process is completed.

The Arvato segment, in particular the Arvato Print and Arvato Storage Media business areas, operate in markets which are affected by intense competition and overcapacity. Due to its diversified range of services and global reach, Arvato is nevertheless confident that it can counter regional and industry-specific economic risks. As a producer of physical storage media, the weak music market with a decline in CD volumes represents a risk for Arvato Storage Media. It is uncertain whether the CD business will stabilize or whether its decline can be entirely compensated, and in time, by growth in the DVD business.

With its book and music clubs located in many countries throughout the world, Direct Group is also dependent on the overall state of the economy and consumer confidence, coupled with intense competition. Measures introduced in the Clubs' marketing and program policies are yielding positive results, although further improvements, primarily in capturing and keeping new customers, remain a major challenge for Direct Group. In certain countries, chiefly by the book clubs in Great Britain and Germany and the music club in the US, the new strategic direction and consolidation are not yet concluded.

As an international group, Bertelsmann is subject to several legal risks. This applies particularly to legal disputes in the US, where there are legal institutions unknown in Germany, such as class actions, punitive damages and pre-trial discovery. The outcomes of currently asserted or future unasserted lawsuits cannot be foreseen with any degree of certainty, nor can they be entirely influenced. Legal risks could arise from the following: Various music publishers and record labels submitted claims against Bertelsmann at a New York court in 2003. The claimants mainly state that, by granting a loan, Bertelsmann enabled Napster, a former music file sharing service, to survive longer than it would have been able to without a loan. Hence, the argument goes, Bertelsmann allegedly contributed to the breaches of copyright by Napster's users, to which Napster itself allegedly also contributed.

Bertelsmann is convinced that these claims are without any foundation or merits and, accordingly, has filed a motion to dismiss the complaints with the court. No decision has yet been reached on Bertelsmann's motion to dismiss.

After the End of the Fiscal Year

In February 2004, a contract was signed for the sale of the Bertelsmann building on Times Square in New York City. Bertelsmann entered into a leasing contract for this building with a purchase option at a fixed price in 1992. The building has been sold to an investor. Bertelsmann will lease back part of the building for a period of ten years.

Outlook

The first weeks of 2004 indicate a worldwide economic recovery. Bertelsmann expects a slight upturn in the international media markets in 2004. While developments in Germany are subject to cautious optimism, the major international markets are expected to show stronger growth. Bertelsmann expects stable consolidated revenues for the year (before currency effects), and continuing improvement in the operating results.

In the years ahead, Bertelsmann will focus on intensifying innovation and accelerating expansion under the terms of the "Growth and Innovation" (GAIN) initiative. Core business optimization and medium-term creation and expansion of new business will yield a portfolio that lastingly safeguards the competitiveness and profitability of the group. The medium-term goal of a ten percent return on sales remains in place. Measures ranging from shared creation of media content to cooperative utilization of external customer relationships will serve to further tap into synergy potential and additional income streams.

The RTL Group expects moderate growth in key advertising markets in 2004. The elimination of restructuring costs and value adjustments to licenses will improve results. On the other hand, the group will face start-up expenses for building its business in Eastern Europe.

Random House expects an improved consumer climate in Europe and the US. In Germany, the division will pursue the integration of Heyne Verlag acquired in 2003.

Gruner + Jahr expects stable earnings in the international magazine business and further improved results in Germany in 2004. There are plans to continue impelling the development of new products, and increase efforts to expand on existing publications.

The planned merger between BMG's recorded music business and that of Sony Music Entertainment into a joint venture is subject to approval by the antitrust authorities. They are not expected to reach their decisions before the second half of 2004. BMG expects a further shrinkage of the global music market during the year. Regardless of the progress of the planned joint venture with Sony Music Entertainment, the division will reorganize its operations in North America to realize additional cost savings.

Arvato expects that earlier cost-cutting measures and productivity improvements will generate positive earnings contributions in 2004. Start-up costs for a new rotogravure plant in Italy and for restructuring measures in the Arvato Systems unit will impact results.

As a result of restructuring measures and portfolio streamlining in the past few years, Direct Group expects improved results in nearly all its Clubs in 2004, except its start-up operations in Asia. The division will invest in building a chain of stores in China and is reviewing the potential for new business in Eastern Europe.

Supervisory Board Report

During fiscal year 2003, the Supervisory Board fulfilled the duties incumbent upon it by law, the articles of association and by-laws. 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 2003, the Supervisory Board convened for four regular meetings. The Chairman of the Supervisory Board was also in contact with the Executive Board beyond the Supervisory Board meetings and regularly obtained information about current developments and important business transactions. Between meetings, the Supervisory Board was notified, in writing, 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 statements and the group management report for the fiscal year from January 1 through December 31, 2003 were audited by the 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 financial review meeting and submitted their report. The Supervisory Board noted and accepted the findings of the audit. After its own, final scrutiny of the consolidated financial statements and the group management report, the Supervisory Board raises no objections. The Supervisory Board approves the consolidated financial statements as prepared by the Executive Board.

During the year under review, the following changes occurred in the composition of the Supervisory Board: In July, Bertelsmann AG's shareholders appointed Christian van Thillo, CEO of De Persgroep NV, as a new Supervisory Board member upon the Supervisory Board's proposal. Gerd Schulte-Hillen, who chaired the Supervisory Board since November 1, 2000, resigned from his Supervisory Board mandate on December 31, 2003 by mutual agreement with the shareholders. The Supervisory Board thanks Gerd Schulte-Hillen for his great dedication as its Chairman and for his many achievements for the company and its employees in his more than 34 years with the Bertelsmann group. Effective January 1, 2004, the Supervisory Board elected Dr. Dieter H. Vogel, the former Vice-Chairman of the Supervisory Board, as its new Chairman. Prof. Dr. Jürgen Strube is the new Vice-Chairman. A replacement for the Supervisory Board seat that was vacated upon Gerd Schulte-Hillen's departure will be decided upon at a later point in time.

The year just past also saw the following change in Bertelsmann AG's Executive Board: With the successful sale of Bertelsmann Springer, Dr. Arnold Bahlmann, most recently President and CEO of Bertelsmann Springer, left the Bertelsmann AG Executive Board and the company on June 30, 2003. The Supervisory Board thanks Mr. Bahlmann for his past work.

Dr. Dieter H. Vogel
Chairman of the Supervisory Board of Bertelsmann AG

The recovery of the international media markets expected for 2003 largely failed to materialize. Therefore, the Supervisory Board welcomes the fact that the Executive Board systematically and successfully continued on its consolidation course to improve operating profitability and pay down net financial debt. In this connection one topic that preoccupied the Supervisory Board was the sale of the Bertelsmann Springer trade publishing group, which also served to focus Bertelsmann's core media business on entertainment media. The sale of Bertelsmann's holdings in the American e-commerce vendor Barnesandnoble.com concluded the company's divestiture of media e-commerce and focused Bertelsmann AG's end-customer business on book and music clubs. The integration of the music company, Zomba, into BMG begun early in the year was repeatedly an object of discussion in the Supervisory Board. The continued prospects of the music business were at the heart of the strategy dialog between the Executive and Supervisory Boards in 2003. After reviewing the possible courses of action, Bertelsmann selected Sony as its strategic partner and decided to merge its recorded music business with that of Sony Music. Depending on the course of the antitrust approval procedure, the Supervisory Board will closely accompany the preparations for and implementation of the recorded-music merger, which is scheduled for the second half of 2004.

The Supervisory Board supports the "Growth and Innovation – GAIN" initiative initiated by the Executive Board at the end of the fiscal year, which strives to further improve the profitability of core business in the years ahead while generating organic growth in existing and new businesses. The Supervisory Board expresses its gratitude and appreciation to the company's Executive Board, executives and employees for their entrepreneurial achievements and contributions to Bertelsmann's continued development in the year just past.

The Supervisory Board supports the "Growth and Innovation – GAIN" initiative initiated by the Executive Board at the end of the fiscal year, which strives to further improve the profitability of core business in the years ahead while generating organic growth in existing and new businesses.

Gütersloh, March 26, 2004

Dr. Dieter H. Vogel

Corporate Governance at Bertelsmann

Bertelsmann regards exemplary corporate governance as an important element in its corporate culture, and as part of its overall objective of permanent and sustainably increasing the value of the company. Bertelsmann's corporate governance is embedded in its corporate constitution, whose permanent enhancement is one of the management's key concerns.

Management and Supervision: The Executive Board and Supervisory Board

The Bertelsmann AG Executive Board has direct responsibility for the management of the company. The members of the Executive Board manage the company jointly. The Executive Board is appointed by the Supervisory Board, which is committed solely to the company's interests and is independent in its decision-making. The Supervisory Board supervises the Executive Board and advises it in strategic matters and important business transactions.

The Executive Board and the Supervisory Board have a close and mutually trusting working relationship, thereby reconciling the demands of effective corporate governance with the necessity of rapid decision-making. Fundamental matters of corporate strategy and its implementation are discussed and coordinated in joint sessions.

The members of the Supervisory Board are elected by the Bertelsmann AG General Meeting. The Bertelsmann Verwaltungsgesellschaft mbH (BVG) holds 75 percent of the voting rights at the General Meeting; Groupe Bruxelles Lambert (GBL) holds the remaining 25 percent. The BVG shareholders' meeting decides on the exercise of BVG's voting rights at the General Meeting. BVG's shareholders consist of the Chairman of the Supervisory Board along with another member of the Bertelsmann AG Supervisory Board, the Chairman & CEO, a member of the senior management of a company in which Bertelsmann owns a stake, an employee representative, and three representatives of the Mohn family. BVG's mandate is to manage the shareholder interests of the nonprofit Bertelsmann Foundation and of the Mohn family, and to ensure continuity in the company's development. This includes safeguarding, implementing and enhancing the corporate culture developed by Reinhard Mohn.

Bertelsmann has always played a pioneering role in developing a modern and active supervisory board function. In the mid-1980s, certain tasks and functions associated with the Supervisory Board were delegated to Supervisory Board committees. This delegation of responsibility calls for professional competence of the committee members. Empowering the committees gives the Supervisory Board more time to focus on decisions reserved for the plenum and on strategically important decision-making processes. The committees' decisions are then presented to the plenum. Motions that exceed the committees' competence will be dealt with and decided by the plenum based on a recommendation by the related committee. The same applies for important personnel issues.

In addition to the Personnel Committee, the Bertelsmann AG Supervisory Board has a Strategy and Investment Committee, an Audit and Finance Committee and a Working Group of the Employee Representatives. The Supervisory Board has become more international in the recent past. At the same time, its composition is clearly aligned to industrial and capital market experience. Members are elected based on the criterion of complementary skills.

Bertelsmann has always played a pioneering role in developing a modern and active supervisory board function.

Continuous Enhancement of Corporate Governance

At Bertelsmann, the enhancement of corporate governance is regarded as a permanent process. The performance of the Executive and Supervisory Boards is therefore regularly evaluated by the Supervisory Board. Bertelsmann AG is one of the first major German stock corporations to have commissioned a Board Review, a third-party review of its supervisory board performance. A benchmark survey – part of the Board Review – was completed in 2003. It compared Bertelsmann with international companies reputed to have the best corporate governance. Bertelsmann achieved an excellent placement in this comparison. Recommendations for further evolving corporate governance at Bertelsmann in several areas were derived from the survey. One measure to be implemented will be to systematically promote the Supervisory Board members' proficiency for talks by strengthening their knowledge of Bertelsmann's markets and operations.

Bertelsmann AG is one of the first major German stock corporations to have commissioned a Board Review, a third-party review of its supervisory board performance.

To ensure that Corporate Governance standards remain high, the Executive and Supervisory Boards have initiated an interdisciplinary Corporate Governance committee. This committee systematically analyzes current developments and international "Best Practice" in the field of Corporate Governance and compares them with existing Corporate Governance structures and processes at Bertelsmann.

Since the German Corporate Governance Codex came into effect, its guidelines and recommendations have also provided a benchmark for corporate management and supervision at Bertelsmann. The internal rules and procedures of the Bertelsmann Executive Board, Supervisory Board and Annual General Meeting, as well as the company's accounting and transparency principles, are measured by this standard. Bertelsmann AG, despite being an unlisted corporation with a limited number of shareholders, has decided to largely adopt the recommendations and suggestions of the German Corporate Governance Codex, which addresses listed corporations. Bertelsmann therefore essentially complies with the standard for listed corporations set by the German Corporate Governance Codex.

The Executive Board The Supervisory Board

Consolidated Income Statement in € millions

	Notes	2003	2002
Revenues	1	**16,801**	**18,312**
Other operating income	2	817	768
Change in inventories		26	(69)
Own costs capitalized		124	22
Cost of materials	3	(4,658)	(5,347)
Royalty and license fees		(1,650)	(1,655)
Personnel costs	4	(4,151)	(4,554)
Amortization of intangible assets and depreciation of property, plant and equipment	5	(1,421)	(1,507)
Other operating expenses	6	(5,445)	(5,780)
Impairment of goodwill and rights similar to goodwill	7	(219)	(1,661)
Results from associated companies	8	(25)	(78)
Income from other participations	8	(13)	33
Special items	9	547	2,807
– of which gain on sale of discontinuing operation	29	*628*	–
Earnings before interest and taxes		**733**	**1,291**
Net interest	10	(95)	(50)
Other financial expenses and income	11	(227)	(216)
Financial result		**(322)**	**(266)**
Income taxes	12	(203)	(57)
Net income before minority interests		**208**	**968**
Minority interests		(54)	(40)
Net income after minority interests		**154**	**928**

Reconciliation to Operating EBITA

	Notes	2003	2002
Earnings before interest and taxes		**733**	**1,291**
Special items	9	(547)	(2,807)
Amortization of goodwill and rights similar to goodwill		923	2,432
Amortization of goodwill from associated companies		14	20
Operating EBITA	32	**1,123**	**936**
Operating EBITDA	33	**1,866**	**1,666**

Consolidated Balance Sheet in € millions

	Notes	12/31/2003	12/31/2002
Assets			
Non-current assets	13		
Goodwill	14	6,632	7,787
Other intangible assets	15	901	1,231
Property, plant and equipment	16	2,254	2,802
Investments in associates	17	398	582
Other financial assets	17	419	404
		10,604	**12,806**
Current assets			
Inventories	18	1,820	1,961
Trade accounts receivable	19	3,041	3,251
Other receivables and other assets	19	2,573	2,780
Cash and cash equivalents	20	1,642	977
		9,076	**8,969**
Deferred tax assets	12	275	237
Prepaid expenses		209	176
		20,164	**22,188**
Equity and liabilities			
Equity	21		
Subscribed capital		606	606
Capital reserve		2,725	2,725
Retained earnings		3,181	2,426
Net income after minority interests		154	928
Shareholders' equity		**6,666**	**6,685**
Minority interests		965	1,059
		7,631	**7,744**
Third-party liabilities			
Profit participation capital	22	**706**	**706**
Provisions			
Provisions for pensions and similar obligations	23	1,701	1,737
Other provisions	24	2,880	2,944
		4,581	**4,681**
Liabilities			
Financial debt	25	2,462	3,718
Trade accounts payable	26	2,738	2,693
Other liabilities	26	1,600	2,031
		6,800	**8,442**
Deferred tax liabilities	12	114	83
Deferred income		332	532
		20,164	**22,188**

Consolidated Cash Flow Statement in € millions

	2003	2002
Net income before minority interests	**208**	**968**
Depreciation and write-ups of non-current assets	1,680	3,178
Change in long-term provisions	51	(83)
Other cash/non-cash items	(566)	(2,948)
Cash flow according to DVFA/SG	**1,373**	**1,115**
Result from disposals of non-current assets	(39)	(4)
Change in inventories	3	27
Change in receivables, other assets and prepaid expenses	56	336
Change in short-term provisions, other liabilities and deferred income	(31)	(260)
Net cash from operating activities	**1,362**	**1,214**
Investments in:		
– intangible assets	(166)	(236)
– property, plant and equipment	(413)	(543)
– financial assets	(43)	(72)
– purchase price for acquired entities (net of acquired cash)	(139)	(4,412)
Proceeds from disposals of non-current assets	1,637	2,552
Net cash from investing activities	**876**	**(2,711)**
Issue of bonds and promissory notes	867	145
Change in financial debt	(1,792)	905
Change in shareholders' equity	(216)	(199)
Dividend Bertelsmann AG and minority interests	(337)	(353)
Net cash from financing activities	**(1,478)**	**498**
Change in cash and cash equivalents	**760**	**(999)**
Exchange rate movements and other changes in cash and cash equivalents	(95)	(68)
Cash and cash equivalents at the beginning of the period	977	2,044
Cash and cash equivalents at the end of the period	**1,642**	**977**

Details of the cash flow statement are set out in note 31

Consolidated Statement of Changes in Shareholders' Equity in € millions

	Subscribed capital	Capital reserve	Retained earnings	Other comprehensive income			Net income after minority interests	**Share-holders' equity**	Minority interests	**Total**
				Currency translation differences	Available-for-sale securities	Derivative financial instruments				
Balance at Dec. 31, 2001	**606**	**2,725**	**1,808**	**111**	**59**	**45**	**949**	**6,303**	**2,081**	**8,384**
Change in shareholders' equity due to										
– Dividends	–	–	–	–	–	–	(300)	**(300)**	(53)	**(353)**
– Increase in group share of RTL Group	–	–	–	–	–	–	–	**–**	(974)	**(974)**
– Other changes	–	–	–	–	–	–	–	**–**	(36)	**(36)**
Other comprehensive income										
– Currency translation differences	–	–	–	(97)	–	–	–	**(97)**	16	**(81)**
– Other changes	–	–	–	–	(55)	(94)	–	**(149)**	(15)	**(164)**
Change recognized in income										
– Transfer to retained earnings	–	–	649	–	–	–	(649)	**–**	–	**–**
– Net income after minority interests	–	–	–	–	–	–	928	**928**	40	**968**
Balance at Dec. 31, 2002	**606**	**2,725**	**2,457**	**14**	**4**	**(49)**	**928**	**6,685**	**1,059**	**7,744**
Change in shareholders' equity due to										
– Dividends	–	–	–	–	–	–	(240)	**(240)**	(97)	**(337)**
– Other changes	–	–	(18)	–	–	–	–	**(18)**	(38)	**(56)**
Other comprehensive income										
– Currency translation differences	–	–	–	54	–	–	–	**54**	(12)	**42**
– Other changes	–	–	–	–	27	4	–	**31**	(1)	**30**
Change recognized in income										
– Transfer to retained earnings	–	–	688	–	–	–	(688)	**–**	–	**–**
– Net income after minority interests	–	–	–	–	–	–	154	**154**	54	**208**
Balance at Dec. 31, 2003	**606**	**2,725**	**3,127**	**68**	**31**	**(45)**	**154**	**6,666**	**965**	**7,631**

Details of the statement of changes in shareholders' equity are set out in note 21

Segment Reporting Primary Format in € millions

	RTL Group		Random House		Gruner + Jahr		BMG		Arvato	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Consolidated revenues	4,393	4,355	1,755	1,987	2,471	2,786	2,680	2,689	3,070	3,021
Intercompany revenues	59	7	21	8	10	14	32	25	569	647
Divisional revenues	**4,452**	**4,362**	**1,776**	**1,995**	**2,481**	**2,800**	**2,712**	**2,714**	**3,639**	**3,668**
Operating EBITA	**503**	**465**	**147**	**168**	**234**	**226**	**110**	**125**	**261**	**217**
Special items	(1)	(93)	(2)	4	71	173	(73)	8	–	(3)
EBITA	**502**	**372**	**145**	**172**	**305**	**399**	**37**	**133**	**261**	**214**
Amortization of goodwill and rights similar to goodwill	(305)	(321)	(72)	(72)	(109)	(165)	(160)	(1,354)	(35)	(56)
Amortization of goodwill from associates	(12)	(8)	–	–	–	(5)	(2)	(1)	–	(6)
Earnings before interest and taxes	**185**	**43**	**73**	**100**	**196**	**229**	**(125)**	**(1,222)**	**226**	**152**
Operating EBIT	**186**	**136**	**75**	**96**	**125**	**56**	**(52)**	**(1,230)**	**226**	**155**
Depreciation, amortization and impairments	609	626	104	97	192	266	207	1,318	235	268
Investments	206	2,277	75	120	86	99	72	2,338	224	258
Segment assets	6,525	9,115	1,893	1,998	1,448	1,721	2,529	3,145	1,984	1,802
Segment liabilities	1,952	1,984	765	639	570	606	1,406	1,756	1,248	940
Result from associates[2]	4	26	(1)	–	2	(9)	(10)	(50)	(1)	1
Investments in associates	334	458	2	2	9	26	4	12	–	6
Employees (at closing date)	7,254	7,378	5,525	5,626	11,352	11,367	4,880	6,452	31,405	31,174
Employees (average)	7,269	7,199	5,487	5,723	11,849	12,056	5,090	5,131	31,245	30,710

[1] 1/1/–3/31/2003
[2] Results after amortization of goodwill

Secondary Format in € millions

	Germany		Rest of Europe		USA		Other countries		Group	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Consolidated revenues	5,166	5,691	6,486	6,498	4,210	5,029	939	1,094	16,801	18,312
Segment assets	7,985	9,013	5,616	6,868	3,138	4,053	1,142	416	17,881	20,350
Investments	316	1,115	270	1,726	150	2,287	25	135	761	5,263

Details of the segment reporting are set out in note 32

Direct Group		Total Divisions		Bertelsmann Springer		Corporate		Consolidation		Total Group	
2003	2002	**2003**	2002	**2003**[1]	2002	**2003**	2002	**2003**	2002	**2003**	2002
2,264	2,695	16,633	17,533	158	730	10	49	–	–	16,801	18,312
22	12	713	713	–	1	1	1	(714)	(715)	–	–
2,286	**2,707**	**17,346**	**18,246**	**158**	**731**	**11**	**50**	**(714)**	**(715)**	**16,801**	**18,312**
4	**(150)**	**1,259**	**1,051**	**–**	**71**	**(87)**	**(180)**	**(49)**	**(6)**	**1,123**	**936**
148	(57)	143	32	(1)	–	405	2,775	–	–	547	2,807
152	**(207)**	**1,402**	**1,083**	**(1)**	**71**	**318**	**2,595**	**(49)**	**(6)**	**1,670**	**3,743**
(39)	(173)	(720)	(2,141)	(9)	(83)	(194)	(209)	–	1	(923)	(2,432)
–	–	(14)	(20)	–	–	–	–	–	–	(14)	(20)
113	**(380)**	**668**	**(1,078)**	**(10)**	**(12)**	**124**	**2,386**	**(49)**	**(5)**	**733**	**1,291**
(35)	**(323)**	**525**	**(1,110)**	**(9)**	**(12)**	**(281)**	**(389)**	**(49)**	**(5)**	**186**	**(1,516)**
85	247	1,432	2,822	15	107	233	253	–	(1)	1,680	3,181
39	64	702	5,156	14	28	45	79	–	–	761	5,263
877	1,022	15,256	18,803	–	676	2,759	838	(134)	33	17,881	20,350
522	573	6,463	6,498	–	265	844	645	(269)	(2)	7,038	7,406
(7)	(1)	(13)	(33)	–	1	(12)	(67)	–	–	(25)	(99)
–	11	349	515	–	2	49	65	–	–	398	582
11,893	12,309	72,309	74,306	–	5,282	912	1,044	–	–	73,221	80,632
11,983	12,442	72,923	73,261	1,282	5,364	913	1,317	–	–	75,118	79,942

Notes

General Principles

The consolidated financial statements of Bertelsmann AG for the year ended December 31, 2003 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 using the historical cost principle in compliance with IFRS.

The consolidated financial statements prepared in accordance with IFRS are consistent with the European Union's directive on group accounting and reporting (Directive 83/349/EEC). The main differences between IAS and HGB are set out in note 34. As the conditions for applying § 292a of the German Commercial Code (HGB) are met, consolidated financial statements have not been prepared in accordance with the regulations set out in HGB.

The consolidated financial statements have been prepared in euros; all amounts are stated in millions of euros (€ million). For the sake of clarity, certain captions in the income statement and in the balance sheet have been combined. These captions are disclosed in more detail and explained in the notes. The income statement is classified using the nature of expense method. Because of their importance, effects from changes to the portfolio, restructuring, and value adjustments are shown separately as special items. For the sake of comparability, previous-year figures are shown 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 37. All consolidated financial statements of the Bertelsmann Group 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 930 (previous year: 1,080) fully consolidated companies. All domestic and international affiliated companies are consolidated, with the exception of 137 companies (previous year: 157) 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 assets, financial position and results of operations.

The scope of consolidation changed during the year as follows:

Change in Scope of Consolidation

	Domestic	Foreign	Total
Consolidated at December 31, 2002	316	764	1,080
Additions	17	32	49
Disposals	87	112	199
Consolidated at December 31, 2003	246	684	930

Purchase price payments deducted by acquired cash and cash equivalents amounted to € 139 million.

At the beginning of 2003, Random House Deutschland signed an agreement to acquire Ullstein-Heyne-List (UHL), the publishing group. As the German antitrust authorities raised objections to the purchase of the entire publishing group, the Econ, Ullstein and List publishing units were sold on to Bonnier, the Swedish media group. The first-time consolidation of Heyne Verlag at December 31, 2003 yielded corporate goodwill of € 18 million.

Negotiations for the sale of Bertelsmann Springer, a separate segment, were successfully concluded in the first half of the year. At a purchase price of € 1,050 million free of debt, the gain on disposal was € 628 million.

Effective December 31, 2003, G+J sold its East European newspaper business. The gain on deconsolidation was € 72 million.

In September 2003, Direct Group sold its participation in Barnesandnoble.com, the US e-commerce company, in the process realizing capital gains of € 145 million. This associated company was stated at equity in the consolidated financial statements.

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 deconsolidation:

Effects of Acquisitions and Disposals in € millions

	Additions **2003**	Disposals **2003**	Net **2003**	Additions 2002	Disposals 2002	Net 2002
Non-current assets	209	578	(369)	591	173	418
Current assets	65	361	(296)	907	61	846
Liabilities	58	484	(426)	783	146	637

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

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

Effects of Proportionate Consolidation in € millions

	12/31/2003	12/31/2002
Non-current assets	249	265
Current assets	1,057	1,089
Liabilities	702	1,237
Income	1,706	1,781
Expense	1,653	1,762

Of the 167 (previous year: 183) associated companies, 94 (previous year: 93) are reported using the equity method; the remainder 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 2003, those domestic subsidiaries listed in note 38 took advantage of the exemption from having their annual financial statements audited and published pursuant to § 264 para. 3 HGB and § 264 b 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 de-consolidated, 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

		Average rate		**Closing rate**	
Foreign currency unit per € 1		**2003**	2002	**12/31/2003**	12/31/2002
US dollars	USD	1.1312	0.9416	1.2630	1.0487
Canadian dollars	CAD	1.5898	1.4793	1.6234	1.6550
British pounds	GBP	0.6897	0.6277	0.7048	0.6505
Japanese yen	JPY	131.06	117.79	135.04	124.39
Swiss francs	CHF	1.5172	1.4673	1.5579	1.4524

Accounting Policies

Revenue Recognition

Revenues are recognized when the service has been performed and risks have been transferred, except for revenues recognized using the percentage-of-completion method as set out in IAS 11. Other income is recognized when it is probable that the economic benefits will flow to Bertelsmann Group and the amount can be measured reliably. 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 borrowed capital 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, film and publishing rights over a maximum period of 20 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 were incurred, whereas costs incurred resulting in a prolongation of the asset's useful life or in an improvement to its use, are recognized as an increase in the carrying value of the asset.

Items included in property, plant and equipment are depreciated straight-line 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 finance leases are recognized as leasing liabilities in the same amount.

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 or subleases.

The leased assets consist mainly of buildings. The finance leases are generally subject to non-cancelable minimum lease terms 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.

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 uncancelable lease terms of these operating leases is disclosed in the notes as part of other financial commitments.

Impairments

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 generally 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 a write-down no longer exists, the write-down is reversed unless it was 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 recording 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 with fixed payments and maturities and which are 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's 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 IAS 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 effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period in which the relevant legislation has been enacted.

Other Comprehensive Income

Other comprehensive income includes 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. Provisions are measured at full cost in the amount of the probable obligation. Long-term provisions are discounted.

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 affects 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 in € millions

	2003	2002
Revenues from selling goods and merchandise	9,995	11,372
Revenues from providing services	6,701	6,927
Revenues from use of assets	575	437
Gross revenues	**17,271**	**18,736**
Discounts and allowances	(470)	(424)
Revenues	**16,801**	**18,312**

2 Other Operating Income in € millions

	2003	2002
Extra and supplementary income	210	200
Interest and foreign exchange gains	68	26
Prior year income and reimbursements	175	186
Reversal of provisions	123	123
Gains from disposals of non-current assets	39	4
Other	202	229
	817	**768**

3 Cost of Materials in € millions

	2003	2002
Raw materials and supplies	3,510	3,765
Purchased services	1,148	1,582
	4,658	**5,347**

4 Personnel Costs in € millions

	2003	2002
Wages and salaries	3,462	3,808
State social security contributions	525	582
Profit sharing	29	34
Expense for pensions and similar obligations	120	101
Other employee benefits	15	29
	4,151	**4,554**

5 Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment in € millions

	2003	2002
Amortization/depreciation of		
– goodwill	619	701
– other intangible assets	366	318
– property, plant and equipment	436	488
	1,421	**1,507**

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 EBITA. Amortization of rights similar to goodwill for the year was € 85 million (previous year: € 70 million), impairment write-downs are shown separately.

6 Other Operating Expenses in € millions

	2003	2002
Administrative expenses	1,251	1,326
Consulting and audit fees	177	211
Interest and foreign exchange losses	78	32
Advertising costs	1,022	1,136
Selling expenses	882	1,004
Additions to other provisions	39	59
Allowances on current assets	385	334
Operating taxes	94	88
Losses on disposals of non-current assets	13	58
Other	1,504	1,532
	5,445	**5,780**

Administrative expenses include travel costs, insurance premiums and communication expenses. Other operating expenses include rentals, repair and maintenance costs and donations.

7 Impairment of Goodwill and Rights Similar to Goodwill in € millions

	Amortization of		**Total**	Total
	goodwill	rights similar to goodwill	**2003**	2002
Zomba, BMG	–	–	–	1,292
US publisher, G+J	54	–	54	85
London Playout Center, RTL Group	53	–	53	70
Sportfive, RTL Group	48	–	48	–
Bertelsmann Springer	–	–	–	51
CD Now, Direct Group	–	–	–	39
My Play, Direct Group	–	–	–	27
Handy.de, Corporate Center	–	–	–	20
BCA, Direct Group	17	–	17	–
National Geographic, G+J	10	–	10	–
Other	25	12	37	77
	207	**12**	**219**	**1,661**

8 Results of Associated Companies and Participations in € millions

	2003	2002
Income from associated companies	43	49
Expenses from associated companies	(54)	(107)
Amortization of goodwill from associates	(14)	(20)
Results of associated companies	**(25)**	**(78)**
Income from participations	16	37
Expenses from participations	(3)	(24)
Write-downs of investments	(31)	(66)
Write-ups of investments	5	86
Results of participations	**(13)**	**33**

Most of the share of profits of affiliated companies came from RTL II, with € 18 million (previous year: € 27 million), and from MRTL Hungary, with € 6 million (previous year: € 7 million). The share of losses of associated companies included Antena 3, at € 14 million (previous year: € 3 million) Lycos Europe, at € 10 million (previous year: € 32 million), and Bertelsmann Ventures at € 5 million (previous year: € 31 million). Up to the date of sale of Barnesandnoble.com, the share of losses charged against Direct Group's results was € 7 million (previous year: € 28 million).

Bertelsmann had no share in associated companies' contingent liabilities at December 31, 2003 (previous year: € 10 million).

9 Special Items in € millions

	2003	2002
Disposals		
Bertelsmann Springer, Corporate Center	628	–
Barnesandnoble.com, Direct Group	145	–
Eastern Europe newspapers, G+J	72	–
AOL Europe, Corporate Center	–	2,827
Daum, G+J/Direct Group	–	59
Berliner Zeitung, G+J	–	138
Bad Boy, BMG	–	(56)
Other	(225)	(50)
Restructurings, Value Allowances		
Zomba, BMG	(73)	66
Sportfive, HMG, RTL Group	–	(43)
Elsnerdruck, Arvato	–	(14)
CCIT, BOL, BeMusic, Direct Group	–	(84)
Lycos Europe, Musicnet, BC Ventures, Corporate Center	–	(36)
	547	**2,807**

Starting this year gains and losses on disposals and exceptional one-time expenses are shown as special items in order to give more transparency to aperiodic influences.

"Other" includes a provision of € 234 million for damages to two former AOL Germany executives granted at first instance in a lawsuit against Bertelsmann. The litigation is connected to the former joint venture AOL Europe. Restructurings reported under special items in 2003 are attributable exclusively to the BMG division, and were caused mostly by the integration of Zomba.

The previous year's € 111 million in restructuring and value adjustments were reclassified from personnel costs (€ 20 million), write-offs of non-current assets (€ 13 million), other operating expenses (€ 57 million) and results of associated companies (€ 21 million).

10 Net Interest in € millions

	2003	2002
Interest and similar income	189	217
Interest on finance lease	(13)	(22)
Interest and similar expenses	(271)	(245)
	(95)	**(50)**

11 Other Financial Expenses and Income in € millions

	2003	2002
Interest on provisions for pensions and similar obligations	(121)	(122)
Dividend entitlement on profit participation certificates	(76)	(77)
Other	(30)	(17)
	(227)	**(216)**

12 Income Taxes in € millions

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

	2003 Domestic	**2003** Foreign	**2003** Total	2002 Domestic	2002 Foreign	2002 Total
Net income before income taxes	**(105)**	**516**	**411**	**1,077**	**(52)**	**1,025**
Current income taxes	(30)	(197)	(227)	53	(243)	(190)
Deferred income taxes	(1)	25	24	31	102	133
Total income taxes	**(31)**	**(172)**	**(203)**	**84**	**(141)**	**(57)**
Net income after income taxes	**(136)**	**344**	**208**	**1,161**	**(193)**	**968**

Tax loss carryforwards of € 397 million (previous year: € 152 million) were utilized in 2003, reducing current tax expenses by € 116 million (previous year: € 45 million). Of the tax loss carryforwards utilized, € 17 million related to domestic corporation tax, € 20 million to domestic trade tax and € 360 million to foreign income tax.

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

Deferred Taxes in € millions

	12/31/2003 Assets	12/31/2003 Liabilities	12/31/2002 Assets	12/31/2002 Liabilities
Intangible assets	309	57	109	62
Property, plant and equipment	30	120	22	141
Investments	12	15	25	3
Inventories	131	3	80	4
Accounts receivable	203	499	215	560
Prepayments and other assets	132	66	89	80
Provisions	159	33	138	47
Financial debt	68	1	88	6
Accounts payable	43	11	56	6
Prepayments and other liabilities	188	59	197	15
Loss carryforwards	3,644	–	3,722	–
Valuation allowance	(3,894)	–	(3,663)	–
Total	**1,025**	**864**	**1,078**	**924**
Netting	(750)	(750)	(841)	(841)
Carrying amount	**275**	**114**	**237**	**83**

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.

As a result of the law enacted in December 2003 to implement the German Federal Government's declaration relating to the parliamentary committee's recommendation on the Tax Benefit Reduction Law (the so-called Korb II law), only 95 percent of gains on disposals of shares in limited liability companies are tax-free, and the treatment of losses was also significantly changed. In future, tax loss carryforwards of corporates can be entirely deducted from the following year's taxable profit up to a maximum amount of € 1 million (the so-called base amount). Only up to 60 percent of any remaining taxable profit may then be offset against tax loss carryforwards from previous years. The minimum tax rule enters into force effective January 1, 2004 and also applies to trade tax loss carryforwards. Tax losses in Germany may still be carried forward for an indefinite period of time.

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 in € millions

	12/31/2003	12/31/2002
Can be carried forward for more than 5 years	11,618	11,049
Can be carried forward for up to 5 years	131	138

A reconciliation of expected net tax income/expense to actual tax income/expense is shown in the following table:

Reconciliation of Expected Net Tax in € millions

	2003	2002
Earnings before income tax	411	1,025
Income tax rate applicable to Bertelsmann AG	39.61%	38.29%
Expected tax expense	**(163)**	**(392)**
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment for differing national tax rates	41	4
Changes in tax regulations or tax status	8	(7)
Amortization of goodwill not recognized for tax purposes	(232)	(770)
Tax-free disposal gains	230	1,101
Changes to tax-related factors in previous year	113	67
Tax reduction because of dividends	–	50
Valuation allowance on deferred tax assets, current year	(113)	(83)
Permanent differences	(88)	(25)
Other	1	(2)
Total	**(40)**	**335**
Actual tax expense	**(203)**	**(57)**

The income tax rate applicable to Bertelsmann AG consists of corporation tax, solidarity surcharges and trade tax, which is a deductible expense for corporation tax purposes. The effective tax rate changed only for 2003 due to the one-time solidarity surcharge for flood victims:

Effective Tax Rate

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

As of December 31, 2003 there were still corporation tax credits available on distributions of € 103 million.

13 Non-current Assets in € millions

	Goodwill	Other intangible assets	Property, plant and equipment	Investments in associates	Other financial assets	Total
Acquisition/production cost						
Balance at January 1, 2003	**15,438**	**3,584**	**6,373**	**1,020**	**760**	**27,175**
Currency differences	(617)	(256)	(316)	(15)	(29)	(1,233)
Acquisitions/disposals of entities	(159)	(286)	(201)	(1)	(25)	(672)
Additions	–	251	428	33	116	828
Disposals	(128)	(90)	(505)	(75)	(167)	(965)
Reclassifications	–	104	(7)	(135)	38	–
Balance at December 31, 2003	**14,534**	**3,307**	**5,772**	**827**	**693**	**25,133**
Depreciation/amortization						
Balance at January 1, 2003	**7,651**	**2,353**	**3,571**	**438**	**356**	**14,369**
Currency differences	(314)	(158)	(169)	(8)	(10)	(659)
Acquisitions/disposals of entities	(242)	(113)	(100)	14	(19)	(460)
Regular additions	619	363	431	13	–	1,426
Impairments	207	15	5	1	31	259
Disposals	(21)	(53)	(220)	–	(107)	(401)
Write-ups	–	–	–	–	(5)	(5)
Reclassifications	2	(1)	–	(29)	28	–
Balance at December 31, 2003	**7,902**	**2,406**	**3,518**	**429**	**274**	**14,529**
Book value at December 31, 2003	**6,632**	**901**	**2,254**	**398**	**419**	**10,604**
Book value at December 31, 2002	7,787	1,231	2,802	582	404	12,806

14 Goodwill

The major part of additions to goodwill relates to the acquisition of Heyne Verlag. Goodwill is amortized over 15 years. The largest disinvestment resulted from the sale of Bertelsmann Springer.

15 Other Intangible Assets in € millions

	Music, film and publishing rights	Other rights and licenses	Advance payments	Total
Acquisition/production cost				
Balance at January 1, 2003	**2,424**	**1,133**	**27**	**3,584**
Currency differences	(198)	(57)	(1)	(256)
Acquisitions/disposals of entities	2	(288)	–	(286)
Additions	127	110	14	251
Disposals	(34)	(55)	(1)	(90)
Reclassifications	112	10	(18)	104
Balance at December 31, 2003	**2,433**	**853**	**21**	**3,307**
Depreciation/amortization				
Balance at January 1, 2003	**1,751**	**602**	**–**	**2,353**
Currency differences	(133)	(25)	–	(158)
Acquisitions/disposals of entities	–	(113)	–	(113)
Regular additions	249	114	–	363
Impairments	12	3	–	15
Disposals	(20)	(33)	–	(53)
Write-ups	–	–	–	–
Reclassifications	(1)	–	–	(1)
Balance at December 31, 2003	**1,858**	**548**	**–**	**2,406**
Book value at December 31, 2003	**575**	**305**	**21**	**901**
Book value at December 31, 2002	673	531	27	1,231

16 Property, Plant and Equipment in € millions

	Land, rights equivalent to land and buildings	Plant, technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Acquisition/production cost					
Balance at January 1, 2003	**2,014**	**2,767**	**1,536**	**56**	**6,373**
Currency differences	(82)	(147)	(83)	(4)	(316)
Acquisitions/disposals of entities	(105)	(36)	(59)	(1)	(201)
Additions	48	103	135	142	428
Disposals	(253)	(93)	(149)	(10)	(505)
Reclassification	12	36	18	(73)	(7)
Balance at December 31, 2003	**1,634**	**2,630**	**1,398**	**110**	**5,772**
Depreciation					
Balance at January 1, 2003	**625**	**1,918**	**1,028**	**–**	**3,571**
Currency differences	(17)	(103)	(49)	–	(169)
Acquisitions/disposals of entities	(41)	(17)	(42)	–	(100)
Regular additions	64	206	161	–	431
Impairments	3	2	–	–	5
Disposals	(11)	(87)	(122)	–	(220)
Write-ups	–	–	–	–	–
Reclassifications	(1)	–	1	–	–
Balance at December 31, 2003	**622**	**1,919**	**977**	**–**	**3,518**
Book value at December 31, 2003	**1,012**	**711**	**421**	**110**	**2,254**
Book value at December 31, 2002	1,389	849	508	56	2,802

17 Investments in € millions

	Affiliated companies Shares in	Affiliated companies Loans to	Associates Shares in	Associates Loans to	Other participations Shares in	Other participations Loans to	Securities	Other loans	Total
Acquisition/production cost									
Balance at January 1, 2003	**104**	**38**	**1,020**	**6**	**307**	**5**	**53**	**247**	**1,780**
Currency differences	2	(3)	(15)	–	(6)	(1)	(1)	(20)	(44)
Acquisitions/disposals of entities	(27)	(1)	(1)	–	3	–	(1)	1	(26)
Additions	12	9	33	16	49	–	1	29	149
Disposals	(48)	(1)	(75)	(12)	(77)	–	(5)	(24)	(242)
Reclassifications	–	(2)	(135)	–	40	–	–	–	(97)
Balance at December 31, 2003	**43**	**40**	**827**	**10**	**316**	**4**	**47**	**233**	**1,520**
Write-downs									
Balance at January 1, 2003	**56**	**–**	**438**	**–**	**232**	**–**	**24**	**44**	**794**
Currency differences	(1)	–	(8)	–	(5)	–	–	(4)	(18)
Acquisitions/disposals of entities	(19)	–	14	–	–	–	–	–	(5)
Regular additions	–	–	13	–	–	–	–	–	13
Impairments	–	–	1	–	24	4	–	3	32
Disposals	(13)	–	–	–	(82)	–	–	(12)	(107)
Write-ups	–	–	–	–	(3)	–	–	(2)	(5)
Reclassifications	–	–	(29)	–	28	–	–	–	(1)
Balance at December 31, 2003	**23**	**–**	**429**	**–**	**194**	**4**	**24**	**29**	**703**
Book value at December 31, 2003	**20**	**40**	**398**	**10**	**122**	**–**	**23**	**204**	**817**
Book value at December 31, 2002	48	38	582	6	75	5	29	203	986

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 in € millions

	At acquisition cost **12/31/2003**	At acquisition cost 12/31/2002	At fair value **12/31/2003**	At fair value 12/31/2002	Total **12/31/2003**	Total 12/31/2002
Investments	113	70	9	5	122	75
Securities	2	6	21	23	23	29
Total	**115**	**76**	**30**	**28**	**145**	**104**

18 Inventories in € millions

	12/31/2003	12/31/2002
Film rights	1,159	1,134
Raw materials and supplies	140	161
Work in process	109	149
Finished goods and merchandise	409	495
Advance payments	3	22
	1,820	**1,961**

19 Receivables and Other Assets in € millions

	Maturing in more than one year	**12/31/2003**	12/31/2002
Trade accounts receivable	18	2,825	3,039
Accounts receivable from royalties and licenses	–	216	212
Total trade accounts receivable	**18**	**3,041**	**3,251**
Accounts receivable from participations	–	72	49
Advance payments for royalties and licenses	211	1,152	1,172
Tax receivables	1	459	758
Securities	–	54	10
Derivative financial instruments	–	278	175
Net assets from pension plans	1	17	43
Other receivables	18	541	573
Other receivables and other assets	**231**	**2,573**	**2,780**

Available-for-sale securities are stated as follows:

Other Assets: Available-for-Sale in € millions

	At acquition cost		At fair value		Total	
	12/31/2003	12/31/2002	**12/31/2003**	12/31/2002	**12/31/2003**	12/31/2002
	44	**6**	**10**	**4**	**54**	**10**

20 Cash and Cash Equivalents in € millions

	12/31/2003	12/31/2002
Cash	1,641	906
Other securities	1	71
	1,642	**977**

21 Shareholders' Equity

Number of shares	Ordinary shares	Preference	Total
Type A	83,760	149	83,909
Type B	–	27,920	27,920
Total	**83,760**	**28,069**	**111,829**

Subscribed Capital

Bertelsmann AG's subscribed capital remained unchanged at € 606 million as of December 31, 2003 and is made up of 111,829 no-par-value shares of various types. The ordinary shares are bearer shares and the preference shares are registered shares. The type B preference shares have preferred profit-sharing rights through December 31, 2010. The preferred profit-sharing rights of the type A preference shares are not limited in time. The type A preference shares have no voting rights. As resolved by the Executive Board on December 4, 2003, 4,332 type B ordinary shares, previously acquired from the Zeit-Foundation, were withdrawn in 2003 without reducing the share capital.

Following this withdrawal, indirect holdings in the subscribed capital were as follows: 57.6 percent Bertelsmann-Foundation, 25.1 percent Groupe Bruxelles Lambert, 17.3 percent Mohn family. 75 percent of the voting rights are held by Bertelsmann Verwaltungsgesellschaft and 25 percent by Groupe Bruxelles Lambert.

Capital Reserve

The capital reserve includes mainly 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, € 2,708 million, stems from the introduction of 29.88 percent of the RTL Group by GBL in the 2001 stub-period.

Retained Earnings

Retained earnings include the past results of those companies included in the consolidated financial statements, to the extent they have not been distributed, as well as other comprehensive income.

Other Comprehensive Income in € millions

	Available-for-sale securities			Cash flow hedges			Currency	Total
	Pre-tax amount	Taxes	Post-tax amount	Pre-tax amount	Taxes	Post-tax amount		
December 31, 2001	**59**	**–**	**59**	**53**	**(8)**	**45**	**111**	**215**
Change in minorities (RTL Group)	(3)	–	(3)	8	(3)	5	–	2
Changes in fair 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)**
Changes in fair value	28	–	28	(8)	14	6	54	88
Impairments	(1)	–	(1)	(2)	–	(2)	–	(3)
December 31, 2003	**31**	**–**	**31**	**(71)**	**26**	**(45)**	**68**	**54**

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 selected directors on July 25, 2000. In order to participate in the Stock Option Plan ("SOP"), the participant must be employed by RTL Group or one of its subsidiaries at the date the options are granted.

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 Executive Board or a constituted committee thereof. Participants may renounce options granted to them. Participants do not have to make any payments for options granted under the SOP. The number of ordinary shares which may be placed under the SOP in any one year may not exceed one-half of one per cent of the company's issued ordinary share capital.

As a general rule, the exercise price of options issued under the SOP is the average price of RTL shares over a period of 20 trading days before the day on which the options are granted. The exercise price may be another, higher or lower amount to be determined by the compensation committee.

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 in stock options during the year:

Number of Options in thousands

	2003	2002
Options outstanding at the beginning of the year	391	450
Options granted during the year	–	–
Options exercised/expired during the year	(150)	(59)
Options outstanding at the end of the year	**241**	**391**

The options outstanding at the end of the year have the following conditions attached to them:

Conditions for Stock Options (RTL Group)

	Exercise price in €	Number of options in thousands
Expiry date		
2010	85.24	239
2011	85.24	2
		241

Metropole Television (M6) Employee Stock Option Plan

M6 has introduced an employee stock option plan for selected members of management. The number of options granted to participants is determined by M6's Executive Board in conjunction with the shareholders' annual general meeting.

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 M6 on the Paris stock exchange, calculated over the 20 days preceding the grant date.

Movements in stock options during the year:

Number of Options in thousands

	2003	2002
Options outstanding at the beginning of the year	3,301	2,771
Options granted during the year	91	750
Options exercised/lapsed during the year	(213)	(220)
Options outstanding at the end of the year	**3,179**	**3,301**

The options outstanding at the end of the year have the following conditions attached to them:

Conditions for Stock Options (M6)

	Exercise price in €	Number of options in thousands
Expiry date		
September 2005	14.10	325
December 2005	13.64	375
June 2006	18.80	450
January 2007	44.63	20
June 2007	58.58	255
June 2008	30.80	416
June 2009	28.60	647
July 2010	22.50	671
November 2010	23.80	20
		3,179

Minority Interests

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

22 Profit Participation Capital in € millions

Bertelsmann AG's profit participation capital is made up as follows:

	12/31/2003	12/31/2002
Par value	516	516
Premium	190	190
	706	**706**

The profit participation capital is made up of 2001 profit participation certificates (listing code ISIN DE0005229942, or "PPC 2001") and 1992 profit participation certificates (listing code ISIN DE0005229900, 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, 2003 the par value of PPC 2001 was € 490 million and the par value of PPC 1992 was € 26 million. PPC 1992 and PPC 2001 have been admitted for trading on the stock exchange.

23 Provisions for Pensions and Similar Obligations in € millions

	12/31/2003	12/31/2002
Defined benefit plans	1,614	1,682
Obligations similar to pensions	87	55
	1,701	**1,737**

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. Defined contribution plan expenses for 2003 amounted to € 19 million (previous year: € 13 millions).

All other pension plans are defined benefit schemes. Some are funded via an external investment (plan assets), others are unfunded. Provisions are set aside for these plans, most of which are final 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 components-based method, assumes increasing salary costs over the period of service. The computation also involves using 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

	12/31/2003 Germany	**12/31/2003 Foreign**	12/31/2002 Germany	12/31/2002 Foreign
Discount rate	5.5%	2.0 – 6.25%	5.75%	4.0 – 7.0%
Expected return on plan assets	5.5%	3.0 – 8.25%	5.75%	3.0 – 8.25%
Rate of salary increase	2.5%	3.0 – 5.0%	2.5%	2.5 – 6.0%
Rate of pension increase	1.7%	1.7 – 3.0%	1.7%	1.7 – 2.5%
Fluctuation	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 2003 was € 167 million (previous year: € 165 million), comprising personnel costs of € 71 million (previous year: € 69 million) and other financial expense of € 96 million (previous year: € 121 million). The expected return on plan assets was included in other operating income in the previous year; this year, it is shown in the financial result for the first time, in the same manner as interest cost. These costs are broken down as follows:

Expenses for Defined Benefit Plans in € millions

	2003	2002
Current service cost	61	65
Interest cost	119	121
Expected return on plan assets	(23)	(25)
Amortization of actuarial gains/losses	10	4
Amortization of past service cost	2	1
Effect of curtailments or settlements	(2)	(1)
	167	**165**

Actual return on plan assets for the year amounted to € 40 million.

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

Net Pension Obligation Recognized in € millions

	12/31/2003	12/31/2002
Defined benefit obligation of unfunded plans	1,662	1,687
Defined benefit obligation of funded plans	504	440
Total defined benefit obligation	**2,166**	**2,127**
Fair value of plan assets	(361)	(298)
Actuarial gains/losses not yet recognized	(208)	(192)
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 liability recognized in the balance sheet	**1,597**	**1,639**

The net liability of € 1,597 million (previous year € 1,639 million) is made up of provisions of € 1,614 million (previous year € 1,682 million) and net assets of € 17 million (previous year € 43 million). The assets are included under other assets in the balance sheet.

Movements in the net liability during the year were as follows:

Movements in Net Pension Liability in € millions

	12/31/2003	12/31/2002
Net liability at the beginning of the year	1,639	1,614
Pension expense	167	165
Pension payments	(75)	(82)
Contributions to plan assets	(28)	(14)
Transferred obligations	17	(34)
Changes from acquisitions and disposals of entities	(110)	3
Currency-related effects	(13)	(13)
Net liability at the end of the year	**1,597**	**1,639**

The deconsolidation of the Bertelsmann Springer division reduced net liability by € 112 million.

Breakdown of Net Pension Liability by Region in € millions

	12/31/2003	12/31/2002
Germany	1,454	1,502
USA	65	67
Other Europe	69	57
Other countries	9	13
Net liability recognized in the balance sheet	**1,597**	**1,639**

The US subsidiaries' liabilities for their employees' healthcare costs once they have retired constitute defined benefit obligations and account for € 68 million (previous year € 74 million) of the provisions. They have been calculated according to the international standards described above. As in the previous year, healthcare cost increase trends were assumed to be between 5.5 percent and 9.5 percent, depending on the period of time concerned.

Obligations similar to pensions include provisions for employees' long-service awards, old age part-time schemes, amounts due but not yet paid for defined contribution plans, and severance payments at dismissal or retirement ("Abfertigungen"). These severance payments become due when an employee leaves the company and are based on legal obligations, mainly in Italy and Austria. These payments are classified as "similar obligations" for the first time in 2003, and contribute € 32 million (previous year: € 31 million) to the similar obligations. Provisions for employees' long-service awards and for severance pay at retirement 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 of regular weekly working hours and are usually organized in such a way that they are performed in the first half of the part-time 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 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 in € millions

	12/31/2002	Consolidation scope	Other effects	Usage	Additions	Accrued interest	Releases	12/31/2003	Long-term
Provisions for taxes	348	1	(36)	(194)	144	–	(18)	245	68
Personnel-related provisions	550	(24)	(60)	(345)	365	4	(26)	464	65
Restructuring provisions	93	(3)	(25)	(53)	44	–	(8)	48	15
Provisions for fees and licenses	1,083	(2)	(131)	(896)	991	–	(6)	1,039	–
Other	870	(3)	(29)	(454)	775	3	(78)	1,084	123
	2,944	**(31)**	**(281)**	**(1,942)**	**2,319**	**7**	**(136)**	**2,880**	**271**

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 payments of € 47 million (previous year: € 82 million) and obligations arising from the Virtual Stock Option Plan (VSOP).

VSOP is a program aimed at granting a long-term performance-related compensation component to executives. 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 € 48 million (previous year € 93 million) were set aside for various restructuring programs within the Bertelsmann Group.

Other provisions are set up for interest on profit participation certificates, bonuses and litigation costs. As an international group, Bertelsmann is subject to several legal risks. This applies particularly to legal disputes in the USA, where there are legal institutions unknown in Germany, such as class actions, punitive damages or pre-trial discovery. The outcomes of currently asserted or future unasserted lawsuits cannot be foreseen with any degree of certainty, nor can they be entirely influenced. There could be legal risks arising from a claim in which, in February 2003, two US music publishers filed a class action suit against Bertelsmann AG before the US district court in New York. They purport to also act on behalf of an unnamed class and unknown number of music publishers allegedly having similar claims. The claimants base their alleged claims on the contention that, by granting loans to Napster, Inc., which has gone into bankruptcy in the meantime, in October 2000 and January 2001, Bertelsmann AG enabled Napster to continue its business at a point in time at which Napster would not have been able to survive. As a result, the claimants argue Bertelsmann had facilitated Napster to continue to infringe the claimants' copyrights between October 2000 and the time it ceased operating at the beginning of July 2001. Bertelsmann, their argument goes, is to be held liable for such infringement, too. Damages claimed have been set at "at least $ 17 billion". In May 2003 UMG Recordings, Inc. ("Universal") filed a claim before the same court in New York, followed by EMI Christian Music Group Inc. ("EMI") in June 2003 and three other claimants. These claimants have not named a specific overall amount, but have filed for the maximum amount under US copyright law of $ 150,000 per allegedly infringed work of music.

Bertelsmann believes the claims to be without foundation, both regarding their merits and the amounts sought by plaintiffs and has filed a motion to dismiss the complaints with the court. No decision on the motion to dismiss has yet been rendered. As the contentions made by the claimants are entirely without legal foundation, Bertelsmann has only provided for the related legal costs in its 2003 financial statements.

25 Financial Debt in € millions

Financial debt includes all of Bertelsmann Group's interest-bearing liabilities to banks and capital markets at the balance sheet date. Carrying values are as follows:

	Remaining term in years < 1	1 – 5	> 5	12/31/2003	12/31/2002
Bonds	159	157	1,319	1,635	762
Promissory notes	–	150	129	279	340
Syndicated loan facility	–	–	–	–	668
Bridge loan	–	–	–	–	763
Liabilities to banks	184	58	–	242	653
Leasing liabilities	30	100	121	251	292
Other financial debt	14	–	41	55	240
	387	**465**	**1,610**	**2,462**	**3,718**

Long-term financial debt, including transaction costs, is measured at present value and is amortized to nominal value at maturity. Transaction costs deducted from the carrying values of bonds and promissory notes issued amounted to € 7 million at December 31, 2003 (previous year: € 3 million). The costs are amortized over the remaining terms of the bonds and promissory notes and are included in interest expense. Liabilities in foreign currency are translated at rates ruling at the end of the year. In general, financial debt is not secured through mortgages and ranks equally for repayment in bankruptcy.

Bertelsmann Group has access to floating-rate funds via a number of contractual agreements. Average maturities of these agreements were considerably extended in 2003.

The bridge loan, US $ 800 million of which was drawn down at December 2002 (originally agreed line of € 2.5 billion), was completely repaid in 2003. The entire credit line was cancelled by Bertelsmann AG in April 2003 without taking up the six-month prolongation option.

The five-year syndicated loan facility outstanding at December 2002 was also repaid in July 2003. This credit line, agreed until November 2007, can also be used in future by Bertelsmann AG and its international finance companies (Bertelsmann U.S. Finance, Inc., Bertelsmann Capital Corporation N.V.) by amounts drawn down in EUR, USD and GBP up to a total equivalent of € 1.5 billion. 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.

Additionally, the Bertelsmann Group has bilateral loan agreements with international banks, 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 funding reserve from these credit lines, including the amounts not drawn down on the syndicated loan facility, totals some € 2.7 billion and is freely available for use in the group's operating activities.

The remaining terms and utilization of these agreements at December 31, 2003 are set out in the following table:

Remaining Term in € millions

	Credit line 12/31/2003	Drawn down 12/31/2003	Available credit line 12/31/2003	Available credit line 12/31/2002
< 1 year	628	–	628	1,057
1 to 2 years	103	–	103	172
2 to 3 years	–	–	–	–
3 to 4 years	1,590	–	1,590	45
4 to 5 years	–	–	–	872
> 5 years	400	–	400	335
	2,721	**–**	**2,721**	**2,481**

In June 2003, Bertelsmann U.S. Finance, Inc. issued a benchmark bond with a 4.625 percent coupon as part of the "Debt Issuance Program" launched in 2002. Due to the good take-up rate on the market, the original issue volume was increased by € 100 million to € 750 million a few days after the original issue.

The "Debt Issuance Program" was updated in September 2003. As for the bond described above, the framework documentation has still been given a rating of BBB+ (Standard & Poor's), or Baa1 (Moody's).

In October, a € 200 million bond issued by Bertelsmann Capital Corporation N.V. was repurchased early, before its maturity.

Based on a separate documentation, Bertelsmann U.S. Finance, Inc. arranged a private placement of $ 500 million with American institutional investors. This was made up of three tranches, repayable at different dates of 7 years ($ 100 million), 10 years and 12 years ($ 200 million each).

Bonds, Promissory Notes in € millions

	Due date	Effective interest rate in %	**Book value 12/31/2003**	Book value 12/31/2002
Floating Rate Bertelsmann U.S. Finance, Inc. (USD 100 million promissory note) 98/03	12/15/2003	–	–	95
5.375% Bertelsmann U.S. Finance, Inc. (USD 200 million bond) 99/04	1/28/2004	5.60	159	198
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	157
Floating Rate Bertelsmann U.S. Finance, Inc. (EUR 50 million promissory note) 02/07	12/20/2007	–	50	50
4.70% Bertelsmann Capital Corp. N.V. (EUR 50 million promissory note) 02/07	12/27/2007	4.91	50	50
4.40% Bertelsmann Capital Corp. N.V. (EUR 50 million promissory note) 03/08	2/1/2008	4.56	50	
Floating Rate Bertelsmann U.S. Finance, Inc. (USD 100 million promissory note) 99/09	2/11/2009	–	79	95
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
4.69% Bertelsmann U.S. Finance, Inc. (USD 100 million US private placing) 03/10	4/17/2010	4.83	79	–
4.625% Bertelsmann U.S. Finance, Inc. (EUR 750 million bond) 03/10	6/3/2010	4.70	726	–
5.23% Bertelsmann U.S. Finance, Inc. (USD 200 million US private placing) 03/13	4/17/2013	5.38	158	–
5.33% Bertelsmann U.S. Finance, Inc. (USD 200 million US private placing) 03/15	4/17/2015	5.46	158	–
			1,914	**1,102**

As of December 31, 2003, the Bertelsmann Group had issued bonds and promissory notes with a nominal volume of € 1,937 million. Bertelsmann AG has issued an irrevocable guarantee for all obligations in accordance with the contractual conditions.

Foreign currency fluctuation risks on euro issues made by Bertelsmann U.S. Finance Inc. are hedged by USD currency swaps. Furthermore, original interest terms for some of these transactions were changed by entering into interest-rate swaps for some bond issues and loans. The hedge relationships between the underlying transaction and the corresponding derivative qualify as a hedge relationship as set out in IAS 39.

The table below sets out interest rates for bonds and promissory notes issued after reflecting existing interest-rate swaps:

Interest on Bonds and Promissory Notes in € millions

	Fair value at 12/31/2003			Fair value at 12/31/2002		
	Fixed interest	Floating rate	Total	Fixed interest	Floating rate	Total
Bonds	799	836	**1,635**	407	355	**762**
Promissory notes	179	100	**279**	195	145	**340**
Total	**978**	**936**	**1,914**	**602**	**500**	**1,102**

Minimum Lease Payments for Finance Leases in € millions

	12/31/2003			12/31/2002		
	Nominal value of lease payments	Discount amounts	Present value	Nominal value of lease payments	Discount amounts	Present value
Up to 1 year	34	4	30	41	7	34
1 to 5 years	125	25	100	136	33	103
Over 5 years	216	95	121	276	121	155
	375	**124**	**251**	**453**	**161**	**292**

26 Liabilities in € millions

	more than 1 year	**12/31/2003**	12/31/2002
Trade accounts payable	**88**	**2,738**	**2,693**
Liabilities to participations	–	85	83
Repurchase obligation for Bertelsmann shares held by ZEIT Foundation	–	–	204
Tax liabilities	1	295	327
Derivative financial instruments	10	165	161
Social security contributions	1	90	95
Personnel-related liabilities	–	82	75
Payment in advance	–	66	74
Other	410	817	1,012
Other liabilities	**422**	**1,600**	**2,031**

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

Off-balance-sheet Commitments

27 Contingent Liabilities in € millions

	12/31/2003	12/31/2002
Guarantees	268	383
Warranties	24	29
Other obligations	–	3
	292	**415**

It is considered unlikely that a usage of contingent liabilities listed will occur.

28 Other Financial Commitments in € millions

	12/31/2003	12/31/2002
Rental and leasing commitments	1,561	1,470
Other commitments	3,466	3,922
	5,027	**5,392**

Of the other commitments, € 2,081 million (previous year: € 2,378 million) relates to RTL Group's supply agreements for rights, (co-) productions and programming, and € 515 million (previous year: € 601 million) relates to contracts for TV licenses, transmission rights and other services. Other commitments of Random House amount to € 357 million (previous year: € 487 million) and represent the portion of commitments to authors for which no payments have yet been made and future payments depend 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 in € millions

	12/31/2003	12/31/2002
Nominal value		
Up to 1 year	221	247
1 to 5 years	780	773
over 5 years	560	450
	1,561	**1,470**
Present value	**1,262**	**1,219**

These obligations essentially relate to long-term real estate tenancy agreements. The present values were computed taking country-specific interest rates into account. They show the net payout currently needed to cover the commitment.

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 in € millions

	Percent of shares involved	Exercise period	Estimated purchase price
BW-TV Verwaltungs GmbH	20	Until 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 conditions, the minority shareholder of BW-TV has the right to tender its holding to Bertelsmann. The tender price for this is currently € 504 million, which corresponds to a price of roughly € 44 per RTL share.

29 Discontinuing Operation

In July 2002 it was announced that the Bertelsmann Springer segment was to be sold. Effective March 31 a joint venture between Cinven and Candover acquired this group of companies for € 1,050 million free of debt.

The following results of Bertelsmann Springer were included as a discontinuing operation in the Bertelsmann Group financial statements until the segment was deconsolidated:

Income Statement Bertelsmann Springer in € millions

	1/1/2003 – 3/31/2003	1/1/2002 – 12/31/2002
Revenues	**158**	**731**
Other operating income	10	34
Expenses	(178)	(777)
Earnings before interest and taxes	**(10)**	**(12)**
Financial result	(3)	(14)
Income taxes	(4)	18
Net income before minority interests	**(17)**	**(8)**
Minority interests	–	(8)
Net income after minority interests	**(17)**	**(16)**

Cash Flow Statement Bertelsmann Springer in € millions

	1/1/2003 – 3/31/2003	1/1/2002 – 12/31/2002
Net cash		
– from operating activities	42	23
– from investing activities	(13)	(22)
– from financing activities	(36)	(22)
Change in cash and cash equivalents	**(7)**	**(21)**

The assets and liabilities of the discontinuing operation at date of deconsolidation and during the previous year can be summarized as follows:

Net Assets Bertelsmann Springer in € millions

	3/31/2003	12/31/2002
Non-current assets	556	465
Current assets	312	442
Prepaid expenses	4	3
Provisions	(192)	(175)
Financial debt	(27)	(31)
Liabilities	(88)	(196)
Deferred income	(141)	(152)
Net assets	**424**	**356**
Purchase price	1,050	
Purchase price adjustments, related costs	2	
Net assets sold	(424)	
Gain on sale	**628**	

There are no taxes payable on the disposal gain.

30 Financial Instruments

Financial Risk Management

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

Bertelsmann 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.

Bertelsmann 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 expected interest-rate movements. In 2003, floating-rate financing was replaced by fixed-interest rate contracts. To maintain the desired interest mix between fix and floating in an overall view, some interest-rate swaps with fixed coupon terms (payer swaps) were cancelled.

Funds available are generally invested at floating rates for periods of less than one year.

Default Risk

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

Accounting for Derivative Financial Instruments and Hedges

All derivatives are reported at their fair value. On the day a contract for a derivative is entered into, it is determined 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.

Bertelsmann 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 ("OTC instruments"). These mainly consist of forward agreements, currency swaps, currency options and interest rate swaps, and 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 against foreign currency and interest rate risks arising from existing financial debt (60.2 percent). Foreign exchange fluctuation risks on internal funding within the group are normally hedged by foreign currency forward transactions. The volume of such transactions is € 859 million (19.0 percent). Additionally, subsidiaries use financial derivatives to hedge against current and future foreign currency risks arising from operating receivables or payables. No financial derivatives are used for speculative purposes.

Nominal Amounts of Financial Derivates in € millions

	Nominal amounts at 12/31/2003				Nominal amounts at 12/31/2002			
	< 1 year	1 – 5 years	> 5 years	Total	< 1 year	1 – 5 years	> 5 years	Total
Currency derivatives								
Forward contracts and currency swaps	1,929	423	843	3,195	2,519	603	175	3,297
Currency options	158	–	–	158	–	–	–	–
Interest rate derivatives								
Interest rate swaps	158	529	488	1,175	95	457	892	1,444
	2,245	**952**	**1,331**	**4,528**	**2,614**	**1,060**	**1,067**	**4,741**

Determination of Fair Value

The fair value of traded financial derivatives is 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, Bertelsmann Group uses various financial-related economic models based on market conditions and risks prevailing at the balance sheet date.

Fair Values of Financial Derivates in € millions

	Nominal amounts		Present value	
	12/31/2003	12/31/2002	**12/31/2003**	12/31/2002
Currency derivatives				
Forward contracts and currency swaps	3,195	3,297	25	46
Currency options	158	–	–	–
Interest rate derivatives				
Interest rate swaps	1,175	1,444	98	(32)
	4,528	**4,741**	**123**	**14**

Factoring

In individual cases, Bertelsmann Group sells receivables to banks as an additional financing tool. These exceptions are limited to agreements in which Bertelsmann grants financing to its customers in separate contracts. The volume of receivables sold is limited contractually to € 365 million and amounted to € 340 million at December 31, 2003 (previous year: € 311 million). 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 risks are included in provisions. The carrying value of these risks at December 31, 2003 amounts to € 7 million (previous year: € 12 million).

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 German Association for Financial Analysis and Asset Management and the Schmalenbach Gesellschaft as cash flow based on net income for the year adjusted for significant items of income and expense not providing or using funds. Most of the other items (not) providing or using funds are the proceeds from sales of entities as described in note 9.

The cash flow statement recognizes the effects of movements in exchange rates and changes in the companies included in the consolidated financial statements. Hence, the figures in the cash flow statement cannot simply 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. Purchase price payments for acquired entities include the purchase of Heyne Verlag, the purchase of additional shares in M6 and the acquisition of the music company Ronagold in the UK. Proceeds from disposals of non-current assets refer in particular to the sale of the Bertelsmann Springer division as shown in note 29, of Random House Tower in New York, and of the participation in the US e-commerce vendor Barnesandnoble.com. 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 € 266 million (previous year: € 230 million), interest receipts of € 186 million (previous year: € 199 million) and income tax refunds of € 19 million (previous year: tax payments € 986 million) are included in cash flow from operating activities.

32 Segment Reporting

Segment reporting disclosures are made in accordance with IAS 14. The primary reporting format uses business segments of the Bertelsmann Group. The secondary reporting format is broken down by the main geographical 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. To the extent they reflect the financial management of the group, the segments are different from the group's legal structure.

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 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 rights similar to goodwill, and special items. Special items refers to unscheduled expenditures and earnings that are special due to their nature, amount, and/or the frequency of their occurrence. Among these are effects from changes to the portfolio and restructuring. Adding back the special items results in EBITA. Segment results as set out in IAS 14 are Operating EBIT, earnings before financial results and taxes and excluding gains or losses on disposals.

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

Capital expenditures consist of purchases of property, plant and equipment, intangible assets including goodwill, and investments.

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. Results of associated companies are shown after depreciation of goodwill.

In addition, the number of employees at balance sheet date and the average number of employees for the year are shown for the primary reporting format.

For the secondary reporting format, revenues are shown by customer location, while segment assets and segment capital expenditures are included by company location.

Reconciliation from the Primary Reporting Format to the Consolidated Financial Statements in € millions

	2003	2002
Operating EBITA	**1,123**	**936**
Amortization of goodwill and rights similar to goodwill (including impairments)	(937)	(2,452)
Special items	547	2,807
Earnings before interest and taxes	**733**	**1,291**
Financial result	(322)	(266)
Income taxes	(203)	(57)
Net income before minority interests	**208**	**968**

	12/31/2003	12/31/2002
Segment assets	**17,881**	**20,350**
Other current assets (not allocated)	366	624
Cash and cash equivalents	1,642	977
Deferred tax assets	275	237
Total assets	**20,164**	**22,188**
Segment liabilities	**7,038**	**7,406**
Shareholders' equity and minority interests	7,631	7,744
Profit participation capital	706	706
Provisions for pensions and similar obligations	1,701	1,737
Other provisions (not allocated)	255	359
Financial debt	2,462	3,718
Other liabilities (not allocated)	257	435
Deferred tax liabilities	114	83
Total liabilities	**20,164**	**22,188**

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 rights similar to goodwill, which is not included in operating EBITA, and other depreciation and amortization, as follows:

Amortization, Depreciation in € millions

	Amortization of goodwill and rights similar to goodwill			**Other depreciation**			**Total amortization/ depreciation**
	As scheduled	Impairment	Total	As scheduled	Impairment	Total	
Goodwill	619	207	826	–	–	–	826
Other intangible assets	85	12	97	278	3	281	378
Property, plant and equipment	–	–	–	431	5	436	436
Investments in associates	13	1	14	–	–	–	14
Other financial assets	–	–	–	–	31	31	31
	717	**220**	**937**	**709**	**39**	**748**	**1,685**

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 special items, as follows:

Reconciliation to Operating EBITDA in € millions

	2003	2002
Operating EBITA	**1,123**	**936**
Amortization of intangible assets	378	410
Amortization of rights similar to goodwill	(97)	(149)
Depreciation of property, plant and equipment	436	488
Depreciation of other financial assets	31	66
Write-ups of property, plant and equipment	(5)	(89)
Write-downs/write-ups in special items	–	4
Operating EBITDA	**1,866**	**1,666**

34 Significant Differences from German Accounting Policies

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 and thus are not reflected in the balance sheet.

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 determinable 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 derecognized 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. German regulations set out in HGB permit companies to elect not to recognize the excess of any deferred tax assets over deferred tax liabilities.

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 six 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, GBL Verwaltungs S.A.R.L. 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 involve 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, 2003 totaled € 1,302,000 plus value added tax. During 2003, the members of the Executive Board received remuneration totaling € 30,134,572 of which € 18,205,301 was paid by Bertelsmann AG. A loan of $ 5 million, currently bearing interest at 5.06 percent, has been granted to one member of the Executive Board in the previous year. 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 amounts (pensions and termination benefits) totaling € 2,692,641 from Bertelsmann AG. The provision established by Bertelsmann AG for pension obligations to former members of the Executive Board amounted to € 35,565,384. The members of the Supervisory Board and the Executive Board are listed on pages 104–106.

36 Events After the Balance Sheet Date

On December 12, 2003 a joint venture agreement was made between BMG and Sony Music Corporation to merge their recorded music businesses (excluding Sony Music Japan). The planned joint venture is subject to approval by the antitrust authorities. No decision is expected from the antitrust authorities before the second half of 2004.

37 Major Subsidiaries and Participations at December 31, 2003

RTL Group

Television			
GZSZ Vermarktungsgesellschaft GmbH, Cologne	Germany	82.71	v
IP Deutschland GmbH, Cologne	Germany	82.71	v
IP NEWMEDIA GmbH, Cologne	Germany	82.71	v
N-TV Nachrichtenfernsehen GmbH & Co. KG, Berlin	Germany	40.24	q
RTL 2 Fernsehen GmbH & Co. KG, Munich	Germany	29.70	e
RTL Disney Fernsehen GmbH & Co. KG, Cologne	Germany	41.31	q
RTL NEWMEDIA GmbH, Cologne	Germany	82.71	v
RTL Shop GmbH, Cologne	Germany	71.35	v
RTL Television GmbH, Cologne	Germany	82.71	v
S4M Solutions for Media GmbH, Cologne	Germany	82.71	v
VOX Film- und Fernseh GmbH & Co.KG, Cologne	Germany	82.46	v
Westdeutsche Universum-Film GmbH, Cologne	Germany	82.71	v
Antena 3 de Televisión S.A., Madrid	Spain	14.35	e
Audiomedia S.A., Luxembourg	Luxembourg	82.96	v
Bayard d'Antin S.A., Paris	France	82.71	v
Broadcasting Center Europe S.A., Luxembourg	Luxembourg	82.71	v
Channel 5 Broadcasting Limited, London	UK	53.52	q
CLT-UFA Holding S.A., Luxembourg	Luxembourg	82.96	v
CLT-UFA S.A., Luxembourg	Luxembourg	82.71	v
Holland FM Produktie B.V., Hilversum	Netherlands	82.71	v
Holland Media Groep Business Nieuws B.V., Hilversum	Netherlands	82.71	v
IP Belgium S.A., Brussels	Belgium	54.59	v
IP France S.A., Paris	France	82.71	v
IP Luxembourg S.A.R.L., Luxembourg	Luxembourg	82.71	v
London Playout Center Limited, London	UK	82.96	v
M6 Editions S.A., Neuilly sur Seine	France	40.01	q
M6 Films S.A., Neuilly sur Seine	France	40.01	q
M-RTL Rt (RTL Klub), Budapest	Hungary	40.48	e
RTL 9 S.A., Luxembourg	Luxembourg	28.95	e
RTL4 Beheer B.V., Hilversum	Netherlands	82.71	v
RTL Croatia d.o.o., Zagreb	Croatia	27.29	v
Sky Five Text Limited, Middlesex	UK	26.80	q
Télévision Indépendante (TVI) S.A., Brussels	Belgium	54.59	v
Télévision Par Satellite S.N.C., Issy les Moulineaux	France	13.36	q
Yorin FM B.V., Hilversum	Netherlands	82.71	v
Content			
CLOU Entertainment TV Produktion GmbH, Cologne	Germany	46.20	v
CLT-UFA Multi Media GmbH, Hamburg	Germany	82.70	v
Fremantle (D) Fernsehproduktions GmbH, Hürth	Germany	82.90	v
Grundy UFA TV Produktions GmbH, Berlin	Germany	82.70	v
Sportfive GmbH, Hamburg	Germany	38.83	q
Sportfive Tixx GmbH, Hamburg	Germany	38.83	q
Teamworx Produktion für Kino und Fernsehen GmbH, Berlin	Germany	63.71	v
UFA Entertainment GmbH, Berlin	Germany	82.71	v
UFA Fernsehproduktion GmbH, Berlin	Germany	82.71	v
UFA Film- und Fernseh GmbH, Cologne	Germany	82.71	v
Football France Promotion S.A., Paris	France	38.83	q
Fremantle Media Australia Pty Ltd, St. Leonard	Australia	82.96	v
Fremantle Productions Asia Limited, Hong Kong	China	82.96	v
FremantleMedia Limited, London	UK	82.96	v
FremantleMedia North America, Inc., Wilmington	USA	82.96	v
Groupe JC Darmon S.A., Paris	France	38.83	q
Grundy Productions Limited, London	UK	82.96	v
SportFive S.A., Paris	France	38.83	q
Talkback Productions Limited, London	UK	82.96	v
UFA Sports France S.A., Paris	France	38.83	q
Radio			
Antenne Mecklenburg-Vorpommern GmbH & Co.KG, Plate	Germany	38.83	e
Antenne Sachsen Hörfunk- und VersorgungsGmbH, Dresden	Germany	38.83	e
RTL Radio Deutschland GmbH, Berlin	Germany	82.71	v
AVE Gesellschaft für Hörfunkbeteiligungen, Berlin	Germany	82.28	v
Ediradio S.A., Paris	France	82.71	v
Contact S.A., Brussels	Belgium	40.65	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
Fodors LLC, New York	USA	100.00	v
Golden Treasurers, Inc., Delaware	USA	100.00	v
McClelland & Stewart Limited, Toronto	Canada	25.00	e
Random House, Inc., New York	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 Systems, Inc., New York	USA	100.00	v
Random House TPR, Inc., New York	USA	100.00	v
Random House Ventures LLC, New York	USA	100.00	v
Xlibris Corporation, Philadelphia	USA	49.00	e
Verlagsgruppe Random House			
Gütersloher Verlagshaus GmbH, Gütersloh	Germany	100.00	v
Verlag RM GmbH, Gütersloh	Germany	100.00	v
Verlagsgruppe Random House GmbH	Germany	100.00	v
Wilhelm Heyne Verlag 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
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			
Editorial Sudamericana, S.A., Buenos Aires	Argentina	50.00	q
Editorial Lumen, S.A., Barcelona	Spain	50.00	q
Editorial Sudamericana Uruguaya, S.A., Montevideo	Uruguay	49.85	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	25.00	e
Nueva Galaxia Gutenberg, S.A., Barcelona	Spain	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
Random House Mondadori, S.A. de C.V., Mexico City	Mexico	50.00	q
Random House Mondadori, S.A., Bogotá	Colombia	50.00	q
Random House Asia			
Random House Kodansha Co. Limited, Tokyo	Japan	50.00	q

As of December 31, 2003
Ownership of Group companies by percentage.

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
BPV Medien Handel GmbH, Berlin	Germany	74.90	v
Ehrlich & 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
Neon Magazin GmbH, Hamburg	Germany	74.90	v
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
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	Spain	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, Beijing	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
VIVIA 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
Printing			
Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden	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

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 Strategic Marketing Group, New York	USA	100.00	v
BMG US Latin, Miami	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
Provident Music Group, Tennessee	USA	100.00	v
RCA Label Group, Nashville	USA	100.00	v
RCA Music Group, New York	USA	100.00	v
RCA Victor Group, New York	USA	100.00	v
Volcano Entertainment, LLC, Delaware	USA	100.00	v
Zomba Records Jive, New York	USA	100.00	v
BMG Europe			
Arabella Musikverlag GmbH, Munich	Germany	100.00	v
Bertelsmann Music Group Belgium N.V., Brussels	Belgium	100.00	v
BMG Deutschland GmbH, Munich	Germany	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, 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
Ronagold Limited, London	UK	100.00	v
Silvertone Records Limited, London	UK	100.00	v
Zomba Music Publishers Limited, London	UK	100.00	v
Zomba Records Limited, London	UK	100.00	v
Zomba Record Holdings B.V., Laren	Netherlands	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 Chile, S.A., Santiago de Chile	Chile	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

Printing			
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 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
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
Istituto Italiano d'Arti Grafiche S.p.A., Bergamo	Italy	99.82	v
MOHN Media France S.A.R.L., Villepinte	France	100.00	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

*= operating department

Services			
Adress Research GmbH, Gütersloh	Germany	39.20	q
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 Neumünster GmbH, Neumünster	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 GmbH, Verl	Germany	100.00	v
BFS finance Münster GmbH, Münster	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	q
inmediaONE] GmbH, Gütersloh	Germany	100.00	v
Lambourne Productions GmbH, Herne	Germany	100.00	v
Media Log Spedition GmbH, Gütersloh	Germany	100.00	v
PVS Mailmanagement GmbH, Neckarsulm	Germany	100.00	v
Rough Trade Distribution GmbH, Herne	Germany	100.00	v
Verlegerdienst München GmbH, Gilching	Germany	100.00	v
webmiles GmbH, Munich	Germany	87.53	v
ALLDIREKT Telemarketing GmbH, Salzburg	Austria	100.00	v
arvato communication services France SARL, Noyelles sous Lens	France	100.00	v
arvato media services France SAS, 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 Belgium N.V., Antwerp	Belgium	60.00	v
arvato services Canada, Inc., Toronto	Canada	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 Marketing Service India Private Limited, New Delhi	India	51.00	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
Eurodirect-Société Européenne de Routage S.A., Geispolsheim	France	59.90	v
Eurodirect Marketing Lettershop SAS, Geispolsheim	France	60.00	v
EUROMEDIA GROUP k.s., Prague	Czech Republic*	100.00	v
Europost SAS, Saulcy sur Meurthe	France	60.00	v
Forms Facility Group B.V., Abcoude	Netherlands	60.00	v
Gauntlet Entertainment Limited, Orpington	UK	75.00	v
Pinnacle Entertainment Limited, Orpington	UK	75.00	v
Pinnacle Software Limited, Orpington	UK	75.00	v
Routage et Diffusion SAS, Strasbourg	France	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

IT			
arvato systems GmbH, Gütersloh	Germany	100.00	v
arvato systems Technologies GmbH, Rostock	Germany	100.00	v
bemobile GmbH, Hamburg	Germany	100.00	v
empolis GmbH, Gütersloh	Germany	100.00	v
medicForma.com GmbH, Dortmund	Germany	31.98	e
arvato systems (Shanghai) Co. Limited, Shanghai	China	100.00	v
arvato systems Espana, S.L., Barcelona	Spain	100.00	v
arvato systems France S.A.R.L., Paris	France	100.00	v
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
tj net S.p.A., Rome	Italy	100.00	v
Storage Media			
Arvato Storage Media GmbH, Gütersloh	Germany	100.00	v
FlexStorm GmbH, 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
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 Italia S.r.l., Milan	Italy	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

Direct Group

Clubs Central and Eastern Europe			
FCB FREIZEIT-CLUB Betreuungs-GmbH & Co., Hamburg	Germany	50.00	q
Nionex GmbH, Gütersloh	Germany	100.00	v
RM Buch und Medien Vertrieb GmbH, Gütersloh	Germany	100.00	v
RTL Club GmbH, Rheda-Wiedenbrück	Germany	100.00	v
wissen Media Verlag GmbH, Gütersloh	Germany	100.00	v
wissen.de GmbH Gesellschaft für Online-Information, Munich	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			
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	South Korea	100.00	v
Beijing 21st Century Book Chain Co., Limited, Beijing	China	40.00	q
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)	Australia	100.00	v
Doubleday Canada Limited, Toronto	Canada	100.00	v
BeMusic/e-commerce			
BeMusic, Inc., Dauphin County	USA	100.00	v
buch.de AG, Münster	Germany	25.10	e
Other			
Bertelsmann DealTime Holding B.V., Amsterdam	Netherlands	89.33	v
Bertelsmann Multimedia GmbH, Gütersloh	Germany	100.00	v
bol.com AG, Gütersloh	Germany	100.00	v

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

38 Exemption for Domestic Companies from Preparing, Audit and Publication of Financial Statements

The following subsidiaries took advantage of the exemption regulations set out in § 264 para. 3 HGB relating to additional requirements for limited liability companies to prepare annual financial statements and a management report, as well as the requirements for audit of, and publication by, limited liability companies for the year ended December 31, 2003:

ADLER Immobilienverwaltungs GmbH	Gütersloh
Arabella Musikverlag GmbH	Munich
Artur Wahl GmbH Reproduktionen Satzherstellung	Munich
arvato AG	Gütersloh
arvato direct services Dortmund GmbH	Dortmund
arvato direct services eiweiler GmbH	Heusweiler-Eiweiler
arvato direct services eiweiler GmbH	Mannheim
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	Kornwestheim
arvato direct services Wilhelmshaven GmbH	Schortens
arvato direct services Wuppertal GmbH	Wuppertal
arvato distribution GmbH	Harsewinkel
arvato logistics services GmbH	Gütersloh
arvato media GmbH	Gütersloh
arvato middle east sales GmbH	Gütersloh
Arvato Storage Media GmbH	Gütersloh
arvato systems GmbH	Gütersloh
arvato systems Technologies GmbH	Rostock
arvato technology ELC GmbH	Düren
arvato technology GmbH	Gütersloh
ASM Holding GmbH	Gütersloh
AZ Direct GmbH	Gütersloh
AZ Direct GmbH	Garching
Bavariaton-Verlag Gesellschaft mit beschränkter Haftung	Munich
bemobile GmbH	Hamburg
Bertelsmann Capital Holding GmbH	Hamburg
Bertelsmann Capital Ventures GmbH	Munich
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 Treuhand- und Anlagegesellschaft mit beschränkter Haftung	Gütersloh
BFS finance GmbH	Verl
BFS finance Münster GmbH	Münster
BFS risk & collection GmbH	Verl
BMG Berlin Musik GmbH	Berlin
BMG Deutschland GmbH	Gütersloh
BMG Music International Service GmbH	Munich
bol.com AG	Gütersloh
Crescendo Musikverlag GmbH	Munich
CS Central Service GmbH	Genshagen
DirectGroup Bertelsmann GmbH	Gütersloh
Dreiklang-Dreimasken, Bühnen- und Musikverlag Gesellschaft mit beschränkter Haftung	Munich
ED Transfer GmbH Gesellschaft für Qualifizierung	Gütersloh
empolis GmbH	Gütersloh
GGP Media GmbH	Pössneck
Gun Records Musikproduktions GmbH	Bochum
Gütersloher Verlagshaus GmbH	Gütersloh
Hotel & Gastronomie Gütersloh GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
Interworld Musik-Verlag Gesellschaft mit beschränkter Haftung	Munich
Media Log Spedition GmbH	Gütersloh
Medien Dr. phil. Egon Müller Service GmbH	Verl
Medienfabrik Gütersloh GmbH	Gütersloh
Mobilitäts-Verlag GmbH	Berlin
Mohn Media Bindery GmbH	Gütersloh
Mohn Media Elsnerdruck GmbH	Berlin
Mohn Media Energy GmbH	Gütersloh
MOHN Media Kalender & Promotion Service GmbH	Gütersloh
Mohn Media Print GmbH	Gütersloh
Mohn Media Sales GmbH	Gütersloh
MSI Multimedia Service International GmbH	Gütersloh
Musik Edition Discoton, Gesellschaft mit beschränkter Haftung	Munich
ProBind Professional Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
PVS Mailmanagement GmbH	Neckarsulm
Reinhard Mohn GmbH	Gütersloh
RM Buch und Medien Vertrieb GmbH	Gütersloh
RM Buch und Medien Vertrieb GmbH	Rheda-Wiedenbrück
UFA - International Gesellschaft mit beschränkter Haftung	Munich
Ufaton-Verlagsgesellschaft mit beschränkter Haftung	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Berlin
Verlagsgruppe Random House GmbH	Munich
Wiener Bohème Verlag Gesellschaft mit beschränkter Haftung	Munich
wissen Media Group GmbH	Munich
WOSCHEK Verlags GmbH	Mainz
Young Musikverlag GmbH	Munich

The exemption provisions set out in § 264 b HGB were again used for the following companies for the year ended December 31, 2003:

ANDSOLD GmbH & Co. KG	Gütersloh
Börse Online Verlag GmbH & Co. KG	Munich
Dresdner Druck- und Verlagshaus GmbH & Co. KG	Dresden
eB2B market place GmbH & Co. KG	Hamburg
Ehrlich & Sohn GmbH & Co. KG	Hamburg
Gruner + Jahr AG & Co KG	Hamburg
Verlegerdienst München Gesellschaft mit beschränkter Haftung & Co. KG	Gilching

39 Recommendation on Appropriation of Retained Earnings

On May 18, 2004 and as provided by the statutes, € 76 million will be distributed to the profit participation certificates out of Bertelsmann AG's retained earnings of € 2,008 million. The Executive Board recommends to the general meeting that the remaining retained earnings of € 1,932 million be appropriated as follows:

	€ in millions
Dividends to shareholders	220
Carry forward to new fiscal year	1,712
	1,932

Gütersloh, March 12, 2004

Bertelsmann AG
The Executive Board:

Dr. Thielen   Dr. Luther   Dr. Kundrun   Olson

Ostrowski   Schmidt-Holtz   Dr. Walgenbach

Supervisory Board

Reinhard Mohn
Honorary Chairman

Gerd Schulte-Hillen
Chairman

Vice-Chairman of the Bertelsmann Foundation Executive Board, and Shareholder Bertelsmann Verwaltungsgesellschaft mbH (BVG) (until 12/31/2003)

- Druck- und Verlagshaus Gruner + Jahr AG (Chairman) (until 10/30/2003)
- Hamburg-Mannheimer Versicherung-AG
- Hamburg-Mannheimer Sachversicherungs-AG
- National Geographic Society

Dr. Dieter H. Vogel
Vice-Chairman (until 12/31/2003)
Chairman (since 1/1/2004)

Managing partner of Bessemer, Vogel und Treichl GmbH

- ABB AG (Chairman) (until 3/27/2003)
- Gerling Industrie-Service AG (Vice-Chairman)
- Mapress GmbH (Chairman)
- Mobilcom AG (Chairman since 2/10/2003)
- WCM Beteiligungs- und Grundbesitz AG (Chairman) (since 10/9/2003)
- Blücher Aps
- HSBC Trinkaus & Burkhardt KGaA

Prof. Dr. Jürgen Strube
Vice-Chairman (since 1/1/2004)

Chairman of the Board of Executive Directors, BASF AG (until 5/5/2003)
Chairman of the Supervisory Board, BASF AG (since 6/5/2003)

- Allianz Lebensversicherungs-AG
- BASF AG (Chairman) (since 5/6/2003)
- BMW AG
- Commerzbank AG
- Fuchs Petrolub AG (Chairman) (since 6/5/2003)
- Hapag-Lloyd AG
- Hochtief AG (until 6/4/2003)
- Linde AG

Dr. Rolf-E. Breuer
Chairman of the Supervisory Board, Deutsche Bank AG

- Deutsche Bank AG (Chairman)
- Deutsche Börse AG (Chairman)
- Deutsche Lufthansa AG (until 6/18/2003)
- E.ON AG
- Siemens AG (Vice-Chairman) (until 1/23/2003)
- Compagnie de Saint-Gobain S.A.
- Kreditanstalt für Wiederaufbau
- Landwirtschaftliche Rentenbank

André Desmarais
President and Co Chief Executive Officer, Power Corporation of Canada

- Bombardier Inc.
- CITIC Pacific Limited
- Great-West Lifeco Inc.
- Groupe Bruxelles Lambert S.A.
- Investors Group Inc.
- Pargesa Holding S.A.
- Power Financial Corporation (Vice-Chairman)
- The Great-West Life Assurance Company

Prof. Dr. Michael Hoffmann-Becking
Lawyer

- Delton AG
- Hella KGaA Hueck Co. (Chairman) (since 11/13/2003)
- Rheinische Bahngesellschaft AG
- C.H. Boehringer Sohn
- de Haen-Carstanjen GmbH
- HSBC Trinkaus Burkhardt KGaA (since 4/2/2003)
- Felix Schoeller Holding GmbH & Co. KG (Chairman)

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

Sir Peter Job
Former Chief Executive Officer,
Reuters Group PLC
- Deutsche Bank AG
- GlaxoSmithkline PLC
- Instinet Group Inc.
- Multex.com Inc. (until 2/18/2003)
- RVC
- Schroders PLC
- Shell Transport and Trading PLC
- Tibco Software Inc.

John R. Joyce
Chief Financial Officer IBM Corp.

Oswald Lexer
Vice-Chairman of the Bertelsmann
Corporate Works Council

Liz Mohn
Vice-Chairwoman 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 (until 7/31/2003)
- Groupe Bruxelles Lambert S.A.
- Groupe Taittinger S.A. (since 1/1/2003)
- Imerys S.A.
- Petrofina S.A (until 5/31/2003)
- Pargesa Holding S.A.
- Quick S.A.
- RTL Group S.A.
- Société du Louvre S.A. (since 1/1/2003)

Richard Sarnoff
Chairman of the Bertelsmann AG
Management Representative Committee
Executive Vice President Random House
- Audible Inc.
- Classic Media Inc.
- ebrary Inc.
- Princeton Review Inc.
- Xlibris Inc.
- OAK Hill Securities Funds II, L.P.

Christian van Thillo
Chief Executive Officer De Persgroep NV,
Brussels (since 7/4/2003)

Committees of the Supervisory Board

Personnel Committee
Dr. Dieter H. Vogel (Chairman)
André Desmarais
Liz Mohn
Prof. Dr. Jürgen Strube

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

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

Working Group of the Employee Representatives on the Supervisory Board
Liz Mohn (Chairwoman)
Oswald Lexer
Willi Pfannkuche
Erich Ruppik
Richard Sarnoff

Executive Board

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

[1] External mandates

Dr. Gunter Thielen
Chairman & Chief Executive Officer
- Arvato AG
- Druck- und Verlagshaus Gruner + Jahr AG (Chairman) (since 10/30/2003)
- KarstadtQuelle AG[1]
- Leipziger Messe GmbH[1]
- Bertelsmann Inc.
- Hannoversche Leben AG[1]
- RTL Group S.A.
- Saarländische Landesbank[1]

Dr. Siegfried Luther
Vice-Chairman
- Bertelsmann Buch AG (until 9/22/2003)
- Druck- und Verlagshaus Gruner + Jahr AG
- Springer Verlag GmbH & Co. KG (until 3/10/2003)
- WestLB AG[1]
- Bertelsmann Inc.
- Lycos Europe N.V. (until 5/23/2003)
- RTL Group S.A.

Dr. Arnold Bahlmann
(until 6/30/2003)
- Stürtz AG (Chairman) (until 6/30/2003)

Dr. Bernd Kundrun
- Gruner + Jahr Holding AG, Vienna
- Gruner + Jahr USA Group Inc.
- Stern Magazine Corporation

Peter Olson, J.D./MBA
- Barnesandnoble.com Inc. (until 9/2/2003)
- Bertelsmann Inc.
- Grupo Editorial Random House Mondadori S.L.
- Random House Inc.
- Random House Direct Inc.
- Random House Kodansha Inc. (since 5/19/2003)
- Random House TPR Inc.
- Random House Ventures LLC

Hartmut Ostrowski
- Webmiles GmbH (Chairman)
- arvato Services Inc.
- Bertelsmann Holding Spain S.A.
- Berryville Graphics Inc.
- Coral Graphic Services of Kentucky Inc.
- Coral Graphic Services Inc.
- Coral Graphic Services of Virginia Inc.
- Dynamic Graphic Finishing Inc.
- Eurohueco S.A.
- Nuovo Instituto Italiano d'Arti Grafiche S.p.A.
- maul + co – Chr. Belser GmbH
- Printer Industria Gráfica S.A.
- Offset Paperback MFRS Inc.
- Stampers Limited

Rolf Schmidt-Holtz
- Druck- und Verlagshaus Gruner + Jahr AG
- Ariola Eurodisc Inc
- Arista Records Inc.
- Bertelsmann Inc.
- 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 Recording Corporation
- Zomba Records Ltd.

Dr. Ewald Walgenbach
- Barnesandnoble.com Inc. (until 9/15/2003)
- Bertelsmann Corea Co. Ltd.
- bol.com AG (Chairman)
- Bookspan Partnership
- ECI voor boeken en platen B.V.
- FCB Freizeitclub GmbH & Co. KG
- RTL Group SA.
- Shanghai Bertelsmann Culture Industry Co. Limited

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, 2003. 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, 2003, 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, 2003 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 15, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke	Kämpf
German Public Auditor	German Public Auditor

Overview of the Divisions

RTL Group is Europe's leading commercial broadcaster, with interests in 25 television channels and 23 radio stations in eight countries and content production throughout the world. Its television portfolio includes RTL Television in Germany, M6 in France, Five in the UK, and the RTL channels in the Netherlands, Belgium, Luxembourg and Hungary, as well as Antena 3 in Spain. RTL Group's flagship radio station is RTL in France, and it also owns or has interests in other stations in France, Germany, Belgium, the Netherlands and Luxembourg. RTL Group's content production arm, Fremantle Media, is one of the largest international producers outside the US. It currently produces over 260 programs in more than 39 countries including the US, providing a wide range of drama, entertainment and factual programming for viewers around the world.

Random House is the world's largest trade book publisher, publishing many of the most revered and most popular fiction and nonfiction authors in hardcover, trade and mass market paperback, audio, and electronic formats. Random House is the one truly global book publisher, the only one with an established network of leading publishers in the English-, German-, Spanish- and Japanese-language countries, four of the leading language groups, as well as Korea. Random House publishes the largest number of bestsellers annually in most of these countries and the greatest number of Nobel Prize winners, among them Toni Morrison, Thomas Mann, and William Faulkner.

The Gruner + Jahr printing and publishing company is Europe's biggest magazine publisher. Its more than 11,000 employees in 14 countries on three continents publish more than 120 magazines and newspapers, as well as the accompanying online sites. G+J magazines include "stern," "Brigitte," "GEO," "Capital," "Gala," "Eltern/Parents," "Financial Times Deutschland," "Essen & Trinken," "National Geographic" as well as "Inc.," "Fitness" and "Family Circle"; many of these titles are published in a number of editions in several countries. With international revenues accounting for more than 60 percent, G+J is the world's most international publishing company. Bertelsmann AG owns 74.9 percent of the company; the Jahr publishing family, Hamburg, owns 25.1 percent.

Select Terms at a Glance

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

Cash Flow According to DVFA/SG
Sustainable cash flow before changes in working capital. It is defined by the German Association for Financial Analysis and Asset Management and the Schmalenbach Gesellschaft.

Debt Issuance Program
Contractual framework to issue debt instruments in a flexible manner. A Debt Issuance Program allows to make use of the capital markets for financing purposes.

Discontinuing Operation
Significant business units that are planned for divestment or have already been divested and which can be distinguished operationally as well as for financial reporting purposes. These are subject to special disclosure rules.

Rights Similar to Goodwill
As set out in IAS 22, intangible assets determined as a result of fair value accounting at the time of a business combination. These are treated in the same way as goodwill for the purpose of calculating key financial figures.

Net Financial Debt
Gross financial debt including liabilities from finance leases, minus cash and cash equivalents.

Operating EBITA
Earnings before interest, taxes, amortization of goodwill and rights similar to goodwill, and special items.

Operating EBITDA
Earnings before interest, taxes, amortization of goodwill and rights similar to goodwill, depreciation of property, plant and equipment, depreciation of financial assets, and special items.

Rating
Classification of the creditworthiness of a borrower through a credit analysis carried out by a specialist agency.

Special items
Certain items of income and expense that are special due to their nature, amount or incidence and whose disclosure is relevant to explain the performance of the enterprise or its segments for the period. According to IFRS, these items are to be disclosed separately and may include restructuring measures and effects from portfolio adjustments.

Syndicated Loan
Credit line granted by a group of banks.

VSOP
Acronym for Virtual Stock Option Plan: Program for granting management a long-term, earnings-related component of their remuneration.

BMG
BERTELSMANN

Bertelsmann Music Group (BMG) does business in 41 countries with its 200 labels. The group's best-known labels include Ariola, Arista Records, J Records, Jive Records, RCA Records and the RCA Label Group – Nashville. BMG Music Publishing is the world's third-biggest music publisher. BMG works with numerous world-class stars including Santana, Dido, P!nk, Avril Lavigne, Aretha Franklin, Christina Aguilera, Britney Spears, Justin Timberlake, Eros Ramazzotti and Alicia Keys.

arvato
BERTELSMANN

Arvato AG with its roughly 55 subsidiaries is among the largest worldwide media service providers with internationally networked operations. The Arvato AG subsidiaries all around the world currently employ more than 31,000 staff. Companies belonging to Arvato AG include Arvato Print (including MOHN Media, the Maul Belser media group as well as numerous printers in Europe and America), the divisions Arvato Direct Services (including customer loyalty systems and service center facilities), Arvato Logistics Services (logistics and supply chain management), Arvato Storage Media (including the production of CD-ROMs, DVDs and audio CDs), and Arvato Systems (international provider of qualified and customized IT services) as well as specialist publishers.

DirectGroup
BERTELSMANN

Direct Group Bertelsmann integrates Bertelsmann's global media direct-to-customer businesses. Roughly 32 million customer relationships secure Direct Group's position among the largest enterprises in media commerce. Cornerstone of this success are the book and music clubs in 21 countries incorporating strong brands like France Loisirs (France), Book-of-the-Month-Club (USA), Der Club (Germany), Circulo de Lectores (Spain) and BeMusic (USA). Members have access to the clubs' product range via catalogue, Internet or one of the more than 600 worldwide club shops.

Bertelsmann Corporate Responsibility Report 2003

With its Corporate Responsibility Report 2003, Bertelsmann AG is not only upholding at international level the tradition of a social report focusing on Germany: at the same time, it is also taking a further step towards greater transparency. This report reflects Bertelsmann's commitment and involvement on behalf of employees, society and the environment. It describes the basic principles of Bertelsmann's social responsibility that have developed over the decades, and at the same time it provides an insight into case studies and exemplary projects which provide specific evidence of its contribution towards society.

Financial Calendar

May 5, 2004
Announcement of Q1 figures

May 18, 2004
Payout of dividends on Profit Participation Certificates for the 2003 fiscal year

September 8, 2004
Announcement of figures for the first half of 2004

November 9, 2004
Announcement of figures for the first nine months of 2004

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