Interim Report 2007

The Spirit to Create

BERTELSMANN

media worldwide

Bertelsmann at a Glance

Key Figures (IFRS)	H1 2007	H1 2006* adjusted
in € millions		
Business Development		
Consolidated revenues	**8,957**	9,144
RTL Group	**2,891**	2,854
Random House	**832**	859
Gruner + Jahr	**1,387**	1,374
BMG	**632**	888
Arvato	**2,243**	2,202
Direct Group	**1,235**	1,264
Operating EBIT	**714**	701
Return on sales in %	**8.0 %**	7.7 %
Net income	**51**	354
Investments	**506**	553
	06/30/2007	12/31/2006*
Consolidated Balance Sheet		
Equity	**5,917**	6,018
Equity ratio in %	**27.4**	26.7
Total assets	**21,600**	22,515
Economic debt**	**6,588**	6,760
Employees		
Germany	**36,624**	34,336
Other countries	**64,385**	62,796
Total	**101,009**	97,132

* Due to a change of reporting the actuarial gains and losses in line with IAS 19.93A, the figures of the previous year were adjusted.
** Net financial debt plus provisions for pensions and profit participation capital, without changes due to IAS 19.93A.

Highlights of the 1st Six Months

RTL Group
- Highest viewer market shares in Germany since 2003
- M6's new digital channels in France show dynamic growth
- Partnership with John de Mol's Talpa Media strengthens RTL in the Netherlands

Random House
- More than 100 titles on the "New York Times" bestseller lists
- Random House Group UK buys majority stake in Virgin Books
- Four Pulitzer prizes for titles published by Random House

Gruner + Jahr
- Launch of the food platform "essen-und-trinken.de"
- In Germany, launched two new magazines: "Ebay-Magazin" and "Dogs"
- "Gala" and "Capital" successful in France

Arvato
- Acquisition of five Vivento Customer Services locations from Telekom
- Cooperation between public administration and Arvato makes its German debut in Würzburg
- Download platform Gnab wins Germany's Multimedia-Award 2007

BMG
- "The Best Damn Thing" by Avril Lavigne is the world's highest-selling album
- Mobile entertainment joint venture with Dada
- U.S. bestselling album by up-and-coming Sony BMG star Chris Daughtry

Direct Group
- Ukrainian club on the road to success with 1.9 million members
- Acquisition of U.S. book club Bookspan turns Direct Group into biggest specialist retailer of media in the U.S.
- In Spain, the group builds its own bookselling chain, "Bertrand"

Ladies and Gentlemen,

After the first half of the 2007 fiscal year, Bertelsmann is on track. Organically we have achieved a slight growth upturn. The operating result is up on the high level of the previous year, as is the return on sales which advanced to 8.0 percent. For the year-end, we have the 10 percent mark in our sights and confirm our positive overall forecast.

The reduction of financial liabilities, which rose as a result of repurchasing the share package from Groupe Bruxelles Lambert, is on schedule. To the year-end, we will again have largely achieved our financing objectives. The repurchase has thus been completed.

This positive trend is a result of Bertelsmann AG's first-class strategic positioning. In particular the television families in Germany and France, as well as the global production company contributed to success at the RTL Group. At the Pulitzer Award ceremony, Random House achieved a record figure of four prizes. Gruner + Jahr is rigorously pursuing its strategy of transferring its strong brands to new media offers, particularly in the Internet. The BMG music division maintained its position well in a shrinking market. The media and communications services provider, Arvato, again benefited from its growth alignment, targeting new markets, new services and new customer groups. For the Direct Group we expect an earnings upturn in the second half of the year, with growth being generated particularly on the international front.

In the first half of 2007, we moved for the first time across the 100,000 employees mark. For me this is a further indication of Bertelsmann's strength. All our employees are working with full commitment for Bertelsmann's successful and secure future. My colleagues and I are thankful for this. In 2008, we will take Bertelsmann into a new growth phase.

Yours,

Gunter Thielen

Contents

Business Development

In the first half of 2007, Bertelsmann continued its successful business development against the background of continuing favorable macroeconomic conditions. After adjustments for portfolio and exchange rate effects, revenues rose by 1.3 percent compared with the first half of 2006. Reported revenues shrank to €9.0 billion compared with the same period in the previous year, since the music publishers BMG Music Publishing was deconsolidated as of December 31, 2006. At the same time, exchange rate effects, particularly with regard to the US dollar, impacted negatively on revenues. Despite the sale of BMG Music Publishing, Operating EBIT rose to €714 million (H1 2006: €701 million). Net income fell by €303 million to €51 million (H1 2006: €354 million), due in essence to more substantial special items such as settlement payments and provisions in connection with financing the music filesharing platform Napster.*

Business and Economic Conditions

Description of the Business

Bertelsmann's core businesses comprise the creation, bundling and distribution of media content as well as production and service businesses. The international media company Bertelsmann is represented in television and radio with the RTL Group, in the book market with Random House, in the magazine and print business with Gruner + Jahr, in the music market with BMG, in media services with Arvato and in the media club sector with Direct Group. The divisions operate in the core markets Western Europe, Central Europe, the USA as well as many growth markets. In its role as an operative management holding company, Bertelsmann AG is responsible for the group's business policy and strategic management.

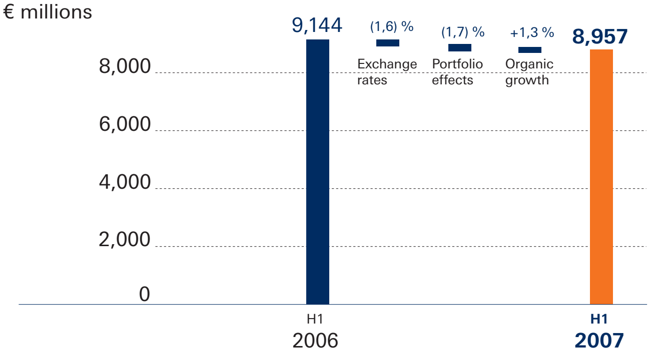
Strategy

Leading positions in attractive markets in which Bertelsmann operates are to be maintained and further developed. Investments will continue to be focused on the geographical core markets of Western Europe and the USA. However, the significance of business in the growth markets of Eastern Europe and Asia will increase in future. Increasingly, revenues are to grow organically but also through selective acquisitions and the return on sales is to amount to 10 percent. An important Bertelsmann goal is to increase enterprise value in the sense of a sustained increase in profitability. With regard to controlling its businesses, Bertelsmann strives to achieve a participation of 100 percent. Strategy is focused on developing new approaches to business around Bertelsmann's business portfolio. Against

* Due to a change of reporting the actuarial gains and losses in line with IAS 19.93A, the figures of the previous year were adjusted (see page 15 for an explanation).

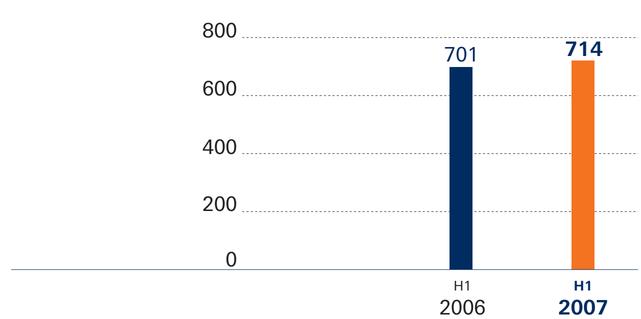
Revenue

in € millions



Operating EBIT

in € millions



this background, Bertelsmann explores technical challenges on the media markets. The ongoing digitalization of content and sales channels will have a continuing impact on the development of the global media industry over the next few years.

Significant Events in the Current Year

The Chairman of the Executive Board of Bertelsmann AG, Dr. Gunter Thielen, will move to the Supervisory Board with effect from January 1, 2008 to assume the role of Chairman there. The current Chairman of the Supervisory Board, Professor Dr. Dieter Vogel, will resign his mandate. He will remain a shareholder of Bertelsmann Verwaltungsgesellschaft mbH (BVG). In its meeting on January 19, 2007, the Supervisory Board of Bertelsmann AG elected Hartmut Ostrowski, Chairman of the Executive Board of Bertelsmann AG with effect from January 1, 2008. On the same date, Rolf Buch, member of the Executive Board of Arvato AG, will succeed Hartmut Ostrowski as Chairman of the Executive Board of the Arvato corporate division and member of the Executive Board of Bertelsmann AG.

Following the July 13, 2006 judgment by the Court of First Instance, the EU Commission was required to reappraise the establishment of the Sony BMG joint venture. On January 31, 2007, Bertelsmann and Sony submitted their updated merger notification to the EU Commission. Subsequently the Commission recommenced its investigation. Bertelsmann expects the Commission's decision in October 2007 and is confident that this second review will again result in clearance.

In February 2007, the RTL Group announced the sale of its stake in the Portuguese media group Grupo Media Capital to the Spanish Grupo Prisa. Deconsolidation took place in April 2007. The 25 percent participation in Sportfive sold by the RTL Group in November 2006 was deconsolidated in February 2007.

In February, Bertelsmann issued a floating rate note with a term of two years and a volume of €650 million.

In March 2007, Bertelsmann reached a settlement with the EMI Group and in the following month with the Warner Music Group regarding the former music filesharing platform Napster.

In April 2007, the Direct Group acquired the remaining 50 percent stake in the US book club business Bookspan from Time Inc.

In May 2007, Bertelsmann established an equity fund in close coordination with Morgan Stanley Principal Investments and Citigroup Private Equity. The purpose of the fund is to acquire minority stakes in the media sector and related areas, with a geographical focus on Europe, the U.S. and Asia.

Overall Economic Developments

In the first half of 2007, the dynamic growth in the global economy was maintained. The expansion in economic production in industrialized countries slowed in comparison to the end of 2006. However, since economic activities in developing and newly industrializing countries picked up more rapidly, growth in the global economy was virtually unchanged.

Economic growth in the USA slowed substantially in the first three months of 2007 due, in essence, to falling investment in residential construction. In the second quarter of 2007, the US economy recovered markedly thanks to increasing corporate investment. The US dollar rate weakened against the euro in the first six months of 2007.

According to the University of Kiel's Institute for the World Economy, economic activity in the euro zone grew more slowly in the first half of 2007 than in the previous year, since production activity was boosted in 2006 as a result of consumers bringing forward their purchases ahead of the increase in value added tax in Germany and extraordinary effects in Italy. In Germany, economic growth continued in the first half of 2007 even if not as dynamically as at the end of 2006. Private consumption has not yet recovered visibly from the increase in value added tax at the beginning of 2007.

Results Analysis

Revenues

In the first half of 2007, revenues amounted to €9.0 billion (H1 2006: €9.1 billion). The decline is attributable, in essence, to the sale of the music publishers BMG Music Publishing in 2006. With an increase in revenues of 1.9 percent, Arvato was the most rapidly growing division in the first half of 2007. The revenues of the RTL Group improved by 1.3 percent compared with the same period in the previous year to €2.9 billion and the revenues of Gruner + Jahr by 0.9 percent to €1.4 billion. Revenues at BMG, Random House and the Direct Group fell in comparison to the same period in the previous year.

Adjusted for portfolio and exchange rate effects, revenues rose by 1.3 percent compared with the first half of 2006, because of positive growth at the RTL Group and Arvato in particular. Portfolio and other effects had a negative impact of minus 1.7 percent on revenues (H1 2006: 8.9 percent). In total, exchange rate effects, which are largely attributable to the appreciation in the euro against the US dollar, amounted to minus 1.6 percent of revenues (H1 2006: 1.6 percent). In comparison to the first half of 2006, there were only minor changes in the geographical breakdown of revenues. Revenues in Germany rose slightly to 31.2 percent compared with 30.5 percent in the same period in the previous year. The other European countries achieved a 44.9 percent share of revenues (H1 2006: 43.6 percent), the USA a share of 18.7 percent (H1 2006: 20.4 percent) and the other countries a share of 5.2 percent (H1 2006: 5.5 percent). The proportion of revenues accounted for by the four business categories (content, advertising, direct-to-customers and media services including production revenues) also remained virtually unchanged in the first half of 2007.

Operating EBIT and Operating EBITDA

Despite the sale of BMG Music Publishing, Operating EBIT improved by €13 million to €714 million compared with the same period in the previous year. The return on sales reached 8.0 percent compared with 7.7 percent in the previous year. The RTL Group achieved the highest growth in earnings of 8.3 percent to €510 million (H1 2006: €471 million). Both divisions Gruner + Jahr and Arvato exceeded the high level of profitability achieved in the previous year. Random House and Direct Group failed to reach the previous year's figure. In the BMG division, a performance improvement at Sony BMG could mostly offset the loss of the result contribution from BMG Music Publishing.

In the first half of 2007, the group's Operating EBITDA fell by 2.0 percent to €1,037 million (H1 2006: €1,058 million).

Net Income

Starting from Operating EBIT and including special items amounting to minus €297 million, the resulting EBIT amounted to €417 million (H1 2006: €693 million). Net financial expense increased year on year by minus €49 million to minus €205 million (H1 2006: minus €156 million). An increase in financial debt as a consequence of buying back the GBL stake led to higher interest expenses. In the first half of 2007, tax expense declined to minus €161 million compared with minus €183 million in the first half of 2006. In the reporting period, a series of special items led to a comparatively higher tax ratio. Starting from EBIT and taking account of net financial expenses as well as taxes, net income of €51 million was produced (H1 2006: €354 million). Of net income, minus €51 million was attributable to the shareholders of Bertelsmann AG (H1 2006: €258 million) and €102 million to minorities (H1 2006: €96 million).

Special Items

In the first half of 2007, special items amounted to minus €297 million (H1 2006: minus €8 million). These include capital gains totaling €116 million, which resulted predominantly from the sale of shares in Sportfive and in Grupo Media Capital. The items relating to sales were offset by restructuring and integration expenses totaling minus €42 million (H1 2006: minus €38 million). Furthermore, special items include impairment of minus €123 million on the English TV station Five. Tougher competitive conditions on the increasingly heavily fragmented English TV market, which are confronting all stations, have led to this impairment. The expenses of the out-of-court settlements with the EMI Group and the Warner Music Group, on account of financing the music filesharing service Napster, amounting to minus €180 million are also included in the special items. In addition, the special items contain a provision for possible future settlements with third parties, which have also filed suit against Bertelsmann in the U.S. due to its financing the music filesharing platform Napster or which assert they have claims of this kind. In the first half of 2007, this provision was increased by minus €63 million to total minus €164 million (December 31, 2006: minus €101 million). In total, the special items contain expenses relating to the music filesharing platform Napster of minus €243 million.

Assets and Financial Analysis

Financing Guidelines and Activities

The aim of Bertelsmann's financial policy is to achieve a balance between financial security, return on equity and growth. The group's financing is geared to the requirements of a "BBB+"/ "Baa1" rating. In principle, the group finances itself centrally via Bertelsmann AG and its financing companies Bertelsmann U.S. Finance, LLC and Bertelsmann Capital Corporation N.V. Bertelsmann AG is responsible for ensuring that group companies are supplied with adequate liquidity. At the same time, granting of guarantees and letters of comfort on behalf of group companies is managed by Bertelsmann AG.

Bertelsmann's financial management is based on quantified financial targets, which are principally geared to financial debt. One of the key financial targets is a leverage factor of a maximum of 2.3. The leverage factor represents the ratio of economic debt to Operating EBITDA (after modifications).

On February 22, Bertelsmann AG issued a floating rate note with a volume of €650 million and a term of two years. The bond carries a coupon of the 3 months EURIBOR + 10 basis points. The proceeds were used to redeem partially a bridge loan raised to finance the buyback of shares. €650 million of that bridge loan were still drawn by June 30, 2007. Before account was taken of the changes resulting from IAS 19.93A, economic debt, consisting of net debt plus provisions for pensions and profit participation capital, amounted to €6,588 million (December 31, 2006: €6,760 million). After taking account of the changes resulting from IAS 19.93A, economic debt stood at €6,883 million (December 31, 2006: €7,215 million).

Rating

To extend the group's financing options, Bertelsmann submits to the requirements for obtaining a rating since June 2002. Since then, Bertelsmann has been rated "Baa1" by Moody's and "BBB+" by Standard & Poor's (S&P), an investment grade issuer rating. In fiscal 2006, Moody's and S&P both confirmed their ratings in connection with the buyback of the GBL stake albeit with a negative outlook. Bertelsmann's short-term credit quality is assessed at "P-2" by Moody's and at "A-2" by S&P.

Controlling Systems

The divisions are managed on the basis of the Bertelsmann Value Added (BVA) and Operating EBIT. The BVA serves to assess the profitability of operating business and the return on invested capital. In the first half of 2007, the BVA reached minus €71 million (June 30, 2006: minus €105 million).

Operating EBIT is based on the operating result that is replicable under normal economic conditions. It is calculated before the financial performance and taxes and, at the same time, adjusted for non-operating special items.

Consolidated Cash Flow Statement

The Bertelsmann consolidated cash flow statement is calculated from EBIT. The cash conversion rate, a ratio to evaluate operating cash flows generated, can easily be calculated using this approach. It is produced from the ratio of operating free cash flow to Operating EBIT. To calculate operating free cash flow, depreciation and amortization are adjusted and operative investments are deducted from Operating EBIT. As a target Bertelsmann strives to achieve a cash conversion rate of 100 percent. In the first half of 2007, the cash conversion rate reached 81 percent (June 30, 2006: 70 percent). In the reporting period, higher income was generated from the temporary increase in the funds commitment at the year-end 2006.

Cash Flow Statement (Summary)

in € millions	H1 2007	H1 2006
Cash flow from operating activities	**520**	639
Cash flow from investing activities	**(110)**	(416)
Cash flow from financing activities	**(503)**	(341)
Change in cash and cash equivalents	**(93)**	**(118)**
Currency effects and other changes in cash and cash equivalents	**1**	(19)
Cash and cash equivalents at the beginning of the period	**986**	1.036
Cash and cash equivalents at the end of the period	**894**	**899**

In the first half of 2007, cash flow of €520 million (H1 2006: € 639 million) was generated from operating activities. Cash flow from investing activities improved to minus €110 million (H1 2006: minus €416 million). The causes for this improvement were lower investing activities as well as an increase in the proceeds from disposal of investments and of non-current assets. This included proceeds of €284 million (H1 2006: €75 million) from disposals of consolidated investments, for Grupo Media Capital in particular. The proceeds were offset by purchase price payments for acquisitions of participations (net of acquired cash and cash equivalents) amounting to minus €146 million (H1 2006: minus €187 million). In the reporting period, cash flow amounting to minus €503 million (H1 2006: minus €341 million) was used for financing activities. Dividends amounting to minus €254 million (H1 2006: minus €378 million) were distributed to Bertelsmann AG shareholders as well as minority interests in consolidated companies. As of June 30, 2007, group cash and cash equivalents stood at €0.9 billion (H1 2006: €0.9 billion).

Investments

In the first half of 2007, investment in property, plant and equipment, intangible assets and financial investments including purchase price payments reduced by €47 million to €506 million (H1 2006: €553 million). Investment in property, plant and equipment amounted to €241 million (H1 2006: €287 million). This was attributable to Arvato essentially. A figure of €78 million (H1 2006: €65 million), of which the majority related to the RTL Group, was invested in intangible assets. Investment in financial assets increased to €41 million (H1 2006: €14 million). €146 million (H1 2006: €187 million) was used in purchase price payments for consolidated investments (net of acquired cash and cash equivalents). In essence, it was related to the increase in the 50 percent stake in the American book club business Bookspan, which is now reported at 100 percent in the Direct Group.

Balance Sheet

As of June 30, 2007, total assets amounted to €21.6 billion (December 31, 2006: €22.5 billion). Equity declined from €6,018 million as of December 31, 2006 to €5,917 million as of June 30, 2007, resulting in an equity ratio of 27.4 percent (December 31, 2006: 26.7 percent). The new recognition of actuarial gains and losses according to IAS 19.93A led to a slight reduction in the equity ratio. Since fiscal 2005, Bertelsmann has been outsourcing funds to cover pension liabilities in Germany within the framework of a contractual trust arrangement (CTA). In the first half of 2007, a tax receivable amounting to €97 million was assigned to Bertelsmann Pension Trust e.V. The pension provisions shrank to €1,676 million from €1,927 million.

Employees

As of June 30, 2007, the number of employees in the group rose to 101,009 worldwide (December 31, 2006: 97,132). As in the previous year, Arvato recorded the largest growth in employees as a result of the expansion in its service business.

Other Information

Changes on the Supervisory Board

At the Annual General Meeting on May 14, 2007, Dr. Karl-Ludwig Kley, Chairman of the Management of Merck KGaA, was elected to the Supervisory Board of Bertelsmann AG. At the same time, Dr. Claus-Michael Dill, Chairman of the Executive Board of DAMP Holding AG, resigned at the end of his period in office.

Significant Events After the Balance Sheet Date

In August 2007, Bertelsmann reached a settlement with a class of American music publishers, which are members of the Harry Fox Agency, with regard to the former music filesharing platform Napster, which still needs the approval of the courts.

Risk Report

Please refer to the Annual Report 2006 for information on the system and process of risk management. The assessment of the material risks for the Bertelsmann group and for Bertelsmann AG has not changed significantly compared to the Annual Report 2006.

Legal risks could arise from the following lawsuits:

Various music publishers (by means of a class action) and the record labels EMI and Universal Music Group ("UMG") had taken action against Bertelsmann AG before a New York federal court in spring 2003. The plaintiffs asserted that by giving loans to the music filesharing service Napster, which had meanwhile gone bankrupt, Bertelsmann had guaranteed the continued existence of the company, which would otherwise not have been capable of surviving any longer and consequently contributed to breaches of copyright by Napster and its users. Furthermore, Bertelsmann had virtually taken over Napster in fall 2000 and had thus controlled Napster's day-to-day business. Bertelsmann considers the claims asserted to be unjustified in fact and law. In September 2006, Bertelsmann reached an out-of-court settlement with Universal Music Group and declared its willingness to pay UMG a total amount of USD 60 million (including legal costs). As a result, any claims by UMG are finally settled. In March 2007, Bertelsmann reached an out-of-court settlement with EMI, which was followed by a further settlement with Warner Music in April 2007. As a result, any claims by EMI and Warner Music are also finally settled and their respective music publishers have withdrawn from the class action. Bertelsmann took these settlements as a reason for creating provisions for possible payments as part of future settlements with other plaintiffs or third parties, who assert they have claims of this kind against Bertelsmann for financing Napster. In July 2006, Bertelsmann submitted a motion for summary judgment asking to have the actions dismissed in their entirety. A ruling by the court is still pending.

The German Federal Cartel Office is of the opinion that the so-called "share deals" agreed between IP Deutschland, RTL Group's German advertising sales unit, and the media agencies might be incompatible with German antitrust law. Based on this assumption, the German Federal Cartel Office, which is entitled to impose fines, started an investigation against both IP Deutschland and SevenOne Media, the advertising sales unit of ProSiebenSat.1 Media AG. No final decision on the matter is expected in 2007. Although IP Deutschland does not share the view of the Federal Cartel Office, the company decided not to sign any more share deals from now on in order to create planning reliability.

Overall Risk

In the first half of 2007, no substantial risks were identified for Bertelsmann AG. Equally, from today's viewpoint, no substantial risks are apparent that could threaten the group's continued existence.

Opportunities

There have been no significant changes to the assessment of opportunities compared with the presentation in the Annual Report 2006.

Business Development in the Divisions

Segment Reporting Primary Format

	RTL Group		Random House		Gruner + Jahr		BMG		thereof BMG Music Publishing	
in € millions	H1 2007	H1 2006	H1 2007	H1 2006	H1 2007	H1 2006	H1 2007	H1 2006	H1 2007	H1 2006
Consolidated revenues	2,880	2,842	829	858	1,372	1,358	631	887	–	183
Intercompany revenues	11	12	3	1	15	16	1	1	–	–
Divisional revenues	**2,891**	**2,854**	**832**	**859**	**1,387**	**1,374**	**632**	**888**	–	**183**
Operating EBIT	**510**	**471**	**44**	**48**	**116**	**111**	**(3)**	**2**	–	**30**
Special items	(28)	7	–	–	(1)	2	(11)	(39)	–	–
EBIT	**482**	478	**44**	48	**115**	113	**(14)**	(37)	–	30
Return on sales in %	17.6 %	16.5 %	5.3 %	5.6 %	8.4 %	8.1 %	(0.5) %	0.2 %	–	–
Scheduled depreciation and amortization	86	82	18	17	43	45	22	42	–	15
Investments*	148	83	7	18	59	104	5	15	–	8
Employees (closing)**	11,128	11,307	5,889	5,804	14,681	14,529	2,863	3,009	–	–

* Net of acquired cash and cash equivalents. ** The number of employees of the previous period related to the status on December 31, 2006.

The RTL Group, Europe's leading entertainment group, generated an increase in operating results during the first half-year. Key contributors here were the German RTL channel family, the M6 Group in France and the global production company Fremantle Media. Despite deconsolidating the holding in the French pay-TV channel TPS, revenues were up to the record level of the first half-year of 2006. In Germany the RTL, Vox, RTL II, Super RTL and N-TV channels gained viewer market share. In France, the operating result of the M6 Group improved strongly. The main M6 channel benefited from the TV advertising market being opened to retail companies. The M6 digital channel demonstrated dynamic growth, particularly W9, the home shopping activities and the M6 Mobile cell phone offer. Fremantle Media again developed positively.

Random House, the world's largest trade book publishing group, registered a slight year-on-year decline in its first-half revenues and earnings. In a global book market with a slow-growth trajectory, the decline is due to the cost of investing in future growth, especially for new publishing businesses in the U.K., as well as the unfavorable US exchange rates. Random House outperformed the market in Germany and the U.K. Random House UK Group titles accounted for 30 percent of the Sunday Times bestseller lists. In the U.S., Random House, Inc. placed more than 100 titles on the New York Times bestseller lists. The July North America launch of the Random House audiobook of "Harry Potter and the Deathly Hallows" produced record-breaking sales. In Germany, Random House was successful with greater sales from several paperback imprints.

Europe's biggest magazine publisher Gruner + Jahr grew both its revenues and its operating result during the first half. In Germany, the core businesses achieved good results in horizontally developing advertising and sales markets. International revenues and profits rose significantly. Austria, Spain, Italy and Poland posted a good operating development. In China, the holding in the Boda media house generated growth. While "Gala" and "Capital" and their Internet portals performed well in France, start-up investments for the "Jasmin" woman's magazine, which has since been discontinued, negatively impacted the result. In Germany, G+J launched "Ebay-Magazin" and "Dogs" at kiosks, "Woman" was discontinued. With the start of numerous online projects and investments in the "Expand your Brand" activities, G+J advanced the development of its brands on a sustained basis. Prinovis, the gravure printing business, operated in conjunction with Arvato and Axel Springer AG, remains under strong price pressure.

Arvato		Direct Group		Total Divisions		Corporate		Consolidation/Other		Total Group	
H1 2007	H1 2006	**H1 2007**	H1 2006	**H1 2007**	H1 2006	**H1 2007**	H1 2006	**H1 2007**	H1 2006	**H1 2007**	H1 2006
2,006	1,933	**1,231**	1,258	**8,949**	9,136	**8**	8	**–**	–	**8,957**	9,144
237	269	**4**	6	**271**	305	**–**	–	**(271)**	(305)	**–**	–
2,243	**2,202**	**1,235**	**1,264**	**9,220**	**9,441**	**8**	**8**	**(271)**	**(305)**	**8,957**	**9,144**
101	**96**	**(35)**	**13**	**733**	**741**	**(30)**	**(40)**	**11**	**–**	**714**	**701**
(6)	2	**(18)**	(7)	**(64)**	(35)	**(234)**	30	**1**	(3)	**(297)**	(8)
95	98	**(53)**	6	**669**	706	**(264)**	(10)	**12**	(3)	**417**	693
4.5 %	4.4 %	**(2.8) %**	1.0 %	**8.0 %**	7.8 %	**–**	–	**–**	–	**8.0 %**	7.7 %
111	117	**31**	30	**311**	333	**9**	9	**–**	–	**320**	342
157	265	**115**	61	**491**	546	**15**	7	**–**	–	**506**	553
49,735	46,584	**15,759**	14,996	**100,055**	96,229	**954**	903	**–**	–	**101,009**	97,132

BMG BERTELSMANN

The BMG division, which primarily consists of the joint venture holding in Sony BMG, held its ground in what remains a very challenging market environment during the first six months of the year. The drop in revenues reflects the deconsolidation of BMG Music Publishing by the end of 2006, the market declining by 12 percent and exchange rate effects. These effects were largely cushioned by high-margin product sell-through and cost savings. The strong growth seen in digital formats proved unable to compensate for the decline in physical sales of roughly 20 percent. Sony BMG is countering this trend by expanding its digital business, broadening the revenue base, and further boosting its efficiency. A new application for the Sony BMG joint venture has been submitted to the EU. Bertelsmann expects a decision of the Commission in October 2007 and is confident that approval will be granted.

arvato BERTELSMANN

In the first six months of 2007, the media and communications services provider, Arvato, achieved a year-on-year revenues upturn. Despite a difficult general situation in many sub-markets, the operating result was up on the same period of the previous year. As a result of ongoing growth in the service business, the number of employees increased by roughly 7 percent to almost 50,000 in the first six months. The services areas benefited from strong demand in the Service Center units, with a very good trend in Germany and France. This was underpinned by the continuing trend of outsourcing. In contrast, a decline was posted in cell phone repair business. The Print unit was impacted by a difficult market situation in gravure, due primarily to overcapacity. The Offset Printing unit in Germany developed positively. The Storage Media unit asserted its position in a difficult market environment.

DIRECTGROUP BERTELSMANN

In comparison to the equivalent period of the previous year, the Direct Group posted lower revenues, also due to negative exchange rate effects. Portfolio effects impacted revenues positively. As of the end of June, the Direct Group reported a loss. In comparison to the previous year, the normal seasonal variation is intensified by the publication of high selling CDs and DVDs in the second half of the year. The generally declining CD market of the American music club business impacted negatively. There were also costs for the move of the English book club from London to Swindon. The portfolio was mostly impacted by the acquisition of a 50 percent holding in the American book club, Bookspan from Time Inc. Direct Group now holds 100 percent of Bookspan. Direct Group North America is now the largest American direct provider for books, music and film. In Europe, the Direct Group is continuing the combination of book club and book retail.

Outlook

University of Kiel's Institute for the World Economy expects that growth in the global economy will continue at a moderate rate beyond 2007. Both high energy and commodity prices as well as possible fluctuations in sentiment on international financial markets as a consequence of developments on the U.S. real estate market represent a risk for economic growth.

For 2007 as a whole, Bertelsmann expects to exceed the results of fiscal 2006 in terms of revenues and operating results adjusted for portfolio and exchange rate effects. The adopted policy of restraining investment will continue until the end of 2007. The RTL Group is continuing to expect a moderate increase in revenues and results for fiscal 2007 despite the loss of contributions resulting from the sale of the participations in TPS and Sportfive in 2006. There is still little visibility regarding developments on advertising markets. Random House is expecting revenues and results at the same level as the previous year and will continue focusing on operating profitability until the end of 2007. Gruner + Jahr expects revenues and results at the level of the previous year for 2007. BMG is expecting a drop in revenues and results for 2007 as a whole caused by the deconsolidation of BMG Music Publishing and the sector's expectation of a continued contraction in the CD market. The proportion of business accounted for by digital formats is to be further increased. The restructuring measures implemented in the course of 2006 and at the beginning of 2007 are having a positive impact on the trend in results. For fiscal 2007, Arvato is expecting sustained growth in revenues and results, which is to be achieved with new customers, in new markets and through new services. In addition, operating improvements are planned in all divisions. The Direct Group expects a slight increase in revenues for 2007 as a whole. The growth in results in 2007 will be influenced by the acquisition in full of the U.S. book club business in spring and its integration; the result before integration costs is expected to exceed the previous year's level. Bertelsmann expects to meet its financial targets by the end of 2007 and to be able to bring its leverage factor back towards the target level of 2.3. The Executive Board assumes that a 15 percent distribution of dividends can again be paid on the nominal amount on the Bertelsmann profit participation certificate ISIN DE0005229942 for fiscal 2007.

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 2007	H1 2006* adjusted
Revenues	**8,957**	**9,144**
Other operating income	**308**	318
Change in inventories	**(29)**	72
Own costs capitalized	**120**	110
Cost of materials	**(2,802)**	(2,860)
Royalty and license fees	**(610)**	(751)
Personnel costs	**(2,429)**	(2,394)
Amortization of intangible assets and depreciation of property plant and equipment	**(323)**	(357)
Other operating expenses	**(2,532)**	(2,632)
Results from investments accounted for using the equity method	**45**	43
Results from other participations	**9**	8
Special items	**(297)**	(8)
EBIT (Earnings before interest and taxes)	**417**	**693**
Interest income	**82**	77
Interest expenses	**(204)**	(134)
Other financial expenses and income	**(83)**	(99)
Financial result	**(205)**	**(156)**
Income taxes	**(161)**	(183)
Net income	**51**	**354**
attributable to:		
Share of profit of Bertelsmann shareholders	**(51)**	258
Minority interest	**102**	96

* Due to a change of reporting the actuarial gains and losses in line with IAS 19.93A, the figures for the first half-year 2006 were adjusted.

Reconciliation to Operating EBIT

in € millions	H1 2007	H1 2006
EBIT	**417**	**693**
Special items		
– Impairment of goodwill, other financial assets and income from release of negative goodwill	**128**	–
– Capital gains/losses	**(116)**	(30)
– Other special items	**285**	38
Operating EBIT	**714**	**701**
Operating EBITDA	**1,037**	**1,058**

Consolidated Balance Sheet

in € millions	06/30/2007	12/31/2006* adjusted
Assets		
Non-current assets		
Goodwill	**7,568**	7,655
Other intangible assets	**1,232**	1,279
Property, plant and equipment	**2,833**	2,830
Investments accounted for using the equity method	**504**	638
Other financial assets	**609**	584
Trade accounts receivable	**8**	18
Other accounts receivable and other non-current assets	**366**	357
Deferred tax assets	**584**	592
	13,704	**13,953**
Current assets		
Inventories	**2,170**	2,191
Trade accounts receivable	**2,824**	3,179
Other accounts receivable and other current assets	**1,781**	1,917
Other financial assets	**12**	15
Current income tax receivable	**208**	265
Cash and cash equivalents	**894**	986
	7,889	**8,553**
Assets held for sale	**7**	9
	21,600	**22,515**
Equity and Liabilities		
Equity		
Subscribed capital	**1,000**	1,000
Capital reserve	**2,345**	2,345
Retained earnings	**1,514**	1,585
Shareholders' equity	**4,859**	**4,930**
Minority interest	**1,058**	1,088
	5,917	**6,018**
Non-current liabilities		
Provisions for pensions and similar obligations	**1,676**	1,927
Other provisions	**136**	142
Deferred tax liabilities	**217**	225
Profit participation capital	**706**	706
Financial debt	**4,954**	5,185
Trade accounts payable	**88**	119
Other liabilities	**622**	651
	8,399	**8,955**
Current liabilities		
Other provisions	**635**	567
Financial debt	**441**	383
Trade accounts payable	**3,504**	3,672
Other liabilities	**2,340**	2,501
Current income tax payable	**364**	418
	7,284	**7,541**
Liabilities included in disposal groups held for sale	**–**	1
	21,600	**22,515**

* Due to a change of reporting the actuarial gains and losses in line with IAS 19.93A, the figures of the previous year were adjusted.

Consolidated Cash Flow Statement

in € millions	H1 2007	H1 2006
EBIT (Earnings before interest and taxes)	**417**	693
Taxes paid	**(255)**	(133)
Depreciation and write-ups of non-current assets	**453**	357
Capital gains/losses	**(116)**	(30)
Change in provisions for pensions	**(42)**	(17)
Change in other provisions	**21**	(66)
Other effects	**(60)**	(73)
Change in net working capital	**102**	(92)
Cash flow from operating activities	**520**	**639**
Investments in:		
– intangible assets	**(78)**	(65)
– property, plant and equipment	**(241)**	(287)
– financial assets	**(41)**	(14)
– purchase prices for consolidated investments (net of acquired cash)	**(146)**	(187)
Proceeds from disposal of investments	**284**	75
Proceeds from disposal of other non-current assets	**115**	47
Marketable securities and other short-term investments	**(3)**	15
Cash flow from investing activities	**(110)**	**(416)**
Proceeds from issues of bonds and promissory notes	**650**	–
Change in financial debt	**(805)**	217
Interest paid	**(161)**	(166)
Proceeds from release of currency swaps	**100**	–
Dividends to Bertelsmann shareholders and minorities	**(254)**	(378)
Additional payments to shareholders (IAS 32)	**(33)**	(14)
Cash flow from financing activities	**(503)**	**(341)**
Change in cash and cash equivalents	**(93)**	**(118)**
Currency effects and other changes in cash and cash equivalents	**1**	(19)
Cash and cash equivalents at the beginning of the period	**986**	1,036
Cash and cash equivalents at the end of the period	**894**	**899**

Consolidated Statement of Recognized Income and Expense

in € million	H1 2007	H1 2006* adjusted
Currency translation differences	**(47)**	(144)
Net change in fair value of available-for-sale securities	**4**	(4)
Net change in fair value of cash flow hedges	**(10)**	(18)
Actuarial gains and losses on defined benefit plans	**135**	46
Income and expense recognized directly in equity	**82**	**(120)**
Net income	**51**	354
Recognized expenses and income	**133**	**234**
attributable to:		
Bertelsmann shareholders	**35**	141
Minority interest	**98**	93

* Due to a change of reporting the actuarial gains and losses in line with IAS 19.93A, the figures for the first half-year 2006 were adjusted.

Selected Explanatory Notes

Accounting Principles

The present half-year report was prepared in accordance with IAS 34 (Interim Financial Reporting) and subjected to an audit review by the group auditor. In the preparation the same accounting policies were applied as in the consolidated financial statements as of December 31, 2006. A detailed description of these methods is published in the Notes to consolidated 2006 annual financial statements.

Since January 1, 2007, Bertelsmann AG had deployed the option of the revised IAS 19.93A on the immediate recognition of actuarial gains and losses from defined-benefit plans against equity. The impact of the first-time application of this option is shown in detail under the item "Changes in accounting for pensions".

Scope of Consolidation

In the interim financial statements to June 30, 2007, in addition to Bertelsmann AG all material companies at which Bertelsmann AG either directly or indirectly has the possibility to determine the financial and business policy are consolidated. As of June 30, 2007, the Bertelsmann AG scope of consolidation covered 1,248 entities (previous year: 1,309), 56 of which were additions. These include 929 fully consolidated companies.

Acquisitions and Disposals

In the first-half-year of 2007, a total of €146 million was paid for acquisitions less cash and cash equivalents acquired, including financial debt. Acquisition costs for these acquisitions in the sense of IFRS 3 totaled €163 million. The largest acquisition of the first-half-year was the purchase of the remaining 50 percent stake of Time Inc. in the American book club Bookspan by DirectGroup. Bookspan was founded in 2000 as a joint venture with Time Inc. The purchase price payment was €109 million, after cash and cash equivalents acquired €91 million. Goodwill of €40 million resulted from the purchase. In addition there were several smaller acquisitions totaling €55 million. The resulting goodwill amounted to €33 million.

In the first-half-year, proceeds of €284 million were generated from the disposals made. €209 million of this resulted from the disposal of the 32.9 percent holding in the Portuguese television operator Grupo Media Capital to the Spanish Grupo Prisa by RTL Group. A further €66 million resulted from the disposal of the 25 percent holding in the Dutch marketer of sport rights, Sportfive, to the French media group Lagadère by RTL Group.

Since being included, these acquisitions contributed €69 million to consolidated revenue and minus €10 million to EBIT. Other intangible assets determined as part of the purchase price allocation as set out in IFRS 3 totaled €7 million.

Condensed Consolidated Statement of Changes in Equity

in € millions	Shareholders' equity	Minority interest	Total
Balance at 01/01/2006	**8,328**	**842**	**9,170**
Adjustment due to IAS 19.93A	(539)	(7)	**(546)**
Adjusted balance at 01/01/2006	**7,789**	**835**	**8,624**
Net income	258	96	**354**
Income and expense recognized directly in equity	(117)	(3)	**(120)**
Dividends	(287)	(91)	**(378)**
Other changes	(4,500)	31	**(4,469)**
Balance at 06/30/2006	**3,143**	**868**	**4,011**
Balance at 01/01/2007	**5,337**	**1,092**	**6,429**
Adjustment due to IAS 19.93A	(407)	(4)	**(411)**
Adjusted balance at 01/01/2007	**4,930**	**1,088**	**6,018**
Net income	(51)	102	**51**
Income and expense recognized directly in equity	86	(4)	**82**
Dividends	(120)	(122)	**(242)**
Other changes	14	(6)	**8**
Balance at 06/30/2007	**4,859**	**1,058**	**5,917**

Special Items

In the first half-year, special items, i.e. non-recurring income or expenses in the reporting period totaled minus €297 million. Capital gains totaled €116 million. The major share of this (€95 million) resulted from the disposal of Grupo Media Capital and Sportfive by the RTL Group. Capital gains are countered by negative special items, in particular the expense for an out-of-court settlement with the EMI Group and Warner Music Group (€180 million), as well as an increase in a provision for possible future settlements in connection with the Napster financing of €63 million to total €164 million. Further material negative special items are an impairment on the English TV channel Five (€123 million) at RTL Group as well as restructuring and integration costs in the BMG and DirectGroup segments (€42 million).

Changes in Accounting for Pensions

As a result of the change in IAS 19 "Employee Benefits" in December 2004, IASB created an additional option with regard to the treatment of actuarial gains and losses from defined benefit plans. Until now, the Bertelsmann Group distributed actuarial gains and loss over the remaining working lives in line with the corridor approach, recognizing it in the income statement. From January 1, 2007, Bertelsmann AG uses the option provided in IAS 19.93A so as to increase the transparency of reporting by disclosing hidden reserves and charges. As a result the actuarial losses and gains from defined benefit plans and attributable deferred taxes are recognized immediately in equity in the year they occur. This means that amortization of actuarial gains and losses is not longer recognized in income. The previous-year figures were adjusted accordingly. In the first-half-year of 2006, net income increased by €15 million, €16 million of which related to other financial expenses and minus €1 million to income taxes.

The change in reporting had the following effects on the balance sheet (12/31/2006) listed in table below.

Finance Debt

In February Bertelsmann AG issued a floating rate note with a volume of €650 million and a term of two years on the capital market. The bond carries a coupon of 3-months EURIBOR + 10 basis points. The proceeds were to partially redeem a bridge loan raised in June 2006 to finance the buyback of Group Bruxelles Lambert stake in Bertelsmann AG. €650 million of the bridge loan were still drawn. Before account was taken of changes from IAS 19.93A economic debt consisting of net financial debt plus provisions for pensions and profit participation capital amounted to €6,588 million (December 31, 2006: €6,760 million). After taking into account of the changes resulting from IAS 19.93A, economic debt stood at €6,883 million (December 31, 2006: €7,215 million).

Income Taxes

On May 24, 2007, the Bertelsmann AG corporate tax credit from the former tax credit method was transferred in the context of a Contractual Trust Arrangement (CTA) to the Bertelsmann Pension Trust e.V. at a present value of €97 million. This reduced the tax receivables and provisions for pensions accordingly.
After the approval of the Bundesrat to the Company Tax Reform Act on July 6, 2007 from January 1, 2008 the changed tax regulations will apply in Germany which result in a revaluation of domestic deferred taxes at Bertelsmann in the second half of 2007. As there is an overhang of deferred tax assets, the revaluation will result in increasing the Bertelsmann income tax expense.

Impact of the first-time Application of IAS 19.93A

in € millions	12/31/2006	Adjustment IAS 19	12/31/2006 adjusted
Assets			
Other accounts receivable and other non-current assets	379	(22)	**357**
Deferred tax assets	553	39	**592**
Equity and Liabilities			
Shareholders' equity	5,337	(407)	**4,930**
Minority interest	1,092	(4)	**1,088**
Provisions for pensions and similar obligations	1,472	455	**1,927**
Deferred tax liabilities	231	(6)	**225**
Other liabilities	672	(21)	**651**

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Gütersloh, August 30, 2007

Bertelsmann AG
The Executive Board:

Dr. Thielen	Dr. Kundrun	Olson	
Ostrowski	Dr. Rabe	Dr. Walgenbach	Zeiler

Review Report by the Auditors

We have reviewed the condensed interim consolidated financial statements – comprising the balance sheet, income statement, cash flow statement, statement of recognized income and expense and selected explanatory notes – together with the Group interim management report of Bertelsmann AG, Gütersloh, for the period from January 1, 2007 to June 30, 2007, which are components of the half-year financial report in accordance with Article 37w of the German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and in accordance with the IFRS for interim financial reporting as announced by the International Accounting Standards Board (IASB) and of the Group interim management report in accordance with the provisions of the WpHG applicable to interim group management reports is the responsibility of the Company's Management. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and on the Group interim management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the Group interim management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and conduct the review so that we can preclude through critical evaluation, with certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and in accordance with the IFRS for interim financial reporting as announced by the International Accounting Standards Board (IASB), and that the Group interim management report has not been prepared, in material respects, in accordance with the provisions of the WpHG applicable to Group interim management reports. A review is limited primarily to inquiries of Company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and in accordance with the IFRS for interim financial reporting as announced by the International Accounting Standards Board (IASB) nor that the Group interim management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to the Group interim management reports.

Bielefeld, August 30, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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The Interim Report and current information on Bertelsmann are posted at:
www.bertelsmann.de
www.bertelsmann.com

The Interim Report is also available in German.

Status as of:
September 4, 2007

Financial Calendar

November 14, 2007
Announcement of figures for the first nine months of 2007

March 18, 2008
Annual Press Conference for the fiscal year 2007

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The Spirit to Create