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Bertelsmann FY '02 Results Improve In Difficult Economic Times

Berlin (ots) -

- * Operating businesses strengthened against market trend
 - * Improved performance in all divisions
 - * Operating EBITA up by Euro 363m to Euro 936m
 - * Operating Return on Sales of 5.1 percent
 - * Net income high at nearly Euro 1bn
 - * Financial debt below Euro 3bn, despite high investments
 - * Cash Flow increased to Euro 1.1bn from Euro 294m

In 2002 Bertelsmann went against the market trend, improving its results in a challenging economic environment. Operating EBITA rose to Euro 936m from Euro 573m the previous year. All divisions were able to improve their results, due to a resolute focus on core businesses, creative successes in the content businesses, and stringent cost controls. The operating Return on Sales climbed to 5.1 percent, vs. 3 percent the previous year. Net income before minority interests amounted to Euro 968m. Despite high investments, net financial debt was below Euro 3bn. Cash Flow increased from Euro 294m to Euro 1.1bn. Internet losses were reduced by Euro 670m. At Euro 18.3bn, consolidated revenues were slightly below previous year (pro-forma Euro 19.0bn) - mostly due to the weak dollar. The number of employees was 80,632 as of December 31, 2002 vs. 80,296 as of December 31, 2001.

Bertelsmann earned significantly more from operations in 2002 than in the previous year. All divisions were able to sustainably improve their performance in 2002 and - all except DirectGroup - were operating in the black. Consolidated Operating EBITA rose from Euro 573m (pro-forma) to Euro 936m year-on-year. Operating EBITA on the 2002 statements include Internet losses, while Operating EBITA for the previous year does not include Internet losses of Euro 808m. This presentation of the 2002 result reflects the strategy of continuing Internet activities only as part of the core businesses.

Bertelsmann was able to improve its results despite a decline in revenues. The 3.5 percent decline vs. the previous year's pro-forma figure was caused primarily by the weakness of the U.S. dollar vs. the euro. The continuing decline in the advertising markets as well as decreases in the music club business and the distribution of independent music labels in the U.S. also contributed to this development.

Net income before minority interests amounted to Euro 968m (previous year: Euro 1.4bn). On the one hand, this reflects capital gains totaling Euro 2.9bn (previous year: Euro 5.5bn), most of which stemmed from the disposal of holdings in AOL Europe (Euro 2.8bn). However, amortizations of goodwill and similar rights and impairments impacted net income in the amount of Euro 2.5bn (previous year: Euro 1.4bn). The Euro 1.3bn impairment on the goodwill of the Zomba music company, acquired in 2002, was a key factor. Bertelsmann has now received all proceeds from the gradual disposal of AOL Europe holdings.

In May 2003, a 15 percent dividend will once again be paid out on Bertelsmann profit participation certificates, in accordance with the Profit Participation Certificate Terms & Conditions.

At the Annual Press Conference in Berlin, Bertelsmann Chairman & CEO Gunter Thielen declared: "Bertelsmann has focused its energy on the core businesses, cut its losses, and markedly increased its profitability. We earned significantly more than in 2001 in our

operating businesses and have stood our ground in a difficult economic situation. We exploited synergy potential and strengthened our market positions due to outstanding creative achievements. For 2003, we expect stable group revenues and a further increase in the operating result despite a persistently difficult economic environment."

Other Key Financials

Special items: The special items, which were not included in Operating EBITA, were significantly reduced year-to-year. In 2002, they amounted to minus Euro 111m (previous year: minus Euro 927m, plus Internet losses of Euro 808m) and were attributable to restructuring and write-downs, especially at DirectGroup.

Amortization of goodwill and similar rights amounted to Euro 2.5bn (previous year: Euro 1.4bn) and were mainly driven by an impairment on the goodwill of Zomba (Euro 1.3bn). The acquisition of Zomba, until then the world's biggest independent music label with Top Acts including Britney Spears, Nick Carter and Justin Timberlake, was based on a put option signed in 1991. The worldwide decline in music markets necessitated an impairment on the resulting goodwill.

Investments: Mainly due to the takeover of Zomba for Euro 2.3bn, and the acquisition of another 22 percent in RTL Group for Euro 1.5bn, investments amounted to Euro 5.3bn in 2002 (previous year: Euro 2.6bn). The acquisition price for Zomba has been netted by Euro 470m in cash and cash equivalents which were taken over as part of the acquisition.

Total Assets: Assets at the end of 2002 totaled Euro 22.2 billion (December 31, 2001: Euro 23.7 billion). Total assets have thus decreased despite considerable acquisitions, primarily due to a reduction of current assets and of cash and cash equivalents. At 34.9 percent (previous year: 35.3 percent), the equity ratio was well above the 25 percent target.

Net financial debt: Despite high investments, net financial debt, i.e. the financial debt including finance leasing obligations netted by cash and cash equivalents - amounted to Euro 2.7bn (previous year: Euro 859m). The company's long-term target is that net financial debt should not exceed one-and-a-half times the cash flow. In 2002, this pay back factor was at 2.5 years. Bertelsmann plans to increase its financial flexibility, primarily with the initiated disposal of the BertelsmannSpringer specialist-publishing group.

Revenues by Region: In 2002, 31.1 percent of total revenue was generated in Germany, 35.5 percent in the other European countries, 27.5 percent in the U.S. and 5.9 percent in other countries. Revenue contribution from the U.S. was down due to the weak dollar, as well as the slowdown in the U.S. music club business and in the U.S. distribution of independent music labels.

Divisions

RTL Group, Europe's No.1 in television, radio and TV production, had revenues of Euro 4.4 billion in 2002 (previous year: Euro 4.1 billion). Despite weak advertising markets, the company achieved Operating EBITA of Euro 465 million, a significant increase over the previous year (Euro 385 million). Especially in Germany, RTL Group's most important market, the advertising market was considerably down for the second consecutive year. RTL Group was able to compensate for this with internationally successful formats, a broad portfolio - both in terms of types of business and geography, cost management and a diversified revenue structure. In major markets such as Germany, France and Great Britain, the RTL Group TV stations were able to maintain or increase their audience share. In Germany, the RTL family of stations headed by market leader RTL Television was able to add advertising market shares as well. It was an especially good year for the production subsidiary FremantleMedia, which developed an unprecedented number of program ideas and distributed them all over

the world. One particular international triumph was FremantleMedia's TV format "Pop Idol," which enjoyed great success upon its launch in 2001 in Great Britain and went on to achieve record ratings in 2002 as "American Idol" in the U.S. and as "Deutschland sucht den Superstar" in Germany.

Random House, the world's leading trade book publisher, outperformed a persistently weak international book economy to achieve ambitious earnings goals, thanks to excellent publishing performance and rigorous cost management. The growth in revenues was counterbalanced by the weak dollar. As a result, revenues, at Euro 2.0 billion, remained stagnant at previous-year levels. Meanwhile, Operating EBITA reached Euro 168 million for 2002 (previous year: Euro 33 million). During 2002, Random House made significant reductions in corporate overhead and operating expenses without compromising the editorial accomplishments of its more than 100 publishing imprints worldwide. Book sales were up after two economically weak years for the book industry, especially in the English-speaking regions. This allowed Random House to offset the recession in the German-speaking book market. The Random House Group, comprising the United Kingdom, Australasia, and South Africa, posted the best result of any of the division's territorial companies, achieving, as in the past, a 12 percent Return on Sales. In the U.S., U.K. and Germany, Random House placed more than 300 titles on the leading national bestseller lists in 2002. Random House led the publishing industry with the most "New York Times" bestsellers -182 - for the fourth consecutive year in the U.S.

Gruner + Jahr, Europe's biggest magazine publisher, generated revenues of Euro 2.8 billion in 2002 (previous year: Euro 3.0 billion). Most of this decline in revenues was the result of the disposal of the newspaper activities in Berlin, which were only consolidated through June 30, 2002. The decline in the advertising market, especially in Germany, put an additional strain on revenues. Operating EBITA amounted to Euro 226 million (previous year: Euro 198 million). 2002 Operating EBITA includes Internet losses, while pro-forma Operating EBITA 2001 was adjusted for Internet losses of Euro 88 million. Taking the Internet losses for 2001 into account, Operating EBITA has therefore doubled year-on-year from Euro 110 million to Euro 226 million. Gruner + Jahr was able to master the difficult general conditions in 2002 with a number of countermeasures taken early on and thanks to its international portfolio. Measures ranged from innovations such as the launch of new magazine titles - for example "Woman" in Germany - to extensive cost and efficiency measures. The high share of revenues generated outside Germany, i.e. more than 60 percent, was largely able to compensate the negative trend in the German market. G+J USA increased its advertising sales by over 13 percent.

Following extensive restructuring and strategic realignment, BMG delivered a year of strong chart performances and increasing market shares. With Operating EBITA of Euro 125 million (previous year: minus Euro 79 million), BMG successfully managed a return to profitability. Due to the weak dollar and a decline in the U.S. distribution of independent labels, revenues declined to Euro 2.7 billion (previous year: Euro 3.0 billion). But because BMG's own U.S. labels sustained their revenues, BMG improved its market share in a globally declining music market from about eight percent to nearly ten percent. In the U.S., BMG improved its current-album market share to over 17 percent, making it the country's No.2 music major. This was achieved with a series of successful releases by stars including Carlos Santana, Christina Aguilera and Rod Stewart, new CDs commemorating the 25th anniversary of Elvis Presley's death, and the introduction of young, innovative artists such as Avril Lavigne and P!nk. A total of 22 BMG albums sold more than a million copies each in 2002, seven more than in 2001. BMG further strengthened its position by taking over Zomba and buying up the remaining 50 percent in the joint venture J Records. The Zomba takeover will be reflected in revenues and earnings as of 2003.

In 2002, the media services provider arvato achieved revenues of Euro 3.7bn (previous year: Euro 3.5bn) and Operating EBITA of Euro 217m (previous year: Euro 167m). arvato's business units grappled with a downbeat economy, insolvent customers and pricing pressure. However, seen overall, the division proved its dynamic force yet again, with increases in revenues and earnings. In particular, the arvato direct services unit, which services roughly 35 million consumers in more than 20 languages, was able to accelerate its growth rate again and strengthen its position as one of Europe's biggest providers of customer programs and service centers. The Distribution division, part of arvato logistic services, registered strong growth. arvato print's printing facilities were largely working at capacity in 2002. The print services provider MOHN Media concluded the biggest investment program in its history (over Euro 75 million). In the U.S., the printers experienced stronger than expected growth. arvato storage media was able to compensate for an overall decrease in CD production volumes by increased production in the DVD sector. The storage media manufacturer Sonopress achieved turnaround in the U.S. In September 2002, Hartmut Ostrowski took over as CEO of arvato.

DirectGroup, which comprises book clubs, music clubs and e-commerce activities in 20 countries, generated revenues of Euro 2.7bn (previous year: Euro 3.1bn) in 2002. The decline in revenue is mainly attributable to an adjustment of the membership base in the U.S. music club, an extensive withdrawal from pure media e-commerce and - due to the strong presence in the U.S. - to the weak dollar. Operating EBITA amounted to minus Euro 150m, well below the previous year's Operating EBITA of minus Euro 61m. Operating EBITA 2002 includes Internet losses, while the pro forma Operating EBITA 2001 was adjusted for Internet losses of Euro 399m. Taking the Internet losses for 2001 into account, the Operating EBITA has improved by Euro 310m. In August 2002, Ewald Walgenbach, formerly Bertelsmann's Chief Operating Officer, succeeded Klaus Eierhoff as the CEO of DirectGroup. As part of the change, the division focused on its Club businesses, streamlined its portfolio and carried out extensive restructuring. This included, in particular, the withdrawal, integration or restructuring of BOL and CDNOW. The majority of Club businesses showed an operating profit again in 2002. Of the big Clubs, only Germany and the U.K. did not manage a return to profitability.

The specialist-publishing division BertelsmannSpringer, an internationally renowned provider of science and trade information, achieved revenues of Euro 731m in 2002 (previous year: Euro 748m). This decline is mainly attributable to a significant deterioration in business-to-business advertising, which constitutes a considerable portion of BertelsmannSpringer's revenue. Operating EBITA amounted to Euro 71m (previous year: Euro 59m). The division, which publishes approx. 25,000 book titles and 700 magazines, has been under Arnold Bahlmann's management since August 2002 and is intended to be divested during the first half of 2003.

Notes:

Operating EBITA: Operating EBITA represents the earnings before financial result, taxes and amortizations of goodwill and similar rights, as well as before capital gains/losses and other special items, primarily restructuring costs. Internet losses are included in the Operating EBITA as of 2002.

Pro-forma figures: Having changed its accounting standards from the German Commercial Code (HGB) to International Financial Reporting Standards (IFRS, formerly IAS) and reported an abbreviated fiscal year (from July through December 2001), Bertelsmann herewith submits its first financial statement during which 2002 is identical to the calendar year. To facilitate comparability, pro-forma figures were calculated for 2001. These figures assume a scope of consolidation as at December 31, 2001, i.e. with RTL Group and France Loisirs shown fully consolidated for the calendar year 2001.

Revenues by Division

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

Analysis of the Net Income

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

* Inclusive amortization of goodwill from associated companies.

About Bertelsmann AG

Bertelsmann, a media and entertainment company, commands globally leading positions in the major markets. Its core business is the creation of first-class media content: Bertelsmann includes RTL Group, Europe's No. 1 in television and radio, as well as the world's biggest book-publishing group, Random House, with some 250 publishing imprints (Alfred A. Knopf, Bantam, Siedler Verlag, Goldmann). Gruner + Jahr, the European No.1 in magazine publishing (stern, GEO, Capital, Femme Actuelle, Family Circle, Parents), Bertelsmann Music Group (BMG) with its roughly 200 labels (RCA, Arista, Jive, J Records) and artists such as Alicia Keys, Dido and Pink, as well as

the special-information publisher BertelsmannSpringer also stand for creativity and powerful brands. Bertelsmann's direct-to-customer businesses are bundled in DirectGroup: book and music clubs with more than 40 million members all over the world. The arvato corporate division bundles the group's media services, which include the expanding units arvato logistics services and arvato direct services (service centers, distribution, customer relationship management), along with state-of-the-art printers, storage media production and comprehensive IT-services.

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