

Company no: 954009

THE RANDOM HOUSE GROUP LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2002



THE RANDOM HOUSE GROUP LIMITED
REPORT OF THE DIRECTORS

The directors present their annual report and audited financial statements for the eighteen months ended 31 December 2002.

Business review

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

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

The directors are of the opinion that the state of the company's affairs at 31 December 2002 was satisfactory and that the company will continue to develop in the future.

Dividend

No dividend is proposed for the period.

Directors

The following were directors during the period:

GR REBUCK	Chairman and Chief Executive
M BARTY-KING	
M GARDINER	
BW HEMPSTEAD	resigned 9 August 2002
IM HUDSON	
PP JANSON-SMITH	
SH MASTER	
P OLSON	
A VITALE	resigned 30 September 2002

None of the directors at 31 December 2002 had any interest in the shares of any group company at either the beginning or end of the period.

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.

Auditors

During the period, our auditors, KPMG, indicated to the directors that their business was to be transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 30 May 2002 and KPMG LLP were appointed to fill the casual vacancy arising. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors was proposed and accepted at a board meeting held on 31 May 2002.

By Order of the Board

M GARDINER
Secretary



Random House
20 Vauxhall Bridge Road
LONDON
SW1V 2SA

23 July 2003

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.

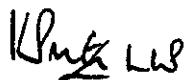
Basis of opinion

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 2002 and of its profit for the eighteen month period 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

30 July 2003

THE RANDOM HOUSE GROUP LIMITED

PROFIT AND LOSS ACCOUNT for the eighteen months ended 31 December 2002

		18 months ended 31 December 2002 £	12 months ended 30 June 2001 £
	Notes		
TURNOVER	2	253,022,799	172,059,492
Changes in stocks of finished goods and work in progress		(491,497)	(2,557,709)
Other operating income	3	8,260,270	5,662,150
Raw materials and consumables		(59,962,205)	(39,090,014)
Other external charges		(132,465,389)	(74,635,757)
Staff costs	3	(42,674,676)	(27,531,059)
Amortise intangible assets	6	(250,000)	(166,667)
Depreciation	7	(2,874,375)	(2,797,433)
TRADING PROFIT		22,564,927	30,943,003
Provision against investments and amounts due from group companies		-	387,154
OPERATING PROFIT		22,564,927	31,330,157
Profit/(loss) on disposal of fixed assets		85,486	(207,232)
Profit on disposal of investments		4,153	21,958
Income from shares in group companies		3,509,141	-
Income from fixed asset investments		36,181	14,493
Interest received		4,938,659	4,545,465
Interest payable	3	(19,074)	(32,293)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	31,119,473	35,672,548
Taxation on profit on ordinary activities	5	(8,800,726)	(10,715,916)
RETAINED PROFIT FOR THE PERIOD	14	22,318,747	24,956,632

Turnover is derived from continuing activities.

THE RANDOM HOUSE GROUP LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the eighteen months ended 31 December 2002

	18 months ended 31 December 2002 £	12 months ended 30 June 2001 £
Retained profit for the financial period	22,318,747	24,956,632
Exchange loss on loans to overseas subsidiaries	-	(24,101)
Total recognised gains and losses	<u>22,318,747</u>	<u>24,932,531</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Retained profit for the financial period	22,318,747	24,956,632
Exchange loss on loans to overseas subsidiaries	-	(24,101)
Increase in shareholders' funds	<u>22,318,747</u>	<u>24,932,531</u>
Shareholders' funds at 1 July 2001	122,256,969	97,324,438
Shareholders' funds at 31 December 2002	<u>144,575,716</u>	<u>122,256,969</u>

THE RANDOM HOUSE GROUP LIMITED

BALANCE SHEET As at 31 December 2002

	Notes	31 December 2002 £	30 June 2001 £
FIXED ASSETS			
Intangible fixed assets	6	83,333	333,333
Tangible fixed assets	7	33,887,183	33,782,634
Investments	8	11,538,887	20,119,449
		<u>45,509,403</u>	<u>54,235,416</u>
CURRENT ASSETS			
Stocks	9	10,930,352	11,421,849
Advance royalties		16,942,720	19,409,983
Debtors	10	195,304,486	143,132,730
Cash at bank and in hand		160,619	272,485
		<u>223,338,177</u>	<u>174,237,047</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(112,811,270)</u>	<u>(95,313,350)</u>
NET CURRENT ASSETS		<u>110,526,907</u>	<u>78,923,697</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>156,036,310</u>	<u>133,159,113</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
	12	(11,460,594)	(10,902,144)
		<u>144,575,716</u>	<u>122,256,969</u>
CAPITAL AND RESERVES			
Called up share capital	13	81,956,072	81,956,072
Capital redemption reserve		66,409	66,409
Special reserve	14	-	41,976,697
Profit and loss account	14	62,553,235	(1,742,209)
EQUITY SHAREHOLDERS' FUNDS		<u>144,575,716</u>	<u>122,256,969</u>

Approved by the board on 23 July 2003.

GR REBUCK
Director

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

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.

Financial Reporting Standard ("FRS") 19, "Deferred Tax", applies for the first time this period, replacing Statement of Standard Accounting Practice 15. The change in policy from partial to full provision has had no effect on the company's accounts.

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 depreciation.

Depreciation 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 2002

(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.

18 months ended 31 December 2002 £	12 months ended 30 June 2001 £
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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	211,011,297	141,391,836
Rest of the World	42,011,502	30,667,656
	<u>253,022,799</u>	<u>172,059,492</u>

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	33,514,179	21,823,086
Social security costs	3,442,180	2,483,946
Group pension scheme costs - regular cost		
- defined benefit schemes	5,113,914	2,827,824
- defined contribution scheme	19,623	-
- variation from regular cost	480,000	320,000
Other pension costs	104,780	76,203
	<u>42,674,676</u>	<u>27,531,059</u>

The average number of persons employed by the company, including executive directors, during the period was 574 (2001: 601).

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

(continued)

	18 months ended 31 December 2002 £	12 months ended 30 June 2001 £
3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		
Interest payable:		
Interest on finance leases	18,923	28,205
Other	151	4,088
	<hr/> 19,074	<hr/> 32,293
Other:		
Auditors' remuneration:		
audit services	252,026	77,419
other services	-	-
Operating lease rentals:		
plant and machinery	904,894	424,312
premises	958,365	551,145
	<hr/>	<hr/>
	18 months ended 31 December 2002 £	12 months ended 30 June 2001 £
4. DIRECTORS' REMUNERATION		
Aggregate emoluments	3,233,357	2,141,432
Amounts receivable under long term incentive schemes	269,912	405,025
Company pension contributions to money purchase schemes	84,168	32,897
One-off payment to the personal pension scheme of one director	-	138,375
	<hr/>	<hr/>
Retirement benefits are accruing to 5 directors at 31 December 2002 (June 2001: 6) under defined benefit pension schemes and to 2 directors (June 2001: 1) under a money purchase scheme.		
Highest paid director:		
Emoluments	1,137,042	578,585
Amounts receivable under long term incentive schemes	112,493	121,200
Defined benefit pension scheme accrued pension at end of period	138,033	99,750
	<hr/>	<hr/>

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

(continued)

	18 months ended 31 December 2002 £	12 months ended 30 June 2001 £
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	8,400,000	10,000,000
-adjustment of prior years	89,726	446,916
Deferred taxation, origination and reversal of timing differences		
-current period	311,000	859,000
-adjustment of prior years	-	(590,000)
	<hr/> 8,800,726	<hr/> 10,715,916
(b) Factors affecting the tax charge for the period		
Profit on ordinary activities before taxation	<hr/> 31,119,473	<hr/> 35,672,548
Corporation tax at standard rate of 30%	9,335,842	10,701,764
Effects of:		
Expenses not deductible for tax purposes	497,965	206,123
Income from shares in group companies not taxable	(1,052,742)	-
Capital allowances for period in excess of depreciation	(284,765)	49,346
Other short term timing differences	(25,991)	(847,133)
Benefit of losses brought forward	-	(63,149)
Benefit of double tax relief	(99,801)	(63,324)
Rounding	29,492	16,373
Adjustments to tax charge for prior periods	89,726	446,916
Current tax charge for period	<hr/> 8,489,726	<hr/> 10,446,916

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

(continued)

6. INTANGIBLE FIXED ASSETS

	Licences £
Cost:	
at 1 July 2001 and 31 December 2002	2,500,000
Depreciation:	
at 1 July 2001	2,166,667
amortisation in period	250,000
at 31 December 2002	2,416,667
Net Book Amounts:	
at 31 December 2002	83,333
at 30 June 2001	333,333

7. TANGIBLE FIXED ASSETS

	Freehold property £	Long leasehold property £	Plant and equipment £	TOTAL £
Cost:				
at 1 July 2001	41,719,591	128,138	18,493,789	60,341,518
Additions	2,104,156	-	900,722	3,004,878
Disposals	-	-	(2,753,303)	(2,753,303)
at 31 December 2002	43,823,747	128,138	16,641,208	60,593,093
Depreciation:				
at 1 July 2001	13,507,100	18,768	13,033,016	26,558,884
Disposals	-	-	(2,727,349)	(2,727,349)
Charge for the period	886,529	1,941	1,985,905	2,874,375
at 31 December 2002	14,393,629	20,709	12,291,572	26,705,910
Net Book Amounts:				
at 31 December 2002	29,430,118	107,429	4,349,636	33,887,183
at 30 June 2001	28,212,491	109,370	5,460,773	33,782,634

Plant and equipment includes assets held under finance leases with an original cost of £208,986 and a net book value of £8,314 (June 2001: cost £589,585, net book value £115,782).

THE RANDOM HOUSE GROUP LIMITED⁹

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

(continued)

8. INVESTMENTS

	Shares in subsidiaries £	Loans to subsidiaries £	Listed equity investments £	Unlisted equity investments £	TOTAL £
At cost:					
at 1 July 2001	44,134,448	5,000,000	5,298	33,020	49,172,766
Additions	76,595	-	-	-	76,595
Repayments & disposals	(22,000,000)	(5,000,000)	(2,195)	-	(27,002,195)
at 31 December 2002	22,211,043	-	3,103	33,020	22,247,166
Provision for diminution in value:					
at 1 July 2001	29,053,307	-	-	10	29,053,317
Repayments & disposals	(18,345,038)	-	-	-	(18,345,038)
at 31 December 2002	10,708,269	-	-	10	10,708,279
Net Book Amounts:					
at 31 December 2002	11,502,774	-	3,103	33,010	11,538,887
at 30 June 2001	15,081,141	5,000,000	5,298	33,010	20,119,449

The listed equity investments had a market value at 31 December 2002 of £5,405 (June 2001: £15,573).

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 17. 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 2002 £	30 June 2001 £
9. STOCKS		
Raw materials and consumables	462,412	795,518
Work in progress	5,333,058	4,012,726
Finished books	5,134,882	6,613,605
	<u>10,930,352</u>	<u>11,421,849</u>

THE RANDOM HOUSE GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002
(continued)

	31 December 2002 £	30 June 2001 £
10. DEBTORS		
Trade debtors	568,996	9,339,274
Amounts owed by group undertakings	189,113,182	126,742,675
Other debtors	1,163,998	2,055,460
Pension prepayment	3,360,000	3,840,000
Prepayments	1,098,310	1,155,321
	<u>195,304,486</u>	<u>143,132,730</u>

The pension prepayment includes £3,040,000 (2001: £3,520,000) that is due in more than one year.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	1,018,352	-
Trade creditors	30,498,206	31,461,659
Amounts owed to group undertakings	18,037,355	15,345,438
Obligations under finance leases	-	101,612
Taxation	8,400,000	9,886,000
Social security	904,866	937,900
Other creditors	24,216,819	10,836,808
Accruals	29,735,672	26,743,933
	<u>112,811,270</u>	<u>95,313,350</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £	Other provisions £	Total £
at 1 July 2001	6,833,000	4,069,144	10,902,144
utilised during the year		(489,670)	(489,670)
charged in the period	311,000	737,120	1,048,120
	<u>7,144,000</u>	<u>4,316,594</u>	<u>11,460,594</u>
at 31 December 2002			

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

	December 2002 £	June 2001 £
Excess of capital allowances received over depreciation charged on fixed assets	2,051,000	1,766,000
Other short term timing differences	5,093,000	5,067,000
	<u>7,144,000</u>	<u>6,833,000</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 2002

(continued)

		31 December 2002 £	30 June 2001 £
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.	RESERVES		
	Profit and loss account	Special reserve	
	£	£	
	Balance at 1 July 2001	(1,742,209)	41,976,697
	Retained profit for the financial period	22,318,747	
	Reclassification	41,976,697	(41,976,697)
	Balance at 31 December 2002	62,553,235	-

In June 2001 the company carried out a capital reduction. For the protection of creditors, a Special Reserve was set up which was to be treated as undistributable for so long as any debt or claim against the company at 20 June 2001 remained outstanding. This condition having been met, the Special Reserve has been released to the profit and loss account.

		31 December 2002 £	30 June 2001 £
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	46,866	23,000
	leases expiring between one and five years	511,696	382,000
	Premises:		
	leases expiring within one year	15,000	-
	leases expiring between one and five years	-	50,000
	leases expiring after more than and five years	592,700	506,000
		1,166,262	961,000

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

(continued)

15. COMMITMENTS – continued

There are commitments to authors for the payment of royalty advances amounting to £66,560,000 at 31 December 2002 (June 2001: £47,509,000). 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 2002 amounting to £463,000 (June 2001: £1,542,000).

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 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	December 2002	June 2001
	%	%
rate of price inflation	2.4	2.5/2.75
rate of increase in salaries	4.5	4.75
rate of increase of LPI pensions in payment	2.4	2.5/2.75
discount rate	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 2002

(continued)

16. PENSION FUND - continued

The combined assets of the two schemes were:

	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	8.5	28,507	8.3 / 8.5	35,732
Bonds	4.8	25,337	5.9 / 5.25	22,965
Insurance policies	5.5	446		-
Cash	6.7	641	4.0	(399)
Total market value of assets		54,931		58,298
Present value of scheme liabilities		(89,774)		(69,468)
Deficit in the schemes		(34,843)		(11,170)
Related deferred tax asset		10,453		3,351
Net pension liability		(24,390)		(7,819)

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

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

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

(continued)

16. PENSION FUND - continued

Movement in the deficit during the period:

at 1 July 2001	(11,170)
current service cost	(4,383)
contributions - by both the company and subsidiaries	6,100
finance income	(238)
actuarial loss	(25,152)
at 31 December 2002	(34,843)

History of experience gains and losses:

Difference between the expected and actual return on scheme assets	
amount (£000)	(12,684)
percentage of scheme assets	(23%)
Experience gains and losses on scheme liabilities	
amount (£000)	(2,726)
percentage of the present value of the scheme liabilities	(3%)
Total amount recognised in the STRGL	
amount (£000)	(25,152)
percentage of the present value of the scheme liabilities	(28%)

	18 months to Dec'02 £'000	12 months to June'01 £'000
Net assets:		
as reported	144,576	122,257
SSAP 24 pension prepayment	(3,360)	(3,840)
deferred tax on pension prepayment	1,008	1,152
FRS 17 net pension liability	(24,390)	(7,819)
Restated for FRS 17	117,834	111,750

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 2002

(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 & Higton 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	
Hutchinson Properties 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	
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%).