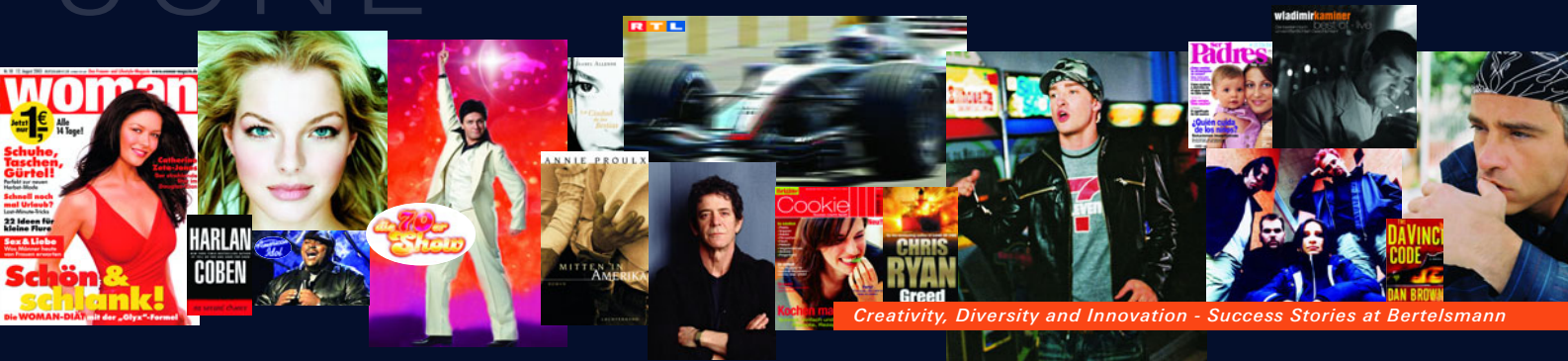


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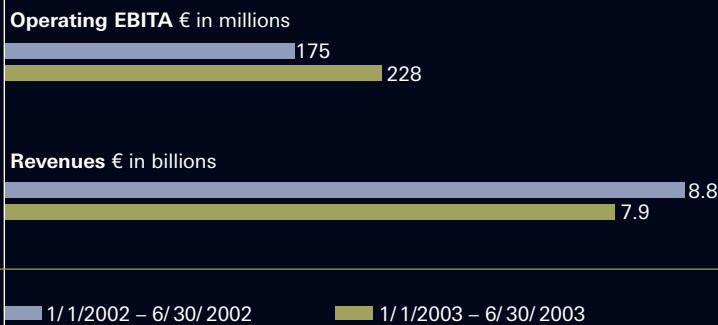


Creativity, Diversity and Innovation - Success Stories at Bertelsmann

Interim Report 2003

BERTELSMANN
media worldwide

Group development



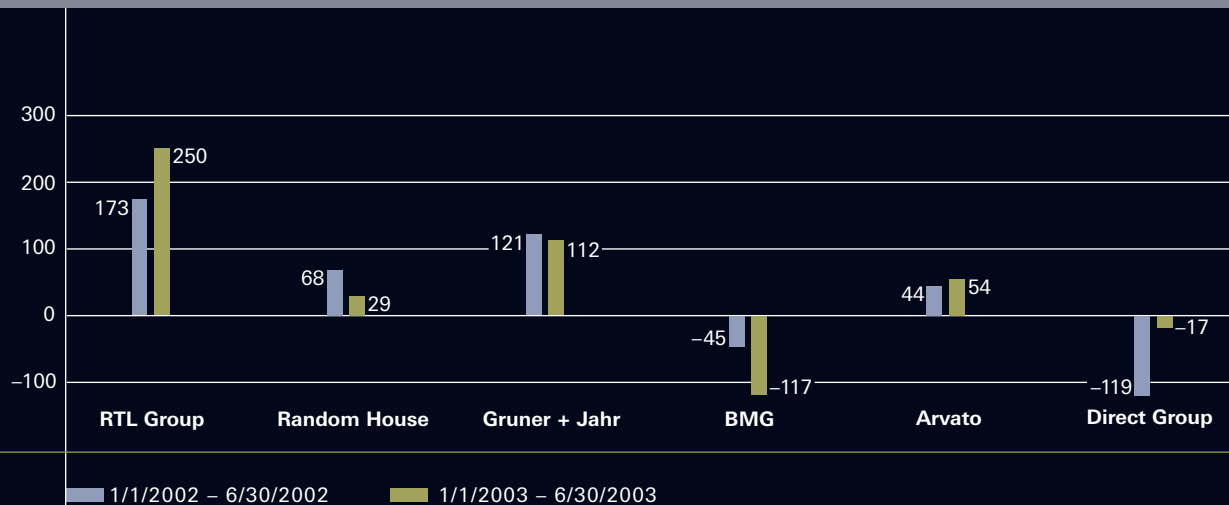
State of the Business January through June 2003

In the first half of 2003, Bertelsmann continued the progress it achieved in 2002 and further improved operating profit. The Group recorded revenues of € 7.9 billion (first half of 2002: € 8.8 billion). Operating EBITA of € 228 million was 30 percent higher than for the same period in 2002 (€ 175 million). Net income for the first six months of 2003 was € 142 million (first half of 2002: € 1.6 billion).

Revenues

The decrease of 10.7 percent in revenues versus the first six months of 2002, to € 7.9 billion, was affected by a weak US dollar as well as by the overall state of the global economy. Adjusted for exchange rate effects, acquisitions and disposals, revenues declined by 3.1 percent compared with the first half of 2002. Significant media markets in which Bertelsmann is involved were affected by consumer reticence, particularly in the US. With sales volumes staying steady in Germany and the rest of Europe, both this and exchange rate fluctuations are the reasons for the US operations' share decreasing to 24.1 percent of total Group revenues for the first half of 2003. The change in revenues was also induced by the divisions' intensified concentration on their earnings potential. Sales levels were also influenced by the timing of new releases in the music and publishing divisions, which will be tilted more strongly to the second half of the year in 2003 than in the previous year. Bertelsmann Springer was included in the half year's figures up to March 31, 2003. Revenues for Zomba, the music company, acquired in November 2002, were included for the first time in the first six months of 2003.

Operating EBITA by Division € in millions



Operating EBITA

Operating EBITA reached € 228 million, topping the € 175 million achieved for the first half of 2002 by 30 percent. The major reasons for this improvement in results were decreased losses at Direct Group, a positive performance at RTL Group, and the group-wide optimization of business processes and cost structures. Consumer reticence as well as a release schedule with stronger emphasis on the second half of 2003 reduced results at Random House and BMG, while the music industry is additionally suffering from structural problems. Gruner + Jahr and Arvato were able to maintain or even increase last year's contributions to Group profits, despite a difficult business environment. The Group Operating EBITA is the sum of the Operating EBITA in all divisions, including Corporate. Beyond expenditures for the Corporate Center, Corporate also includes the income effects of investments at the corporate level (Corporate Investments). Operating EBITDA for the first six months of 2003 amounted to € 587 million.

Net Income for the First Six Months

Special items of € -53 million in the first half of 2003 were mainly expenditures for integrating Zomba into BMG and for restructuring within the music division. Capital gains, primarily arising from the sale of Bertelsmann Springer, totaled € 628 million. The amount of € 2.8 billion for the first half of 2002 arose primarily from the sale of shares in AOL Europe. After amortization of goodwill and similar rights of € 385 million (first half of 2002: € 1.4 billion), profit before financial result and taxes was € 418 million (first half of 2002: € 1.6 billion). After considering the financial result and taxes, net income before minority interests was € 142 million for the first six months of 2003 (first half of 2002: € 1.6 billion).

Additional Disclosures

Investments for the first half of 2003 totaled € 342 million (first half of 2002: € 2.1 billion), mainly relating to the acquisition of program rights (RTL Group) as well as replacement and expansion projects (Arvato, Gruner + Jahr). The amount for the first half of 2002 included in particular the purchase of a further 22 percent of RTL Group for € 1.5 billion. Net financial debt amounted to € 2.6 billion at June 30, 2003 and will decrease by the end of 2003 following receipt of the proceeds from the sale of Bertelsmann Springer. Via a private placement in the US and by issuing a Euro-benchmark bond, Bertelsmann underscored its focus on the capital markets as well as improving the maturity structure of its financing instruments. The US private placement involved issuing bonds in the United States totaling \$ 500 million and maturing in seven, ten and twelve years. The Eurobond issue, with a seven-year maturity, was increased to € 750 million due to strong investor interest.

Discontinuing Operation

In May 2003, Bertelsmann sold the specialist-publishing group Bertelsmann Springer to the private equity firms Cinvn and Candover effective April 1, 2003. The purchase price, free of debt, amounts to € 1.05 billion and a capital gain of € 630 million was recorded in the first half of 2003. Pension liabilities remain with Bertelsmann Springer. The transaction is expected to close by mid-September 2003. Arnold Bahlmann, former President and CEO of Bertelsmann Springer and member of the Executive Board of Bertelsmann AG, left Bertelsmann on June 30, 2003.

State of the Business by Divisions

RTL Group

RTL Group continued to build on the positive progress it made in 2002. Despite the ongoing difficulties in advertising markets, particularly in Germany, the Group was able to grow against the overall industry trend and recorded a clear increase in profit. RTL Television in Germany contributed significantly to this performance and attained its best audience levels since 1997 with innovative program formats such as "Deutschland sucht den Superstar", the German adaptation of "Pop Idol", and the "70's" and "80's" shows. Fremantle Media's success around the world with "Pop Idol", together with M6's satisfactory performance in France and Five's breakeven in the UK, also contributed to this performance. At the same time rigorous savings ensured that cost structures were tightened across the division.

Random House

The majority of the six-month Random House revenue decline from prior year was due to the weakness of the US dollar. Random House was also significantly impacted by weak consumer demand in the US and Germany and by the closure of several German publishing imprints, including the how-to book publishers Falken and Mosaik. The decrease of revenues was partially offset by such major bestsellers as "The Da Vinci Code" by Dan Brown and "The King of Torts" by John Grisham as well as by the audiobook for J. K. Rowling's fifth "Harry Potter" novel. Achievements in ongoing cost savings and a solid performance from Random House's U.K. group also helped offset Random House's revenue decline.

Gruner + Jahr

Despite difficult market conditions, Gruner + Jahr was able to maintain its operating results at the same level as for the first half of 2002, and even improved return on revenues over the first six months of the previous year. The decrease in revenues compared with the first half of 2002 was due to soft advertising volumes driven by the weakness of the economy as well as to the disposal of newspaper activities. Extensive investments in innovative magazines, such as "Woman" and "Neon" in Germany, "Shopping" in France and "Glamour" in Poland strengthened Gruner + Jahr's portfolio in its core business as well as its position in growing markets. With a steadily growing circulation and readership, the "Financial Times Deutschland" is Germany's fastest-growing nationwide daily.

BMG

BMG's business was considerably influenced by the continuing decline in the global music market. Major new releases were pushed back into the second half of the year. The resulting drop in revenues was partly offset by the first-time inclusion of Zomba. Profits were also affected by artist advance write-offs. However, BMG achieved major artistic successes and improved its market position in several areas. Artists such as R. Kelly, Avril Lavigne, "American Idol" finalist Kelly Clarkson, Justin Timberlake and Christina Aguilera were among the top sellers in North America, where BMG had No. 1 debuts from Monica and Luther Vandross. The new release from Annie Lennox debuted at No. 3 in the UK, while BMG was market leader in Germany with „Deutschland sucht den Superstar“. Italy's Eros Ramazzotti reached Top 10 in ten countries.

Arvato

The media services provider Arvato withstood difficult conditions in its core markets and was able to increase its Operating EBITA. In addition to the overall continuing weak state of the economy, the slight decline in revenues was mainly due to the weakness of the US dollar. Whilst Arvato Print's printing business was confronted with increased pricing pressure Arvato Services raised both revenues and profits. Arvato Storage Media held up well in a globally shrinking CD market. Sales volumes in the DVD segment rose sharply over the first half of 2002.

Direct Group

The decline in revenues at Direct Group is due to the withdrawal from pure e-commerce with media products, the focus on book and music clubs, the change in new member strategy for the US music club and currency effects relating to the US dollar and British pound. By focussing on its core business and rigorously pursuing cost reductions in all areas of its operations, Direct Group was able to almost entirely eliminate its losses. The profitable club activities were further expanded, particularly in Spain and France. The clubs in Germany and Great Britain are making significant progress. The US music club Be Music, made a positive contribution to profits and was able to resist the overall trend on the music market.

Outlook for 2003

Due to the seasonal nature of much of Bertelsmann's business, higher revenues and operating profits can be expected in the second half of the year than in the first six months. Bertelsmann holds to its forecast of attaining a higher Operating EBITA for the whole of 2003 than for 2002.

The sale to Barnes & Noble of Bertelsmann's holding in Barnesandnoble.com after the end of the first half year will have a positive effect on the Group's results in the second half.

With its ongoing and intensified concentration on core activities and earnings potential, together with a leaner organization and optimized cost structures, Bertelsmann believes it is well placed to face its international competitors.

The Executive Board expects that there will again be a distribution of 15 percent on the par value on the Bertelsmann profit participation certificates (ISIN DE0005229942) for fiscal 2003.

General Principles

This interim financial report for Bertelsmann AG was prepared in accordance with IAS 34 "Interim Financial Reporting". The same accounting policies were used as those applied in the annual financial statements for the year ended December 31, 2002, in which the accounting policies are described in detail. The interim report was reviewed by our auditors.

Consolidated Income Statement		
	1/1/2003 – 6/30/2003 € millions	1/1/2002 – 6/30/2002 € millions
Revenues	7,883	8,830
- of which from discontinuing operation	160	359
Change in inventories	-49	41
Own costs capitalized	51	10
Cost of materials	-2,214	-2,589
Royalty and license fees	-687	-795
Personnel costs	-2,130	-2,264
Amortization of intangible assets and depreciation of property, plant and equipment	-698	-705
Other operating expenses, net	-2,302	-2,665
Impairments of goodwill and similar rights	-37	-1,000
Capital gains/losses	628	2,849
Income from operating activities	445	1,712
Results of associated companies	-33	-64
Income from other participations	6	-2
Profit before financial result and taxes	418	1,646
- of which from discontinuing operation	-11	-24
Net interest	-52	-24
Other financial expenses and income	-120	-110
Financial result	-172	-134
Income taxes	-104	120
Net income before minority interests	142	1,632
Minority interests	-32	-18
Net income after minority interests	110	1,614

Reconciliation to Operating EBITA

Profit before financial result and taxes	418	1,646
Capital gains/losses	-628	-2,849
Special items	53	18
Amortization of goodwill and similar rights	378	1,352
Amortization of goodwill from associated companies	7	8
Operating EBITA	228	175
Operating EBITDA	587	541

Consolidated Balance Sheet		
	6/30/2003 € millions	12/31/2002 € millions
Assets		
Non-current assets		
Goodwill	7,140	7,787
Other intangible assets	1,009	1,231
Property, plant and equipment	2,337	2,802
Investments in associates	412	582
Other financial assets	383	404
	11,281	12,806
Current assets		
Inventories	1,770	1,961
Trade accounts receivable	2,618	3,251
Other receivables and other assets	3,905	2,780
Cash and cash equivalents	805	977
	9,098	8,969
Deferred tax assets	255	237
Prepaid expenses	260	176
	20,894	22,188
- of which from discontinuing operation	-	910
Equity and Liabilities		
Equity		
Subscribed capital	606	606
Capital reserve	2,725	2,725
Retained earnings	3,088	2,426
Net income after minority interests	110	928
Shareholders' equity	6,529	6,685
Minority interests	976	1,059
	7,505	7,744
Third-party liabilities		
Profit participation certificates	706	706
Provisions		
Provisions for pensions and similar obligations	1,672	1,737
Other provisions	2,568	2,944
	4,240	4,681
Liabilities		
Financial debt	3,442	3,718
Trade accounts payable	2,559	2,693
Other liabilities	1,978	2,031
	7,979	8,442
Deferred tax liabilities	90	83
Deferred income	374	532
	20,894	22,188
- of which from discontinuing operation (liabilities)	-	554

Segment Reporting Primary Format

	RTL Group		Random House		Gruner + Jahr		BMG		Arvato	
	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002
	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Consolidated revenues	2,179	2,099	741	1,003	1,235	1,434	1,072	1,165	1,368	1,353
Intercompany revenues	33	3	6	7	5	9	14	1	271	319
Revenues	2,212	2,102	747	1,010	1,240	1,443	1,086	1,166	1,639	1,672
Operating EBITA	250	173	29	68	112	121	-117	-45	54	44
Special items	-	-	-	-	-	-	-65	-	-17	-
Profit before financial result, taxes and amortization of goodwill and similar rights and capital gains/losses	250	173	29	68	112	121	-182	-45	37	44
Capital gains/losses	1	13	-4	3	5	35	-	-58	-	-
Total result	251	186	25	71	117	156	-182	-103	37	44
Amortization of goodwill and similar rights	-137	-126	-36	-39	-23	-41	-68	-1,024	-7	-10
Amortization of goodwill from associated companies	-7	-4	-	-	-	-1	-	-1	-	-2
Profit before financial result and taxes										
Financial result										
Taxes										
Net income before minority interests										
Profit before financial result, taxes and capital gains/losses	106	43	-7	29	89	79	-250	-1,070	30	32
Investments	91	1,742	21	26	48	52	40	17	96	140
Employees (at 6/30/03 / 12/31/02)	7,259	7,378	5,372	5,626	12,010	11,367	5,132	6,452	31,162	31,174
Employees (average)	7,291	7,007	5,411	5,794	11,998	12,625	5,197	4,703	31,175	30,258

Secondary Format

	Germany		Other European Countries		USA		Other Countries		Group	
	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002
	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Consolidated revenues	2,572	2,694	3,009	3,054	1,901	2,595	401	487	7,883	8,830
Investments	90	159	159	1,739	81	205	12	9	342	2,112

Direct Group		Total Segments		Corporate		Consolidation		Bertelsmann Springer		Total Group	
1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002	1/1/2003	1/1/2002
- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002	- 6/30/2003	- 6/30/2002
€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
1,126	1,372	7,721	8,426	4	45	-	-	158	359	7,883	8,830
8	2	337	341	1	2	-338	-343	-	-	-	-
1,134	1,374	8,058	8,767	5	47	-338	-343	158	359	7,883	8,830
-17	-119	311	242	-58	-67	-25	-26	-	26	228	175
-	-	-82	-	29	-18	-	-	-	-	-53	-18
-17	-119	229	242	-29	-85	-25	-26	-	26	175	157
3	24	5	17	625	2,828	-1	3	-1	1	628	2,849
-14	-95	234	259	596	2,743	-26	-23	-1	27	803	3,006
-8	-42	-279	-1,282	-90	-46	-	-	-9	-24	-378	-1,352
-	-	-7	-8	-	-	-	-	-	-	-7	-8
										418	1,646
										-172	-134
										-104	120
										142	1,632
-25	-161	-57	-1,048	-119	-131	-25	-26	-9	2	-210	-1,203
15	46	311	2,023	17	95	-	-20	14	14	342	2,112
12,099	12,309	73,034	74,306	938	1,044			-	5,282	73,972	80,632
12,143	12,502	73,215	72,889	939	1,588			2,562	5,384	76,716	79,861

Consolidated Cash Flow Statement

	1/1/2003 – 6/30/2003 € millions	1/1/2002 – 6/30/2002 € millions
Net cash from operating activities	352	58
– of which from discontinuing operation	42	57
Net cash from investing activities	-136	154
– of which from discontinuing operation	-13	-11
Net cash from financing activities	-362	-298
– of which from discontinuing operation	-36	-58
Change in cash and cash equivalents	-146	-86
Exchange rate movements and other changes in cash and cash equivalents	-26	-41
Cash and cash equivalents at the beginning of the period	977	2,044
Cash and cash equivalents at the end of the period	805	1,917

Consolidated Statement of Changes in Shareholders' Equity

	Subscribed Capital	Capital reserve	Retained earnings	Other comprehensive income			Net income after minority interests	Share- holders' equity
				Currency translation differences	Available for-sale securities	Derivative financial instruments		
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions

First half of 2002

Balance at Dec. 31, 2001	606	2,725	1,808	111	59	45	949	6,303
Change in shareholders' equity due to								
Dividends	–	–	–	–	–	–	-300	-300
Other comprehensive income								
Currency translation differences	–	–	–	96	–	–	–	96
Other changes	–	–	–	–	-68	-44	–	-112
Change recognized in income								
Transfer to retained earnings	–	–	649	–	–	–	-649	–
Net income after minority interests	–	–	–	–	–	–	1,614	1,614
Balance at June 30, 2002	606	2,725	2,457	207	-9	1	1,614	7,601

First half of 2003

Balance at Dec. 31, 2002	606	2,725	2,457	14	4	-49	928	6,685
Change in shareholders' equity due to								
Dividends	–	–	–	–	–	–	-240	-240
Other changes	–	–	-19	–	–	–	–	-19
Other comprehensive income								
Currency translation differences	–	–	–	10	–	–	–	10
Other changes	–	–	–	–	9	-26	–	-17
Change recognized in income								
Transfer to retained earnings	–	–	688	–	–	–	-688	–
Net income after minority interests	–	–	–	–	–	–	110	110
Balance at June 30, 2003	606	2,725	3,126	24	13	-75	110	6,529

Continuity and Innovation - Success Stories From 6 Months of Bertelsmann

Front cover (from left to right): "**Woman**", Gruner + Jahr; Harlan Coben "No Second Chance", Book of the Month Club, Direct Group; **Yvonne Catterfeld** "Meine Welt", "RCA Local, BMG; **Ruben Studdard**, winner of the second "American Idol" season, Fremantle Media, RTL Group und J-Records, BMG; "**Die 70er-Show**", RTL Television, RTL Group; **Annie Proulx** "Mitten in Amerika", Luchterhand Literaturverlag, Random House; **Isabel Allende** "La Ciudad de las Bestias", Circulo de Lectores, Direct Group; **Formel 1**, RTL Television, RTL Group; **Lou Reed** "NYC Man", RCA, BMG; "**Cookie**"; Gruner + Jahr; **Chris Ryan** "Greed", Century, Random House; **Justin Timberlake** "Justified", Jive, BMG; "**Ser Paredes**", Gruner + Jahr; **Guano Apes** "Walking On A Thin Line", Rock GUN Supersonic, BMG; **Wladimir Kaminer** "Best of... ", BMG Wort/Random House; **Dan Brown** "The Da Vinci Code", Doubleday, Random House; **Eros Ramazzotti** "9", Ariola, BMG.

Back cover (from left to right): **Christina Aguilera** "Stripped", RCA, BMG; "**Wer wird Millionär**", RTL Television, RTL Group; **Him** "Love Metal", Rock GUN Supersonic, BMG; "**Sponge Bob**", SuperRTL, RTL Group; "**GeoLenok**", Gruner + Jahr; Gilbert Bordes "**La couleur du bon pain**", France Loisirs, DirectGroup; **Antonia Rados**, RTL Television, RTL Group; **Luther Vandross** "Dance With My Father", J-Records, BMG; "**Neon**", Gruner + Jahr; **Annie Lennox** "Bare", RCA, BMG; **Alexander**, winner of "Deutschland sucht den Superstar", RTL Television & Grundy Light Entertainment, RTL Group, "**Take Your Chance**", Hansa Superstar, BMG; **Alice Sebold** "In meinem Himmel", Manhattan Verlag, Random House; "**Shopping**", Prisma Presse, Gruner + Jahr; "**Voxtours**", Vox, RTL Group; **Kelly Clarkson**, "Thankful", RCA, BMG.

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www.bertelsmann.de
www.bertelsmann.com

The six-months report is available in german as well.

