

Company no: 954009

THE RANDOM HOUSE GROUP LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2003



THE RANDOM HOUSE GROUP LIMITED
REPORT OF THE DIRECTORS

The directors present their annual report and audited financial statements for the year ended 31 December 2003.

Business review

The principal activity of the company continues to be book publishing.

The turnover and results of the company for the year are set out in the attached financial statements.

The company purchased the trade, assets and liabilities of the company's subsidiary, The Harvill Press Limited, at their estimated market value on 31 December 2003.

The directors are of the opinion that the state of the company's affairs at 31 December 2003 was satisfactory and that the company will continue to develop in the future.

Dividend

An interim dividend of £60,000,000 was paid on 9 December 2003. No final dividend is proposed.

Directors

The following were directors during the year:

| | |
|-----------------|------------------------------|
| GR REBUCK | Chairman and Chief Executive |
| M BARTY-KING | resigned 30 June 2003 |
| M GARDINER | |
| IM HUDSON | |
| PP JANSON-SMITH | |
| SH MASTER | |
| P OLSON | |

None of the directors at 31 December 2003 had any interest in the shares of any group company at either the beginning or end of the year.

Employee involvement

The company has arrangements for providing information to employees and consulting with employees.

The company operates a pension scheme for which all employees are eligible.

Disabled persons

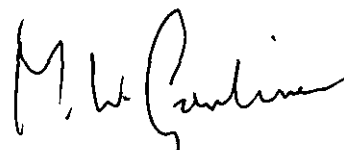
It is the company's policy to offer the same opportunities to disabled persons as to all others in respect of recruitment and career advancement, provided their disability does not prevent them carrying out the required duties. Employees who become disabled will, wherever possible, be retained and retrained.

By Order of the Board

M GARDINER
Secretary

Random House
20 Vauxhall Bridge Road
LONDON
SW1V 2SA

6 July 2004



THE RANDOM HOUSE GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act 1985 requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company at the end of the financial period and of the profit or loss for the period to that date.

The directors are responsible for maintaining appropriate accounting records which disclose with reasonable accuracy the financial position of the company at any time and for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors confirm that the accounts have been prepared using suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The directors also confirm that the accounts have been prepared following applicable UK accounting standards and on a going concern basis.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE RANDOM HOUSE GROUP LIMITED

We have audited the financial statements on pages 4 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, the Auditing Practices Board, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.


Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
Chartered Accountants
Registered Auditor
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

8 July 2004

THE RANDOM HOUSE GROUP LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2003

| | Notes | 12 months ended 31 December 2003 £ | 18 months ended 31 December 2002 £ |
|---|-------|---|---|
| TURNOVER | 2 | 166,621,684 | 253,022,799 |
| Changes in stocks of finished goods and work in progress | | (1,683,200) | (491,497) |
| Other operating income | 3 | 6,369,177 | 8,260,270 |
| Raw materials and consumables | | (38,086,924) | (59,962,205) |
| Other external charges | | (82,070,680) | (132,465,389) |
| Staff costs | 3 | (30,683,993) | (42,674,676) |
| Amortise intangible assets | 6 | (83,333) | (250,000) |
| Depreciation | 7 | (3,483,239) | (2,874,375) |
| TRADING PROFIT | | 16,899,492 | 22,564,927 |
| Provision against investments and amounts due from group companies | | (570,813) | - |
| OPERATING PROFIT | | 16,328,679 | 22,564,927 |
| Profit on disposal of fixed assets | | 26,241 | 85,486 |
| Profit on disposal of investments | | - | 4,153 |
| Income from shares in group companies | | 909,707 | 3,509,141 |
| Income from fixed asset investments | | 22,076 | 36,181 |
| Interest received | | 5,807 | 4,938,659 |
| Interest payable | 3 | (1,275) | (19,074) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 3 | 17,291,235 | 31,119,473 |
| Taxation on profit on ordinary activities | 5 | (5,169,134) | (8,800,726) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 12,122,101 | 22,318,747 |
| Dividend paid | | (60,000,000) | - |
| RETAINED (LOSS)/PROFIT FOR THE PERIOD | 14 | (47,877,899) | 22,318,747 |

Turnover is derived from continuing activities.

The company has no recognised gains or losses other than as disclosed in the profit and loss account.

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THE RANDOM HOUSE GROUP LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS for the year ended 31 December 2003

| | 12 months ended 31 December 2003 £ | 18 months ended 31 December 2002 £ |
|---|---|---|
| Profit for the financial period | 12,122,101 | 22,318,747 |
| Dividend paid | (60,000,000) | - |
| Net reduction/increase in shareholders' funds | (47,877,899) | 22,318,747 |
| Shareholders' funds at 1 January 2003 | 144,575,716 | 122,256,969 |
| Shareholders' funds at 31 December 2003 | <u>96,697,817</u> | <u>144,575,716</u> |

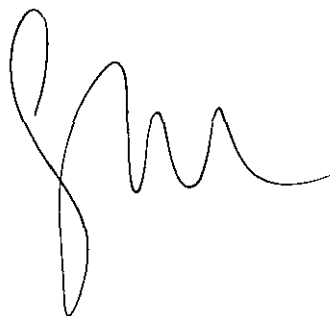
THE RANDOM HOUSE GROUP LIMITED

BALANCE SHEET As at 31 December 2003

| | Notes | 31 December 2003 £ | 31 December 2002 £ |
|---|-------|--------------------------|--------------------------|
| FIXED ASSETS | | | |
| Intangible fixed assets | 6 | 1,185,000 | 83,333 |
| Tangible fixed assets | 7 | 31,434,504 | 33,887,183 |
| Investments | 8 | 11,462,292 | 11,538,887 |
| | | <u>44,081,796</u> | <u>45,509,403</u> |
| CURRENT ASSETS | | | |
| Stocks | 9 | 9,356,623 | 10,930,352 |
| Advance royalties | | 24,625,916 | 16,942,720 |
| Debtors | 10 | 135,677,557 | 195,304,486 |
| Cash at bank and in hand | | 1,884,639 | 160,619 |
| | | <u>171,544,735</u> | <u>223,338,177</u> |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 11 | <u>(108,138,218)</u> | <u>(112,811,270)</u> |
| NET CURRENT ASSETS | | <u>63,406,517</u> | <u>110,526,907</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>107,488,313</u> | <u>156,036,310</u> |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| | 12 | <u>(10,790,496)</u> | <u>(11,460,594)</u> |
| | | <u>96,697,817</u> | <u>144,575,716</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 13 | 81,956,072 | 81,956,072 |
| Capital redemption reserve | | 66,409 | 66,409 |
| Profit and loss account | 14 | 14,675,336 | 62,553,235 |
| EQUITY SHAREHOLDERS' FUNDS | | <u>96,697,817</u> | <u>144,575,716</u> |

Approved by the board on 6 July 2004.

GR REBUCK
Director



THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

1. ACCOUNTING POLICIES

Basis of preparation of accounts

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

Turnover

Turnover comprises the sale of published books, net of returns, and related rights and representation fees receivable, excluding value added tax.

Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortisation.

Amortisation is calculated to write off the cost of the assets over their estimated useful lives on a straight line basis.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of the fixed assets over their estimated useful lives on a straight line basis. The principal annual rates used for this purpose are as follows:

| | |
|-----------------------------------|----------------------|
| Freehold land | nil |
| Freehold buildings | 2% |
| Long leasehold land and buildings | over period of lease |
| Motor vehicles | 25% |
| Plant and machinery | 10% |
| Computer equipment | 25% |

Leases

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the company's accounting policies. The capital element of future lease rentals is included in creditors. The costs of operating leases are charged to the profit and loss account as incurred.

Stocks

Stocks comprise finished goods and work in progress in respect of books, and are stated at the lower of cost and net realisable value. Cost includes the costs of paper, printing and binding incurred on a title by title basis. Plant costs, which do not vary with the number of copies printed (for example typesetting, origination and illustration), are charged to the profit and loss account in full on publication.

Royalties

Royalty advances to authors which are not expected to be earned from future sales of books and rights are charged to the profit and loss account in the year of publication. Royalty advances to authors on unpublished titles are reviewed annually.

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

1. ACCOUNTING POLICIES - continued

Deferred taxation

Deferred tax assets and liabilities are recognised in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

Pensions

The charges against profits for the company's contributions to the group defined benefit pension schemes are calculated so as to spread the cost over the expected average remaining service lives of employees who are members of the scheme.

The costs of the company's contributions to the group defined contribution pension scheme are charged to the profit and loss account in the period in which they arise.

| 12 months ended 31 December 2003 £ | 18 months ended 31 December 2002 £ |
|---|---|
|---|---|

2. TURNOVER

The company's turnover arises from its principal activity of book publishing.

Geographical analysis by destination of turnover:

| | | |
|--------------------------------|-------------------|-------------------|
| UK and The Republic of Ireland | 139,268,052 | 211,011,297 |
| Rest of the World | 27,353,632 | 42,011,502 |
| | <hr/> 166,621,684 | <hr/> 253,022,799 |

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

The profit on ordinary activities before tax is stated after crediting or charging the following:

Other operating income:

This principally comprises management charges for central services supplied to the company's subsidiaries and other group companies.

Staff costs:

| | | |
|---|------------------|------------------|
| Wages and salaries | 23,549,965 | 33,514,179 |
| Social security costs | 2,513,208 | 3,442,180 |
| Group pension scheme costs - regular cost | | |
| - defined benefit schemes | 4,048,287 | 5,113,914 |
| - defined contribution scheme | 239,483 | 19,623 |
| - variation from regular cost | 320,000 | 480,000 |
| Other pension costs | 13,050 | 104,780 |
| | <hr/> 30,683,993 | <hr/> 42,674,676 |

The average number of persons employed by the company, including executive directors, during the year was 546 (2002: 574).

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

| | 12 months ended 31 December 2003 £ | 18 months ended 31 December 2002 £ |
|--|---|---|
| 3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX | | |
| Interest payable: | | |
| Interest on finance leases | 1,275 | 18,923 |
| Other | - | 151 |
| | <u>1,275</u> | <u>19,074</u> |
| Other: | | |
| Auditors' remuneration: | | |
| audit services | 167,500 | 252,026 |
| other services | 149,189 | - |
| Operating lease rentals: | | |
| plant and machinery | 622,917 | 904,894 |
| premises | 607,700 | 958,365 |
| | <u></u> | <u></u> |
| 4. DIRECTORS' REMUNERATION | | |
| Aggregate emoluments | 2,111,658 | 3,233,357 |
| Amounts receivable under long term incentive schemes | 341,891 | 269,912 |
| Company pension contributions to money purchase schemes | 41,526 | 84,168 |
| | <u></u> | <u></u> |
| Retirement benefits are accruing to 5 directors at 31 December 2002 (2002: 5) under defined benefit pension schemes and to 1 director (2002: 2) under a money purchase scheme. | | |
| Highest paid director: | | |
| Emoluments | 828,088 | 1,137,042 |
| Amounts receivable under long term incentive schemes | 186,502 | 112,493 |
| Defined benefit pension scheme accrued pension at end of year | 175,017 | 138,033 |
| | <u></u> | <u></u> |

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

| | 12 months ended 31 December 2003 £ | 18 months ended 31 December 2002 £ |
|---|---|---|
| 5. TAX ON PROFIT ON ORDINARY ACTIVITIES: | | |
| (a) Analysis of tax charge for the period | | |
| Amount payable for group relief and UK corporation tax | | |
| -current period | 5,680,000 | 8,400,000 |
| -adjustment of prior years | 312,134 | 89,726 |
| Deferred taxation, origination and reversal of timing differences | | |
| -current period | (403,000) | 311,000 |
| -adjustment of prior years | (420,000) | - |
| | <u>5,169,134</u> | <u>8,800,726</u> |
| (b) Factors affecting the tax charge for the period | | |
| Profit on ordinary activities before taxation | <u>17,291,235</u> | <u>31,119,473</u> |
| Corporation tax at standard rate of 30% | 5,187,371 | 9,335,842 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 475,728 | 497,965 |
| Income from shares in group companies not taxable | (272,912) | (1,052,742) |
| Capital allowances for period in excess of depreciation | 344,156 | (284,765) |
| Other short term timing differences | 69,268 | 3,501 |
| Benefit of double tax relief | (123,611) | (99,801) |
| Adjustments to tax charge for prior periods | 312,134 | 89,726 |
| Current tax charge for period | <u>5,992,134</u> | <u>8,489,726</u> |

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

6. INTANGIBLE FIXED ASSETS

| | Goodwill £ | Licences £ | Total £ |
|------------------------|---------------|---------------|------------|
| Cost: | | | |
| at 1 January 2003 | - | 2,500,000 | 2,500,000 |
| additions | 1,185,000 | - | 1,185,000 |
| at 31 December 2003 | 1,185,000 | 2,500,000 | 3,685,000 |
| Depreciation: | | | |
| at 1 January 2003 | - | 2,416,667 | 2,416,667 |
| amortisation in period | - | 83,333 | 83,333 |
| at 31 December 2003 | - | 2,500,000 | 2,500,000 |
| Net Book Amounts: | | | |
| at 31 December 2003 | 1,185,000 | - | 1,185,000 |
| at 31 December 2002 | - | 83,333 | 83,333 |

7. TANGIBLE FIXED ASSETS

| | Freehold property £ | Long leasehold property £ | Plant and equipment £ | TOTAL £ |
|---------------------|---------------------------|------------------------------------|-----------------------------|-------------|
| Cost: | | | | |
| at 1 January 2003 | 43,823,747 | 128,138 | 16,641,208 | 60,593,093 |
| Additions | 366,605 | - | 664,982 | 1,031,587 |
| Disposals | - | - | (2,321,295) | (2,321,295) |
| Transfers | (2,158,437) | - | 2,158,437 | 0 |
| at 31 December 2003 | 42,031,915 | 128,138 | 17,143,332 | 59,303,385 |
| Depreciation: | | | | |
| at 1 January 2003 | 14,393,629 | 20,709 | 12,291,572 | 26,705,910 |
| Disposals | - | - | (2,320,268) | (2,320,268) |
| Transfers | (384,921) | - | 384,921 | 0 |
| Charge for the year | 598,117 | 1,294 | 2,883,828 | 3,483,239 |
| at 31 December 2003 | 14,606,825 | 22,003 | 13,240,053 | 27,868,881 |
| Net Book Amounts: | | | | |
| at 31 December 2003 | 27,425,090 | 106,135 | 3,903,279 | 31,434,504 |
| at 31 December 2002 | 29,430,118 | 107,429 | 4,349,636 | 33,887,183 |

Plant and equipment includes assets held under finance leases with an original cost of £126,028 and a net book value of nil (2002: cost £208,986, net book value £8,314).

THE RANDOM HOUSE GROUP LIMITED⁹

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

| 8. INVESTMENTS | Shares in subsidiaries £ | Listed equity investments £ | Unlisted equity investments £ | TOTAL £ |
|--|--------------------------------|--------------------------------------|--|------------|
| At cost: | | | | |
| at 1 January 2003 and at 31 December 2003 | 22,211,043 | 3,103 | 33,020 | 22,247,166 |
| Provision for diminution in value: | | | | |
| at 1 January 2003 | 10,708,269 | - | 10 | 10,708,279 |
| Charge for the year | 76,595 | - | - | 76,595 |
| at 31 December 2003 | 10,784,864 | - | 10 | 10,784,874 |
| Net Book Amounts: | | | | |
| at 31 December 2003 | 11,426,179 | 3,103 | 33,010 | 11,462,292 |
| at 31 December 2002 | 11,502,774 | 3,103 | 33,010 | 11,538,887 |

The listed equity investments had a market value at 31 December 2003 of £7,959 (2002: £5,405).

The unlisted equity investments comprise 20% of the ordinary shares of Andersen Press Limited and 33% of the ordinary shares of Elmer Films Limited, both of which are registered in England. Also, a loan to Elmer Films Limited. The directors do not consider these investments to be participating investments since they do not exercise a significant influence over the affairs of these companies.

The company's subsidiaries are listed on page 18. Group accounts have not been prepared since the company is itself wholly owned by a company registered in England. The directors consider the value of the investments in subsidiaries to be not less than that stated in the balance sheet of the company.

| | 31 December 2003 £ | 31 December 2002 £ |
|-------------------------------|--------------------------|--------------------------|
| 9. STOCKS | | |
| Raw materials and consumables | 631,064 | 462,412 |
| Work in progress | 3,173,805 | 5,333,058 |
| Finished books | 5,551,754 | 5,134,882 |
| | <u>9,356,623</u> | <u>10,930,352</u> |

THE RANDOM HOUSE GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003
(continued)

| | 31 December 2003 £ | 31 December 2002 £ |
|------------------------------------|--------------------------|--------------------------|
| 10. DEBTORS | | |
| Trade debtors | 288,645 | 568,996 |
| Amounts owed by group undertakings | 130,229,128 | 189,113,182 |
| Other debtors | 1,021,228 | 1,163,998 |
| Pension prepayment | 3,040,000 | 3,360,000 |
| Prepayments | 1,098,556 | 1,098,310 |
| | <u>135,677,557</u> | <u>195,304,486</u> |

The pension prepayment includes £2,720,000 (2002: £3,040,000) that is due in more than one year.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | | |
|------------------------------------|--------------------|--------------------|
| Bank overdraft | - | 1,018,352 |
| Trade creditors | 31,053,153 | 30,498,206 |
| Amounts owed to group undertakings | 10,852,695 | 18,037,355 |
| Taxation | 5,680,000 | 8,400,000 |
| Social security | 948,263 | 904,866 |
| Other creditors | 25,290,360 | 24,216,819 |
| Accruals | 34,313,747 | 29,735,672 |
| | <u>108,138,218</u> | <u>112,811,270</u> |

12. PROVISIONS FOR LIABILITIES AND CHARGES

| | Deferred tax £ | Other provisions £ | Total £ |
|--------------------------|----------------------|--------------------------|-------------------|
| at 1 January 2003 | 7,144,000 | 4,316,594 | 11,460,594 |
| utilised during the year | | (221,241) | (221,241) |
| charged in the period | (823,000) | 374,143 | (448,857) |
| at 31 December 2003 | <u>6,321,000</u> | <u>4,469,496</u> | <u>10,790,496</u> |

The potential liability, and amount provided, for deferred taxation is as follows:

| | December 2003 £ | December 2002 £ |
|--|--------------------|--------------------|
| Excess of capital allowances received over depreciation charged on fixed assets | 869,000 | 2,051,000 |
| Other short term timing differences | 5,452,000 | 5,093,000 |
| | <u>6,321,000</u> | <u>7,144,000</u> |

Other provisions include provisions arising in the ordinary course of business, such as provisions relating to property, deferred compensation and legal provisions.

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

| | 31 December 2003 £ | 31 December 2002 £ |
|---|--------------------------|--------------------------|
| 13. CALLED UP SHARE CAPITAL | | |
| Authorised, allotted, called up and fully paid: | | |
| 819,560,717 Ordinary shares of 10p each | 81,956,072 | 81,956,072 |
| 14. PROFIT AND LOSS ACCOUNT | | |
| | £ | |
| Balance at 1 January 2003 | 62,553,235 | |
| Retained deficit for the financial period | (47,877,899) | |
| Balance at 31 December 2003 | 14,675,336 | |
| | 31 December 2003 £ | 31 December 2002 £ |
| 15. COMMITMENTS | | |
| The company has commitments under operating leases to pay rentals during the forthcoming year as follows: | | |
| Plant and machinery: | | |
| leases expiring within one year | 29,815 | 46,866 |
| leases expiring between one and five years | 521,812 | 511,696 |
| Premises: | | |
| leases expiring within one year | - | 15,000 |
| leases expiring between one and five years | 495,200 | - |
| leases expiring after more than five years | 112,500 | 592,700 |
| | 1,159,327 | 1,166,262 |

There are commitments to authors for the payment of royalty advances amounting to £73,587,000 at 31 December 2003 (2002: £66,560,000). Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

There were contracted capital commitments outstanding at 31 December 2003 amounting to £176,000 (2002: £463,000).

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

16. PENSION FUND

The company, together with its subsidiaries The Book Service Limited and The Harvill Press Limited, operates two pension schemes of the defined benefit type. One scheme was closed to new members from 1 July 2002, since when the other scheme has operated on a defined contribution basis for new employees.

SSAP 24 disclosures

The company accounts for its pension schemes using SSAP 24. The assets of the schemes are held separately from those of the employers in independently administered funds. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Contributions to the schemes are determined by independent actuaries on the basis of periodic actuarial valuations.

Full valuations of both schemes were carried out at 1 January 2002 by independent qualified actuaries, using market-related assumptions. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and rates of increase in salaries and pensions. The 2002 valuations assumed that investment returns would be 7% per annum prior to retirement and 5% or 5.75% per annum after retirement, that salaries would increase by 4.5% per annum and that pensions not subject to fixed-rate increases as set out in the scheme rules would increase by 2.5% per annum.

The actuarial valuations disclosed that the market value of the schemes' assets totalled £57.8m at 1 January 2002 and that, in aggregate, those assets represented 76% of the value of the benefits that had accrued to members after allowing for expected future increases in salary. As a result of these valuations the company has increased its contributions from 15.5% of pensionable salaries to 20.5% for one scheme and from 28.0% to 28.2% for the other. These rates are expected to continue until the next triennial valuation. Members of the schemes contribute 5% of pensionable salary.

FRS 17 disclosures

The company has yet to adopt FRS 17 in full and the disclosures set out below are given in accordance with the transitional provisions of the standard. For the purposes of FRS 17 the valuations at 1 January 2002 have been updated to 31 December 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

| | December 2003 | December 2002 | June 2001 |
|--|---------------|---------------|-----------|
| | % | % | % |
| rate of price inflation | 2.7 | 2.4 | 2.5/2.75 |
| rate of increase in salaries | 4.75 | 4.5 | 4.75 |
| rate of increase of pensions in payment: | | | |
| RH scheme 6/4/97-31/12/02 | 3.6 | 3.0 | 2.5 |
| other pensions with Limited Price Indexation | 2.7 | 2.4 | 2.5/2.75 |
| discount rate | 5.4 | 5.5 | 6.2/6.0 |

As the schemes are now closed as defined benefit schemes, the current service cost as calculated under the projected unit method will increase as members approach retirement.

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

16. PENSION FUND - continued

The combined assets of the two schemes were:

| | Long-term rate of return expected at 31/12/03 % | value at 31/12/03 £'000 | Long-term rate of return expected at 31/12/02 % | value at 31/12/02 £'000 | Long-term rate of return expected at 30/6/01 % | value at 30/6/01 £'000 |
|-------------------------------------|---|-------------------------------|---|-------------------------------|--|------------------------------|
| Equities | 8.25 | 34,138 | 8.5 | 28,507 | 8.3/8.5 | 35,732 |
| Bonds | 4.80 | 29,266 | 4.8 | 25,337 | 5.9/5.25 | 22,965 |
| Insurance policies | 5.40 | 437 | 5.5 | 446 | | - |
| Cash | 4.00 | 342 | 6.7 | 641 | 4.0 | (399) |
| Total market value of assets | | 64,183 | | 54,931 | | 58,298 |
| Present value of scheme liabilities | | (98,656) | | (89,774) | | (69,468) |
| Deficit in the schemes | | (34,473) | | (34,843) | | (11,170) |
| Related deferred tax asset | | 10,342 | | 10,453 | | 3,351 |
| Net pension liability | | (24,131) | | (24,390) | | (7,819) |

If FRS 17 had been recognised in the accounts, the effects would have been as follows:

| | 12 months to Dec'03 £'000 | 18 months Dec'02 £'000 |
|--|---------------------------------|------------------------------|
| Operating profit charge: | | |
| current service cost | 2,864 | 4,383 |
| past service cost | 436 | - |
| Total operating profit charge | 3,300 | 4,383 |
| Finance income: | | |
| expected return on pension scheme assets | 3,660 | 6,212 |
| interest on pension scheme liabilities | (4,952) | (6,450) |
| Net return | (1,292) | (238) |
| Actuarial loss recognised in the Statement of Total Recognised Gains and Losses: | | |
| actual return less expected return on pension scheme assets | 2,177 | (12,684) |
| experience gains and losses arising on the scheme liabilities | 4,833 | (2,726) |
| changes in assumptions underlying the present value of the scheme liabilities | (6,878) | (9,742) |
| Actuarial loss recognised in the STRGL | 132 | (25,152) |

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

| | 12 months to Dec'03 £'000 | 18 months Dec'02 £'000 |
|--|---------------------------------|------------------------------|
| 16. PENSION FUND - continued | | |
| Movement in the deficit during the period: | | |
| at beginning of year | (34,843) | (11,170) |
| current service cost | (2,864) | (4,383) |
| contributions - by both the company and subsidiaries | 4,830 | 6,100 |
| past service cost | (436) | - |
| finance income | (1,292) | (238) |
| actuarial gain/(loss) | 132 | (25,152) |
| at end of year | <u>(34,473)</u> | <u>(34,843)</u> |
| History of experience gains and losses: | | |
| Difference between the expected and actual return on scheme assets | | |
| amount (£000) | 2,177 | (12,684) |
| percentage of scheme assets | 3 % | (23%) |
| Experience gains and losses on scheme liabilities | | |
| amount (£000) | 4,833 | (2,726) |
| percentage of the present value of the scheme liabilities | 5 % | (3%) |
| Total amount recognised in the STRGL | | |
| amount (£000) | 132 | (25,152) |
| percentage of the present value of the scheme liabilities | 0 % | (28%) |
| Net assets: | | |
| as reported | 96,698 | 144,576 |
| SSAP 24 pension prepayment | (3,040) | (3,360) |
| deferred tax on pension prepayment | 912 | 1,008 |
| FRS 17 net pension liability | <u>(24,131)</u> | <u>(24,390)</u> |
| Restated for FRS 17 | <u>70,439</u> | <u>117,834</u> |

17. RELATED PARTIES

The company's immediate parent company is Bertelsmann UK Limited. Its ultimate parent company is Bertelsmann AG, which is incorporated in Germany, copies of whose accounts can be obtained from

Bertelsmann AG
Corporate Communications
Carl Bertelsmann Strasse 270
Postfach 111
D-33311 Gütersloh
Germany

As the company is a wholly owned subsidiary of Bertelsmann AG the company is exempt from the requirements, under Financial Reporting Standard 1, to prepare a cash flow statement and, under Financial Reporting Statement 8, to disclose transactions with entities that are part of the group. The company has taken advantage of these exemptions.

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003

(continued)

SUBSIDIARY COMPANIES

| | <u>principal activity</u> | <u>country of incorporation</u> |
|---|---------------------------|---------------------------------|
| The Harvill Press Limited | Book publishing | |
| The Book Service Limited | Distribution | |
| Grantham Book Services Limited | dormant | |
| Arrow Books Limited | dormant | |
| Bantam Books Limited | dormant | |
| Barrie & Jenkins Limited | dormant | |
| Bartlett Bliss Productions Limited | dormant | |
| Bellew & Highton Publishers Limited | dormant | |
| The Bodley Head Limited | dormant | |
| Business Books Limited | dormant | |
| Carousel Books Limited | dormant | |
| Century Benham Limited | dormant | |
| Century Hutchinson Limited | dormant | |
| Century Hutchinson Publishing Limited | dormant | |
| Century Publishing Co Limited | dormant | |
| Chatto and Windus Limited | dormant | |
| Corgi Books Limited | dormant | |
| The Cresset Press Limited | dormant | |
| Hammond, Hammond & Co. Limited | dormant | |
| Herbert Jenkins Limited | dormant | |
| Hogarth Press Limited | dormant | |
| Hurst & Blackett Limited | dormant | |
| Hutchinson Books Limited | dormant | |
| Hutchinson & Co (Publishers) Limited | dormant | |
| Hutchinson Childrens Books Limited | dormant | |
| Jackdaw Publications Limited | dormant | |
| Jonathan Cape Limited | dormant | |
| Martin Secker and Warburg Limited | dormant | |
| Plane Tree Publishers Limited | dormant | |
| Random House Properties Limited | dormant | |
| Random House Publishing Group Limited | dormant | |
| Random House UK Ventures Limited | dormant | |
| Sinclair-Stevenson Limited | dormant | |
| Stanley Paul & Co Limited | dormant | |
| Transworld Publishers Limited | dormant | |
| T Werner Laurie Limited | dormant | |
| Random House Australia Pty Limited | Book publishing | Australia |
| RHA Holdings Pty Limited | dormant | Australia |
| Random Century Australia Pty Limited | dormant | Australia |
| Random House New Zealand Limited | Book publishing | New Zealand |
| Random House South Africa (Proprietary) Limited | Book publishing | South Africa |

The company's direct and indirect subsidiaries are all registered in England, except as where indicated. The subsidiaries are all 100% owned, with the exception of Barrie & Jenkins Limited (98%) and Random House South Africa (Proprietary) Limited (75%).