

ANNUAL REPORT 2004

RTL GROUP
RANDOM HOUSE
GRUNER + JAHR
BMG
ARVATO
DIRECT GROUP



Bertelsmann Financial Highlights in € millions

	IFRS 2004	IFRS 2003	IFRS 2002	IFRS Pro forma 2001	IFRS 7/1/-12/31/ 2001
Business Development					
Revenues	17,016	16,801	18,312	18,979	9,685
Operating EBIT	1,429	–	–	–	–
Operating EBITA	–	1,123	936	573	164
Net income before minority interest	1,217	208	968	1,378	931
Investments	930	761	5,263	2,639	1,067
Total assets	20,970	20,164	22,188	23,734	23,734
Personnel costs	4,204	4,151	4,554	4,812	2,343
Equity					
Subscribed capital	1,000	606	606	606	606
Retained earnings	6,510	6,060	6,079	5,697	5,697
Minority interest	1,336	965	1,059	2,081	2,081
Equity	8,846	7,631	7,744	8,384	8,384
As percentage of total assets	42	38	35	35	35
Economic debt ¹⁾	2,632	–	–	–	–
Leverage factor ²⁾	1.6	–	–	–	–
Net financial debt	–	820	2,741	859	859
Debt payback factor ³⁾	–	0.6	2.5	2.9	–
Net income					
Net income before minority interest	1,217	208	968	1,378	931
Net income after minority interest	1,032	154	928	1,235	949
Dividend Bertelsmann AG	324	220	240	–	300
Employees (in absolute numbers)					
Germany	27,350	27,064	31,712	31,870	31,870
Other countries	48,916	46,157	48,920	48,426	48,426
Total	76,266	73,221	80,632	80,296	80,296
Profit participation payments	76	76	77	77	39
Employee profit sharing	29	29	34	–	19

1) Net financial debt plus provisions for pensions and profit participation capital

2) Economic debt / Operating EBITDA (after modifications)

3) Net financial debt / Cash Flow

ANNUAL REPORT

January 1 through December 31, 2004

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Dear Friends of Bertelsmann,

The year 2004 was a good one for Bertelsmann. Despite tough market conditions, we significantly improved operating results and return on sales. Many of our most important businesses showed renewed growth and we were able to demonstrate anew our company's innovative strength.

In 2004, Bertelsmann met or exceeded all its targets. In 2005, we continue resolutely on this successful path.

In the last Annual Report, I presented GAIN, our Growth and Innovation initiative to promote quality, creativity and renewal. We have put this initiative at the center of our entrepreneurial actions to enable us to achieve organic growth in revenues and earnings in the years ahead.

This strategy has been an immediate success. Roughly 100 new business ideas with a medium-term revenue potential of around €1 billion are currently on the Bertelsmann GAIN agenda. Our divisions around

the world developed new ideas, innovative products and services. The Executive Board has earmarked additional funds for investment in these endeavors.

All corporate divisions have made it their goal to grow and continue to improve results. Their strategies are widely diversified. For instance, in light of the increasing fragmentation of the TV markets, RTL Group plans to establish more clusters, or "families" of channels. At the same time, broadening its portfolio will reduce dependence on advertising sales. As a complement to its strong businesses in Germany and France, RTL Group is getting involved in new TV markets. One example is Croatia, where RTL Televizija has had an excellent start. In Germany, the first interactive dating channel was launched: "Traumpartner TV" invites viewers on a quest for their dream partner to participate in TV chats by sending SMS and MMS messages.

Arvato, our international media services group, will invest in additional countries and new lines of business. The success of Arvato Mobile is one example of our rapid response to impending market changes. The company identified the trend toward multimedia usage of mobile phones early on. Today, Arvato Mobile offers a variety of services related to the digital distribution of content, such as music, videos, games, images, and ringtones. Arvato is also focused on building a platform for downloading media products to mobile phones. Arvato's special skills – custom-tailored ser-



DR. GUNTER THIELEN
Bertelsmann AG Chairman & CEO

vices and customer focus – are in areas that present many interesting new avenues for growth.

The achievements of Gruner + Jahr verify that the creation and distribution of top-notch media content remains our vital core business. G+J launched more than 20 new titles last year. The performance at Prisma Presse in France was nothing short of sensational: Its decision to publish bi-weekly TV guides for the first time in the country's history resulted in France's most successful magazine launch ever. "Télé 2 Semaines" has since become a fixture in the French market with 1.4 million copies sold per issue, while its sister publication "TV Grandes Chaînes" has circulation of over a million copies. In Germany, "Neon" magazine was named a "Newcomer of the Year," and in The Netherlands "Quest" magazine was hailed as "Launch of the Year."

Achieving growth often entails striking new paths. Throughout our long history, we have learned that taking non-traditional strategic and creative approaches in our businesses can result in major successes. The leadership of the Random House Group in the U.K. recently delivered an excellent example. Several of their imprints published Mark Haddon's novel "The Curious Incident of the Dog in the Night-time" in two different editions, one set for children and another one for adults. As a result, the author won the "British Book Award 2004" in two categories. To date, Random House has sold nearly two million copies of the book in the

U.K. and almost four million copies worldwide. Another example is Random House's decision to become a major publisher for the international market of comic-style illustrated Japanese "Manga" novels, thereby opening a potential readership for them with a whole new, broader adult target audience in the Western world.

Direct Group, too, is putting new ideas into practice: one example is Yourmusic.com. The members of this Internet-based music club receive the CD of their choice each month, plus access to several thousand titles at the same low price. The Circulo de Lectores book club in Spain has further strengthened its role as a cultural institution through brand-building activities. These include recruiting honorary celebrity members, opening new cultural centers, and setting up its own foundation. France Loisirs is catering to new target groups as well. Recently opened media stores known as "Place Media" are a combination of club store, bookstore, multimedia store, and photo shop in an easy-to-shop atmosphere. Direct Group initiated its expansion in Eastern Europe with the acquisition of a profitable family media club in the Ukraine.

We strive to recruit and retain the most talented people in media. This includes editors, authors, musicians, and producers as well as executives, the latter whom Bertelsmann gives extensive entrepreneurial freedom. The principle of decentralization and delegation of responsibility is an essential element in Bertels-

**"Achieving growth often entails striking new paths.
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mann's corporate culture. We firmly believe that cultivating an environment where entrepreneurs can flourish leads to vibrancy, innovation and growth.

Where outstanding creative and entrepreneurial minds are at work, there are innovative and inspired ideas in development – which is why we encourage all our employees to keep learning and continue their professional education. At the executive level, Bertelsmann University provides a valuable platform for sharing best practices. Bertelsmann's 76,000 plus employees have the opportunity to pursue personal development in their work as well. Qualification is one of the keys to long-term job security, so we offer a modern and comprehensive range of opportunities for education and skills enhancement.

The year 2004 was also one in which the group took important strategic steps to strengthen its structure and portfolio, with a focus on the challenges ahead.

In July, the European Commission approved the merger between Sony Music and BMG without conditions. The merger between the recorded music units was finalized on August 5, 2004. Thanks to many top positions on the international charts and a vast number of awards, we were able to bring BMG into the joint venture on excellent terms. With its 50-percent stake in Sony BMG Music Entertainment, Bertelsmann commands a leading position in the global music market. Sony BMG does business in a highly competitive music

market threatened by counterfeits. The merger with Sony Music was the right step to meet this challenge: We believe that the joint venture has already made our music business much more competitive.

Beyond the joint venture with Sony, Bertelsmann Music Group will continue its highly successful music publishing business as a separate company. Composers and songwriters signed with BMG Music Publishing held top slots in the world's major music markets nearly every week last year.

The planned gravure joint venture between Gruner + Jahr, Arvato and Axel Springer AG has brought us a big step further after one of our most complex transactions in recent years. The joint venture will include the printing operations in Ahrensburg, Darmstadt, Dresden, Itzehoe and Nuremberg, as well as the printing plant currently under construction in Liverpool. Pending the EU Commission's approval, this will be a future-proof pan-European company.

Last year, Gruner + Jahr acquired a majority stake in Motor-Presse Stuttgart, a deal that is still subject to antitrust approval. With a revenue share of 60 percent outside Germany, Gruner + Jahr already is Europe's most international magazine publisher. This acquisition adds a number of countries in which Motor-Presse already does business but where G+J is not yet represented, e.g. Brazil, Mexico, Argentina, the Czech Republic, Portugal, and Switzerland.

**“We strive to recruit and retain
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We have set important goals for 2005 and will continue to systematically increase our return on sales, and safeguard jobs by generating stable earnings. We still have plenty of opportunities in Europe, which we will undertake for further growth. The U.S., as the world's biggest media market, remains an important one for Bertelsmann. We will also continue our internationalization strategy, especially in Eastern Europe and Asian markets.

Our experienced management continues to embrace the challenges we confront. We are in excellent shape for the future, with dedicated employees and cooperative workers councils all working together to successfully bring Bertelsmann into the next phase of our Growth and Innovation initiative.

I thank you for your interest in Bertelsmann.

Yours,

A handwritten signature in black ink, appearing to read 'Gunter Thielen', written in a cursive style.

Gunter Thielen

THE EXECUTIVE BOARD OF BERTELSMANN AG



DR. GUNTER THIELEN

Member of the Bertelsmann AG Executive Board since July 1, 1985, Chairman of the Bertelsmann AG Executive Board and Chief Executive Officer since August 5, 2002, Gütersloh. Born August 4, 1942 in Quierschied (Germany).

DR. SIEGFRIED LUTHER

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

DR. BERND KUNDRUN

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

PETER OLSON J.D./MBA

Member of the Bertelsmann AG Executive Board since April 1, 2001, Chairman and Chief Executive Officer of Random House, New York. Born May 1, 1950 in Chicago (USA).



HARTMUT OSTROWSKI

Member of the Bertelsmann AG Executive Board and Chairman of the Bertelsmann Arvato AG Executive Board since September 1, 2002, Gütersloh. Born February 25, 1958 in Bielefeld (Germany).

ROLF SCHMIDT-HOLTZ

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. Born August 31, 1948 in Martinsreuth (Germany).

DR. EWALD WALGENBACH

Member of the Bertelsmann AG Executive Board since February 6, 2002, Chief Executive Officer of Direct Group Bertelsmann, Gütersloh. Born February 10, 1959 in Neustadt/Wied (Germany).

GERHARD ZEILER

Chief Executive Officer of RTL Group, permanent guest on the Bertelsmann AG Executive Board. Born July 20, 1955 in Vienna (Austria).

Télé 2 Semai

Cre

28 Grammy Awards

Arvato Mobile

Business Activity

“Manga” novels

MANAGEMENT REPORT
CORPORATE GOVERNANCE
SUPERVISORY BOARD REPORT

MANAGEMENT REPORT

In 2004, Bertelsmann strengthened its market position and increased profitability against market developments that were restrained overall. Operating EBIT rose to €1,429 million (previous year: €1,026 million). At €17.0 billion, 2004 revenues were up from the previous year's figure of €16.8 billion. Operating return on sales rose to 8.4 percent (previous year: 6.1 percent). Net income before minority interest amounted to €1,217 million, after €208 million in 2003. Bertelsmann delivered a gratifying overall business performance.

Business and Strategy

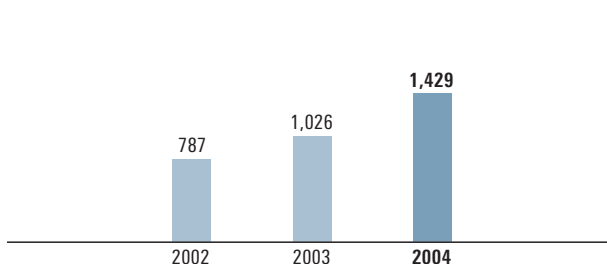
The global economy showed a marked recovery, which slowed down over the course of the year due to steep increases in the price of raw materials. The euro region showed only slight growth in 2004, mainly as a consequence of continued weak domestic demand in Germany. In contrast to this, there was clear growth in the U.S.

Bertelsmann's core markets are in Europe and the U.S., with a special focus on growth regions in Eastern Europe and Asia. The improved macroeconomic environment had a positive effect on the media markets relevant to Bertelsmann. The magazine and TV advertising business in Germany stayed on par with the previous year, while the book market showed a slight increase in 2004. In other euro region countries, the stabilization process proved more sustained. The U.S., too, saw a continuation of the positive trend in magazine advertising throughout 2004, while the book market here declined slightly. The music markets in the U.S. and U.K. showed positive sales growth for the first time in five years. However, the negative trend persisted in other important markets, especially Germany, France and Japan.

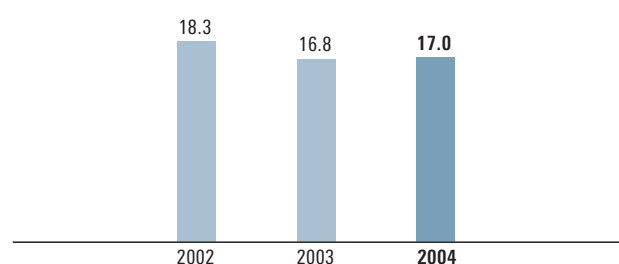
In fiscal year 2004, Bertelsmann concentrated on improving the profitability of its core businesses and on strengthening market positions in important segments. In early August, Sony Music and BMG merged their recorded music businesses into Sony BMG Music Entertainment. Contracts governing Gruner + Jahr's acquisition of a majority stake in Motor-Pressé Stuttgart, as well as the gravure joint venture between Arvato, Gruner + Jahr and Axel Springer AG, are still pending antitrust approval.

Overview of Group Performance

Operating EBIT in € millions



Revenues in € millions



The company continued to put into practice its “Growth and Innovation” (GAIN) initiative launched in December 2003. The objective is to promote growth through new content, products and services across the group. From a vast pool of ideas, some 100 projects throughout the divisions were chosen for implementation, and have already delivered initial results. In 2005, the GAIN initiative will involve pursuing ongoing projects and generating further new ideas for sustained growth.

Revenues

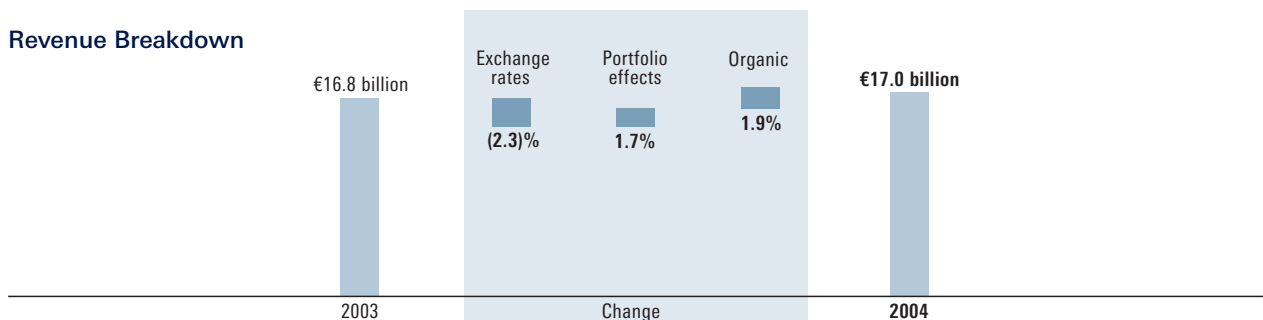
Consolidated revenues for the year under review amounted to €17.0 billion (previous year: €16.8 billion). This increase was fueled by organic growth of 1.9 percent as well as by portfolio effects, such as the first-time full consolidation of the French TV channel M6, which added €564 million to revenues. However, exchange rate movements, especially the weakening of the U.S. dollar against the euro, reduced revenues by 2.3 percent.

The regional breakdown of revenues was affected by portfolio and currency effects. Germany generated 29.7 percent (previous year: 30.7 percent) of total revenue. The other European countries contributed 42.2 percent (previous year: 38.6 percent), while the U.S. businesses accounted for 22.4 percent (previous year: 25.1 percent). All the remaining countries contributed 5.7 percent (previous year: 5.6 percent). The share of individual revenue streams in consolidated revenues changed only slightly.

Revenues by Division in € millions

	2004			2003		
	Germany	International	Total	Germany	International	Total
RTL Group	1,951	2,927	4,878	2,004	2,448	4,452
Random House	196	1,595	1,791	139	1,637	1,776
Gruner + Jahr	919	1,520	2,439	929	1,552	2,481
BMG	305	2,242	2,547	261	2,451	2,712
Arvato	1,557	2,199	3,756	1,630	2,009	3,639
Direct Group	354	1,821	2,175	383	1,903	2,286
Total revenues by division	5,282	12,304	17,586	5,346	12,000	17,346
Corporate / Consolidation	(223)	(347)	(570)	(180)	(365)	(545)
Consolidated revenues	5,059	11,957	17,016	5,166	11,635	16,801

Revenue Breakdown



Operating EBIT

In the year under review, Bertelsmann generated Operating EBIT of €1,429 million (previous year: €1,026 million). This corresponds to an 8.4 percent return on sales (previous year: 6.1 percent). In connection with changes to the IFRS, since January 1, 2004 Operating EBIT has been used instead of Operating EBITA to measure underlying business performance. The Operating EBIT now shown on the books corresponds to Operating EBITA as reported before, minus amortization of rights similar to goodwill with a definite useful life (see Notes, page 91). The previous year's figures were adjusted for better comparability.

RTL Group, BMG and Arvato were the main contributors to the increase in operating results in 2004. Random House and Direct Group both improved their results, due in part to a strong holiday season. Start-up losses for new magazines led to a slight decline in Operating EBIT at Gruner + Jahr. Meanwhile, operating results were boosted by optimizing business processes throughout the group. The first-time full consolidation of M6 increased Operating EBIT by €92 million. Excluding this effect, Operating EBIT increased by 30.3 percent year on year. Group Operating EBITDA amounted to €2,112 million (previous year: €1,866 million).

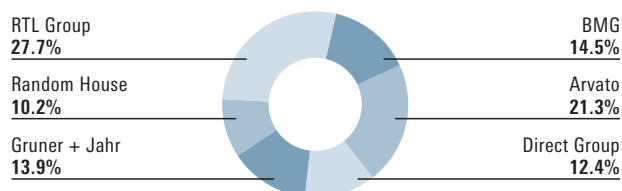
Net Income

Based on Operating EBIT and including special items of €318 million, earnings before interest and taxes totaled €1,747 million (previous year: €1,365 million). Based on the changed IFRS guidelines, regular amortization of goodwill and rights similar to goodwill with indefinite useful life no longer applies since January 1, 2004. In the previous year, these amounted to €632 million. These assets are now subjected to an annual impairment test instead and amortized if necessary. The year under review saw impairments of €34 million (previous year: €208 million). Taking into account the financial result and taxes, net income before minority interest came to €1,217 million in 2004 (previous year: €208 million). If regular amortization of goodwill were excluded, net income in 2003 would have been €840 million. After deducting for minority interest, which mostly consist of co-partner shares in RTL Group and Gruner + Jahr, and – as of 2004 – in M6, net income after minority interest came to €1,032 million (previous year: €154 million).

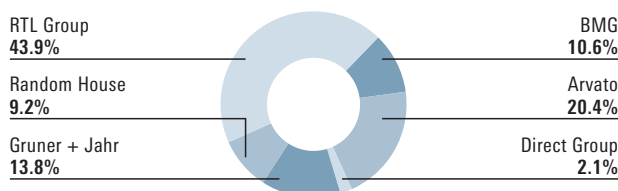
Special Items

Special items for 2004 totaled €318 million. Income was mainly generated by a gain from merging BMG's recorded music division into the joint venture Sony BMG (€180 million), the sale of the Bertelsmann Building in New York (€174 million), the release of provisions in view of an out-of-court settlement of a lawsuit involving the former joint venture AOL Europe (€74 million), capital gains from the dissolution of a venture capital fund in which Bertelsmann had a stake (€47 million), and the value write-up in connection with the Shopping.com IPO (€22 million). Major items that had a negative impact on results included restructuring measures at BMG (minus €115 million) and Direct Group (minus €23 million), as well as an impairment of goodwill at Gruner + Jahr (minus €26 million).

Revenue Share by Division in percent*



Share of Total Operating EBIT by Division in percent*



*Based on total from divisions not including Corporate / Consolidation

Investments

Investments in property, plant and equipment, financial assets, and intangible assets amounted to €930 million (previous year: €761 million). The €498 million (previous year: €413 million) invested in property, plant and equipment mostly went to Arvato, which in 2004, apart from regular investment activities, were invested in new gravure projects in the U.K. and Italy. Investments in intangible assets

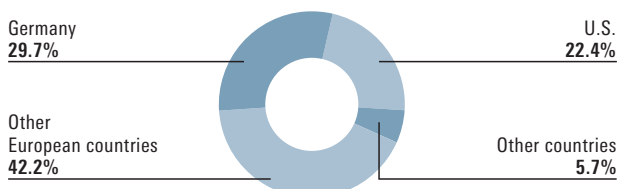
totaling €157 million (previous year: €166 million) were made mostly by RTL Group and BMG. Net investments in financial assets amounted to €275 million (previous year: €182 million) and comprised payments relating to the music joint venture, the acquisition of a stake in the Portuguese media company Grupo Media Capital, and other smaller acquisitions.

Results Breakdown in € millions

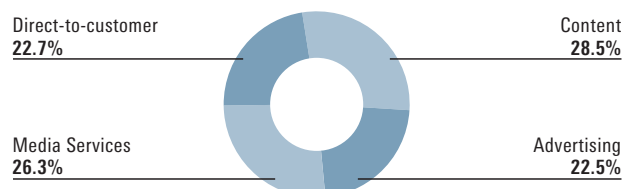
	2004	2003
Operating EBIT by division*		
RTL Group	668	503
Random House	140	115
Gruner + Jahr	210	233
BMG	162	54
Arvato	310	261
Direct Group	32	4
Total Operating EBIT by division	1,522	1,170
Corporate / Consolidation	(93)	(144)
Group Operating EBIT	1,429	1,026
Special items	318	339
Earnings before interest and taxes	1,747	1,365
Regular amortization of goodwill*	–	(632)
Financial result	(267)	(322)
Income taxes	(263)	(203)
Net income before minority interest	1,217	208
Minority interest	(185)	(54)
Net income after minority interest	1,032	154

*The previous year's figures were adjusted to reflect amortization of rights similar to goodwill with a definite useful life. This relates particularly to Random House and BMG.

Consolidated Revenues by Region in percent



Revenues by Category in percent*



*Based on total from divisions not including Corporate / Consolidation

Consolidated Cash Flow Statement

Due to the increase in operating profit, net cash from operating activities rose to €1,654 million in 2004 (previous year: €1,362 million). Net cash from investing activities resulted in an outflow of €497 million in 2004 (previous year: inflow of €876 million). Proceeds from disposals of €366 million (previous year: €1.6 billion) were partly offset by payments for purchases of entities and financial assets totaling €208 million (previous year: €182 million). Investments in property, plant and equipment and in intangible assets amounted to €655 million, compared to €579 million in 2003.

There were net cash outflows of €670 million from financing activities in 2004 (previous year: €1,478 million), reflecting the continuing redemption of debt during the year. Debt repayment amounted to €375 million (previous year: €925 million). €315 million was distributed to shareholders of Bertelsmann AG and co-owners of consolidated companies.

As a result, group cash and cash equivalents increased to €2.1 billion at December 31, 2004 (previous year: €1.6 billion).

Balance Sheet

Total assets increased by €806 million to €21.0 billion in 2004. This increase is due primarily to the full consolidation of M6 and the formation of the Sony BMG joint venture. Equity amounted to €8,846 million. The equity ratio increased by 4.3 percentage points year on year, to 42.2 percent. This increase is due to increased net income on the one hand and the M6 minority interest on the other.

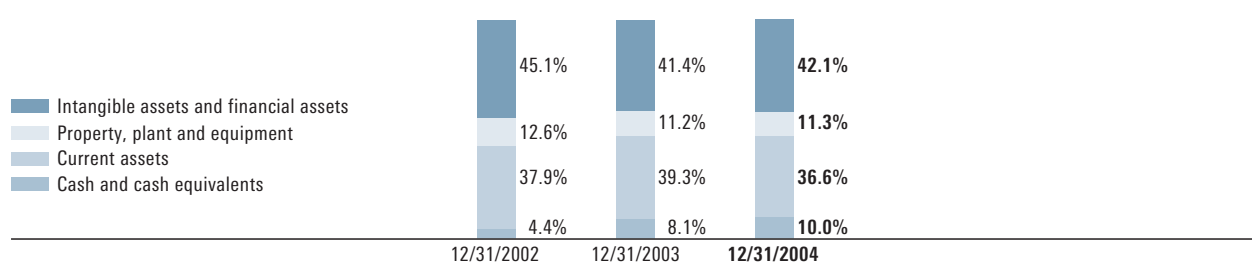
The share of gross financial debt in total assets was down to 10.2 percent from 12.2 percent the previous year. Cash and cash equivalents rose from 8.1 percent to 10.0 percent in the year under review. At balance sheet date, provisions for pensions and similar obligations totaled €1.9 billion (previous year: €1.7 billion). The sum total of net financial debt, pension provisions, and profit participation capital dropped from €3.2 billion to €2.6 billion. Apart from an increase in cash flow generated by the divisions, this decline may be attributed to one-time items such as the sale of the Bertelsmann Building in New York and the reduction of holdings in the sports rights trader Sportfive.

Cash Flow Statement (Summary) in € millions

	2004	2003
Cash flow from operating activities	1,654	1,362
Cash flow from investing activities	(497)	876
Cash flow from financing activities	(670)	(1,478)
Change in cash and cash equivalents	487	760
Exchange rate movements and other changes in cash and cash equivalents	(37)	(95)
Cash and cash equivalents at the beginning of the year	1,642	977
Cash and cash equivalents at the end of the year	2,092	1,642

Asset and Liability Structure

Assets



Financial Targets

Bertelsmann's financial targets traditionally take their cue from the group's capital structure and financial debt. The targets strive to ensure a balance between financial security, return on equity, and growth. Bertelsmann revised its corporate finance guidelines in fiscal year 2004 and now uses an expanded definition of economic debt. The new guideline underscores the company's steadfastly conservative financing policy.

The debt payback factor (net financial debt to cash flow) was replaced by a new target ratio, the "leverage factor." Basically, the leverage factor is the ratio of economic debt to Operating EBITDA. This switch means that the company now recognizes and treats not only net financial debt but also debt substitutes – which at Bertelsmann include pension provisions and profit participation capital – as economic debt. The reason for the switch is that debt substitutes have a similar effect on a company's financial strength as pure financial debt. In calculating the leverage factor, some modifications are made to the balance sheet figures, to better reflect the group's actual financial strength. The leverage factor should not exceed 2.3. In the year under review, the factor was 1.6 (equivalent previous year's value: 1.9). Compared to the earlier target of keeping the debt payback factor at 1.5 or below, the new target marginally reduces the group's maximum debt capacity.

The coverage ratio is now calculated as the ratio between Operating EBITDA and financial result, and should be greater than 4. In the year under review, the coverage ratio was 7.0 (equivalent previous year's value: 5.5), and thus remains well above target.

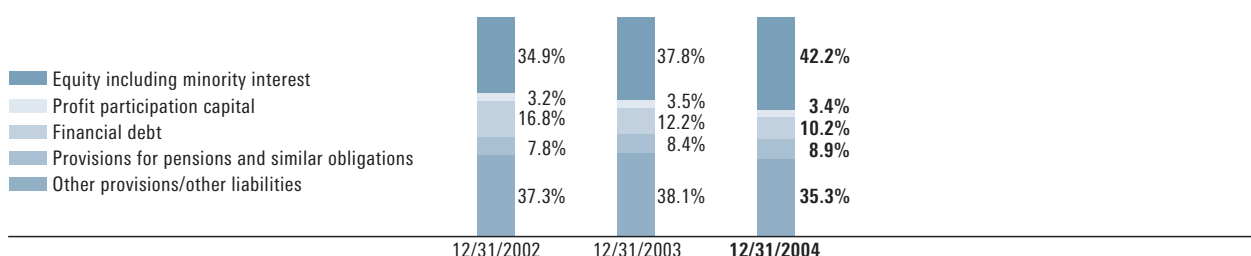
At 42.2 percent, the equity ratio exceeded both the 25 percent target and the previous year's ratio of 37.9 percent. In addition, Bertelsmann is careful to ensure that equity exceeds the goodwill shown on the balance sheet, including rights similar to goodwill with indefinite useful life. At €2,093 million, this coverage was achieved in 2004 (equivalent previous year's value: €797 million).

Financial Targets

	Target	2004	2003
Leverage factor Net financial debt plus pension provisions and profit participation capital / Operating EBITDA*	< 2.3	1.6	1.9
Coverage ratio Operating EBITDA/Financial result*	> 4.0	7.0	5.5
Equity ratio Equity to total assets (in percent)	> 25.0	42.2	37.9

* After modifications

Liabilities



Financing

To take advantage of the favorable financing environment, a syndicated €1.2 billion loan facility was signed with a consortium of banks in the fourth quarter of 2004. The facility has a maturity of five years and may be extended for another two years maximum with the approval of the consortium. This credit line prematurely replaces a syndicated €1.5 billion credit line agreed to in 2002. Bertelsmann's relatively high share of medium- and long-term financial debt and credit facilities underscores its long-term approach to financing. In 2004, the company paid back a \$200 million bond according to schedule and prematurely redeemed a \$100 million promissory note (both Bertelsmann U.S. Finance). Bertelsmann has a BBB+ rating from Standard & Poor's, and a Baa1 from Moody's, both with a stable outlook.

Profit Participation Capital

The par value of profit participation capital remained unchanged at €516 million. Including the premium, the total volume of profit participation capital at December 31, 2004 was €706 million. It is divided into mostly Profit Participation Certificates 2001 (PPC 2001, ISIN DE0005229942) and a small percentage of Profit Participation Certificates 1992 (PPC 1992, ISIN DE0005229900). The terms and conditions governing PPCs 2001 stipulate that the target dividend of 15 percent of par value be paid for every full fiscal year, provided there is sufficient consolidated net income and Bertelsmann AG net income. These conditions were met for the fiscal year ended December 31, 2004. Thus a 15 percent payout will again be made on the par value of PPCs 2001. The distribution on PPCs 1992 depends on the group's return on total assets. As the return on total assets for fiscal 2004 was 7.42 percent, the payout on PPCs 1992 is 8.42 percent of par value (previous year: 6.92 percent). In May 2005, distributions totaling some €76 million will be paid out on both types of certificates. The terms and conditions governing Bertelsmann PPCs require that Bertelsmann AG's auditors verify whether the profit distribution was correctly cal-

culated. A confirmatory report from the auditors has been received for both types of profit participation certificates.

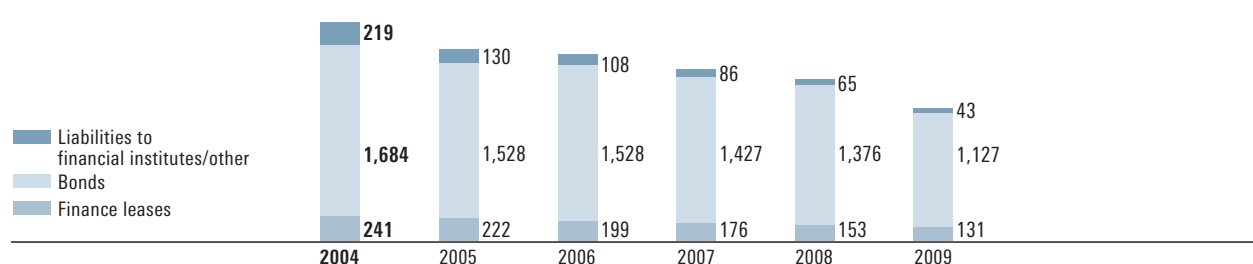
Status of Bertelsmann AG

Bertelsmann AG is a management holding company with no operating businesses of its own. Its tasks include supervisory functions for the Bertelsmann group, the management of its participations, financing, and the service functions performed by some departments at the Corporate Center. The AG's major sources of income are dividend payouts from subsidiaries and proceeds from services provided to subsidiaries. In 2004, Bertelsmann AG increased its subscribed capital from €606 million to €1,000 million by converting capital reserves. Shareholders' equity is reported at €9.5 billion. Bertelsmann AG's total assets at year-end 2004 amounted to €12.0 billion.

Ownership Structure

Bertelsmann AG is a privately held stock corporation. Its shareholders – by way of holding companies – are the Bertelsmann Stiftung foundation (57.6 percent), the Mohn family (17.3 percent), and Groupe Bruxelles Lambert (25.1 percent). The voting rights of Bertelsmann Stiftung and the Mohn family are exercised by Bertelsmann Verwaltungsgesellschaft (BVG). BVG controls 75.0 percent of voting rights at the Bertelsmann AG General Meeting, while Groupe Bruxelles Lambert controls 25.0 percent.

Maturity Structure of Financial Debt in € millions



Employees

At the end of fiscal 2004, the Bertelsmann group had 76,266 employees worldwide (previous year: 73,221 employees). The divisional breakdown is: Arvato 44.3 percent, Direct Group 15.9 percent, Gruner + Jahr 15.3 percent, RTL Group 10.6 percent, Random House 7.1 percent, BMG 5.6 percent, and Corporate Center 1.2 percent. In addition to organic growth, the increase of 3,045 staff is due to the full consolidation of M6 and other acquisitions made during the year.

At the end of the year, the company had 890 apprentices in Germany (previous year: 783). This increase is partly due to the first-time inclusion of student journalists in these numbers in 2004.

Human Resources work at Bertelsmann is governed by the corporate culture of partnership established by Reinhard Mohn in the 1960s. To regularly assess the state of the corporate culture and provide impulses for its ongoing evolution, the "Corporate Culture" task group was set up in 2004. It comprises representatives of the Human Resources Department, the Corporate Works Council, the Executive Board and the Supervisory Board. Interim employee surveys were carried out in 2004 upon the initiative of individual divisions. In all, 17,350 employees in 17 countries had the opportunity to participate in surveys during the year. Thus employee surveys, which have been a key instrument in HR work at Bertelsmann since 1977 and are performed throughout the group every four years, are being used more intensively than ever before.

In 2004, the first tranche of the Bertelsmann Virtual Stock Option Plan (VSOP) issued in 1999/2000 was settled. The VSOP is an executive bonus program that depends on the performance of the group and individual business units over several years.

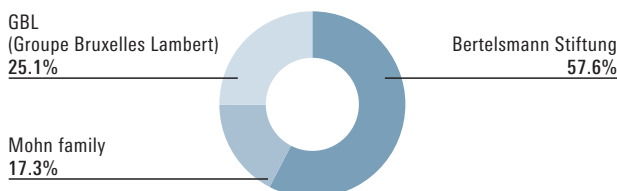
Bertelsmann sees the cultivation and promotion of employee health as an important task. A wide range of activities again served to enhance corporate health efforts during the year under review. In Germany, additional companies in the group formed a "People and Health" task

group. In fall 2004, the Executive Board and Corporate Works Council agreed to gradually extend the health checkup for executives, which was introduced worldwide three years ago to great acclaim, to all employees in Germany over the age of 45 via company medical services. In some Bertelsmann companies outside Germany, such health checkups for all employees are already carried out in various forms.

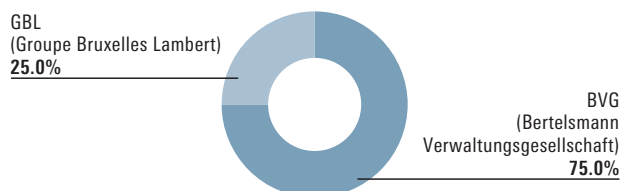
Management development activities were stepped up further in 2004. Two years ago, Bertelsmann University began to internationalize its "Leadership Program," a management training course that has proven its worth in Germany over many years. At this point, the course has been successfully introduced in Spain, the U.S., and France. Bertelsmann University also extended its range by a country-specific management program. A total of three new programs were launched, with a focus on media technology, innovation management, and executive leadership.

In 2002, Bertelsmann established an "Ethics & Compliance Program" in North America and created the position of Chief Ethics & Compliance Officer. The program is based on the "Code of Business Conduct." It provides clear guidelines for employees that reflect the company's values and come up to the legal and ethical demands of society. Other steps taken in 2004 include the establishment of an extensive multimedia training program, a 24/7 anonymous phone "Helpline," and an Ethics & Compliance website. The program helps to protect the company from legal and financial damage, as well as strengthen Bertelsmann's image, e.g. among employees, customers and public agencies.

Ownership Structure Capital Shares



Voting Rights





RTL Group is Europe's leading broadcast and TV production company, with holdings in 31 TV channels and 30 radio stations in ten countries, and worldwide content production. Its television arm includes the RTL Television family of channels in Germany, M6 in France, Five in the U.K., RTL channels in the Benelux countries, in Croatia and Hungary, and Antena 3 in Spain. Its best-known radio station is RTL in France. Fremantle Media is a subsidiary of RTL Group and is one of the largest international creators and producers of program brands in the world. It produces leading prime-time drama, serial drama, entertainment, factual, and comedy programming in over 40 countries. Bertelsmann owns more than 90 percent in the publicly listed RTL Group, making it the main shareholder.



INFORMATION AND EMOTION

Everything's easy on TV. Complicated facts are lucidly explained in the digital news studio.
Complex relationship problems are sensitively dealt with in daily soaps.

Excellent programming in its simplest form: RTL Group.

RTL GROUP HIGHLIGHTS 2004

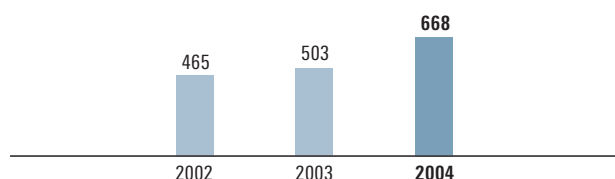
- ▶ All RTL Group channels defended their strong market positions
- ▶ Belgium saw the successful launch of Plug TV; RTL Televizija was founded in Croatia and went straight to the top of the market
- ▶ RTL Group bought an 11.6 percent stake in Portugal's Grupo Media Capital, one of the country's leading media companies
- ▶ In Germany, RTL launched its first digital special-interest channel: "Traumpartner TV," an interactive dating platform
- ▶ M6 was fully consolidated for the first time, after the French utilities company Suez largely completed its exit
- ▶ Fremantle Media significantly improved its profitability thanks to the successful international commercialization of the "Idols" format

RTL Group, Europe's leading television, radio, and TV production group, showed a favorable development in fiscal 2004. The company increased its revenues to €4.9 billion (previous year: €4.5 billion), due to the first-time full consolidation of the French channel M6. Revenues remained stable from an organic point of view. Operating EBIT rose considerably to €668 million (previous year: €503 million). This enhanced performance may be attributed to the M6 consolidation effect as well as to improved operating profitability. All RTL Group channels defended their strong market positions, even though the advertising economy was patchy in Europe and major sporting events such as the 2004 European Soccer Championship and the Summer Olympics in Athens created market distortions. All business units in the group ended the year with a positive result, excluding start-ups.

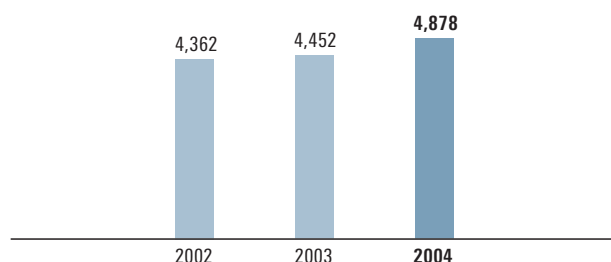
RTL Group's strategic business development centered on continuing its internationalization and creating larger "families" of channels to achieve greater market penetration. Belgium, for instance, saw the successful launch of Plug TV, the third channel devoted more intensely to the country's young adult demographic. RTL Televizija was founded in Croatia and went straight to the top of the market. In October, RTL Group bought an 11.6 percent stake in Portugal's Grupo Media Capital, one of the country's leading media companies. The group also sold part of its hold-



Operating EBIT in € millions



Revenues in € millions



ings in the sports rights trader Sportfive, retaining a 25-percent stake.

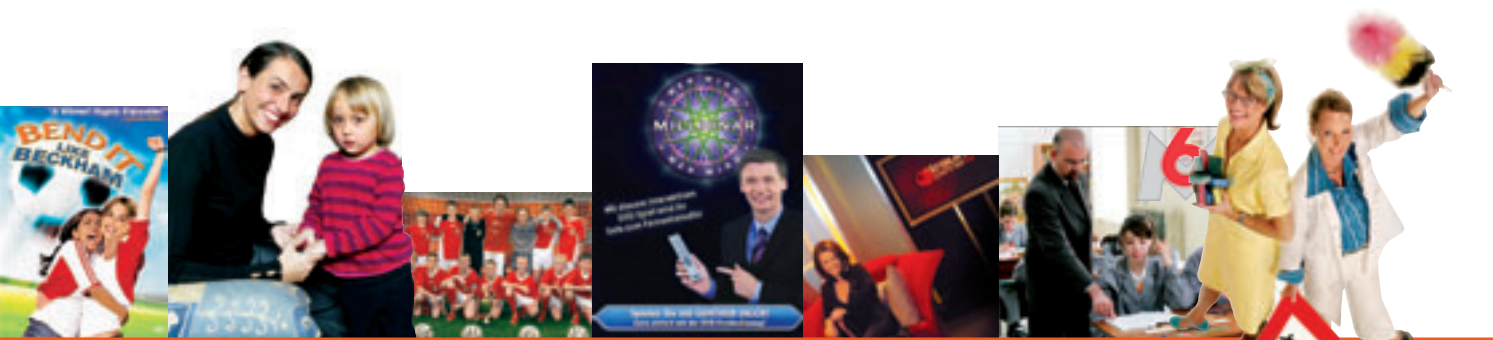
In Germany, RTL Television was able to defend its leading market position in the core demographic. Despite a difficult TV advertising market and a slight decline in revenue, performance remained on a par with last year's high level of earnings. The group of channels clustered around RTL Television thus remains the biggest mainstay of earnings in the Bertelsmann group. In early December, RTL launched its first digital special-interest channel in Germany: "Traumpartner TV," an interactive dating platform. Other members of the German RTL family were also successful, e.g. the channel Vox, which drew its highest-ever audience share in the 14- to 49-year-old target demographic in 2004. The German news channel N-TV concluded a year of restructuring with its move from Berlin to Cologne.

M6 in France delivered a successful business performance. RTL Group became the main shareholder of M6 in February, after the French utilities company Suez largely completed its exit. This shareholder shift resulted in the full consolidation of M6 by Bertelsmann starting February 1, 2004. Thanks to the full consolidation of the French group of channels, group revenues rose by €564 million, and Operating EBIT was up by €92 million. In May, M6 concluded its acquisition of Paris Premiere, a French satellite and cable channel.

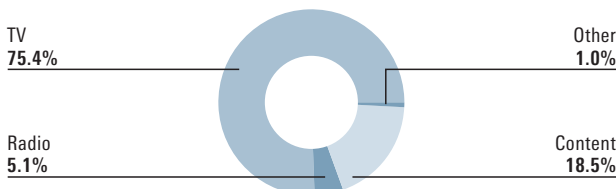
The TV channel "Five" in the U.K. extended its market share both among viewers and in the advertising market, and achieved significant enhancements to its operating business. The turnaround in the TV business in Spain and The Netherlands led to improved results. The Spanish channel Antena 3 in particular outperformed the market in terms of growth in viewer and advertising market share.

The production arm Fremantle Media significantly improved its profitability, increasing both its revenue and result. This was due among other things to a positive performance in the U.S. and Germany, and the international commercialization of the "Idols" format, which were broadcast in numerous other countries in 2004. In September, Fremantle Media and its production partner Vogue Planet set up a new joint venture in Japan. "The X Factor," a new international format from Fremantle Media, delivered a promising debut in the U.K. The lifestyle show "How Clean Is Your House," another U.K. success, is being produced in Germany, The Netherlands, Denmark, France, the U.S., and Russia as well. Local productions of the "Apprentice" format, to which Fremantle Media acquired the international rights and which was aired as "Big Boss" in Germany, have been agreed to in 16 countries.

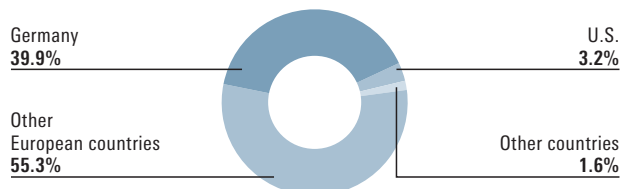
RTL Radio successfully defended its market-leading position in France and kept its operating result stable against rising revenues.



Revenues by Category in percent*



Revenues by Region in percent*



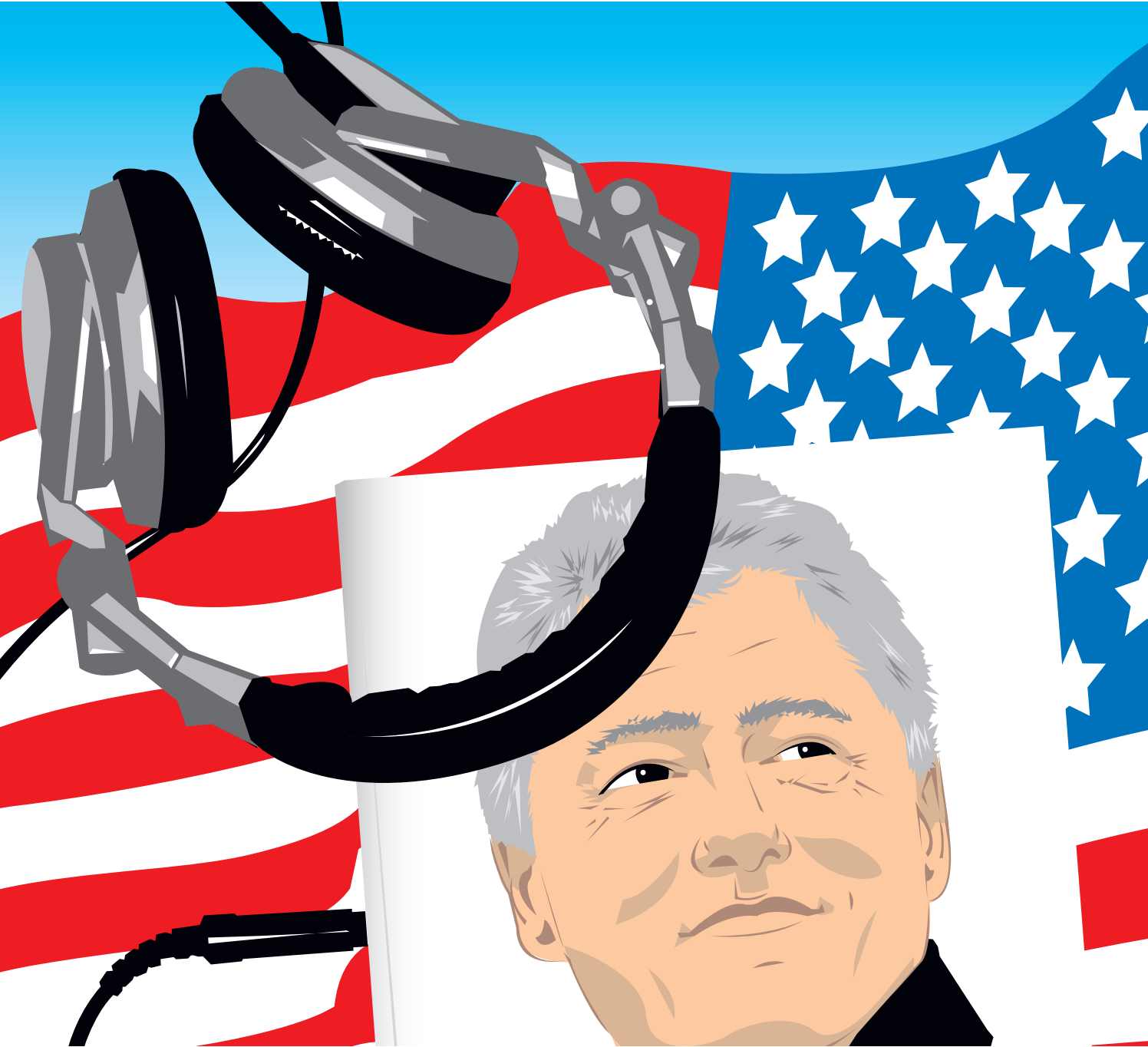
*Without intercompany revenues



RANDOM HOUSE

BERTELSMANN

Random House is the world's largest consumer book publisher and the only one that publishes adult and children's fiction and non-fiction hardcovers and paperbacks in English, German, Spanish, Japanese, and Korean. Its portfolio comprises more than 100 editorially independent imprints, including Knopf, Bantam, and Crown in the U.S., Ebury, Century, and Arrow in the U.K., and C. Bertelsmann, Siedler, Heyne, and Goldmann in Germany. Each year, some 9,000 new books enhance an active catalog of more than 50,000 titles. No other trade publisher tops the bestseller lists as often – with authors such as John Grisham, Dan Brown, and Danielle Steel – while also publishing as many Nobel Prize Literature laureates on its author roster. Random House is a wholly owned subsidiary of Bertelsmann.



GREAT READER

Bill Clinton completes recording the audio edition of his memoir, "My Life."

The hardcover edition sells 2.6 million copies in North America alone. The audiobook – read by the former U.S. President himself – wins the Grammy Award in 2005 for "Best Spoken Word Album."



In 2004, Random House further enhanced its leading market position and sold more books worldwide than any other trade book publisher. The company increased its stature as the one truly global book publisher with its growing presence in Asia. Despite a sluggish book industry economy internationally and a weakened U.S. dollar exchange rate compared to the euro, revenues expressed in euros remained stable at €1.8 billion (previous year: €1.8 billion). The negative currency effects also impacted reported operating results, particularly in North America, Random House's largest market. Nevertheless, operating results increased to €140 million (previous year: €115 million).

In North America, Random House again placed the most titles of any U.S. publisher on the "New York Times" national bestseller lists in 2004: 183, twenty of them at No.1. The year's publishing highlights included "My Life" by former President Bill Clinton, which set a first-week sales record for adult non-fiction hardcover, selling more than one million copies in North America; 2.6 million copies were in print at year-end. Dan Brown's "The Da Vinci Code" elevated its place in book publishing history as the biggest-selling adult hardcover novel of all time by selling another 4.2 million copies in 2004, bringing its total North American sales to 9.5 million so far. "The Rule of Four" by Ian Caldwell and Dustin Thomason became a one-million-copy-selling first

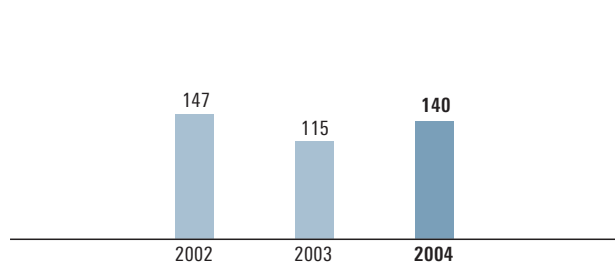
novel. The strategy manual for the new Microsoft X-Box video game "Halo 2" sold 375,000 trade paperback copies on its first day in stores, and John Grisham had four No.1 bestselling fiction hardcovers and paperbacks with "The King of Torts," "The Last Juror," "Bleachers," and "Skipping Christmas."

Dan Brown also had multiple bestsellers in the year for the London-based Random House Group, which had an exceptionally strong year in the U.K., with substantial gains in market share. Random House's British imprints published nearly fifty percent of the titles on the year's Sunday Times of London lists. "The Curious Incident of the Dog in the Night-time" by Mark Haddon has sold more than 1.6 million paperback copies in the U.K. alone. Random House in Australia, New Zealand and South Africa also delivered a very positive performance; overall, Random House's revenues for the division increased significantly.

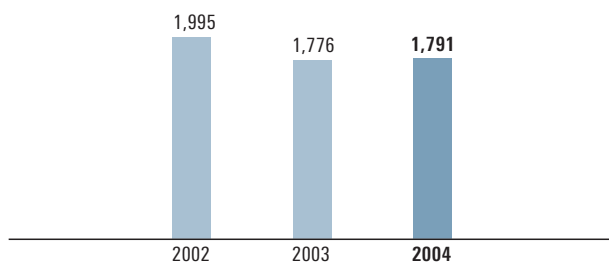
Verlagsgruppe Random House in Germany successfully completed the editorial and organizational integration of Heyne, which it acquired last year, enabling it to expand its market share in the German book market. Its 248 titles on the "Spiegel" and other major national bestseller lists were a company record, and led the German book industry. The year's most successful books here included "Das Methusalem-Komplott" by Frank Schirrmacher, "Die Mächte



Operating EBIT in € millions



Revenues in € millions



RANDOM HOUSE HIGHLIGHTS 2004

- ▶ Random House increased its stature as the one truly global book publisher with its growing presence in Asia
- ▶ Twenty titles made it to No.1 in the "New York Times" bestseller lists
- ▶ "My Life" by former President Bill Clinton set a first-week sales record in North America for adult non-fiction hardcover
- ▶ Dan Brown's thriller "The Da Vinci Code" elevated its place in book publishing history as the biggest-selling adult hardcover novel of all time
- ▶ Random House Group in the U.K. made substantial gains in market share
- ▶ Random House Mondadori enjoyed a turnaround to profitability in Spain and Latin America

der Zukunft" by former German chancellor Helmut Schmidt, and the historical novel "Pompeji" by Robert Harris.

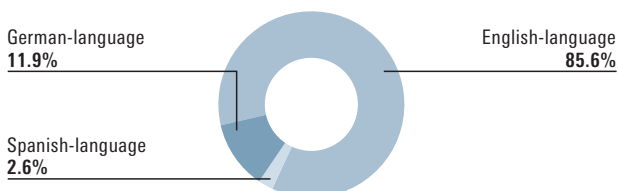
Random House Mondadori enjoyed a highly successful turnaround to profitability in Spain and Latin America in 2004, solidifying its position as the world's second-largest Spanish-language book publisher. Its publication of Nobel Prize in Literature laureate Gabriel García Márquez's first novel in a decade, "Memoria De Mis Putas Tristes," sold almost one million copies in its first month, setting new sales records.

Random House Kodansha, Random House's history-making joint venture with Japan's leading publisher, Kodansha, published 43 books in its first full year of operation and has expanded its publishing program to include original Japanese fiction and non-fiction. In Korea, Random House, in a joint venture partnership with media giant JoongAng M&B, formed Random House JoongAng in January, which became an immediate profitable market leader. Its successes include sales of roughly 700,000 copies of "The Present" by Spencer Johnson.

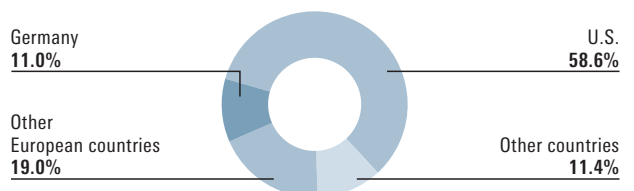
Random House authors won many prestigious literary awards worldwide last year, among them the Pulitzer Prizes in General Non-fiction for "Gulag: A History" by Anne Applebaum, and in Poetry for "Walking To Martha's Vineyard" by Franz Wright.



Revenues by Language Region in percent*



Revenues by Region in percent*



*Without intercompany revenues



The Gruner + Jahr printing and publishing company is Europe's biggest magazine publisher. It produces more than 125 magazines in ten countries on three continents, as well as the publications' complementary websites. G+J publications include Stern, Brigitte, Geo, Capital, Gala, Eltern for Family, P.M, Neon, Financial Times Deutschland, Essen & Trinken, National Geographic, as well as Télé 2 Semaines, Femme Actuelle, Fitness, and News – many of them in multiple editions and several countries. The company continually enhances its portfolio with innovative new launches and line extensions. Gruner + Jahr stands for quality journalism at its best: thoroughly researched, informative, inspiring, and entertaining. Bertelsmann AG owns 74.9 percent of the company; the Jahr publishing family in Hamburg owns 25.1 percent.



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No 27 du 8 au 21 janvier 2005

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LA ACTUALIDAD DE LOS FAMOSOS

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- 8 chaînes de plus
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- Un horoscope plus riche



INNOVATION CAMPAIGN

Gruner + Jahr launches more than 20 new titles in 2004. "Gala" in Spain exceeds all expectations and has outstanding advertising sales. "Télé 2 Semaines" becomes one of the most successful launches ever in the French magazine market.

JENNIFER GOLDSMITH
Con los niños

For Europe’s biggest magazine publisher Gruner + Jahr, 2004 was a year of innovation campaigns and expansion to important markets. Gruner + Jahr embraced this growth strategy to counter the difficult situation in the domestic advertising and distribution markets. Revenues declined slightly to €2.4 billion (previous year: €2.5 billion). This decline was primarily the result of currency effects and changes to the portfolio, such as the sale of the newspaper operations in Eastern Europe and of “TVToday” magazine in Germany. Adjusted for these one-time items, Gruner + Jahr increased its revenues. The operating result declined to €210 million (previous year: €233 million), due primarily to publishing investments in new magazine titles, which reduced the bottom line by several tens of millions. A large proportion of this investment went to the French TV segment.

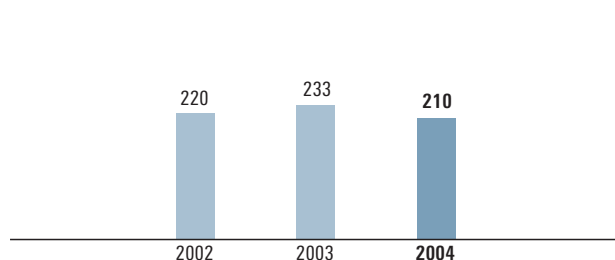
Gruner + Jahr launched more than 20 new titles worldwide in 2004 – more than ever before in the publisher’s history. The growth strategy centered on tapping new markets and segments. In France, the two bi-weekly TV listings magazines “Télé 2 Semaines” and “TV Grandes Chaînes” got off to an excellent start, making them two of the most successful new launches in the French magazine market in recent years. Together with “Télé Loisirs,” a weekly TV title already established in the French market, circulation for Prisma Presse’s three TV guides totaled four million copies, which translates to market leadership in the TV listings sector. Other successful international launches in 2004 included the people magazine “Gala” in Spain, a

GRUNER + JAHR HIGHLIGHTS 2004

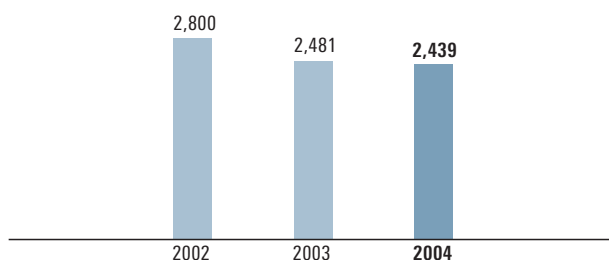
- ▶ Gruner + Jahr launched more than 20 new titles worldwide – more than ever before in a single year
- ▶ In France, the two bi-weekly TV listings magazines “Télé 2 Semaines” and “TV Grandes Chaînes” became two of the most successful new launches in the French magazine market in recent years
- ▶ A comprehensive structural reorganization was initiated in the U.S.
- ▶ A majority takeover of Motor-Pressé Stuttgart was announced
- ▶ Gruner + Jahr, Arvato and the Axel Springer AG agreed to form a gravure joint venture; the project is pending antitrust approval



Operating EBIT in € millions



Revenues in € millions



50:50 joint venture with the Spanish newspaper group Vocento that made its debut in September. "Gala" is also published in Germany, France, and Russia – and in Poland, where Gruner + Jahr has taken the lead in the advertising sales market for the first time since the Polish publishing arm was established in 1993. This was due in great part to young titles like "Gala" and "Glamour." In the Dutch market, G+J launched four magazines within a single year, including the high-circulation and multiple-award-winning popular-science title "Quest."

In the German magazine market, Gruner + Jahr set important points for future growth in 2004, focusing on segments in which it has already achieved leading market positions. Results improved thanks in part to strict cost discipline. The market was characterized by continuing intense predatory competition, but the established brands in Germany were able to transcend these difficult market conditions. G+J compensated for declines in newsstand sales by growing its subscriptions on the one hand and the positive performance of more recent titles like "Essen & Trinken für jeden Tag," "Neon," and "Brigitte Balance" on the other. One newcomer that deserves special mention is "Geo kompakt," which sold nearly 200,000 copies off the cuff. The advertising market showed a promising trend in the first half of the year, which unfortunately failed to continue in the second half. However, thanks to improved ad bookings and restructuring measures, titles in the German portfolio including the business publications "Capi-

tal" and "Impulse" picked up their results considerably. The German unit also invested in projects to safeguard future growth.

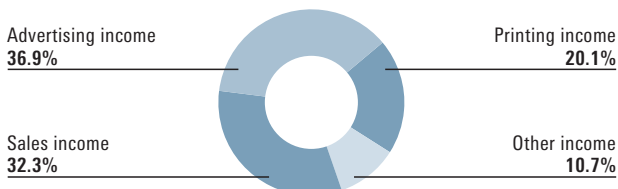
Business in the U.S. was difficult; revenues declined significantly. A comprehensive structural reorganization was initiated to improve profitability. While both the teen magazine "YM" and in particular the business publication "Fast Company" suffered a decline in advertising sales, the women's and family magazine "Family Circle" came under pressure in newsstand sales. In May, Russell Denson was named the new President & CEO of Gruner + Jahr USA. "YM" was sold to Condé Nast in October for lack of publishing and economic prospects.

In late November, Gruner + Jahr announced its majority takeover of Motor-Presse Stuttgart, with effect from January 1, 2005. This transaction, which is still pending anti-trust approval, improves Gruner + Jahr's position in the German and international magazine markets. Motor-Presse Stuttgart publishes more than 90 successful magazines in a total of 14 countries, in market segments in which Gruner + Jahr was not present to date.

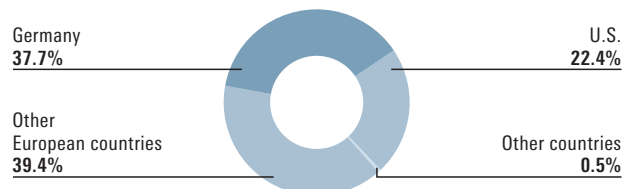
Results from Gruner + Jahr's printing operations were up for the year. In a step with far-reaching implications, Gruner + Jahr, Arvato and the Axel Springer AG agreed to merge their German gravure operations in a joint venture, including a project in Liverpool (see "Outlook" section, page 44).



Revenues by Category in percent



Revenues by Region in percent*



*Without intercompany revenues



BERTELSMANN

The BMG division consists of the Sony BMG Music Entertainment joint venture and the BMG Music Publishing company. Sony BMG unites legendary labels like Arista, Columbia Records, Epic Records, Ricordi, Funhouse, Jive, J Records, and RCA Records under one roof. Its spectrum ranges from Hip-Hop to musical soundtracks, country to classical music, and gospel to rock. Sony BMG is home to a number of domestic and international stars, including Avril Lavigne, Beyoncé, Justin Timberlake, Britney Spears, Usher, Christina Aguilera, Dido, Anastacia, Alicia Keys, and Carlos Santana. The songwriters and composers signed with BMG Music Publishing also enjoy a superb reputation. The music publisher is one of the world's largest and most successful. Bertelsmann owns a 50-percent stake in Sony BMG; BMG Music Publishing is a wholly owned subsidiary of Bertelsmann AG.



WORLD CHAMPION 2004

Four consecutive No.1 hits – including the duet “My Boo” with BMG superstar Alicia Keys. The world’s best-selling album in 2004. In February 2005, three Grammy Awards put the finishing touches on a year of incredible success for Usher.



Bertelsmann Music Group (BMG) delivered a positive business performance in 2004, yet another difficult year for the global music industry. Despite pricing pressure, continued flat consumer demand, and the unlicensed distribution of music files on the Internet, BMG markedly improved its operating result to €162 million (previous year: €54 million) against slightly decreased revenues of €2.5 billion (previous year: €2.7 billion). Additional cost-cutting measures and a focus on the creative business contributed to this improvement. BMG's financials for fiscal 2004 include the results of BMG's recorded music business from January through July 2004 and half of the results from the Sony BMG joint venture from August through December 2004. They also include the results of BMG Music Publishing for the full fiscal year. Both of BMG's lines of business – recorded music and music publishing – delivered a positive business performance.

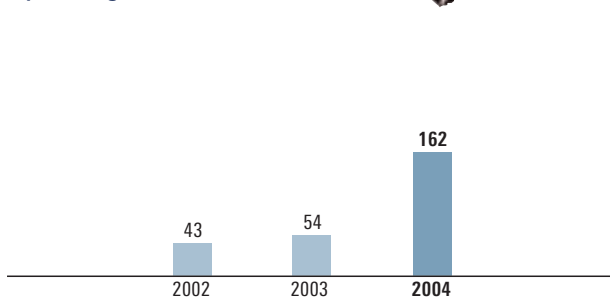
In strategic terms, the formation of the Sony BMG Music Entertainment joint venture was the key event in fiscal 2004. Bertelsmann and Sony Corporation of America merged their recorded-music businesses in a joint venture. Each partner owns half of the new company. Bertelsmann has consolidated Sony BMG Music Entertainment proportionately at 50 percent since August 1. The EU and U.S. anti-trust authorities had approved the music merger without conditions. The joint venture underscores Bertelsmann's commitment to music as a core business. Sony BMG improved its competitive position and is the creative home of

BMG HIGHLIGHTS 2004

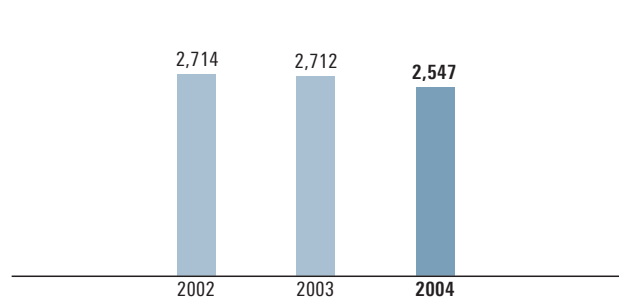
- ▶ The Sony BMG Music Entertainment joint venture, headquartered in New York, was formed, underscoring Bertelsmann's commitment to music as a core business
- ▶ Sony BMG acts dominated all the major awards ceremonies in 2004
- ▶ Sony BMG's integration proceeds apace and smoothly
- ▶ The world's bestselling album in 2004 was "Confessions" by Usher
- ▶ BMG Music Publishing's artist roster includes some of the world's most successful artists; the company had the best fiscal year in its history



Operating EBIT in € millions



Revenues in € millions



a large number of international superstars, major local acts and talented newcomers. BMG's music publishing business was not included in the joint venture. BMG Music Publishing is managed as a separate unit in the BMG division. It is the world's biggest independent music publisher and the third-biggest music publisher overall. Rolf Schmidt-Holtz will continue to represent the music business on the Bertelsmann AG Executive Board, in his function as Chairman & CEO of the BMG division. He also serves as Chairman of the Board of Directors of Sony BMG Music Entertainment. Andrew Lack is the CEO of Sony BMG; Nicholas Firth is the CEO of BMG Music Publishing.

Despite shrinking key markets, Sony BMG generated a distinctly positive operating result during the period from August 1 to December 31, 2004. This success may be attributed to high sales during the fourth quarter, which saw new releases by artists including Celine Dion, Britney Spears, Rod Stewart, Destiny's Child, and Good Charlotte. Sony BMG acts dominated all the major awards ceremonies in 2004. 121 Grammy 2005 nominations and 28 Grammys document the enormous artistic potential of the new music company, which plans to fuel the further dynamic development of its business with digital products and music videos. The integration of Sony BMG's global activities proceeds apace and smoothly. Once the process is completed in 2005, it will yield significant yearly savings and enable additional investments in the worldwide creative business. The re-

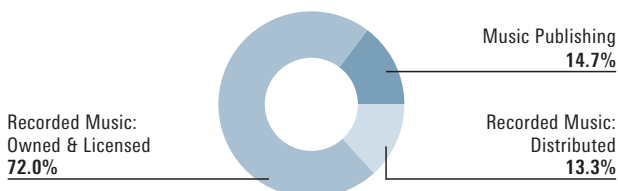
structuring costs associated with the integration should be seen alongside a gain from the merger at BMG (see "Special Items," section, page 12).

Prior to the merger, BMG's recorded-music business managed to accelerate the positive performance seen in the second half of 2003, and heftily improved its operating result from January to July 2004. The company added market shares in major markets worldwide, thanks to chart successes by artists including Usher, Avril Lavigne, Outkast, Dido, and Maroon 5. The world's best-selling album in 2004 was "Confessions" by Usher, which sold nearly 12 million units.

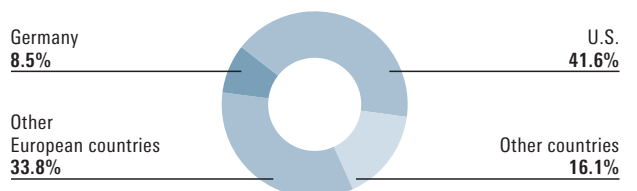
BMG Music Publishing earns revenues from royalties on the rights to over one million songs and musical works, and operates independently of Sony BMG. The company had the most successful fiscal year in its history, once again generating double-digit return on sales while keeping revenues stable year on year and improving the operating result. Creative triumphs all over the world contributed to this. Some of the most globally successful artists of the year 2004 are signed with BMG Music Publishing; they include Coldplay, Maroon 5, R. Kelly, Nelly, Robbie Williams, Keane, Linkin Park, Britney Spears, and Christina Aguilera. BMG Music Publishing renewed its contract with the independent music publisher Famous Music, and with BBC Worldwide. The company now also handles the commercialization of the worldwide music rights from TV programs by Fremantle Media, an RTL Group subsidiary.



Revenues by Category in percent



Revenues by Region in percent*



*Without intercompany revenues



BERTELSMANN

Arvato AG, whose 250 subsidiaries make it one of the largest internationally networked media services providers, is Bertelsmann's media services division. Arvato AG includes the Arvato Print companies (Mohn Media, the Maul Belser media group, as well as several printing plants in Europe and America), the Arvato Direct Services (customer loyalty systems and call centers), Arvato Logistics Services (logistics and supply chain management), Arvato Storage Media (CD and DVD production), and Arvato Systems (international IT services) units. Empolis, a content and knowledge management solutions company, and the mobile entertainment provider Arvato Mobile, with its Handy.de and TJ.net brands, are also part of the division. Arvato AG is a wholly owned subsidiary of Bertelsmann AG.



ARVATO CHASES YETI ONTO MOBILES

Arvato Mobile brings popular games to mobile phones.

Downloads and exports to over 25 countries, "Yetisports"

is the most successful cell-phone game series in Arvato Mobile's range.



2004 went very well for the international media services provider Arvato. Despite difficult macroeconomic conditions, revenues rose to €3.8 billion (previous year: €3.6 billion). The operating result improved considerably to €310 million (previous year: €261 million). All business units of the division closed the year with a profit.

The service companies in the Arvato Services unit showed strong growth. This unit comprises Arvato Direct Services, a globally leading provider of the full range of services relating to customer relationship management, and Arvato Logistics Services, a global supply chain management specialist. Thanks primarily to its direct-to-customer, call-center and address management activities, Direct Services was able to improve its result year on year. In the Logistics Services department, the distribution and technology lines of business in particular showed a positive development.

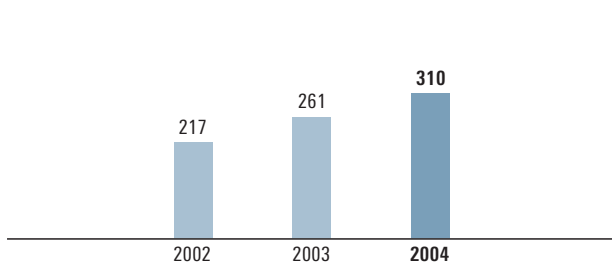
Central elements in the division's growth strategy include forceful internationalization as well as enhancing and safeguarding its leading market positions. In spring, Arvato Services bought up the majority of shares in Phone Assistance, a Moroccan call center services provider, thereby improving its leading position in the French-speaking market. Service operations in other countries including India, Poland, Ireland, and Turkey were also built or ex-

panded, most of them being multilingual call centers for international customers. By buying the Belgian direct-marketing company Vicindo, Arvato Services Benelux has secured the market leadership in the print, mail and fulfillment markets in Belgium. The AZ Direct subsidiary, which offers full-service customer recruitment and customer loyalty solutions, took over the Swiss DM-Plus group, bringing it a big step closer to market leadership in Austria and Switzerland. Meanwhile, in Germany, the takeover of the BFS Health Finance GmbH marked Arvato's entry into the health services market. Logistics services were extended with a focus on customers in the Telco, IT, and High-tech industries. The takeover of the Verlag Automobil Wirtschaft GmbH (VAW group) gave Arvato Services a full-service provider for technical documentation with operations in six countries, and another income driver in the automotive industry.

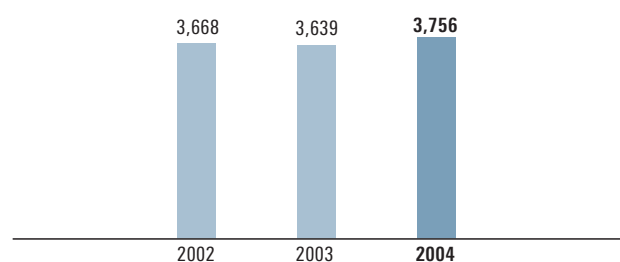
Arvato Print's business showed consistently good plant utilization. Results in Germany improved year on year, and remained stable at the international level. Arvato, Gruner + Jahr and the Axel Springer AG have agreed to merge their German gravure operations, as well as a new gravure project in Liverpool, in a joint venture (see "Outlook" section, page 44). An investment volume of €170 million has been earmarked for building the state-of-the-art gravure plant in



Operating EBIT in € millions



Revenues in € millions



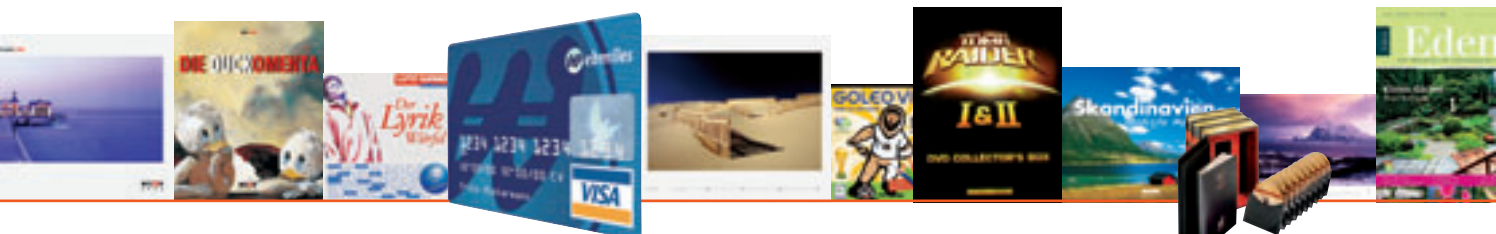
Liverpool. The construction of the “New Eurogravure” plant in Treviglio, Italy – a €110 million investment project – proceeds on plan. As part of a major €55 million project at the Maul Belser media group, the world’s first gravure printer with a web width of 4.32 meters was installed and put into operation; the launch of a second such printer is planned for 2005/06. The division also successfully concluded the restructuring of its offset printing business in Spain.

In the Arvato Storage Media unit, Sonopress, a manufacturer of optical storage media, did well in its various markets, significantly increasing its volume of CDs and DVDs and enlarging its market share. Results were impacted by massive increases in the price of polycarbonate, which resulted in deteriorating margins. An investment program served to enhance the productive capacity of all of Sonopress’ CD and DVD factories.

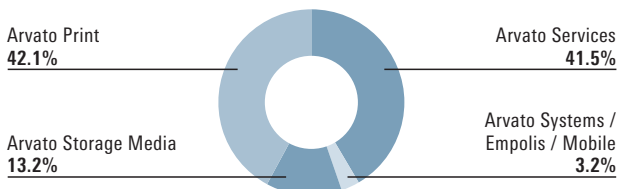
Arvato Systems – the IT unit – grew its external customer base. Arvato also made progress in the international extension of its mobile services unit, Arvato Mobile. The range includes everything from messaging services, mobile direct marketing, and mobile voting services down to Platform Hosting. At this point, Arvato Mobile does business as a full-service provider in 13 countries. Based on positive developments, especially in B2B, Arvato Mobile greatly improved its revenues and result.

ARVATO HIGHLIGHTS 2004

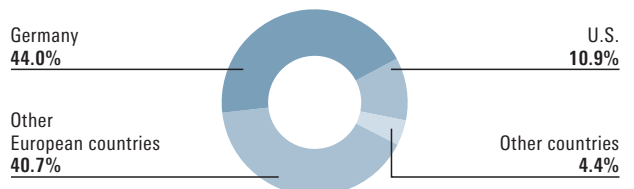
- ▶ All business units closed the year with a profit; Arvato Services showed strong growth
- ▶ The takeover of the majority of shares in Phone Assistance, a Moroccan call center services provider, enhanced Arvato’s leading position in the French-speaking market
- ▶ Gruner + Jahr, Arvato and the Axel Springer AG agreed to form a gravure joint venture; the project is pending antitrust approval
- ▶ Sonopress enlarged its market share and increased its CD and DVD production capacity
- ▶ The international expansion of the mobile services offered by Arvato Mobile proceeds apace; the unit now does business as a full-service provider in 13 countries



Revenues by Category in percent*



Revenues by Region in percent*



*Without intercompany revenues

DIRECTGROUP

BERTELSMANN

Direct Group Bertelsmann bundles Bertelsmann's worldwide direct-to-customer business with media products. More than 30 million club members drive Direct Group's business and ensure its position as one of the world's biggest media traders. At the heart of the business are its book and music clubs in 22 countries, including famous brands like France Loisirs (France), Book-of-the-Month-Club (U.S.), Der Club (Germany), Circulo de Lectores (Spain), and BMG Direct (U.S.). Members can access the clubs' broad range of products using catalogs, the Internet, or one of the 600-odd club centers around the world. Direct Group Bertelsmann is a wholly owned subsidiary of Bertelsmann AG.





GLOBAL MARKETING POWER

An innovation in the global book market: James Patterson's new thriller "Honeymoon" is published simultaneously in 16 countries, and exclusively through Direct Group's book clubs.

International bestsellers, made to order.

DIRECT GROUP HIGHLIGHTS 2004

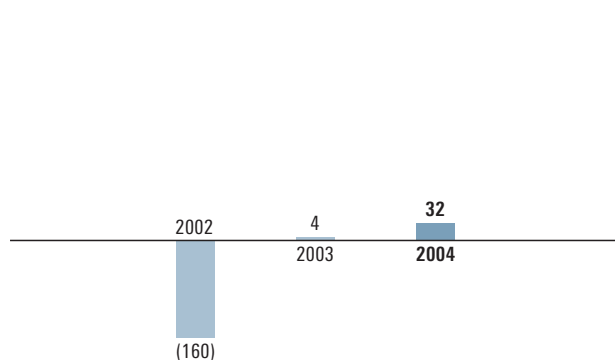
- ▶ Revenue decline slowed down considerably from the trend in previous years
- ▶ The French club announced the takeover of 50 percent in the French book club “Grand Livre du Mois” to strengthen core business; the transaction is pending antitrust approval
- ▶ An innovative approach: the online subscription service Yourmusic.com offers its customers the option of making personal selections from several thousand music titles for a fixed monthly fee
- ▶ The Family Leisure Club acquired in the Ukraine shows strong, profitable growth
- ▶ Growth in Asia: in Korea, club activities are now run by a joint venture with Korea’s Daekyo company, which specializes in educational and entertainment products; in China, the extension of the store network proceeds apace
- ▶ The Shopping.com price comparison portal successfully went public in New York (Nasdaq)

Direct Group with its international club business activities generated improved results in 2004, though revenues continued to decline, to €2.2 billion (previous year: €2.3 billion). Operating EBIT rose to €32 million. The previous year, following a successful turnaround of the business, it was at €4 million. These positive developments may be attributed to higher results achieved by a number of clubs, as well as continued cost savings. Adjusted for currency effects, the revenue decline slowed down considerably from the trend in previous years. This moderate revenue decline is the result of consumer reluctance in important core markets and a slightly smaller membership base at the beginning of 2004. However, the main factor impacting revenue developments was the continuing deterioration of the U.S. dollar against the euro.

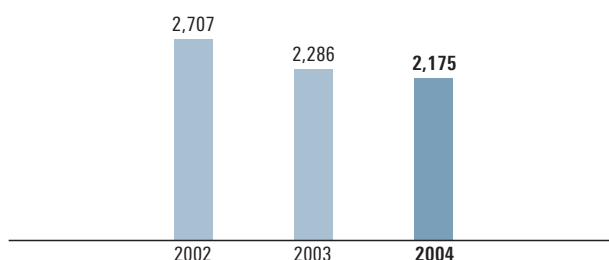
The club businesses in Southern and Western Europe continue on the road to success. The unit that includes France, Spain, Portugal, Italy, and Switzerland boosted its revenues slightly and further enhanced its status as Direct Group’s biggest profit earner. The French club France Loisirs, one of Direct Group’s biggest clubs, showed sustained growth. To strengthen its core business, the French club in December announced the takeover of 50 percent in the French book club “Grand Livre du Mois,” which is still pending antitrust approval. The large U.S. book and music clubs Bookspan and BMG Direct, which account for about a third of Direct Group’s total turnover, also showed positive



Operating EBIT in € millions



Revenues in € millions



development and were able to improve their profitability significantly – unlike the clubs in Germany and the U.K., which suffered revenue declines. Yet, despite its revenue decline, the German club was able to further narrow its operating losses thanks to extensive cost-cutting measures. In December, a changeover in the management of the German-language operations was announced, which entails extensive restructuring measures in the German club business. Restructuring and a management changeover were instigated for BCA in the U.K. as well.

For Direct Group, 2004 was a year of innovations and of expansion to new growth markets. The French club France Loisirs is striking two new paths to expand on its traditional club business: one is a partnership with Audible.com, the leading U.S. vendor of online audiobooks, to offer downloads of the latest books as well as recordings of magazine articles and radio programs. This service, which is also available to non-club members, was launched in December, and positions France Loisirs as a trailblazer for digital applications in the French book market. The other path taken by France Loisirs involves the bricks-and-mortar business: the “Place Media” department stores represent a new, integrated marketing concept in partnership with local booksellers. Place Media combines the club’s range with a broad selection of books, photo finishing services and multimedia products, making it an attractive destination for all media buyers. Innovative club models are also being tested

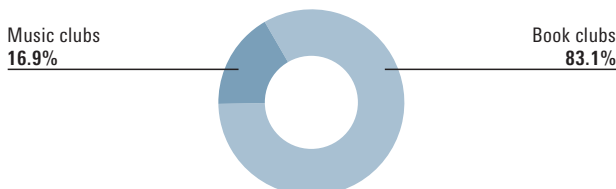
at Bookspan (a book club) and BMG Direct (a music club) in the U.S., as well as at BCA in the U.K. For instance, the online subscription service Yourmusic.com offers its customers the option of making their own personal selection from several thousand music titles for a fixed monthly fee.

In addition to pursuing innovative business models, Direct Group set the points for future growth by practicing regional expansion. In September, the group announced its full takeover of the Family Leisure Club in the Ukraine with over 700,000 members and showing strong, profitable growth. Its mostly Russian-language publishing range also provides a possible stepping stone for expanding the business to neighboring Russia. Beyond Eastern Europe, Asia is Direct Group’s second growth region. In Korea, club activities will henceforth be run by a joint venture with Korea’s Daekyo company, which specializes in educational and entertainment products. In China, the extension of the store network as part of the “21st Century” joint venture proceeds apace: about 40 new bookstores were opened in 2004. The Chinese club stores sell books to non-members as well, albeit at different prices than to members.

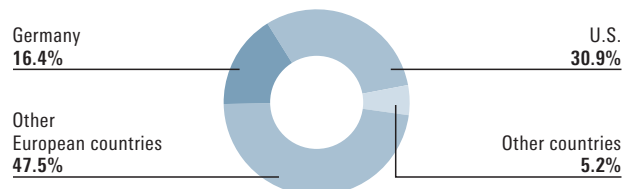
In October, the Shopping.com price comparison portal, in which Direct Group is the biggest single shareholder with a roughly 11-percent stake, successfully went public in New York (Nasdaq).



Revenues by Category in percent*



Revenues by Region in percent*



*Without intercompany revenues

Corporate

“Corporate” includes the cost of the Corporate Center and results from investments made at the corporate level. Corporate Center expenditure arises from corporate management and governance tasks. Corporate Investments include all holdings that are not assigned to a specific corporate division. Corporate Operating EBIT totaled minus €72 million in 2004 (previous year: minus €90 million). This improvement is due in part to continued cost savings.

Risk Report

Bertelsmann has an integrated risk management system. This system is established as a fixed part of the company’s management structure, is subject to continual evolution, and is part of ongoing reporting. The risk management system strives to identify and control potential risks from operating businesses, participations and financial assets. A major element of the risk identification process is a risk inventory which lists risks year by year, and then aggregates them at corporate level. This year, the risk reporting process identified the following significant risks for the Bertelsmann group and for Bertelsmann AG. Measures are continuously taken to monitor, reduce and/or eliminate these risks, which are subject to constant observation.

Doing business on an international scale exposes Bertelsmann to a range of financial risks. In particular, these include the effects of fluctuations in exchange and interest rates. Several hedging instruments are used, mainly interest and currency swaps and forwards.

The revenues generated by the RTL Group TV channels are highly dependent on advertising sales and thus exposed to the risk of a deteriorating TV advertising market. Keeping and extending viewer shares are thus important goals. At the same time, RTL Group is further reducing its dependency on advertising sales by diversifying its revenue base. International sports and movie rights are gener-

ally bought in U.S. dollars. Thus, significant exchange rate movements can have direct implications for RTL Group’s profitability. To limit the currency risk, the RTL Group treasury department hedges foreign-currency contracts to an appropriate extent.

Random House is very dependent on the economic climate in North America, the U.K. and Germany for its growth prospects in these markets. These conditions can be expected to intensify competition with rival publishers, for market shares as well as for prospective authors. Further concentration among important key customers could also lead to increased pressure on margins. Alternative media and recreational offerings will continue to compete for the core book consumer’s sparse free time in the medium term. Random House will be counteracting these competitive risks with editorial programs in new publishing areas and with expansion in Asia.

At Gruner + Jahr, advertising and sales revenues – as well as the revenue performance of the printing operations – are directly dependent on macroeconomic developments and competition in the magazine sales and advertising market. A weak economy could lead to a decline in sold circulation, which could result not only in declining sales revenues, but could also necessitate intensified sales and marketing expenditure. An appropriate product and marketing strategy is in place to try and maintain the market position achieved, or even improve on it.

The unlicensed use of copyrights in the form of free downloads, file sharing, and counterfeits of recorded music holds considerable risk for Sony BMG’s recorded music business, and to a lesser degree for BMG Music Publishing’s rights trading business. This, in connection with a music market that has been shrinking for several years, holds the threat of further revenue declines. In August 2004, Sony Music and BMG merged their recorded music operations

into Sony BMG, and a worldwide integration process was initiated. The integration has proceeded on schedule, and will be concluded in fiscal 2005. Nevertheless, a process of this magnitude involves risks that are unpredictable or very difficult to predict, e.g. in the area of systems integration.

Existing excess capacity and intense price competition may present a profit risk for the Arvato division, especially its Arvato Print and Arvato Storage Media units. Arvato's response to geographic and industry-specific macroeconomic risks is to diversify its range of services and establish a global presence. The flat music market, with declining CD volumes, and the substitution of CD-ROMs by DVD-ROMs, also present a risk for Arvato as a producer of physical storage media.

In its core markets Europe and North America, Direct Group is exposed to increasingly intense competition and a direct dependence on consumers' buying behavior. A lasting improvement in member recruitment, activation and loyalty continues to be a major challenge for Direct Group. Given the situation in various countries – including in the U.K. and Germany – further consolidation and/or strategic realignment may become necessary.

As an international group, Bertelsmann is also subject to several legal risks. This applies particularly to legal disputes in the U.S., 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.

Legal risks could arise from the following lawsuits: Various music publishers and record labels submitted claims against Bertelsmann in a U.S. court in 2003. The plaintiffs base their claims on the allegation that Bertelsmann, by granting loans to the music file-sharing platform Napster (which has since gone bankrupt) enabled the service to

survive longer than it would have done otherwise, and thereby contributed to the breaches of copyright by Napster and its users. As the allegations made by the plaintiffs are completely without legal foundation, Bertelsmann has only made provisions for expected lawyer fees on the balance sheet.

After the End of the Fiscal Year

In early February, the British council of East Riding signed an agreement with Bertelsmann's Arvato division to the effect that Arvato will take over parts of the council's administrative duties. Under the terms of this public private partnership, Arvato will handle the collection of local taxes, the administration of the citizens office, and wage accounting for the municipality's civil servants. It will also be in charge of all information technology.

Further, Arvato and the Infoscore group in Baden-Baden agreed to merge their operations in the integrated management of data, information and receivables into a joint venture. The new joint venture will offer its clients customized services and products for customer relationship management from a single source. The merger has been submitted to the appropriate antitrust authorities for approval.

Outlook

Bertelsmann expects the market to recover slightly in 2005. In light of a continuing weak domestic demand, Bertelsmann believes further development in the German media markets may be muted. A slight growth in the advertising and book markets is anticipated in the euro region and the U.S. The decline in the global music market is likely to slow down. Overall Bertelsmann forecasts higher revenues and profits.

RTL Group expects increased revenues and earnings in 2005, resulting from growth in the relevant markets, and improved viewer and listener market shares. Random House foresees a slight increase in revenues and earnings. Gruner + Jahr anticipates increased advertising sales, which will lead to an improved operating result. Gruner + Jahr also plans to increase its stake in the Motor-Presse Stuttgart publishing group, to expand into market segments in which it is not yet present. This acquisition is still pending antitrust approval. In the print sector, Bertelsmann plans to counter-

act growing price and cost pressure with a gravure joint venture, which would safeguard this line of business for the long term. Arvato, Gruner + Jahr and Axel Springer AG have agreed to merge their German gravure operations, as well as a gravure project in Liverpool, in a joint venture. An agreement to this effect was signed and submitted to the EU Commission in Brussels for antitrust review. Arvato und Gruner + Jahr each have a 37.45-percent stake in the joint venture, while Axel Springer AG holds 25.1 percent.

The BMG division expects to compensate the continuing decline in the global recorded-music business by adding market shares, and to further increase profits through the cost-cutting measures initiated at Sony BMG. This development will be supported by the global exploitation of its sales and marketing strength, the worldwide commercialization of both catalogs (Sony Music and BMG), and the tapping of new profitable revenue streams, especially music videos and digital products.

Arvato forecasts rising revenues and results in an intensely competitive environment – through process optimization, improvement of plant utilization and enhanced productivity.

Direct Group anticipates a slight growth in revenues and profits, to be achieved through operational measures such as continually improving the clubs' appeal, optimizing new customer recruitment, and focusing on customer loyalty, as well as through geographic expansion.

CORPORATE GOVERNANCE AT BERTELSMANN

Bertelsmann continues to see excellent corporate governance as its mission and mandate. Corporate governance is embedded in the corporate constitution and is an element in Bertelsmann's unique corporate culture. The performance of the Executive and Supervisory Boards is therefore subject to ongoing evaluation, discussion and evolution.

Since coming into effect in February 2002, the recommendations and suggestions of the German Corporate Governance Codex have also provided a benchmark for corporate management and supervision. 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. The German Corporate Governance Codex has seen no changes since May 2003, meaning there were no new stipulations in fiscal 2004. Instead, interest in 2004 centered on a variety of legislative initiatives to implement the German government's 10-Point Plan on "Corporate Integrity and Investor Protection," some of which are already in force. Beyond strengthening investor protection, the 10-Point Plan aims at the practical implementation of proposals made by the Government Commission on Corporate Governance.

The Bertelsmann AG Executive Board has direct responsibility for the management of the company. 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.

One essential element in Supervisory Board work at Bertelsmann has long been the delegation of competences and tasks to Supervisory Board committees. 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. The scope and extent to which competences and tasks are delegated to the committees are subject to ongoing scrutiny as part of the Supervisory Board's self-evaluation. In addition to the Personnel Committee, the Bertelsmann AG Supervisory Board has set up a Strategy and Investment Committee, an Audit and Finance Committee, and a Working Group of Employee Representatives on the Supervisory Board.

Bertelsmann AG has decided to adopt the recommendations and suggestions of the German Corporate Governance Codex despite being an unlisted corporation with a limited number of shareholders. The rules for organizing the Annual General Meeting, which are aimed at listed corporations, are an exception. Further, the company's Directors and Officers liability insurance (D&O) provides for no deductible for members of the Executive and Supervisory Boards. The shareholders of Bertelsmann AG have full knowledge of the individual compensation of each member of the Executive and Supervisory Boards.

The Executive Board

The Supervisory Board

"Bertelsmann continues to see excellent corporate governance as its mission and mandate. Corporate governance is embedded in the corporate constitution and is an element in Bertelsmann's unique corporate culture."

SUPERVISORY BOARD REPORT

During fiscal year 2004, 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 discussed the company's strategic alignment and significant business transactions with the Executive Board, made recommendations, and monitored compliance with the outline conditions set for the management of the company. The Supervisory and Executive Boards held a whole-day meeting to review basic matters of corporate strategy.

During fiscal year 2004, the Supervisory Board convened for four regular meetings. The Strategy and Investment Committee met six times, including phone conferences. The Personnel Committee met four times, the Audit and Finance Committee five times. The Working Group of Employee Representatives on the Supervisory Board convened four times. Between meetings, the Supervisory Board was notified, in writing, about projects and plans that were of special relevance and urgency for the company and – if applicable – asked for its opinion and/or decision. Beyond the Supervisory Board meetings, the Chairman of the Supervisory Board maintained an ongoing dialog with the Executive Board in general and the Chairman & CEO in particular. The primary topics covered were the current business situation and major business transactions. Bertelsmann AG's consolidated financial statements and group management report for the fiscal year from January 1 through December 31, 2004 were audited by KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and received an unqualified auditor's opinion.

The Supervisory Board Audit and Finance Committee determined the main focuses of the annual audit, together with the group auditor. The committee discussed the findings of the audit in detail. The auditor attended the Supervisory Board Audit and Finance Committee financial review meeting and submitted its 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.

The year under review saw the following changes to the composition of the Supervisory Board: In May, the Bertelsmann AG Annual General Meeting elected Dr. Claus-Michael Dill, Chairman & CEO of Axa Konzern AG (Cologne), and Dr. Hans-Joachim Körber, Chairman & CEO of Metro AG (Düsseldorf), as new Supervisory Board members. Prof. Dr. Michael Hoffmann-Becking, a longtime member, left the Supervisory Board at the same time. The Supervisory Board thanks Mr. Hoffmann-Becking for many years of mutually trusting collaboration, also on behalf of the shareholders. After former Supervisory Board Chairman Gerd Schulte-Hillen had resigned from his mandate at December 31, 2003, the Bertelsmann Supervisory Board is complete again with the election of the two new members.

There were no changes to the Bertelsmann AG Executive Board during the past fiscal year. In January 2004, the Supervisory Board decided to extend the appointment of Chairman & CEO Dr. Gunter Thielen through August 31, 2007. This decision ensures continuity at the top of the company. During the year under review, the Supervisory Board also decided to reappoint Messrs. Dr. Bernd Kun-



PROF. DR. DIETER H. VOGEL
Chairman of the Supervisory Board of Bertelsmann AG

drun, Hartmut Ostrowski, Rolf Schmidt-Holtz, and Dr. Ewald Walgenbach.

The market in fiscal year 2004 was restrained on the whole. Bertelsmann responded to the flat growth in the international media markets with its "Growth and Innovation" (GAIN) initiative. The Supervisory Board fully supports this initiative to generate organic growth and focus on improving the profitability of core businesses. A significant improvement in the operating result for fiscal year 2004 confirms the Supervisory Board in its belief that this direction, combined with Bertelsmann's proven decentralized management, is a winning path into the future.

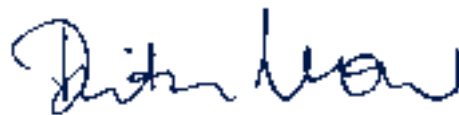
The Supervisory Board constructively supported the Executive Board in its strategic measures to improve the competitiveness of important core businesses through M&A transactions. In this context, one key topic was the formation of the Sony BMG Music Entertainment joint venture in August 2004 following its approval by the EU and U.S. antitrust authorities, as well as the subsequent – and still ongoing – integration process. Beyond this, the planned merger of the German gravure operations of Arvato, Gruner + Jahr, and Axel Springer AG, including Arvato's plant currently under construction in Liverpool, were approved following extensive discussions. This step serves to gain long-term security for Bertelsmann's printing business. Likewise, the Bertelsmann AG Supervisory Board endorsed Gruner + Jahr's plans to acquire the majority of shares in Motor-Presse Stuttgart. This strategically important acquisition project enhances Gruner + Jahr's domestic and international magazine portfolio. Both transactions are still pending antitrust approval.

The Executive Board and Supervisory Board regularly discussed the company's financial situation. All of the fi-

nancial targets jointly defined for Bertelsmann AG were met in fiscal year 2004.

The Supervisory Board pays tribute to the Executive Board for its entrepreneurial success during the past fiscal year. It also thanks all executives and employees for their dedication and achievements.

Gütersloh, March 15, 2005



Prof. Dr. Dieter H. Vogel

"A significant improvement in the operating result for fiscal year 2004 confirms the Supervisory Board in its belief that the focus on organic growth, combined with Bertelsmann's proven decentralized management, is a winning path into the future."

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASH FLOW STATEMENT
CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
SEGMENT REPORTING
NOTES
BOARDS AND MANDATES
AUDITOR'S REPORT

Consolidated Income Statement in € millions

	Notes	2004	2003 (adjusted)
Revenues	1	17,016	16,801
Other operating income	2	685	817
Change in inventories		80	26
Own costs capitalized		188	124
Cost of materials		(4,988)	(4,658)
Royalty and license fees		(1,491)	(1,650)
Personnel costs	3	(4,204)	(4,151)
Amortization of intangible assets and depreciation of property, plant and equipment excluding goodwill	4	(671)	(814)
Other operating expenses	5	(5,222)	(5,445)
Results from associated companies ¹⁾	6	37	(11)
Income from other participations	6	(1)	(13)
Special items	7	318	339
EBIT (earnings before interest and taxes)		1,747	1,365
Regular amortization of goodwill		–	(632)
Net interest	8	(78)	(95)
Other financial expenses and income	9	(189)	(227)
Financial result		(267)	(322)
Income taxes	10	(263)	(203)
Net income before minority interest		1,217	208
Minority interest		(185)	(54)
Net income after minority interest		1,032	154

¹⁾ excluding amortization of goodwill in 2003

Reconciliation to Operating EBIT

EBIT (Earnings before interest and taxes)		1,747	1,365
Special items:	7		
– Impairment of goodwill		34	208
– Gains/losses on disposals of participations		(306)	(620)
– Other special items		(46)	73
Operating EBIT	29	1,429	1,026
Operating EBITDA	30	2,112	1,866

Consolidated Balance Sheet in € millions

	Notes	12/31/2004	12/31/2003
Assets			
Non-current assets			
Goodwill	11	6,395	6,632
Other intangible assets	12	1,321	901
Property, plant and equipment	13	2,369	2,254
Investments in associates	14	437	398
Other financial assets	14	683	419
		11,205	10,604
Current assets			
Inventories	15	1,933	1,820
Trade accounts receivable	16	2,827	3,041
Other receivables and other assets	16	2,465	2,573
Cash and cash equivalents	17	2,092	1,642
		9,317	9,076
Deferred tax assets	10	286	275
Prepaid expenses		162	209
		20,970	20,164
Equity and liabilities			
Equity			
Subscribed capital	18	1,000	606
Capital reserve		2,331	2,725
Retained earnings		3,147	3,181
Net income after minority interest		1,032	154
Shareholders' equity		7,510	6,666
Minority interest		1,336	965
		8,846	7,631
Third-party liabilities			
Profit participation capital	19	706	706
Provisions			
Provisions for pensions and similar obligations	20	1,874	1,701
Other provisions ¹⁾	21	619	1,174
		2,493	2,875
Liabilities			
Financial debt	22	2,144	2,462
Trade accounts payable ¹⁾	23	3,685	3,826
Other liabilities ¹⁾	23	2,587	2,218
		8,416	8,506
Deferred tax liabilities	10	208	114
Deferred income		301	332
		20,970	20,164

¹⁾ Reclassification of short-term provisions in 2003

Consolidated Cash Flow Statement in € millions

	2004	2003
Net income before minority interest	1,217	208
Depreciation and write-ups of non-current assets	695	1,680
Change in long-term provisions	53	51
Other income/expenses not affecting cash flows	(424)	(566)
Result from disposals of non-current assets	(6)	(39)
Change in net working capital	119	28
Net cash from operating activities	1,654	1,362
Investments in:		
– intangible assets	(157)	(166)
– property, plant and equipment	(498)	(413)
– financial assets	(123)	(43)
– purchase price for acquired entities (net of acquired cash)	(85)	(139)
Proceeds from disposal of non-current assets	366	1,637
Net cash from investing activities	(497)	876
Change in bonds and promissory notes	(297)	867
Change in financial debt	(78)	(1,792)
Change in shareholders' equity	20	(216)
Dividend Bertelsmann AG and minority interest	(315)	(337)
Net cash from financing activities	(670)	(1,478)
Change in cash and cash equivalents	487	760
Exchange rate movements and other changes in cash and cash equivalents	(37)	(95)
Cash and cash equivalents at the beginning of the period	1,642	977
Cash and cash equivalents at the end of the period	2,092	1,642

Details of the cash flow statement are set out in note [27](#)

Consolidated Statement of Changes in Shareholders' Equity in € millions

	Subscribed capital	Capital reserve	Retained earnings	Other comprehensive income			Net income after minority interest	Shareholders' equity	Minority interest	Total
				Currency translation differences	Available-for-sale securities	Derivative financial instruments				
Balance at 12/31/2002	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	–	–	–	–	–	–	154	154	54	208
Balance at 12/31/2003	606	2,725	3,127	68	31	(45)	154	6,666	965	7,631
Change in shareholders' equity due to										
Dividends	–	–	–	–	–	–	(220)	(220)	(95)	(315)
Other comprehensive income										
Currency translation differences	–	–	–	(42)	–	–	–	(42)	2	(40)
Other changes	394	(394)	21	–	51	2	–	74	279	353
Change recognized in income										
Transfer from retained earnings	–	–	(66)	–	–	–	66	–	–	–
Net income	–	–	–	–	–	–	1,032	1,032	185	1,217
Balance at 12/31/2004	1,000	2,331	3,082	26	82	(43)	1,032	7,510	1,336	8,846

Details of the statement of changes in shareholders' equity are set out in note 18

Segment Reporting Primary Format in € millions

	RTL Group		Random House		Gruener + Jahr		BMG	
	2004	2003	2004	2003	2004	2003	2004	2003
Consolidated revenues	4,862	4,393	1,777	1,755	2,425	2,471	2,532	2,680
Intercompany revenues	16	59	14	21	14	10	15	32
Divisional revenues	4,878	4,452	1,791	1,776	2,439	2,481	2,547	2,712
Operating EBIT¹⁾	668	503	140	115	210	233	162	54
Special items	(24)	(102)	7	(2)	(11)	6	66	(89)
EBIT	644	401	147	113	199	239	228	(35)
ROS in %	13.7%	11.3%	7.8%	6.5%	8.6%	9.4%	6.4%	2.0%
Depreciation and amortization	212	609	48	104	76	192	70	207
Investments ²⁾	214	206	28	75	38	86	112	72
Segment assets	6,824	6,525	1,749	1,893	1,274	1,448	2,521	2,529
Segment liabilities	1,935	1,952	709	765	583	570	1,293	1,406
Results from associates ³⁾	28	16	–	(1)	4	2	7	(8)
Investments in associates	376	334	2	2	11	9	10	4
Employees (on closing date)	8,117	7,254	5,383	5,525	11,671	11,352	4,259	4,880
Employees (average)	7,717	7,269	5,408	5,487	11,632	11,849	4,510	5,090

1) 2003 adjusted for retrospective application of IFRS 3, see note on prior financial statements

2) Net of acquired cash

3) Excluding amortization of goodwill in 2003

Secondary Format in € millions

	Germany		Other European Countries		USA		Other countries	
	2004	2003	2004	2003	2004	2003	2004	2003
Consolidated revenues	5,059	5,166	7,182	6,486	3,816	4,210	959	939
Segment assets	7,825	7,985	6,243	5,616	3,438	3,138	246	1,142
Investments	307	316	312	270	180	150	64	25

Details of the segment reporting are set out in note [28](#)

	Arvato		Direct Group		Total Divisions		Corporate		Consolidation/other		Total Group	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	3,249	3,070	2,158	2,264	17,003	16,633	13	10	–	158	17,016	16,801
	507	569	17	22	583	713	–	1	(583)	(714)	–	–
	3,756	3,639	2,175	2,286	17,586	17,346	13	11	(583)	(556)	17,016	16,801
	310	261	32	4	1,522	1,170	(72)	(90)	(21)	(54)	1,429	1,026
	(12)	(2)	2	124	28	(65)	290	405	–	(1)	318	339
	298	259	34	128	1,550	1,105	218	315	(21)	(55)	1,747	1,365
	8.3%	7.2%	1.5%	0.2%	8.7%	6.7%	–	–	–	–	8.4%	6.1%
	186	235	40	85	632	1,432	17	233	–	15	649	1,680
	369	224	57	39	818	702	45	45	–	14	863	761
	2,173	1,984	935	877	15,476	15,256	2,538	2,759	(262)	(134)	17,752	17,881
	1,331	1,248	520	522	6,371	6,463	413	844	(215)	(269)	6,569	7,038
	2	(1)	2	(7)	43	1	(6)	(12)	–	–	37	(11)
	2	–	5	–	406	363	31	49	–	–	437	398
	33,813	31,405	12,116	11,893	75,359	72,309	907	912	–	–	76,266	73,221
	32,957	31,245	11,879	11,983	74,103	72,923	947	913	–	1,282	75,050	75,118

	Group	
	2004	2003
	17,016	16,801
	17,752	17,881
	863	761

NOTES

General Principles

The consolidated financial statements of Bertelsmann AG for the year ended December 31, 2004 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 directi-

ve on group accounting and reporting (Directive 83/349/EEC). The main differences between IAS and HGB are set out in note 30. 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.

Effects of Applying New Accounting Standards

Bertelsmann has applied IFRS 3 (business combinations) and the amended versions of IAS 36 (impairments of assets) and IAS 38 (intangible assets) since January 1, 2004. As a result, regular amortization of goodwill, and rights similar to goodwill with indefinite useful lives, is no longer expensed in the income statement. On the other hand, these assets are subject to an annual impairment test and are subject to an impairment write-down, if applicable.

As a result of this change in accounting policy, amounts in the prior period income statement were adjusted in order to improve comparability. In this connection, all amortization of goodwill has been shown as a separate line item. Goodwill im-

pairment write-downs are included under special items. Prior year segment results have been adjusted to reflect the retrospective application of IFRS 3. After reflecting the expanded definition of special items, Operating EBIT now represents the previously reported Operating EBITA, less amortization of rights similar to goodwill with limited useful lives. Short-term provisions of €1,706 million shown in the prior year's balance sheet have been reclassified to enhance international comparability and are now included under liabilities, reflecting their classification in the 2004 balance sheet.

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 33. 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. If the acquisition cost exceeds the fair values of assets and liabilities acquired, this difference is recognized in the balance sheet as goodwill. Deferred taxes are recognized on temporary differ-

ences 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. 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. Negative goodwill is reflected as income in the period in which the acquisition is made. Minority interest also includes the fair values of their share of assets and liabilities. Investments in proportionately consolidated companies are measured using the same principles.

Investments in associated companies using the equity method are included at the proportionate share of the investment's shareholders' equity. 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 using the same principles. The group's share of unrealized profits or losses on intercompany transactions between group companies and associated companies is eliminated.

Scope of Consolidation

The scope of consolidation, including Bertelsmann AG, comprises 842 (previous year: 930) fully consolidated companies. All domestic and international affiliated companies are consolidated, with the exception of 237 companies (previous year: 137) 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, 2003	246	684	930
Additions	22	118	140
Disposals	(33)	(195)	(228)
Consolidated at December 31, 2004	235	607	842

Purchase price payments deducted by acquired cash and cash equivalents amounted to €85 million.

Sony Music and BMG merged their music businesses in August 2004 to form Sony BMG Music Entertainment, resulting in purchase costs of €558 million, which arose from the fair value of contributed assets and incidental costs.

Arvato acquired 55 percent of Phone Assistance S.A. in Morocco at the beginning of 2004, thus strengthening its strategic position in the call center business. The purchase price of €25 million led to goodwill of the same amount.

Following changes to the shareholder structure of M6, the French TV station, the participation in M6 was fully consolidated effective February 1, 2004; before that date, it had been proportionately consolidated. The consolidation involved stating the previous holding at fair values and, in accordance with IFRS 3, led to the recognition of additional intangible assets amounting to €261 million.

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

Effects of Acquisitions and Disposals in € millions

	Additions 2004	Disposals 2004	Net 2004	Additions 2003	Disposals 2003	Net 2003
Non-current assets	1,253	870	383	209	578	(369)
Current assets	867	864	3	65	361	(296)
Liabilities	1,266	1,245	21	58	484	(426)

239 (previous year: 119) 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

	12/31/2004	12/31/2003
Non-current assets	1,175	249
Current assets	1,318	1,057
Liabilities	1,829	702
Income	2,302	1,706
Expense	2,287	1,653

Changes compared with the previous year are mainly due to the proportionate consolidation of the joint venture, Sony BMG Music Entertainment, effective August 1, 2004 and the full consolidation of M6 since February 1, 2004.

125 (previous year: 94) associated companies were measured using the equity method. The increase mainly results from measuring Sportfive companies at equity, which were proportionately consolidated in 2003.

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. 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

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 2004, those domestic subsidiaries listed in note 34 took advantage of the exemption from having their annual financial statements prepared, audited and published pursuant to § 264 para. 3 HGB and § 264 b no. 4 HGB.

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

Foreign currency unit per € 1		Average rate		Closing rate	
		2004	2003	12/31/2004	12/31/2003
U.S. dollars	USD	1.2461	1.1312	1.3621	1.2630
Canadian dollars	CAD	1.6166	1.5898	1.6416	1.6234
British pounds	GBP	0.6812	0.6897	0.7051	0.7048
Japanese yen	JPY	134.12	131.06	139.65	135.04
Swiss francs	CHF	1.5448	1.5172	1.5443	1.5579

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.

Goodwill

Goodwill represents the excess of the purchase price of an acquired entity and the share of fair values of the assets and liabilities acquired. Goodwill is recognized as an asset and is

subject to an annual impairment test. Any write-down is immediately charged to income as an impairment expense. Impairments of goodwill are not reversed.

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. Supply rights and long-term subscribers are amortized over a maximum of 5 years, and music, film and publishing rights over a maximum period of 20 years.

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
- Other 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.

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. Forecast

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

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.

cash flows are determined individually based on industry-specific growth rates of 0 to 3 percent and discounted using the group's pre-tax weighted average cost of capital (WACC) of 12.3 percent. If the reason for a write-down no longer exists, write-downs are reversed up to the amount that would have been determined if no impairment loss had been recognized in previous years. This does not apply to goodwill.

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.

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

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 trans-

Cash and Cash Equivalents

Cash and cash equivalents include securities with an original maturity of less than three months, bank balances and cash on

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

Other Comprehensive Income

Other comprehensive income includes foreign currency translation gains and losses, unrealized gains and losses from the fair

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.

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.

lated at closing-date rates. Allowances are recognized for any discernible risks.

hand. Amounts in foreign currency are translated using rates ruling at the end of the year.

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.

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.

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. Financial instruments are recognized on their transaction date. 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.

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.

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

	2004	2003
Revenues from selling goods and merchandise	9,693	9,819
Revenues from providing services	6,258	5,903
Revenues from use of assets	1,475	1,324
Gross revenues	17,426	17,046
Discounts and allowances	(410)	(245)
Revenues	17,016	16,801

2 Other Operating Income in € millions

	2004	2003
Extra and supplementary income	166	210
Interest and foreign exchange gains	18	68
Prior year income and reimbursements	134	175
Reversal of provisions	99	123
Gains from disposals of non-current assets	24	39
Other	244	202
	685	817

3 Personnel Costs in € millions

	2004	2003
Wages and salaries	3,502	3,462
State social security contributions	539	525
Profit sharing	29	29
Expense for pensions and similar obligations	126	120
Other employee benefits	8	15
	4,204	4,151

4 Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment Excluding Goodwill in € millions

	2004	2003
Amortization/depreciation of		
– intangible assets	268	378
– property, plant and equipment	403	436
	671	814

Amortization of intangible assets includes amortization of step ups arising on first consolidation.

5 Other Operating Expenses in € millions

	2004	2003
Administrative expenses	1,235	1,251
Consulting and audit fees	205	177
Interest and foreign exchange losses	19	78
Advertising costs	1,107	1,022
Selling expenses	765	882
Additions to other provisions	–	39
Allowances on current assets	372	385
Operating taxes	113	94
Losses on disposals of non-current assets	18	13
Other	1,388	1,504
	5,222	5,445

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

6 Results of Associated Companies and Participations in € millions

	2004	2003
Income from associated companies	53	43
Expenses from associated companies	(16)	(54)
Results of associated companies	37	(11)
Income from participations	11	16
Expenses from participations	–	(3)
Write-downs of investments	(15)	(31)
Write-ups of investments	3	5
Results of participations	(1)	(13)

Major contributions to income from associated companies came from RTL 2, with €19 million (previous year: €18 million). The losses recorded at equity related to miscellaneous companies.

Bertelsmann had no share in associated companies' contingent liabilities at December 31, 2004.

7 Special Items in € millions

	2004	2003
Impairment of goodwill		
U.S. publisher, G+J	(26)	(54)
Sportfive, RTL Group	–	(48)
London Playout Center, RTL Group	–	(53)
Other	(8)	(53)
Gains/losses on disposals of participations		
Merger gain joint venture Sony BMG, BMG	180	–
Bertelsmann Venture Fund, Corporate Center	47	–
“TV Today”, G+J	10	–
Sportfive, RTL Group	(14)	–
Legal dispute AOL Europe, Corporate Center	74	(234)
Bertelsmann Springer, Corporate Center	–	628
Barnesandnoble.com, Direct Group	–	145
Newspapers in Central and Eastern Europe, G+J	–	72
Other	9	9
Other special items		
Sale of the Bertelsmann Building New York, Corporate Center	174	–
IPO Shopping.com, Direct Group	22	–
Restructuring BMG	(115)	(73)
Restructuring Direct Group	(23)	–
Restructuring Arvato	(12)	–
	318	339

Special items are those matters which are not of an operating nature, as they are non-recurring. They include income and expense items which, due to their size and frequency of occurrence, have an effect on the assessment of the results of operations of the operating segment and of the group.

The merger gain of €180 million arose from transferring BMG Records to the joint venture, Sony BMG Music Entertainment, in which Bertelsmann holds 50 percent. The merger gain reflects, from a group perspective, the difference between fair values of assets received and assets given up.

Disposal gains of €47 million at Bertelsmann Venture Fund result mainly from the disposal of shares in Yahoo and Citrix.

G+J showed a gain of €10 million on the disposal of “TV Today” in the first half of 2004, whereas RTL Group recorded a loss of €14 million on the sale of its participation in Sportfive. Sportfive is now measured at equity. A provision of €74 million could be released following settlement of a legal dispute with former AOL managers.

Other positive special items arose from the sale of the Bertelsmann Building in New York (€174 million) and the Shopping.com IPO (€22 million). These were partly offset by negative special items from restructuring at BMG, Direct Group and at Arvato.

8 Net Interest in € millions

	2004	2003
Interest and similar income	175	189
Interest on finance lease	(16)	(13)
Interest and similar expenses	(237)	(271)
	(78)	(95)

9 Other Financial Expenses and Income in € millions

	2004	2003
Defined Benefit Plans (Pensions and other)	(105)	(96)
Dividend entitlement on profit participation certificates	(76)	(76)
Other	(8)	(55)
	(189)	(227)

10 Income Taxes in € millions

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

	2004 Domestic	2004 Foreign	2004 Total	2003 Domestic	2003 Foreign	2003 Total
Net income before income taxes	297	1,183	1,480	(105)	516	411
Current income taxes	(43)	(243)	(286)	(30)	(197)	(227)
Deferred income taxes	4	19	23	(1)	25	24
Total income taxes	(39)	(224)	(263)	(31)	(172)	(203)
Net income after income taxes	258	959	1,217	(136)	344	208

Tax loss carryforwards of €353 million (previous year: €397 million) were utilized in 2004, reducing current tax expenses by €132 million (previous year: €116 million). Of the tax loss carry-

forwards utilized, €2 million related to domestic corporation tax, €1 million to domestic trade tax, and €350 million to foreign income tax.

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

Deferred Taxes in € millions

	12/31/2004 Assets	12/31/2004 Liabilities	12/31/2003 Assets	12/31/2003 Liabilities
Intangible assets	304	205	309	57
Property, plant and equipment	13	117	30	120
Investments	8	88	12	15
Inventories	77	2	131	3
Accounts receivable	128	10	203	24
Prepayments and other assets	185	582	132	541
Provisions	182	29	159	33
Financial debt	37	–	68	1
Accounts payable	19	1	43	11
Prepayments and other liabilities	103	33	188	59
Loss carryforwards/tax credits	3,216	–	3,644	–
Valuation allowance	(3,127)	–	(3,894)	–
Total	1,145	1,067	1,025	864
Netting	(859)	(859)	(750)	(750)
Carrying amount	286	208	275	114

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.

Effective January 1, 2004, loss carry forwards in Germany can only be offset against the first €1 million of taxable profits,

plus 60 percent of the excess over the first €1 million. Loss carryforwards in Germany can still be carried forward indefinitely.

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

Maturity in € millions

	12/31/2004	12/31/2003
Tax loss carryforwards and temporary differences		
Can be carried forward for more than 5 years	9,565	11,589
Can be carried forward for up to 5 years	44	131
Tax credits		
Can be carried forward for more than 5 years	8	11

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

	2004	2003
Net earnings before income tax	1,480	411
Income tax rate applicable to Bertelsmann AG	38.40%	39.61%
Expected tax expense	(568)	(163)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment for differing national tax rates	34	41
Changes in tax regulations or tax status	(6)	8
Amortization of goodwill not recognized for tax purposes	(2)	(232)
Tax-free disposal gains	7	230
Changes to tax-related factors in previous year	44	113
Changes in the valuation allowance	303	(113)
Permanent differences	(61)	(88)
Other	(14)	1
Total	305	(40)
Actual tax income/expense	(263)	(203)

The income tax rate applicable to Bertelsmann AG consists of corporation tax, solidarity surcharges and trade tax.

Effective Tax Rate

	2004 et seq.	2003
Corporation tax including solidarity surcharges	26.38%	27.96%
Trade tax	12.02%	11.65%
Effective income tax rate	38.40%	39.61%

As of December 31, 2004 there were still corporation tax credits available on distributions of €105 million.

11 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, 2004	6,632	3,307	5,772	437	693	16,841
Currency differences	(75)	(134)	(102)	6	1	(304)
Acquisitions/disposals of entities	(139)	269	24	5	315	474
Additions	–	180	505	85	278	1,048
Disposals	–	(393)	(319)	(106)	(552)	(1,370)
Reclassifications and other changes	5	434	179	340	104	1,062
Balance at December 31, 2004	6,423	3,663	6,059	767	839	17,751
Depreciation/amortization						
Balance at January 1, 2004	–	2,406	3,518	39	274	6,237
Currency differences	–	(55)	(65)	(1)	(1)	(122)
Acquisitions/disposals of entities	–	(78)	20	–	(2)	(60)
Regular additions	–	254	395	–	–	649
Impairments	28	15	10	6	15	74
Disposals	–	(385)	(255)	–	(76)	(716)
Write-ups	–	(1)	(2)	–	(25)	(28)
Reclassifications and other changes	–	186	69	286	(29)	512
Balance at December 31, 2004	28	2,342	3,690	330	156	6,546
Book value at December 31, 2004	6,395	1,321	2,369	437	683	11,205
Book value at December 31, 2003	6,632	901	2,254	398	419	10,604

Applying IFRS 3, the cost and accumulated amortization of goodwill was netted starting January 1, 2004.

Reductions in goodwill are primarily due to the merger of BMG's and Sony's recorded-music business (€101 million) and the part-disposal of Sportfive (€120 million). Additions to goodwill are mainly made up of the acquisition of Phone Assistance S.A. in Marocco (€25 million) and a number of smaller acquisitions. The increase in intangible assets is substantially influenced

by the first-time full consolidation of M6, as a result of which the former participation was restated at fair value, as well as by the first-time inclusion of the joint venture, Sony BMG Music Entertainment. The book value of intangible assets mainly includes music and publishing rights of €671 millions with an amortisation period between 9-18 years and trade marks of €120 million with indefinite useful life.

12 Other Intangible Assets in € millions

	Music, film and publishing rights	Other rights and licenses	Advance payments	Total
Acquisition/production cost				
Balance at January 1, 2004	2,433	853	21	3,307
Currency differences	(117)	(17)	–	(134)
Acquisitions/disposals of entities	273	–	(4)	269
Additions	77	79	24	180
Disposals	(359)	(33)	(1)	(393)
Reclassifications and other changes	167	287	(20)	434
Balance at December 31, 2004	2,474	1,169	20	3,663
Depreciation/amortization				
Balance at January 1, 2004	1,858	548	–	2,406
Currency differences	(46)	(9)	–	(55)
Acquisitions/disposals of entities	(70)	(8)	–	(78)
Regular additions	126	128	–	254
Impairments	8	7	–	15
Disposals	(358)	(27)	–	(385)
Write-ups	–	(1)	–	(1)
Re-classifications and other changes	133	53	–	186
Balance at December 31, 2004	1,651	691	–	2,342
Book value at December 31, 2004	823	478	20	1,321
Book value at December 31, 2003	575	305	21	901

13 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, 2004	1,634	2,630	1,398	110	5,772
Currency differences	(19)	(59)	(23)	(1)	(102)
Acquisitions/disposals of entities	(7)	71	(40)	–	24
Additions	76	148	221	60	505
Disposals	(32)	(109)	(178)	–	(319)
Reclassifications and other changes	145	86	77	(129)	179
Balance at December 31, 2004	1,797	2,767	1,455	40	6,059
Depreciation					
Balance at January 1, 2004	622	1,919	977	–	3,518
Currency differences	(7)	(46)	(12)	–	(65)
Acquisitions/disposals of entities	(2)	60	(38)	–	20
Regular additions	63	195	137	–	395
Impairments	5	4	1	–	10
Disposals	(22)	(101)	(132)	–	(255)
Write-ups	–	(2)	–	–	(2)
Reclassifications and other changes	19	21	29	–	69
Balance at December 31, 2004	678	2,050	962	–	3,690
Book value at December 31, 2004	1,119	717	493	40	2,369
Book value at December 31, 2003	1,012	711	421	110	2,254

14 Investments in € millions

	Affiliated companies Shares in	Shares in	Associates Loans to	Other participations	Other loans	Other securities	Total
Acquisition/production cost							
Balance at January 1, 2004	43	437	10	316	277	47	1,130
Currency differences	–	6	–	(1)	2	–	7
Acquisitions/disposals of entities	–	5	–	1	318	(4)	320
Additions	6	85	47	88	114	23	363
Disposals	–	(106)	(11)	(99)	(439)	(3)	(658)
Reclassifications and other changes	(2)	340	–	(22)	90	38	444
Balance at December 31, 2004	47	767	46	283	362	101	1,606
Depreciation							
Balance at January 1, 2004	23	39	–	194	33	24	313
Currency differences	–	(1)	–	(2)	1	–	(2)
Acquisitions/disposals of entities	–	–	–	3	(5)	–	(2)
Regular additions	–	–	–	–	–	–	–
Impairments	3	6	–	4	1	7	21
Disposals	(4)	–	–	(64)	(8)	–	(76)
Write-ups	(2)	–	–	(22)	–	(1)	(25)
Reclassifications and other changes	(1)	286	–	(21)	3	(10)	257
Balance at December 31, 2004	19	330	–	92	25	20	486
Book value at December 31, 2004	28	437	46	191	337	81	1,120
Book value at December 31, 2003	20	398	10	122	244	23	817

In contrast to the previous year, loans to affiliated companies and other participations have been combined under other loans. Other financial assets consist primarily of securities.

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		At fair value		Total	
	12/31/2004	12/31/2003	12/31/2004	12/31/2003	12/31/2004	12/31/2003
Investments	66	113	125	9	191	122
Securities	57	2	24	21	81	23
Total	123	115	149	30	272	145

15 Inventories in € millions

	12/31/2004	12/31/2003
Film rights	1,273	1,159
Raw materials and supplies	146	140
Work in process	101	109
Finished goods and merchandise	410	409
Advance payments	3	3
	1,933	1,820

16 Receivables and Other Assets in € millions

	Maturing in more than one year	12/31/2004	12/31/2003
Trade accounts receivable	14	2,721	2,825
Accounts receivable from royalties and licenses	–	106	216
Total trade accounts receivable	14	2,827	3,041
Accounts receivable from participations	–	43	72
Advance payments for royalties and licenses	242	989	1,152
Tax receivables	–	454	459
Securities	–	87	54
Derivative financial instruments	20	284	278
Net assets from pension plans	9	12	17
Other receivables	35	596	541
Other receivables and other assets	306	2,465	2,573

Available-for-sale securities are stated as follows:

Other Assets: Available-for-Sale in € millions

	At acquisition cost		At fair value		Total	
	12/31/2004	12/31/2003	12/31/2004	12/31/2003	12/31/2004	12/31/2003
	87	44	–	10	87	54

17 Cash and Cash Equivalents in € millions

	12/31/2004	12/31/2003
Cash	1,847	1,641
Other securities	245	1
Total	2,092	1,642

Part of cash and cash equivalents are not freely available for use, particularly bank balances of €141 million (previous year: €160 million) relating to distribution business at Pinnacle.

18 Shareholders' Equity / Subscribed Capital

Number of shares	
Type A ordinary shares	83,760
Type A non-voting preference shares	149
Type B voting preference shares	27,920
Total shares	111,829

Bertelsmann AG's subscribed capital 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 at the shareholders' annual general meeting on May 17, 2004, Bertelsmann AG's subscribed capital was increased to €1,000

Capital Reserve

The capital reserve includes mainly additional paid-in capital, or share premium, received on the issue of preference and

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. Following changes to the shareholder structure of M6, the French TV station, the participation in M6 was fully con-

solidated effective February 1, 2004; before that date, it had been proportionately consolidated. The consolidation involved stating the previous holding at fair values, with a resulting direct credit to shareholders' equity of €21 million.

million out of reserves without issuing new shares. The increase was carried out by converting part (€394 million) of the capital reserve.

Indirect holdings in the subscribed capital are as follows: 57.6 percent Bertelsmann Stiftung, 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.

ordinary shares in excess of their par values. In 2004, €394 million of the capital reserve was converted into subscribed capital.

Other Comprehensive Income in € millions

Movements in other comprehensive income were as follows:

	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, 2002	4	–	4	(61)	12	(49)	14	(31)
Change in fair value	28	–	28	(8)	14	6	54	88
Disposals affecting income	(1)	–	(1)	(2)	–	(2)	–	(3)
December 31, 2003	31	–	31	(71)	26	(45)	68	54
Change in fair value	59	–	59	6	(3)	3	(42)	20
Disposals affecting income	(8)	–	(8)	–	–	–	–	(8)
Change in scope of consolidation	–	–	–	(2)	1	(1)	–	(1)
December 31, 2004	82	–	82	(67)	24	(43)	26	65

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).

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 percent 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 (RTL Group) in thousands

	2004	2003
Options outstanding at the beginning of the year	241	391
Options granted during the year	–	–
Options exercised/expired during the year	(24)	(150)
Options outstanding at the end of the year	217	241

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

Conditions for Stock Options (RTL Group)

	Exercise price in €	Number of options in thousands
2010	120.00	6
2010	85.24	209
2011	85.24	2
		217

RTL Group's closing share price on the Brussels stock exchange was €55 at December 31, 2004.

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 Metropole Television'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 Metropole Television on the Paris stock exchange, calculated over the 20 days preceding the grant date.

Movements in stock options during the year:

Number of Options (M6) in thousands

	2004	2003
Options outstanding at the beginning of the year	3,179	3,301
Options granted during the year	940	91
Options exercised/expired during the year	(488)	(213)
Options outstanding at the end of the year	3,631	3,179

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

Conditions for Stock Options (M6)

	Exercise price in €	Number of options in thousands
Expiry date		
September 2005	14.00	425
December 2005	19.00	395
June 2007	57.00	259
January 2008	30.80	413
May 2009	28.60	594
June 2010	23.00	705
November 2011	25.00	840
		3,631

M6's closing share price on the Paris stock exchange was €20.90 at December 31, 2004.

Minority Interest

Minority interest in the equity of consolidated subsidiaries consists primarily of minority interest in the RTL Group,

Gruner + Jahr and Maul Belser. The increase compared with 2003 is particularly due to the full consolidation of M6.

19 Profit Participation Capital in € millions

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

	12/31/2004	12/31/2003
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, 2004 the par value of PPC 2001 was €499 million and the par value of PPC 1992 was €17 million. PPC 1992 and PPC 2001 have been admitted for trading on the stock exchange.

20 Provisions for Pensions and Similar Obligations in € millions

	12/31/2004	12/31/2003
Defined benefit plans	1,717	1,614
Obligations similar to pensions	157	87
	1,874	1,701

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 2004 amounted to €21 million (previous year: €19 million).

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

	12/31/2004 Germany	12/31/2004 Foreign	12/31/2003 Germany	12/31/2003 Foreign
Discount rate	4.75%	2.0–6.25%	5.5%	2.0–6.25%
Expected return on plan assets	5.0%	2.5–8.25%	5.5%	3.0–8.25%
Rate of salary increase	2.5%	1.5–5.0%	2.5%	3.0–5.0%
Rate of pension increase	1.7%	1.0–3.0%	1.7%	1.7–3.0%
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 2004 was €163 million (previous year: €167 million), comprising personnel costs of €58 million (previous year: €71 million) and other financial expense of €105 million (previous year: €96 million). The amortization of actuarial gains and losses was recorded in personnel expense in 2003, but is included in financial result for the first time in 2004. The expense is made up as follows:

Expenses for Defined Benefit Plans in € millions

	2004	2003
Current service cost	56	61
Interest cost	122	119
Expected return on plan assets	(28)	(23)
Amortization of actuarial gains/losses	11	10
Amortization of past service cost	1	2
Effect of curtailments or settlements	1	(2)
	163	167

Actual return on plan assets for the year amounted to €39 million (previous year: €40 million).

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

Net Pension Obligation Recognized in € millions

	12/31/2004	12/31/2003
Defined benefit obligation of unfunded plans	1,914	1,662
Defined benefit obligation of funded plans	625	504
Total defined benefit obligation	2,539	2,166
Fair value of plan assets	(452)	(361)
Actuarial gains/losses not yet recognized	(382)	(208)
Net liability recognized in the balance sheet	1,705	1,597

The net liability is included in the following items on the balance sheet:

Net Pension Liability in € millions

	12/31/2004	12/31/2003
Provisions for pensions and similar obligations	1,717	1,614
Other assets	(12)	(17)
Net liability	1,705	1,597

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

Movements in Net Pension Liability in € millions

	12/31/2004	12/31/2003
Net liability at the beginning of the year	1,597	1,639
Pension expense	163	167
Pension payments	(67)	(75)
Contributions to plan assets	(43)	(28)
Other effects	2	17
Changes of consolidation scope	60	(110)
Currency-related effects	(7)	(13)
Net liability at the end of the year	1,705	1,597

The net liability is divided by geographic region as follows:

Breakdown on Net Pension Liability by Region in € millions

	12/31/2004	12/31/2003
Germany	1,501	1,454
U.S.	87	65
Other Europe	111	69
Other countries	6	9
Net liability recognized in the balance sheet	1,705	1,597

The U.S. subsidiaries' liabilities for their employees' healthcare costs once they have retired constitute defined benefit obligations and account for €66 million (previous year: €68 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. 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.

21 Other Provisions in € millions

Short-term provisions were reclassified to liabilities, with a total of €1,706 million transferred to liabilities. Provisions can be divided into the following categories:

	12/31/2003	Change of consolidation scope	Other effects	Usage	Additions	Accrued interest	Releases	12/31/2004	Long-term
Provisions for taxes	245	5	(196)	(50)	20	–	(3)	21	–
Restructuring provisions	48	8	(5)	(56)	101	–	(7)	89	12
Other	881	(25)	(9)	(437)	284	–	(185)	509	124
	1,174	(12)	(210)	(543)	405	–	(195)	619	136

Other provisions are set up for probable contractually-related losses, indemnity risks and litigation costs. As an international group, Bertelsmann is also subject to several legal risks. This applies particularly to legal disputes in the U.S., 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.

Legal risks could arise from the following lawsuits: Various music publishers and record labels submitted claims against Bertelsmann in a U.S. court in 2003. The plaintiffs base their claims on the allegation that Bertelsmann, by granting loans

to the music file-sharing platform Napster, which has since gone bankrupt, enabled the service to survive longer than it would have done otherwise, and thereby contributed to the breaches of copyright by Napster and its users. As the allegations made by the plaintiffs are completely without legal foundation, Bertelsmann has only made provisions for expected lawyer fees on the balance sheet.

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 €89 million (previous year: €48 million) were set aside for various restructuring programs within the Bertelsmann group.

22 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			12/31/2004	12/31/2003
	< 1	1-5	> 5		
Bonds	156	199	1,127	1,482	1,635
Promissory notes	–	202	–	202	279
Syndicated loan facility	–	–	–	–	–
Liabilities to banks	87	29	2	118	242
Leasing liabilities	19	91	131	241	251
Other financial debt	2	58	41	101	55
	264	579	1,301	2,144	2,462

Through a number of contractual agreements, Bertelsmann group has access to variable and fixed-rate funds. Financial debt is normally unsecured and is of equal ranking. Long-term financial debt, including transaction costs, is amortized to nominal value at maturity. Liabilities in foreign currency are translated at rates ruling at the end of the year.

Due to the beneficial financial environment, in October 2004 the syndicated credit line of €1.5 billion agreed in 2002 was replaced before its contractually-agreed maturity (2007) by a new facility with an international bank consortium. The new credit line runs for 5 years and can be prolonged for a maximum further two years with the agreement of the banking consortium. During this period, the credit line can be drawn down in EUR, USD and GBP up to the equivalent of a revolving €1.2 billion, by Bertelsmann AG and its foreign finance companies (Bertelsmann U.S. Finance, Inc., Bertelsmann Capital Corporation N.V.). The amounts drawn down in EUR bear interest at

EURIBOR (European 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 €1.8 billion and is freely available for use in the group's operating activities.

The reduction in credit lines compared with the previous year was initiated due to improved liquidity and the long-term financing completed in previous years. The remaining terms and utilization of these agreements at December 31, 2004 are set out in the following table:

Remaining Term in € millions

	Credit line 12/31/2004	Drawn down 12/31/2004	Available credit line 12/31/2004	Available credit line 12/31/2003
< 1 year	492	–	492	628
1 to 2 years	–	–	–	103
2 to 3 years	–	–	–	–
3 to 4 years	–	–	–	1,590
4 to 5 years	1,310	–	1,310	–
> 5 years	–	–	–	400
	1,802	–	1,802	2,721

There were publicly-listed bonds, private placements, and promissory notes with a nominal volume of €1,670 million outstanding at December 31, 2004. The decrease compared with the €1,937 million outstanding at the end of 2003 was primarily due to repayment on maturity of a bond for USD 200 million and the early redemption of a promissory note (USD 100 million). Differences between carrying values and nominal values in the

following table arise from transaction costs as well as fair value effects arising on hedge relationships to derivative transactions. That part of transaction costs reducing the carrying value of bonds and promissory notes issued and consisting of issue discounts amounted to €6 million at December 31, 2004 (previous year: €7 million). Changes in transaction costs are reflected in interest result over the period of the paper concerned.

Bonds, Promissory Notes in € millions

	Due date	Effective interest rate in %	Book value 12/31/2004	Book value 12/31/2003
5.375% Bertelsmann U.S. Finance, Inc. (USD 200 million bond) 99/04	1/28/2004	5.60	–	159
4.500% Bertelsmann U.S. Finance, Inc. (DEM 300 million bond) 98/05	11/25/2005	4.62	156	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	51	50
4.40% Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 03/08	2/7/2008	4.56	51	50
Floating Rate Bertelsmann U.S. Finance, Inc. (USD 100 million promissory note) 99/09	2/11/2009	–	–	79
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	199	198
4.69% Bertelsmann U.S. Finance, Inc. (USD 100 million U.S. private placing) 03/10	4/17/2010	4.83	73	79
4.625% Bertelsmann U.S. Finance, Inc. (EUR 750 million bond) 03/10	6/3/2010	4.70	762	726
5.23% Bertelsmann U.S. Finance, Inc. (USD 200 million U.S. private placing) 03/13	4/17/2013	5.38	146	158
5.33% Bertelsmann U.S. Finance, Inc. (USD 200 million U.S. private placing) 03/15	4/17/2015	5.46	146	158
			1,684	1,914

Documentation of the bonds is based on framework documentation in the form of a debt issuance program with a maximum issue volume of €3.0 billion, last updated in October 2004 and having an unchanged rating of BBB + (Standard & Poor's) and Baa1 (Moody's).

The USD private placements and the promissory notes were agreed with institutional investors based on separate docu-

mentation. Bertelsmann U.S. Finance Inc.'s EUR issues were 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 12/31/2004			Fair value at 12/31/2003		
	Fixed interest	Floating rate	Total	Fixed interest	Floating rate	Total
Bonds	780	702	1,482	799	836	1,635
Promissory notes	100	102	202	179	100	279
Total	880	804	1,684	978	936	1,914

Finance lease obligations have the following maturities:

Minimum Lease Payments for Finance Leases in € millions

	Nominal value of lease payments	12/31/2004 Discount amounts	Present value	Nominal value of lease payments	12/31/2003 Discount amounts	Present value
Up to 1 year	27	8	19	34	4	30
1 to 5 years	132	41	91	125	25	100
Over 5 years	189	58	131	216	95	121
	348	107	241	375	124	251

23 Liabilities in € millions

	More than 1 year	12/31/2004	12/31/2003
Trade accounts payable	75	3,685	3,826
Liabilities to participations	–	25	85
Tax liabilities	23	596	330
Derivative financial instruments	–	106	165
Social security contributions	–	102	90
Personnel-related liabilities	17	551	546
Payment in advance	1	70	66
Other	419	1,137	936
Other liabilities	460	2,587	2,218

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**24 Contingent Liabilities** in € millions

	12/31/2004	12/31/2003
Guarantees	145	268
Warranties	–	24
	145	292

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

25 Other Financial Commitments in € millions

	12/31/2004	12/31/2003
Rental and leasing commitments	1,611	1,561
Other commitments	3,551	3,466
	5,162	5,027

Of the other commitments, €2,049 million (previous year: €2,110 million) relates to RTL Group's supply agreements for rights, (co-)productions, and programming, and €494 million (previous year: €485 million) relates to contracts for TV licenses, transmission rights, and other services. Other commitments of Random House amount to €349 million (previous year: €357 mil-

lion) 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

	12/31/2004	12/31/2003
Nominal value		
– Up to 1 year	294	221
– 1 to 5 years	947	780
– Over 5 years	370	560
	1,611	1,561
Present value	1,347	1,262

These obligations essentially relate to long-term real estate tenancy agreements. These are partly offset by sub-leases with a nominal value of €105 million. 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 share 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

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.

26 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.

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. Loans within the group which are subject to exchange rate risk are hedged by derivatives.

A number of subsidiaries operate outside the euro currency area. Management of the resulting translation risk is based on

Interest Rate Risk

Interest rate risk is managed in accordance with the group's planned net financial debt and expected interest-rate movements. There were no significant changes to the mix of floating-rate and fixed-rate debt in 2004.

A treasury department located at corporate headquarters advises subsidiaries on operating risk and, where appropriate, hedges risks using derivatives. However, the subsidiaries are not obliged to use the services provided by this department for their operating risks. Certain subsidiaries, such as RTL Group and G+J, have their own treasury departments, but they must report their hedging activities to the treasury department located at corporate headquarters on a quarterly basis.

the relationship of financial debt to Operating EBITDA for significant currency areas. The objective is to achieve a reasonable relationship between financial debt and operating results for each major currency area in the long term, whereby Bertelsmann uses the upper limits for leverage defined for the group as a target.

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 the underlying 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 substantially 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 (44.5 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 €1,493 million (33.1 percent). Additionally, subsidiaries use financial derivatives to hedge against current and future foreign currency risks arising from operating receivables or payables (22.4 percent). No financial derivatives are used for speculative purposes.

Nominal Amounts of Financial Derivates in € millions

	Nominal amounts at 12/31/2004				Nominal amounts at 12/31/2003			
	< 1 year	1 – 5 years	> 5 years	Total	< 1 year	1 – 5 years	> 5 years	Total
Currency derivatives								
Forward contracts and currency swaps	2,359	587	655	3,601	1,929	423	843	3,195
Currency options	–	–	–	–	158	–	–	158
Interest rate derivatives								
Interest rate swaps	150	477	282	909	158	529	488	1,175
Other	–	7	–	7	–	–	–	–
Total	2,509	1,071	937	4,517	2,245	952	1,331	4,528

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	
	12/31/2004	12/31/2003	12/31/2004	12/31/2003
Currency derivatives				
Forward contracts and currency swaps	3,601	3,195	177	25
Currency options	–	158	–	–
Interest rate derivatives				
Interest rate swaps	909	1,175	(2)	98
Other	7	–	3	–
Total	4,517	4,528	178	123

Factoring

In individual cases, Bertelsmann group sells receivables to banks. 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 €402 million and amounted to €373 million at December 31, 2004 (previous year: €340 million). The contractual conditions

provide for transfer of the default and interest risk to the buyer of the receivables. Bertelsmann's risk is limited, and the resulting risks are included in provisions. The carrying value of these risks at December 31, 2004 amounts to €13 million (previous year: €7 million).

27 Cash Flow Statement

Bertelsmann's consolidated cash flow statement has been prepared in accordance with IAS 7. It is intended to assist the reader in assessing the group's ability to generate cash and cash equivalents. Cash flows are divided into those relating to operating, investing and financing activities. Cash flows from operating activities are shown using the indirect method, with net income after taxes adjusted for the effects of items not affecting cash flows. Income and expenses relating to cash flow from investing activities are also eliminated

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, amongst others, payments in connection with the music joint venture and the acquisition of Phone Assistance S.A. Proceeds from disposals of non-current assets refer in particular to the partial sale of Sportfive, the sale of the Bertelsmann Building in New York, and Bertelsmann Venture Fund. Changes in shareholders' equity and financial debt affecting cash are included in financing activities.

Cash and cash equivalents comprise the total volume of liquid funds as set out in note 17. Interest payments of €330 million (previous year: €266 million), interest receipts of €139 million (previous year: €186 million), and income tax payments of €244 million (previous year: tax refunds €19 million) are included in cash flow from operating activities.

28 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

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

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.

A key performance indicator within the Bertelsmann group is Operating EBIT. Under normal business conditions, Operating EBIT represents normal operating earnings before interest and taxes. Hence, earnings before interest and taxes, or EBIT, are adjusted for special items which do not have operating characteristics, as they are non-recurring. These include income and expense items which, due to their size and frequency of occurrence, have an effect on the assessment of the results of operations of the operating segment and of the group. Elimination of these special items thus enables determination of a normalized result and hence simplifies forecasting and comparability. Special items include impairment

down by the main geographical markets in which the Bertelsmann group operates.

financial management of the group, the segments are different from the group's legal structure.

of goodwill at (€6 million) and G+J (€26 million) as well as reversals of impairments at DirectGroup (€22 million).

Depreciation per segment includes depreciation of property, plant and equipment, amortization of intangible assets and write-downs of financial assets as set out in the statement of movements in non-current assets.

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, and 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 provisions. They therefore do not include provisions for pensions and similar obligations, 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 before 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

	2004	2003
Operating EBIT	1,429	1,026
Special items	318	339
EBIT (earnings before interest and taxes)	1,747	1,365
Regular amortization of goodwill	–	(632)
Financial result	(267)	(322)
Income taxes	(263)	(203)
Net income before minority interest	1,217	208
	12/31/2004	12/31/2003
Segment assets	17,752	17,881
Other current assets (not allocated)	840	366
Cash and cash equivalents	2,092	1,642
Deferred tax assets	286	275
Total assets	20,970	20,164
Segment liabilities	6,569	7,038
Shareholders' equity and minority interest	8,846	7,631
Profit participation capital	706	706
Provisions for pensions and similar obligations	1,874	1,701
Other provisions (not allocated)	110	255
Financial debt	2,144	2,462
Other liabilities (not allocated)	513	257
Deferred tax liabilities	208	114
Total liabilities	20,970	20,164

29 Reconciliation to Operating EBITDA

Starting with Operating EBIT, Operating EBITDA is determined by adding other depreciation and amortization, less any write-ups.

Reconciliation to Operating EBITDA in € millions

	2004	2003
Operating EBIT	1,429	1,026
Amortization of intangible assets	269	378
Depreciation of property, plant and equipment	405	436
Depreciation of other financial assets	15	31
Write-ups of property, plant and equipment	(28)	(5)
Write-downs / Write-ups in special items	22	–
Operating EBITDA	2,112	1,866

Impairment of goodwill amounting to €28 million, and €6 million for associated companies, has not been added back, as it is included in special items and has thus not reduced Operating EBIT.

30 Significant Differences from German Accounting Policies

Consolidation of Investments in Subsidiaries

IFRS 3 states that the acquisition of holdings in companies by share swap are to be accounted for at fair value using the purchase method. Under German accounting rules, by contrast,

such acquisitions are reported at book value. In contrast to German accounting, IAS does not allow goodwill to be offset against shareholders' equity.

Goodwill

In accordance with IFRS 3, goodwill is no longer regularly amortized, but is subject to an annual impairment test. German

accounting requires goodwill shown in the balance sheet to be amortized over its expected useful life.

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.

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.

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

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.

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.

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 accounting does not permit the benefits of tax loss carryforwards to be shown as assets.

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

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 con-

year relating to the profit participation capital is reported as a provision.

trast, 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.

31 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 view-point, the related income and expense amounts are insignificant.

The remuneration paid to the Supervisory Board for the year ended December 31, 2004 totaled €1,398,000 plus value added tax. During 2004, the members of the Executive Board

received remuneration totaling €31,195,718 of which €19,592,772 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 €2,808,828 from Bertelsmann AG. The provision established by Bertelsmann AG for pension obligations to former members of the Executive Board amounted to €37,279,024. The members of the Supervisory Board and the Executive Board are listed on pages 102–104.

32 Events After the Balance Sheet Date

Arvato and Infoscore Group, Baden-Baden, have agreed to merge their businesses into a joint venture. This merger has been reported to the relevant anti-trust authorities for their

review. Furthermore, Arvato has agreed with the East Riding local authority to take over part of the local authority administration work.

33 Major Subsidiaries and Participations at December 31, 2004

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	41.35	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	U.K.	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
M6 Editions S.A., Neuilly sur Seine	France	40.52	v
M6 Films S.A., Neuilly sur Seine	France	40.52	v
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	U.K.	26.80	q
Télévision Indépendante (TVI) S.A., Brussels	Belgium	54.59	v
Télévision Par Satellite S.N.C., Issy les Moulineaux	France	13.78	q
Yorin FM B.V., Hilversum	Netherlands	82.71	v
Content			
CLOU Entertainment TV Produktion GmbH, Cologne	Germany	46.29	v
CLT-UFA Multi Media GmbH, Hamburg	Germany	82.71	v
Grundy Light Entertainment GmbH, Hürth	Germany	82.96	v
Grundy UFA TV Produktions GmbH, Berlin	Germany	82.71	v
ISPR GmbH, Munich	Germany	20.67	e
Sportfive GmbH, Hamburg	Germany	20.67	e
Sportfive Tixx GmbH, Hamburg	Germany	20.67	e
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	20.67	e
Fremantle Media Australia Pty Limited, St. Leonard	Australia	82.96	v
Fremantle Productions Asia Limited, Hong Kong	China	82.96	v
FremantleMedia Limited, London	U.K.	82.96	v
FremantleMedia North America, Inc., Wilmington	U.S.	82.96	v
Grundy Productions Limited, London	U.K.	82.96	v
SportFive S.A., Paris	France	20.67	e
Talkback Productions Limited, London	U.K.	82.96	v
Radio			
Antenne Mecklenburg-Vorpommern GmbH & Co. KG, Plate	Germany	21.04	e
Antenne Sachsen Hörfunk- und Versorgungs GmbH, Dresden	Germany	40.43	e
BB Radio Landeswelle Brandenburg GmbH & Co. KG, Berlin	Germany	33.08	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			
Content Link, Inc., Delaware	U.S.	100.00	v
Fodors LLC, New York	U.S.	100.00	v
Golden Treasurers, Inc., Delaware	U.S.	100.00	v
G24 NA LLC, Wilmington	U.S.	100.00	v
McClelland & Stewart Limited, Toronto	Canada	25.00	e
Random House, Inc., New York	U.S.	100.00	v
Random House Direct, Inc., New Jersey	U.S.	100.00	v
Random House of Canada Limited, Toronto	Canada	100.00	v
Random House TPR, Inc., New York	U.S.	100.00	v
Random House Ventures LLC, New York	U.S.	100.00	v
Verlagsgruppe Random House			
Gütersloher Verlagshaus GmbH, Gütersloh	Germany	100.00	v
Verlag RM GmbH, Gütersloh	Germany	100.00	v
Verlagsgruppe Random House GmbH, Munich	Germany	100.00	v
Random House U.K., Australia, New Zealand, South Africa			
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	U.K.	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	49.95	q
Grupo Editorial Random House Mondadori, S.L., 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 Mondadori, S.A., Caracas	Venezuela	50.00	q
Random House Asia			
Random House Kodansha Co., Limited, Tokyo	Japan	50.00	q
Random House JoogAng Inc., Seoul	Korea	50.00	q

As of December 31, 2004

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
DPV Deutscher Pressevertrieb GmbH, Hamburg	Germany	74.90	v
Ehlich & Sohn GmbH & Co. KG, 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 Woman Verlag GmbH, Hamburg	Germany	74.90	v
G+J Women New 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 KG, 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
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
Magazines France & U.S.			
Gruner + Jahr Publishing, New York	U.S.	74.90	v
Lexa TV S.N.C., Paris	France	74.90	v
NG France S.N.C., Paris	France	74.90	v
Orion S.N.C., Paris	France	74.90	v
Prisma Presse S.N.C., Paris	France	74.90	v
VIVIA S.N.C., Paris	France	74.90	v
VSD S.N.C., Paris	France	74.90	v
Magazines International			
GALA Ediciones S.L., Madrid	Spain	37.45	q
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 Publishing C.V. National Geografic Nederland, Amsterdam	Netherlands	37.82	v
G+J RBA Sp. z o.o. & Co. Spolka komanditowa, Warsaw	Poland	74.53	v
G+J Uitgevers C.V., Diemen	Netherlands	74.90	v
Gruner + Jahr / Mondadori S.p.A., Milan	Italy	50.00	q
Gruner + Jahr Polska Sp. z o.o. & Co. Spolka Komandytowa, Wroclaw	Poland	74.90	v
Gruner + Jahr ZAO, Moscow	Russia	74.90	v
RBA Lexa Venture Polska Sp.zo.o., Warsaw	Poland	74.90	v
Shanghai G+J Consulting and Service Co., Limited, Shanghai	China	74.90	v
Verlagsgruppe NEWS Ges.m.b.H., Vienna	Austria	41.96	v
Newspapers/Trade Press			
Berlin Online Stadtportal GmbH & Co. KG, Berlin	Germany	33.71	e
Börse Online Verlag GmbH & Co. KG, Munich	Germany	74.90	v
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	37.45	q
Morgenpost Sachsen GmbH, Dresden	Germany	44.94	v
MVD Medien Vertrieb Dresden GmbH, Dresden	Germany	44.94	v
Saxo-Phon GmbH, Dresden	Germany	44.94	v
Printing			
Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden (Printing plant)	Germany	44.94	v
Gruner + Jahr AG & Co KG, Hamburg (Printing plant Itzehoe)	Germany	74.90	v
GWL-Gruner Druck Weiterverarbeitung und Logistik GmbH, Itzehoe	Germany	74.90	v
Brown Printing Company, Waseca	U.S.	74.90	v
Corporate and Publishing Services			
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	18.91	e

BMG

Sony BMG Music Entertainment			
North America			
Arista Records, Delaware	U.S.	50.00	q
Columbia Records Corporation, New York	U.S.	50.00	q
Epic Records, New York	U.S.	50.00	q
J Records, New York	U.S.	50.00	q
LaFace Records, New York	U.S.	50.00	q
Legacy Recordings - Sony BMG Catalog, New York	U.S.	50.00	q
Provident Music Group, Wilmington	U.S.	50.00	q
RCA Label Group, Nashville	U.S.	50.00	q
RCA Music Group, New York	U.S.	50.00	q
Sony BMG Canada, Toronto	Canada	50.00	q
Sony BMG Masterworks, New York	U.S.	50.00	q
Sony Music Nashville	U.S.	50.00	q
Sony Wonder, New York	U.S.	50.00	q
Zomba Records, Wilmington	U.S.	50.00	q
Europe			
Sony BMG Germany, Munich	Germany	50.00	q
Sony BMG Belgium, Brussels	Belgium	50.00	q
Sony BMG France, Paris	France	50.00	q
Sony BMG Italy, Rome	Italy	50.00	q
Sony BMG Netherlands, Hilversum	Netherlands	50.00	q
Sony BMG Spain, Madrid	Spain	50.00	q
Sony BMG Sweden, Stockholm	Sweden	50.00	q
Sony BMG UK & Ireland, London	U.K.	50.00	q
Latin America			
Sony BMG Argentina, Buenos Aires	Argentina	50.00	q
Sony BMG Brazil, Rio de Janeiro	Brazil	50.00	q
Sony BMG Chile, Santiago	Chile	50.00	q
Sony BMG Mexico, Mexico City	Mexico	50.00	q
Asia/Pacific			
BMG Funhouse, Tokyo	Japan	50.00	q
Sony BMG Africa, Johannesburg	South Africa	50.00	q
Sony BMG Australia, Sydney	Australia	50.00	q
Sony BMG Hong Kong, Hong Kong	China	50.00	q
Sony BMG Korea, Seoul	Korea	50.00	q
Sony BMG New Zealand, Auckland	New Zealand	50.00	q
Sony BMG Singapore, Singapore	Singapore	50.00	q
Sony BMG Taiwan, Taipei	Taiwan	50.00	q
BMG Music Publishing			
North America			
BMG Songs, Inc., Sacramento	U.S.	100.00	v
Zomba Enterprises, Inc., New York	U.S.	100.00	v
Europe			
Arabella Musikverlag GmbH, Munich	Germany	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	U.K.	100.00	v
BMG Ricordi Music Publishing S.p.A., Milan	Italy	100.00	v
Cezame Argile Productions Editions S.A., Paris	France	100.00	v
Editions Durand S.A., Paris	France	100.00	v
Silvertone Records Limited, London	U.K.	100.00	v
Zomba Music Publishers Limited, London	U.K.	100.00	v
Latin America			
BMG Music Publishing, S.A. de C.V., Mexico City	Mexico	100.00	v
Asia/Pacific			
BMG Funhouse Music Publishing, Inc., Tokyo	Japan	100.00	v
Zomba Production Music (Australia), Pty Limited, North Sydney	Australia	100.00	v

Arvato

Printing							
Deutscher Supplement Verlag GmbH, Nuremberg	Germany	75.00	v	Cross Marketing Arvato Services GmbH, Munich	Germany	100.00	v
Fernwärme GmbH, Gütersloh	Germany	51.00	v	Deutsche Post Adress GmbH, Bonn	Germany	49.00	q
GGP Media GmbH, Pößneck	Germany	100.00	v	Inmedia One GmbH, Gütersloh	Germany	100.00	v
Maul + co – Chr. Belser GmbH, Nuremberg	Germany	75.00	v	Lambourne Productions GmbH, Herne	Germany	100.00	v
Maul + co – Chr. Belser Klebebindung GmbH, Nuremberg	Germany	75.00	v	Media Log Spedition GmbH, Gütersloh	Germany	100.00	v
Maul + co – Chr. Belser Studios GmbH, Nuremberg	Germany	75.00	v	PVS Mailmanagement GmbH, Neckarsulm	Germany	100.00	v
Maul-belser mb Tiefdruck GmbH & Co. KG, Nuremberg	Germany	75.00	v	Rough Trade Distribution GmbH, Herne	Germany	100.00	v
MB Tiefdruck GmbH, Nuremberg	Germany	75.00	v	Thomas Abeking Verlag für technische Dokumentation GmbH, Grefrath	Germany	100.00	v
Medienfabrik Gütersloh GmbH, Gütersloh	Germany	90.00	v	Verlag Automobil Wirtschaft GmbH, Grefrath	Germany	100.00	v
Mobilitäts-Verlag GmbH, Berlin	Germany	100.00	v	Verlegerdienst München GmbH, Gilching	Germany	100.00	v
MOHN Media Kalender & Promotion Service GmbH, Gütersloh	Germany	100.00	v	Webmiles GmbH, Munich	German	87.53	v
MOHN Media Mohndruck GmbH, Gütersloh	Germany	100.00	v	ALLDIREKT Telemarketing GmbH, Salzburg	Austria	100.00	v
ProBind Professional Binding GmbH, Gütersloh	Germany	95.00	v	Arvato BPO Services India Private Limited, New Delhi	India	51.00	v
TV Information Services GmbH, Nuremberg	Germany	75.00	v	Arvato Communication Services France S.A.R.L., Noyelles sous Lens	France	100.00	v
Wahl Media GmbH, Munich	Germany	100.00	v	Arvato Customer Services N.V., Kontich	Belgium	80.00	v
WOSCHEK Verlags GmbH, Mainz	Germany	90.00	v	Arvato Data Services N.V., Kontich	Belgium	80.00	v
Berryville Graphics, Inc., Wilmington	U.S.	100.00	v	Arvato Logistics Services AG, Pratteln	Switzerland	100.00	v
Cobrhi, S.L., Madrid	Spain	100.00	v	Arvato Media Services France SAS, Noyelles sous Lens	France	100.00	v
Coral Graphic Services, Inc., Hicksville	U.S.	95.10	v	Arvato Print and Mail Services N.V., Kontich	Belgium	80.00	v
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Editoriale Johnson S.p.A., Seriate	Italy	98.82	v	Arvato Services Asia Pacific Pte. Limited, Singapore	Singapore	100.00	v
Eurogravure S.p.A., Bergamo	Italy	69.18	v	Arvato Services Australia Pacific Pty. Limited, Castle Hill (Sydney)	Australia	100.00	v
Eurohueco, S.A., Castellbisbal (Barcelona)	Spain	75.00	v	Arvato Services Belgium N.V., Antwerp	Belgium	80.00	v
Gravureworx Limited, Liverpool	U.K.	100.00	v	Arvato Services Canada, Inc., Toronto	Canada	100.00	v
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MOHN Media France S.A.R.L., Villepinte	France	100.00	v	Arvato Services Iberia. S.A., Barcelona	Spain	100.00	v
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Offset Paperback MFRS., Inc., Dallas	U.S.	100.00	v	Arvato Telekomünikasyon Hizmetleri Anonim Sirketi, Istanbul	Turkey	100.00	v
OOO Distribuzionny zentr Bertelsmann, Jaroslavl	Russia	100.00	v	AZ Direct AG, Luzern	Switzerland	100.00	v
Printer Colombiana, S.A., Santa Fé de Bogotá	Colombia	50.89	v	BenefitNation, Inc., Fairfax Station	U.S.	100.00	v
Printer Industria Gráfica, S.A., Sant Vicenc dels Horts (Barcelona)	Spain	100.00	v	Bertelsmann Marketing Service India Private Limited, New Delhi	India	51.00	v
Printer Portuguesa-Indústria Gráfica, Limitada, Mem Martins (Algueirao)	Portugal	100.00	v	Bertelsmann Media Sp. z o.o z siedziba w Warszawie Oddzial "Arvato Services Polska", Plewiska k/Poznania	Poland*	100.00	v
Rotedic, S.A., Madrid	Spain	100.00	v	Bertelsmann Österreich GmbH, Vienna	Austria	100.00	v
Services							
ABIS GmbH, Frankfurt am Main	Germany	39.20	q	BFS Finance Limited, Dublin	Ireland	100.00	v
Adress Research GmbH, Gütersloh	Germany	39.20	q	DM Michelotti AG, Rotkreuz	Switzerland	100.00	v
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Arvato Direct Services Dortmund GmbH, Dortmund	Germany	100.00	v	DM-Plus Direktmarketing GmbH, Vienna	Austria	100.00	v
Arvato Direct Services Eiweiler GmbH, Heusweiler-Eiweiler	Germany	100.00	v	Eurodirect – Sociéte Européenne de Routage S.A., Geispolsheim	France	100.00	v
Arvato Direct Services GmbH, Gütersloh	Germany	100.00	v	Eurodirect Marketing Lettershop SAS, Geispolsheim	France	100.00	v
Arvato Direct Services Gütersloh GmbH, Gütersloh	Germany	100.00	v	Euromedia Group k.s., Prague	Czech Republic*	100.00	v
Arvato Direct Services Münster GmbH, Münster	Germany	100.00	v	Europost SAS, Saulcy sur Meurthe	France	100.00	v
Arvato Direct Services Nürnberg GmbH, Nuremberg	Germany	100.00	v	Gauntlet Entertainment Limited, Orpington	U.K.	100.00	v
Arvato Direct Services Stuttgart GmbH, Kornwestheim	Germany	100.00	v	Maximail N.V., Brussels	Belgium	80.00	v
Arvato Direct Services Wilhelmshaven GmbH, Schortens	Germany	100.00	v	Phone Assistance, S.A., Casablanca	Marocco	54.90	v
Arvato Direct Services Wuppertal GmbH, Wuppertal	Germany	100.00	v	Phone Servipius, S.A., Casablanca	Marocco	55.00	v
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Arvato Logistics Services GmbH, Gütersloh	Germany	100.00	v	Pinnacle Software Limited, Orpington	U.K.	100.00	v
Arvato Media GmbH, Gütersloh	Germany	100.00	v	Total Distribución, S.A., Alcorcón (Madrid)	Spain	66.67	v
Arvato Technology ELC GmbH, Düren	Germany	100.00	v	VAW CZ, s.r.o., Mladá Boleslav	Czech Republic	100.00	v
Arvato Technology GmbH, Gütersloh	Germany	100.00	v	Verlag Automobil Wirtschaft (Pty.) Limited, Port Elizabeth	South Africa	100.00	v
AZ Direct GmbH, Gütersloh	Germany	100.00	v	Verlag Automobil Wirtschaft GmbH do Brasil Ltda., Sao Paulo	Brazil	100.00	v
Bedirect GmbH & Co. KG, Gütersloh	Germany	50.00	q	Verlag Automobil Wirtschaft, S.L., Barcelona	Spain	100.00	v
BFS Finance GmbH, Verl	Germany	100.00	v	Verlagsservice für Bildungssysteme und Kunstobjekte GmbH & Co. KG, Vienna	Austria	75.00	v
BFS Finance Münster GmbH, Münster	Germany	100.00	v	Verlagsservice Süd AG, Glattbrugg	Switzerland	100.00	v
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BFS Risk & Collection GmbH, Verl	Germany	100.00	v				
BFS Risk Management GmbH, Verl	Germany	74.80	v				

IT			
Arvato Mobile GmbH, Hamburg	Germany	100.00	v
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Arvato Systems (Shanghai) Co. Limited, Shanghai	China	100.00	v
Arvato Systems North America, Inc., Wilmington	U.S.	100.00	v
Arvato Systems UK & Ireland Limited, London	U.K.	100.00	v
Empolis NA, Inc., Burlington	U.S.	100.00	v
Empolis Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	95.05	v
Empolis UK Limited, Swindon	U.K.	100.00	v
TJ net S.p.A., Rome	Italy	100.00	v
Storage Media			
Arvato Storage Media 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
Arvato de Mexico, S.A. de C.V., Mexico City	Mexico	100.00	v
Arvato do Brasil Indústria e Serviços Gráficos, Logística e Distribuidora Ltda., Sao Paulo	Brazil	100.00	v
Sonopress – Rimo Argentina, S.A., Buenos Aires	Argentina	52.00	v
Sonopress (UK) Limited, Wednesbury (Birmingham)	U.K.	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	100.00	v
Sonopress Italia S.r.l., Milan	Italy	100.00	v
Sonopress LLC, Wilmington	U.S.	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 – Swiat Ksiazki, Warsaw	Poland	100.00	v
Bertelsmann Media Moskau AO, Moscow	Russia	100.00	v
Bertelsmann Medien (Schweiz) AG, Zug	Switzerland	100.00	v
Book Club "Family Leisure Club", Charkow	Ukraine	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
ECl voor Boeken en Platen B.V., Vianen	Netherlands	100.00	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'Édition et de Diffusion SGED, s.n.c. (i.L.), Paris	France	50.00	q
Clubs Asia			
Beijing 21st Century Book Chain Co. Limited, Beijing	China	40.00	q
Bertelsmann Asia Publishing, Hong Kong	China	100.00	v
Bertelsmann Korea Co., Limited, Seoul	Korea	100.00	v
DirectSourcing (HK) Limited, Hong Kong	China	100.00	v
Hangzhou Rongshuxia Culture Information Consulting Co. Limited, Shanghai	China	58.50	v
Shanghai Bertelsmann Culture Industry Co. Limited, Shanghai	China	80.00	v
Shanghai Bertelsmann Information Technology Co. Limited, Shanghai	China	100.00	v
English-speaking Clubs			
BOL limited, London	U.K.	100.00	v
Book Club Associates, London	U.K.	100.00	v
Bookspan (Partnership), Delaware	U.S.	50.00	q
Doubleday Australia Pty. Limited, Lane Cove (Sydney)	Australia	100.00	v
Doubleday Canada Limited, Toronto	Canada	100.00	v
BMG Direct			
BMG Direct Marketing, Inc., Wilmington	U.S.	100.00	v
Other			
Bertelsmann Multimedia GmbH, Gütersloh	Germany	100.00	v
BOL.com AG, Gütersloh	Germany	100.00	v
Buch.de AG, Münster	Germany	26.70	e

v = fully consolidated

q = proportionally consolidated

e = associated companies recognized at equity

* = operating department

34 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, 2004:

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 Deutschland GmbH	Gütersloh
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
Gütersloher Verlagshaus GmbH	Gütersloh
Hotel & Gastronomie Gütersloh GmbH	Gütersloh
Inmedia One 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, 2004:

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

35 Recommendation on Appropriation of Retained Earnings

On May 19, 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 €871 million.

The Executive Board recommends to the general meeting that the remaining retained earnings of €795 million be appropriated as follows:

	€ in millions
Remaining retained earnings	795
Dividends to shareholders	(324)
Carryforward to new fiscal year	471

Gütersloh, March 3, 2005

Bertelsmann AG
The Executive Board:

Dr. Thielen

Dr. Luther

Dr. Kundrun

Olson

Ostrowski

Schmidt-Holtz

Dr. Walgenbach

SUPERVISORY BOARD

REINHARD MOHN

Honorary Chairman

PROF. DR. DIETER H. VOGEL

Chairman

(since 1/1/2004)

Managing partner of
LGB & Vogel GmbH

- ▶ Mapress GmbH (Chairman)
(until 1/27/2004)
- ▶ Mobilcom AG (Chairman)
- ▶ Wacker Construction
Equipment AG (Chairman)
- ▶ WCM Beteiligungs- und
Grundbesitz AG (Chairman)
- ▶ Blücher Aps (until 1/27/2004)
- ▶ Gerling Beteiligungs-GmbH
(since 1/1/2004)
- ▶ HSBC Trinkaus & Burkhardt KGaA

PROF. DR. JÜRGEN STRUBE

Vice Chairman

(since 1/1/2004)

Chairman of the Supervisory Board,
BASF AG

- ▶ Allianz Lebensversicherungs-AG
- ▶ BASF AG (Chairman)
- ▶ BMW AG
- ▶ Commerzbank AG
- ▶ Fuchs Petrolub AG (Chairman)
- ▶ Hapag-Lloyd AG
- ▶ Linde AG

DR. ROLF-E. BREUER

Chairman of the Supervisory Board,
Deutsche Bank AG

- ▶ Deutsche Bank AG (Chairman)
- ▶ Deutsche Börse AG (Chairman)
- ▶ Eon AG
- ▶ 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. (until 4/31/2004)
- ▶ CITIC Pacific Limited
- ▶ Great-West Lifeco Inc.
- ▶ Groupe Bruxelles Lambert S.A.
(until 3/30/2004)
- ▶ IGM Financial Inc.
- ▶ Pargesa Holding S.A.
- ▶ Power Financial Corporation
(Vice Chairman)
- ▶ The Great-West Life Assurance
Company

DR. CLAUD-MICHAEL DILL

(since 5/17/2004)

Chairman of the Executive Board,
Axa Konzern AG

- ▶ Axa Krankenversicherung AG
(Chairman)
- ▶ Axa Art Versicherung AG (Chairman)
- ▶ Deutsche Ärzteversicherung AG
(Chairman)
- ▶ Roland Rechtsschutz-
Versicherung-AG (Chairman)
- ▶ Kölnische Rückversicherung AG
(Vice Chairman)
- ▶ Tüv Rheinland Holding AG (Chairman)
- ▶ Axa Financial Inc.
- ▶ Axa Technology Services
- ▶ Deutsche Bank AG
- ▶ Equitable Life Assurance Society
of the United States
- ▶ Mony Life Insurance Company

PROF. DR. MICHAEL HOFFMANN-BECKING

(until 5/17/2004)

Lawyer

- ▶ Delton AG
- ▶ Rheinische Bahngesellschaft AG
- ▶ C.H. Boehringer Sohn
- ▶ de Haen-Carstanjen GmbH
- ▶ HSBC Trinkaus Burkhardt KGaA
- ▶ Felix Schoeller Holding
GmbH & Co. KG (Chairman)

SIR PETER JOB

Former Chief Executive Officer,
Reuters Group PLC

- ▶ Deutsche Bank AG
- ▶ Glaxo Smithkline PLC
- ▶ Instinet Group Inc.
- ▶ Schroders PLC
- ▶ Shell Transport and Trading PLC
- ▶ Tibco Software Inc.

JOHN R. JOYCE

Senior Vice President and Group
Executive, IBM Global Services

**DR. HANS-JOACHIM
KÖRBER**

(since 5/17/2004)

Chairman of the Executive Board,
Metro AG

- ▶ Kaufhof Warenhaus AG (Chairman)
- ▶ Real Holding GmbH
(until 2/19/2004 Chairman)
- ▶ Loyalty Partner GmbH
- ▶ Skandinaviska Enskilda Banken AB

OSWALD LEXER

Vice Chairman of the Bertelsmann
Corporate Works Council

LIZ MOHN

Member of the Bertelsmann
Stiftung 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 of Frère-Bourgeois,
Managing Director and Vice Chairman of
Compagnie Nationale à Portefeuille S.A.

- ▶ Groupe Bruxelles Lambert S.A.
- ▶ Groupe Taittinger S.A.
- ▶ Imerys S.A.
- ▶ Pargesa Holding S.A.
- ▶ Quick S.A.
- ▶ RTL Group S.A.
- ▶ Société du Louvre S.A.

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.

CHRISTIAN VAN THILLO

Chief Executive Officer, De Persgroep NV

**COMMITTEES OF THE
SUPERVISORY BOARD****Personnel Committee**

Prof. 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
John R. Joyce
Erich Ruppik
Gilles Samyn

Strategy and Investment Committee

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

**Working Group of Employee
Representatives**

on the Supervisory Board
Liz Mohn (Chairwoman)
Oswald Lexer
Willi Pfannkuche
Erich Ruppik
Richard Sarnoff

- ▶ 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

EXECUTIVE BOARD

DR. GUNTER THIELEN

Chairman and Chief Executive Officer

- ▶ Arvato AG (Chairman)
- ▶ Druck- und Verlagshaus Gruner + Jahr AG (Chairman)
- ▶ Karstadt Quelle AG¹⁾ (until 5/4/2004)
- ▶ Leipziger Messe GmbH¹⁾
- ▶ Bertelsmann Inc. (Chairman)
- ▶ RTL Group S.A.
- ▶ Sony BMG Music Management Co., LLC (since 8/5/2004)

DR. SIEGFRIED LUTHER

Vice Chairman and Chief Financial Officer

- ▶ Druck- und Verlagshaus Gruner + Jahr AG
- ▶ West LB AG¹⁾ (until 6/29/2004)
- ▶ Bertelsmann Inc.
- ▶ RTL Group S.A. (since 12/9/2004 Chairman)
- ▶ Sony BMG Music Management Co., LLC (since 8/5/2004)

DR. BERND KUNDRUN

Chairman and Chief Executive Officer, Gruner + Jahr AG

- ▶ Gruner + Jahr Holding AG, Vienna
- ▶ Gruner + Jahr USA Group Inc.
- ▶ Stern Magazine Corporation
- ▶ 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

PETER OLSON, J.D./MBA

Chairman and Chief Executive Officer, Random House

- ▶ Bertelsmann Inc.
- ▶ Grupo Editorial Random House Mondadori S.L.
- ▶ Random House Direct Inc.
- ▶ Random House JoongAng Inc. (since 1/1/2004)
- ▶ Random House Kodansha Inc.
- ▶ Random House TPR Inc.
- ▶ Random House Ventures LLC

HARTMUT OSTROWSKI

Chairman Arvato AG

- ▶ Webmiles GmbH (Chairman)
- ▶ Arvato Services Canada Inc. (since 12/29/2004)
- ▶ Arvato Services Inc.
- ▶ Bertelsmann Holding Spain S.A. (Chairman)
- ▶ 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. (Chairman)
- ▶ Istituto Italiano d'Arti Grafiche S.p.A. (Chairman)
- ▶ Maul + co – Chr. Belser GmbH (Chairman)
- ▶ Phone Assistance S.A.
- ▶ Printer Industria Gráfica S.A. (Chairman)
- ▶ Offset Paperback MFRS Inc.
- ▶ Stampers Limited

ROLF SCHMIDT-HOLTZ

Chairman and Chief Executive Officer, Bertelsmann Music Group (BMG) Chief Creative Officer Bertelsmann AG

- ▶ Druck- und Verlagshaus Gruner + Jahr AG
- ▶ Ariola Eurodisc Inc. (until 8/6/2004)
- ▶ Arista Records Inc. (until 7/30/2004)
- ▶ Bertelsmann Inc.
- ▶ Bertelsmann Music Group Inc. (until 8/6/2004)
- ▶ Bertelsmann Music Publishing NA Inc.
- ▶ Bertelsmann TJS Inc. (until 8/6/2004)
- ▶ BMG Australia Limited (until 8/6/2004)
- ▶ BMGJ LLC (until 8/6/2004)
- ▶ BMG Music (until 8/6/2004)
- ▶ BMG New Zealand Limited (until 8/6/2004)
- ▶ BMG Songs Inc. (until 6/30/2004)
- ▶ BMG Special Products Inc. (until 8/6/2004)
- ▶ Careers-BMG Music Publishing Inc. (until 7/29/2004)
- ▶ RTL Group S.A.
- ▶ Sony BMG Music Management Co., LLC (since 8/5/2004) (Chairman)
- ▶ Zomba Enterprises Inc.
- ▶ Zomba Recording Corporation (until 7/30/2004)
- ▶ Zomba Records Limited (until 8/6/2004)

DR. EWALD WALGENBACH

Chief Executive Officer, Direct Group Bertelsmann

- ▶ BOL.com AG (Chairman)
- ▶ Bertelsmann Korea Co. Limited
- ▶ Bookspan Partnership
- ▶ ECI voor boeken en platen B.V. (until 7/20/2004)
- ▶ FCB Freizeitclub GmbH & Co. KG
- ▶ RTL Group S.A.
- ▶ Shanghai Bertelsmann Culture Industry Co. Limited (until 6/17/2004)

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, 2004. 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 is 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, 2004, 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, 2004 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 4, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke
Wirtschaftsprüfer

Kämpf
Wirtschaftsprüfer

SELECT TERMS AT A GLANCE

IFRS

International Financial Reporting Standards. Accounting standards intended to ensure internationally comparable accounting and reporting.

Impairment

Write-downs of assets to their recoverable amount.

Joint venture

Agreement to jointly operate, contribute capital to, supply know-how to, and divide profits from, an entity.

Operating EBIT

Earnings before interest, taxes and special items.

Operating EBITDA

Earnings before interest, taxes, depreciation, amortization and special items.

Rating

Expression of creditworthiness of a creditor or financial instrument by an agency specialized in analysis.

Syndicated credit line

Syndicated loan facility involving a consortium of banks.

Special items

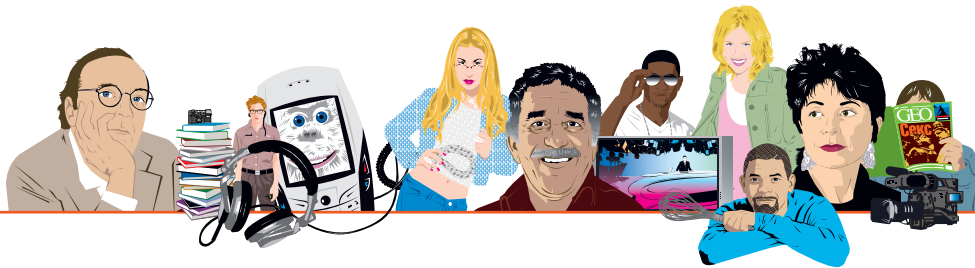
Income and expense items which are distinguished by their nature and the size or frequency of occurrence, and disclosure of which is relevant for assessing the earnings power of the entity or its segments in the period affected. IFRS requires these items to be separately disclosed. They include, for example, restructuring measures, impairments and gains or losses on disposals of participations.

Merger gain

The positive difference between total carrying values of the net assets of the transferring entity and the total consideration paid by the acquiring entity.

VSOP

Virtual Stock Option Plan. Framework program for granting a long-term, performance-linked element to the remuneration of management.



The cover illustrations show
from left to right:

James Patterson; Yetisports by
Arvato Mobile; Anastacia;
Gabriel García Márquez; Usher; Dido;
Tim Mälzer; Isabel Allende

FINANCIAL CALENDAR

May 3, 2005

Announcement of figures for
the first three months of 2005

May 19, 2005

Payout of dividends on Profit
Participation Certificates for
the 2004 fiscal year

September 7, 2005

Announcement of figures for
the first half of 2005

November 16, 2005

Announcement of figures for
the first nine months of 2005

IMPRINT

Editing and Coordination

Bertelsmann AG
Corporate Communications/
Media Relations

Design

Ringzwei, Hamburg

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Peter Stemmler, New York

Production

Medienfabrik Gütersloh GmbH,
Gütersloh

Print

Mohn Media · Mohndruck GmbH,
Gütersloh

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The Annual Report and current
information on Bertelsmann is
also posted at:

www.bertelsmann.de
www.bertelsmann.com

The Annual Report is also
available in German.

