



All the World's a Stage

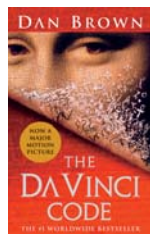
Interim Report 2006

BERTELSMANN
media worldwide

Bertelsmann at a Glance

Key Figures (IFRS)	H1 2006	H1 2005
in € millions		
Business Development		
Group revenues	9,144	7,988
Operating EBIT	701	644
ROS in percent	7.7	8.1
Net income	339	330
Investments	553	765
	06/30/2006	12/31/2005
Balance Sheet		
Equity	4,492	9,170
Equity ratio in percent	20.4	40.0
Total assets	22,026	22,932
Economic Debt*	8,723	3,931
Employees		
Germany	33,651	32,117
Other countries	59,121	56,399
Total	92,772	88,516

* Net financial debt plus provisions for pensions, profit participation capital and purchase price for the GBL stake.



Random House – Million seller: Dan Brown's history-making thriller continues its record-breaking run in paperback, with seven million copies of the movie tie-in edition in print in the U.S. and U.K.

BMG – A band reinvents itself: The Dixie Chicks' "Taking the Long Way" becomes one of the best-selling albums of the first half. Top-notch ballads and songwriting, concluded reviewers – and the fans agreed.

Direct Group – Membership boom: Ukraine's Family Leisure Club is growing rapidly, adding 330,000 new members in the first half alone. The Direct Group subsidiary is the country's biggest bookseller.

Highlights of the First Half



Bertelsmann AG – Bertelsmann gave its all for the Football World Cup 2006. The team play coordinated by Arvato yielded more than 150 official licensed products, including magazines, books, calendars, posters and games, plus football broadcasts on TV and World Cup songs. The result: Score!



RTL Group – Record response: In the U.S., Fremantle Media North America concluded season five of "American Idol" with another set of records – the final show was watched by 35.6 million viewers, making it the most successful prime-time series on U.S. television. The new "Idol," Taylor Hicks from Alabama, is now set to follow in the footsteps of the first four "American Idols," which include international chartbuster Kelly Clarkson.

Gruner + Jahr – Hear, hear: In early 2006, the second edition of Brigitte's "Strong Voices" audiobook library, which in 2005 helped this emerging media achieve its breakthrough in Germany, was published in partnership with Random House Audio.

Arvato – Pioneers of technology and service: Arvato opens a state-of-the-art gravure printing plant in Treviglio, Italy, and a new shared service center for Sonopress and Coral Graphics in Louisville, Kentucky.

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Ladies and Gentlemen,

As summer ends, there are signs pointing to a business upturn in many areas. The economy in Europe is picking up. Bertelsmann benefits from these developments and from our own future pathway. Thanks to our strategy of organic growth and innovation, and last year's systematic acquisitions, revenues and operating result for the first six months of this year have increased significantly.

The rise in earnings is attributable mainly to RTL Group, our largest contributor to revenues and profits, and to Direct Group, which posted improved results in all its lines of business. For Bertelsmann, this is just a beginning, since the second half is traditionally the stronger one in our media business.

By the end of this year, we will have exceeded the high profitability seen in 2005 – a gratifying performance. Our revenues are on the rise, and we will grow based on acquisitions that have now been successfully integrated, and on our own innovative strength. The reduction of the debt we incurred as part of the GBL share buyback is also on plan, so that we will be able to achieve our internal financial targets again by the end of 2007.

In short: Bertelsmann is on track and is in good shape for the medium and long term as well. This assessment by the Executive Board has just been confirmed in an external review conducted by the Boston Consulting Group. Bertelsmann's portfolio as it stands now holds considerable internal and external growth potential – and with each new day, we continue to work on tapping this potential with our more than 90,000 creative and entrepreneurial people around the world.

Yours,

Gunter Thielen

Business Development

Bertelsmann maintained its growth during the first half of 2006, and posted a significant increase in revenues and operating profits. In an improved overall economic environment and thanks to acquisitions made in the previous year, revenues improved by 14.5 percent vs. the first half of 2005, to €9.1 billion. Operating EBIT grew by 8.9 percent to €701 million. Net income increased by €9 million to €339 million (H1/2005: €330 million).*

Business and Economic Conditions

Description of the Business

Bertelsmann is an international media company. Its core businesses are the creation, bundling and distribution of media content, as well as production and the provision of other services. Bertelsmann does business in the core markets of Western Europe, Central Europe, the U.S. and many growing markets with its six operationally autonomous divisions RTL Group, Random House, Gruner + Jahr, BMG, Arvato and Direct Group. Bertelsmann AG serves as an operative management holding company.

Strategy

Bertelsmann's companies have the declared goal of attaining and extending leading positions in attractive markets. The systematic development of new business approaches closely linked to the core businesses leads to additional growth. Bertelsmann is also working intensely on meeting technological challenges in media markets. Profit-oriented growth will help Bertelsmann to achieve its planned increase in operating return on sales to 10 percent by 2007.

* The figures for the first half of 2005 have been adjusted to reflect IAS 32 (cf. Accounting Principles).

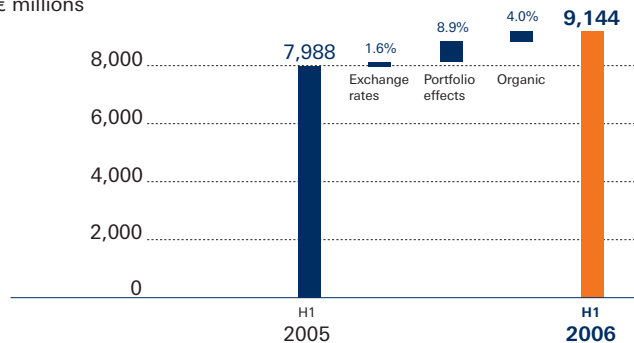
Numerous strategic measures were activated and acquisitions made before the end of fiscal 2005 to further extend leading market position in key areas of business. These acquisitions accounted for most of the growth seen during the first six months of 2006. Following intense investment activity in fiscal 2005, the focus for the first half of 2006 was on integrating the businesses. A limited number of acquisitions were made, including Direct Group's purchase of the Portuguese bookselling chain Livraria Bertrand and Random House's acquisition of a majority stake in BBC Books. Both purchases will be consolidated in the second half of 2006.

Significant Events in the Current Year

In addition to a positive business performance, the buyback of GBL's holdings in Bertelsmann was the defining event of the first six months of 2006. After a basic agreement regarding the buyback of GBL's stake in Bertelsmann was reached on May 24, the share buyback was legally concluded on July 4, 2006 at a price of €4.5 billion and the shares redeemed by means of a capital reduction. This transaction caused the equity ratio to drop to 20.4 percent (December 31, 2005: 40.0 percent). The equity ratio is expected to exceed the target threshold of 25 percent again by the end of fiscal 2006. The buyback was financed by an acquisi-

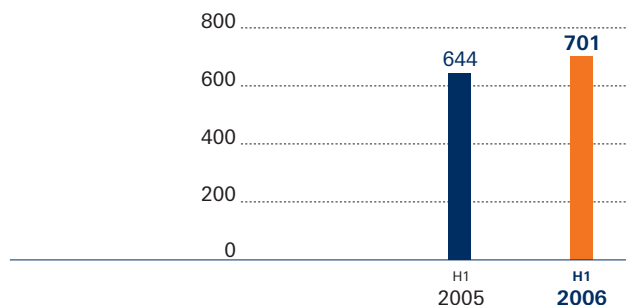
Revenue

in € millions



Operating EBIT

in € millions



tion loan, which will be repaid significantly over the next 12 to 18 months with funds generated from operating activities, a moderate dividend policy, and the expected proceeds from the sale of BMG Music Publishing. In the wake of a very expansive year in 2005, a restrained investment policy through 2007 will also help achieve this goal.

76.9 percent of the capital stock in Bertelsmann AG is now held by the Bertelsmann Stiftung with the remaining 23.1 percent owned by the Mohn family, both via holding companies. Bertelsmann Verwaltungsgesellschaft (BVG) exercises 100 percent of the voting rights at the Annual General Meeting of Bertelsmann AG.

Overall Economic Developments

The global economy expanded sharply in the first few months of 2006, driven by strong growth in Asia and accelerated growth in the U.S. and Europe. Real gross domestic product (GDP) in the U.S. improved distinctly, boosted by private consumer spending, public spending and corporate investments. According to OECD and central bank reports, real first-half GDP increased by 3.5 percent in the U.S. and by 2.5 percent in the Euro zone. The European Central Bank attributes economic growth in the Euro zone countries both to external factors and to increased corporate investments. Germany also reported good economic growth in the first half of 2006, stimulated by a rise in domestic demand and exports. The German Central

Bank reports that Germany's real GDP increased by 2.5 percent in the first half of 2006.

The usual early indicators point to continued positive, albeit less dynamic, global economic growth. The high price of energy and raw materials will likely dampen growth.

Results Analysis

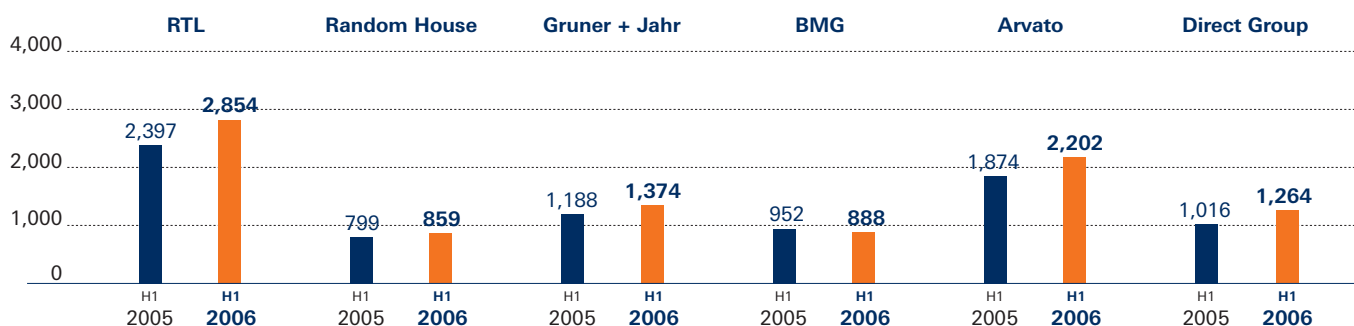
Revenues

Consolidated revenues for the period under review amounted to €9.1 billion, 14.5 percent above the first half of 2005 (€8.0 billion). Organic growth improved year-on-year, to 4.0 percent (H1/2005: 1.2 percent). Apart from this, investments made in fiscal 2005 were a key contributor to the revenue increase. Portfolio changes and other effects boosted revenues by 8.9 percent (H1/2005: minus 2.0 percent), while exchange rate movements made for a 1.6 percent increase in revenues (H1/2005: minus 1.0 percent).

The regional breakdown of revenues was practically identical to that seen for all of fiscal 2005. Germany's share in total revenues rose slightly to 30.5 percent vs. 29.7 percent in fiscal 2005. The other European countries accounted for 43.6 percent (2005: 43.8 percent), while the U.S. contributed 20.4 percent (2005: 20.5 percent) and other countries contributed 5.5 percent (2005: 6.0 percent). The revenue share contributed by the various business categories (Content, Advertising, Direct-to-customer, and Media services) remained practically the same.

Revenue by Divisions

in € millions



Operating EBIT and Operating EBITDA

The first half of 2006 saw a rise in Operating EBIT – Bertelsmann's key indicator for assessing the performance of its operating business – by 8.9 percent to €701 million (H1/2005: €644 million). Return on sales was down slightly due to a number of effects, in particular the decline in the music business, from 8.1 percent in H1/2005 to 7.7 percent in the first six months of 2006.

RTL Group posted the highest increase in earnings, from €371 million to €471 million. Direct Group also delivered a satisfactory performance, achieving a significant year-on-year improvement in its results. The Random House and Arvato divisions were able to maintain their earnings at last year's high levels. Due to start-up losses and a difficult printing market, Gruner + Jahr's earnings remained slightly below the previous year, while BMG's profitability was impacted by a declining overall recorded music market and the delay of important Sony BMG releases to the second half.

The group's Operating EBITDA improved by 11.5 percent year on year, to €1,058 million.

Net Income

After special items totaling minus €8 million, EBIT for the first half of 2006 totaled €693 million (H1/2005: €564 million). The financial result (interest and other financial expenditure) came to minus €172 million (H1/2005: minus €147 million). Income tax expense rose by €95 million to €182 million (H1/2005: €87 million). In the previous year, one-time positive effects had resulted in a reduction in income tax expense.

Net income after financial result and income tax amounted to €339 million (H1/2005: €330 million). Of this, €243 million was to Bertelsmann AG's shareholders (H1/2005: €224 million), and €96 million to minority shareholders (H1/2005: €106 million).

Special Items

Thanks to decreased expenditure on restructuring and integration, special items declined to minus €8 million (H1/2005: minus €80 million). This includes expenses of minus €31 million at Sony BMG and of minus €7 million at Direct Group, less a number of smaller positive special items.

Assets and Financial Analysis

Financial Guidelines and Targets

The financial guidelines adopted by the Bertelsmann group are designed to ensure a balance between financial security, return on equity, and growth, while taking into account the needs and views of capital market participants. Bertelsmann has been rated by Standard & Poor's and Moody's since 2002. Even after its buyback of the GBL stake, Bertelsmann will continue to take its cue from the requirements for listed companies in terms of transparency and investor relations, and will meet investors' information demands in a comprehensive manner.

Bertelsmann has long practiced a system of controlling based on quantified financial targets that are based mainly on the group's financial debt and traditionally, but decreasingly, on its capital structure. One key financial target is a leverage factor of 2.3 or below. The leverage factor is the ratio of economic debt to Operating EBITDA (after modifications).

At June 30, 2006, economic debt totaled €8,723 million, vs. €3,931 million at December 31, 2005. This increase may be attributed to the buyback of the GBL stake and will result in the group exceeding its target leverage factor at the end of the year. Economic debt includes net financial debt as well as debt substitutes, which consist of pension provisions and profit participation capital. The €4.5 billion price of the GBL repurchase is also counted as economic debt, which at June 30, 2006 was still shown as "Liability from repurchase of own shares." The buyback was financed by means of an acquisition loan from four banks in

Cash Flow Statement (Summary)

in € millions	H1 2006	H1 2005
Net cash from operating activities	639	569
Net cash from investing activities	(416)	(672)
Net cash from financing activities	(341)	(546)
Change in cash and cash equivalents	(118)	(649)
Funding of Bertelsmann Pension Trust e.V. (CTA)	–	(200)
Currency effects and other changes in cash and cash equivalents	(19)	12
Cash and cash equivalents at the beginning of the period	1,036	2,092
Cash and cash equivalents at the end of the period	899	1,255

two tranches of €2 billion and €2.5 billion respectively. The first tranche has a maturity of 364 days with the option to extend for another year. The second tranche (€2.5 billion, maturity three years) was syndicated to a pool of Bertelsmann's core banks in August 2006. In line with the company's strategy of focusing its financing on the capital market, part of the acquisition loan will be refinanced via the capital market.

Rating

Standard & Poor's and Moody's have issued ratings for Bertelsmann since June 2002. In connection with the GBL buy-back, Standard & Poor's on May 25, 2006 put Bertelsmann's "BBB+" rating on "credit watch with negative implications." On July 24, Moody's confirmed its "Baa1" rating for Bertelsmann with a changed outlook (from "stable outlook" to "negative outlook").

Cash Flow Statement

Since fiscal 2005, the cash flow statement has started from EBIT. In the period under review, cash flow from operating activities totaled €639 million (H1/2005: €569 million). At minus €416 million, the outflow of funds from investing activities was considerably lower than during the first half of 2005 (minus €672 million), due to a restrained investment policy. Cash outflow from financing activities for the period under review amounted to minus €341 million, a significant reduction vs. the previous year's minus €546 million. This includes €378 million

paid out in dividends to Bertelsmann AG's shareholders and minority shareholders of consolidated companies. At June 30, 2006, Bertelsmann's corporate liquidity totaled €899 million (June 30, 2005: €1,255 million).

Investments

Following intense investment activity in 2005, comparatively few acquisitions were made in the first half of 2006. €553 million were spent on property, plant and equipment, intangible assets and financial assets including purchase price payments (H1/2005: €765 million). €287 million (H1/2005: €299 million) of this was invested in property, plant and equipment, mostly at Arvato. Intangible assets accounted for €65 million (H1/2005: €91 million), mainly at RTL Group. Investments in financial assets amounted to €14 million (H1/2005: €23 million). Purchase price payments for consolidated entities (minus cash and cash equivalents) decreased to €187 million (H1/2005: €352 million), and were mainly in connection with the increase in shares held in Maul-Belser (part of the Prinovis joint venture) from 75 to 100 percent.

Employees

At June 30, 2006, the group had 92,772 employees worldwide (December 31, 2005: 88,516). Arvato registered the strongest increase in employees, partly because of building new service centers and expanding its customer loyalty businesses.

Business Development in the Divisions

Segment Reporting Primary Format

in € millions	RTL Group		Random House		Gruner + Jahr		BMG (total)		BMG Music Publishing**	
	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005
Consolidated revenues	2,842	2,389	858	798	1,358	1,182	887	950	183	183
Intercompany revenues	12	8	1	1	16	6	1	2	-	-
Divisional revenues	2,854	2,397	859	799	1,374	1,188	888	952	183	183
Operating EBIT	471	371	48	48	111	126	2	48	30	23
Special items	7	-	-	-	2	-	(39)	(71)	-	-
EBIT	478	371	48	48	113	126	(37)	(23)	30	23
Scheduled depreciation and amortization	82	82	17	20	45	36	42	38	15	13
Investments*	83	85	18	19	104	286	15	34	8	20

* Net of cash acquired. ** A unit of BMG that is scheduled to be sold during the second half of the year.



RTL Group, Europe's leading television and radio broadcaster and TV production firm, recorded a sharp increase in revenues and profits during the first half of 2006. This growth was due mainly to improved ad sales in all key European markets except the U.K. In particular, RTL Television in Germany and M6 in France increased their advertising income. RTL Nederland kept its market share stable and posted a considerable profit increase despite a new competitor in the Dutch TV market. The production arm Fremantle Media also made a significant contribution to the increase in revenues and earnings, with popular formats such as "Idol," "Quizmania," and "The X-Factor." M6 managed to underscore its pioneering role in building diversification businesses: Additional businesses such as M6 Mobile, the mobile service that was successful from the beginning and now has over half a million subscribers, represent a steadily growing share of non-advertising revenue.



Random House, the world's largest trade book publishing group, increased its first-half revenues, despite a book market that continues flat, and kept operating profits stable. This was due mainly to year-on-year performance improvements in North America and Germany and a continued high level of profitability in the United Kingdom. In the U.S., Random House had more #1 New York Times best sellers in the first six months of 2006 – twenty-four – than in all of 2005. In the U.K., Random House titles accounted for over 25 percent of the rankings on the Sunday Times of London best seller lists. The record-breaking sale of Dan Brown's "The Da Vinci Code" continued with seven million copies in print of the movie tie-in paperback edition in North America and the U.K. alone. Verlagsgruppe Random House's business in Germany expanded with the purchase of Gerth Media and the first-time inclusion of books published by the DVA, Kösel, and Manesse imprints acquired last year.



Europe's leading magazine publisher Gruner + Jahr reported noticeable revenue growth; the first-half operating result remained below that of the previous year. Revenues from the division's largely stable core business increased in Germany and beyond, due to the inclusion of Motor Presse and Prinovis, the gravure joint venture operated with Arvato and the Axel Springer AG, and due to new titles launched in 2005, such as "Park Avenue," "View" and "Healthy Living" in Germany and "Glamour" in the Netherlands. The publishing group continued its growth offensive with new launches in the first half of 2006, adding more international issues to the Geo family, and launching the women's magazine "emotion" in Germany. Though Operating EBIT was impacted by start-up losses from new launches, and by intensified competition in the printing sector, the gratifying profit performance of established titles in Germany and France essentially made up for this.

Arvato		Direct Group		Total divisions		Corporate		Consolidation/other		Total group	
H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005
1,933	1,653	1,258	1,009	9,136	7,981	8	7	-	-	9,144	7,988
269	221	6	7	305	245	-	-	(305)	(245)	-	-
2,202	1,874	1,264	1,016	9,441	8,226	8	7	(305)	(245)	9,144	7,988
96	100	13	(11)	741	682	(40)	(32)	-	(6)	701	644
2	-	(7)	(24)	(35)	(95)	30	15	(3)	-	(8)	(80)
98	100	6	(35)	706	587	(10)	(17)	(3)	(6)	693	564
117	95	30	21	333	292	9	10	-	-	342	302
265	241	61	62	546	727	7	38	-	-	553	765



In the BMG division, made up of Bertelsmann's 50 percent stake in Sony BMG and the BMG Music Publishing unit, which is currently up for sale, revenues and profits were below previous year. The very positive performance of the publishing business only partly offset a significant decline in the recorded music business that has to do with chronic market deterioration and the delay of key releases. The latter factor also resulted in loss of market share. Considerable cost savings achieved by the joint venture cushioned the margin decline, but could not wholly offset it. Albums by international stars, scheduled for the first half, were about to be released as the second half began. The contribution of digital business to Sony BMG's total revenue has increased to roughly 13 percent, practically double what it was this time last year. Sony BMG underwent a management change during the period under review.



Arvato, the media and communications services division, increased its revenues substantially and posted stable operating profits in a difficult market environment. Revenues grew based on organic strengths as well as portfolio effects, such as the consolidation of Prinovis and the Infoscore group. The services sector benefited from heightened demand in the service center sector, resulting in an excellent performance in France and gratifying customer loyalty sales in Germany. This was underscored by the continuing trend to outsourcing communications and logistics services. Business in the Benelux region and in mobile phone repairs is slightly more difficult at present. The printing arm did well in a tense market. Though results at the printers in the U.S. and Italy and at Prinovis were impacted by high pricing pressure and surplus capacity, this was compensated for by good business at Mohn Media.



Direct Group posted a sizeable increase in revenues and profits, with all business units contributing to the rise in earnings. The division's expansionist course was boosted by acquisitions; adjusted, its revenues declined slightly. Cost management and the swift integration of acquisitions prepared the ground for the division's much-improved profitability. In Europe, Direct Group managed to enhance its position as a leading retailer of books. In spring, France Loisirs bought up the Forum Alsatia bookselling chain. In Portugal, Direct Group's purchase of the Bertrand chain of shops (effective July 1, 2006) turned it into the country's leading bookseller. The dovetailing of clubs and book retail opens up new customer pools for Direct Group with its roughly 35 million club members all over the world. In the U.S., the merger of the DVD specialist retailer Columbia House with the BMG Direct music club was achieved speedily and cost-effectively.

Other Information

Changes on the Supervisory Board

Bertelsmann AG's Annual General Meeting on May 22, 2006 unanimously decided to elect Dr. Wulf H. Bernotat to the Supervisory Board of Bertelsmann AG. The chief executive of E.ON AG was appointed with immediate effect. At the same time Christian van Thillo, Chief Executive Officer (CEO) of the Flemish media group De Persgroep NV, retired from the Supervisory Board, his term of office having expired. In connection with the buyback of GBL's 25.1 percent stake, its representatives on the Supervisory Board of Bertelsmann, André Desmarais and Gilles Samyn, resigned their seats with effect from July 4, 2006.

Decisions Made by the Annual General Meeting

The main resolutions passed by the regular Annual General Meeting on May 22, 2006 were the above changes to the Supervisory Board of Bertelsmann AG and the resolution on profit distribution.

At an Extraordinary Annual General Meeting on June 28, 2006, Bertelsmann's Executive Board was authorized among other things to purchase and redeem own shares bought from GBL in accordance with the rules on capital reduction.

Significant Events After the Balance Sheet Date

The buyback of GBL's stake in Bertelsmann was completed on July 4, 2006, and involved submitting notifications to the commercial registry regarding the capital measures taken by Bertelsmann AG in connection with the GBL buyback. All applications to the commercial registry have been submitted. The entries in question were imminent as this interim report went to print.

On July 13, 2006, the European Court of First Instance annulled the European Commission's clearance of the merger of BMG

and Sony's recorded music businesses into Sony BMG. The ruling does not affect the continued existence of the music joint venture.

In August 2006, Random House strategically enhanced its portfolio by purchasing the remaining shares in the Korean book publisher Random House Joong Ang and by acquiring Multnomah Publishers, a Christian imprint in the U.S.

In July, the Supervisory Board approved the sale of BMG Music Publishing in principle. The sales process is expected to conclude during the second half of the year.

Risk Report

The risk situation remains essentially unchanged from that described in the risk report in the 2005 annual report. In the lawsuit involving the former music file-sharing platform Napster, the main part of the pre-trial discovery phase has been completed and has yielded absolutely no evidence supporting plaintiffs' claims. Because nothing has changed regarding Bertelsmann's assessment that plaintiffs' claims and legal theories are both legally untenable and factually entirely unfounded, Bertelsmann submitted another "Motion for Summary Judgment" in July 2006 asking the court to dismiss the complaints in their entirety.

In a ruling of July 13, 2006, the European Court of First Instance annulled the EU Commission's clearance of the establishment of the Sony BMG joint venture. The court argued that the EU Commission did not adequately review whether the establishment of the Sony BMG joint venture would result in a collectively dominant position in the recorded music market. Bertelsmann and Sony are currently updating the merger application they submitted in 2004 and expect that the merger proceedings will be resumed in September. In case the EU commission does not clear the transaction based upon the updated application,

the joint venture would have to be dissolved. Other possibilities include clearance subject to conditions or unconditional clearance. Both parent companies are confident that the review will again result in a clearance. The EU Commission's decision is expected sometime in the next fiscal year.

Outlook

In the light of modest growth in the media markets, the Bertelsmann group expects a nearly ten-percent increase in its revenues and operating results for fiscal 2006. The acquisitions made in fiscal 2005 continue to have a positive influence on revenue growth. RTL Group remains cautious but optimistic in its revenue and profit outlook for fiscal 2006, though phasing effects will prevent a continuation of the first-half surge in earnings. Random House will continue to see a slight increase in revenues, and achieve profitable growth. Both the core business and the recent consolidation of Prinovis and Motor Presse will result in improved revenues and profits at Gruner + Jahr. BMG remains confident about its outlook for fiscal 2006 and expects to maintain or slightly improve on the previous year's results against steady-to-slightly-declining revenues. Arvato expects high single-digit to low double-digit growth in revenues and profits, due in approximately equal parts to strong organic growth and the purchases made in 2005. Likewise, at Direct Group, the acquisitions in 2005 will boost revenue growth considerably. The division expects further improvements on the earnings side.

Bertelsmann expects to regain its financial flexibility in line with its financial targets by the end of fiscal 2007. The strong release of funds from operations, expected proceeds from the sale of BMG Music Publishing, and a moderate dividend and investment policy will contribute to this development. The leverage factor is expected to return to around the target of 2.3 by the end of fiscal 2007. Bertelsmann expects to have financial scope of a good billion euros per year again starting in 2008.

The Executive Board again expects a 15 percent payout on par value on the Bertelsmann profit participation certificate ISIN DE0005229942 for fiscal 2006.

These forecasts are based on the Bertelsmann group's present business strategy and reflect our risk and opportunity considerations. All statements regarding possible future developments are estimates made based on the information currently available. Should the underlying suppositions fail to materialize and/or further risks arise, actual results may deviate from the expected results. Therefore, no guarantee is made for the information provided.

Consolidated Income Statement

in € millions	H1 2006	H1 2005
Revenues	9,144	7,988
Other operating income	318	296
Change in inventories	72	59
Own costs capitalized	110	94
Cost of materials	(2,860)	(2,380)
Royalty and license fees	(751)	(667)
Personnel costs	(2,394)	(2,045)
Amortization of intangible assets and depreciation of property, plant and equipment	(357)	(298)
Other operating expenses	(2,632)	(2,468)
Results from investments accounted for using the equity method	43	40
Income from other participations	8	25
Special items	(8)	(80)
EBIT (Earnings before interest and taxes)	693	564
Interest income	77	89
Interest expenses	(134)	(129)
Other financial expenses	(115)	(107)
Financial result	(172)	(147)
Income taxes	(182)	(87)
Net income	339	330
attributable to:		
Share of profit of Bertelsmann shareholders	243	224
Minority interest	96	106

Reconciliation to Operating EBIT

in € millions	H1 2006	H1 2005
EBIT	693	564
Special items		
– Impairment of goodwill and income from release of goodwill	–	–
– Gains/losses from disposals of participations	(30)	(15)
– Other special items	38	95
Operating EBIT	701	644
Operating EBITDA	1,058	949

Consolidated Balance Sheet

in € millions	06/30/2006	12/31/2005
Assets		
Non-current assets		
Goodwill	7,699	7,755
Other intangible assets	1,489	1,611
Property, plant and equipment	2,814	2,785
Investments accounted for using the equity method	688	691
Other financial assets	239	264
Trade accounts receivable	8	93
Other accounts receivable and other assets	397	452
Deferred tax assets	335	420
	13,669	14,071
Current assets		
Inventories	2,131	2,108
Trade accounts receivable	2,795	3,205
Other accounts receivable and other assets	2,033	1,963
Other financial assets	62	39
Current income tax receivable	172	219
Cash and cash equivalents	899	1,036
	8,092	8,570
Assets held for sale	265	291
	22,026	22,932
Equity and Liabilities		
Equity		
Subscribed capital	1,000	1,000
Capital reserve	2,331	2,331
Retained earnings	4,788	4,997
Obligation to repurchase treasury shares deducted from equity (in accordance with IAS 32)	(4,500)	-
Shareholders' equity	3,619	8,328
Minority interest	873	842
	4,492	9,170
Non-current liabilities		
Provisions for pensions and similar obligations	1,649	1,647
Other provisions	119	105
Deferred tax liabilities	225	273
Profit participation capital	706	706
Financial debt	2,377	2,435
Trade accounts payable	21	130
Other liabilities	388	576
	5,485	5,872
Current liabilities		
Other provisions	478	646
Financial debt	390	179
Obligation to repurchase treasury shares (in accordance with IAS 32)	4,500	-
Trade accounts payable	3,758	4,022
Other liabilities	2,374	2,435
Current income tax payable	328	364
	11,828	7,646
Liabilities related to assets held for sale	221	244
	22,026	22,932

Consolidated Cash Flow Statement

in € millions	H1 2006	H1 2005
EBIT (Earnings before interest and taxes)	693	564
Taxes paid	(133)	(155)
Depreciation and write-ups of non-current assets	357	305
Gains/losses from disposals of participations	(30)	(15)
Change in provisions for pensions	(17)	(29)
Change in other provisions	(66)	(72)
Other effects	(73)	89
Change in net working capital	(92)	(118)
Net cash from operating activities	639	569*
Investments in:		
– intangible assets	(65)	(91)
– property, plant and equipment	(287)	(299)
– other investments and financial assets	(14)	(23)
– purchase prices for consolidated investments (net of cash acquired)	(187)	(352)
Proceeds from disposal of non-current assets	122	93
Proceeds from disposal of marketable securities and short-term investments	15	–
Net cash from investing activities	(416)	(672)
Proceeds from bonds and promissory notes	–	–
Redemption of bonds and promissory notes	–	(40)
Change in financial debt	217	31
Interest paid	(166)	(118)
Change in shareholders' equity	–	–
Dividend Bertelsmann shareholders and minority interest	(378)	(412)
Additional payments to partners (IAS 32)	(14)	(7)
Net cash from financing activities	(341)	(546)
Change in cash and cash equivalents	(118)	(649)
Funding of Bertelsmann Pension Trust e.V. (CTA)	–	(200)
Currency effects and other changes in cash and cash equivalents	(19)	12
Cash and cash equivalents at the beginning of the period	1,036	2,092
Cash and cash equivalents at the end of the period	899	1,255

* As in the Annual Report dated Dec. 31, 2005, interest payments are shown under cash flow from financing activity.

Consolidated Statement of Changes in Equity

in € millions	Shareholders' equity	Minority interest	Total
Balance at 01/01/2005	7,510	1,212	8,722
Dividends	(324)	(88)	(412)
Currency differences	165	5	170
Measurement in accordance with IAS 39	11	11	22
Other changes	(10)	(9)	(19)
Net income	224	106	330
Balance at 06/30/2005	7,576	1,237	8,813
Balance at 01/01/2006	8,328	842	9,170
Dividends	(287)	(91)	(378)
Currency differences	(147)	(1)	(148)
Measurement in accordance with IAS 39	(17)	(4)	(21)
Other changes	(1)	31	30
Obligation to repurchase treasury shares deducted from equity (in accordance with IAS 32)	(4,500)	–	(4,500)
Net income	243	96	339
Balance at 06/30/2006	3,619	873	4,492

Accounting Principles

The present half-year report was drawn up in accordance with IAS 34 (Interim Financial Reporting) and reviewed by the group auditor. On principle, the same accounting and valuation methods were applied as in the consolidated financial statements at December 31, 2005, in which these methods are described in detail.

Since December 31, 2005, financial instruments that in principle entitle the holder to put them back to the issuer for cash or other financial assets are no longer shown on the balance sheet as minority shares in equity, but as financial liabilities (IAS 32). The profit relating to such financial instruments is reported under "other financial expenses." The previous year's figures shown in the Profit and Loss Statement and the Cash Flow Statement were adjusted accordingly.

In accordance with IAS 32.23, the repurchase of Groupe Bruxelles Lambert's (GBL) 25.1-percent stake in Bertelsmann AG dated July 4, 2006 is already shown at June 30, 2006 in the present half-year statements. This IAS rule stipulates that a contractual agreement to purchase own equity instruments for cash or other financial assets already gives rise to a financial liability for the present value of the redemption amount. Pursuant to IAS 32.33, the repurchase of treasury shares is to be shown as a decrease in equity, resulting in neither profit nor loss. Accordingly, equity was decreased at June 30, 2006 through an overt deduction of the buyback price.

Based on the planned sale in the second half of the year, Bertelsmann AG's present report overtly discloses the BMG Music Publishing business unit in the BMG segment for information purposes. At June 30, 2006, the conditions for applying IFRS 5 (Non-current assets held for sale and discontinued operations) were not met.

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www.bertelsmann.de
www.bertelsmann.com

The Annual Report is also available in German.

Status as of:

September 1, 2006

Financial Calendar

November 8, 2006

Announcement of figures for the first nine months of 2006

March 21, 2007

Annual Press Conference for the fiscal year 2006

Imprint

Editing and coordination
Bertelsmann AG
Corporate Communications/
Media Relations

Design

Kirchhoff Consult AG, Hamburg

Photo Credits

Jim Rakete
Bertelsmann AG

Production

Medienfabrik Gütersloh GmbH,
Gütersloh

Print

Mohn Media · Mohndruck GmbH,
Gütersloh

