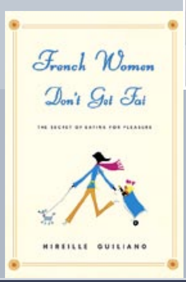
Interim Report 2005



RTL GROUP RANDOM HOUSE GRUNER + JAHR BMG ARVATO DIRECT GROUP

BERTELSMANN

media worldwide

Business Performance January through June 2005

POSITIVE BUSINESS DEVELOPMENT

Operating EBIT for the first six months of 2005 rose to €644 million (first half of 2004: €596 million). Net income for the first half of the year amounted to €349 million (first half of 2004: €550 million), while revenues for the period were €8.0 billion (first half of 2004: €8.1 billion).

Business and Strategy

Bertelsmann continued to show positive business development in a climate that remained characterized by subdued growth at the beginning of the year. Unlike the U.S., Europe is still not showing any real indication of sustained economic recovery. Rising oil prices had a negative impact on consumer trust and, by extension, on demand.

Important strategic projects already initiated during the previous year were cleared by the antitrust authorities during the first half of the year. These included clearance for the Prinovis gravure joint venture between Arvato, Gruner + Jahr and Axel Springer, for Gruner + Jahr's increase of shares in Motor-Presse Stuttgart to a majority holding, and for the merger of the Arvato subsidiaries AZ Direct and BFS Finance with the Infoscore group, resulting in Arvato Infoscore.

Direct Group was able to take some important strategic steps in the first half of 2005. Its U.S. music club BMG Direct acquired Columbia House, the largest specialized retailer of DVDs in the U.S. The French book club France Loisirs enhanced its market position as the country's second-largest book distributor by taking over France's largest independent bookselling chain, Privat. All these projects will be consolidated once Bertelsmann takes control beginning July 1, 2005, and will enhance Bertelsmann's market position in important segments.

Revenues

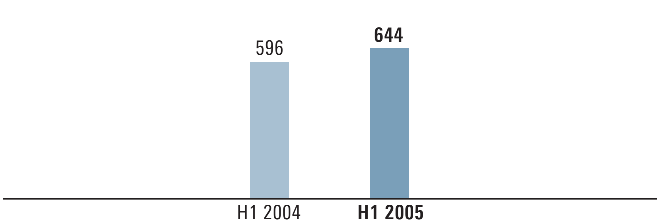
At €8.0 billion, Bertelsmann's first-half revenues were comparable to those of the same period last year (€8.1 billion). During the period under review, there was a change in revenue reporting in the recorded music business; instead of the distribution revenues, only the actual margins are shown. Taking this switch into account – along with additional portfolio and currency effects – first-half revenues were up slightly, by 1.2 percent.

Operating EBIT

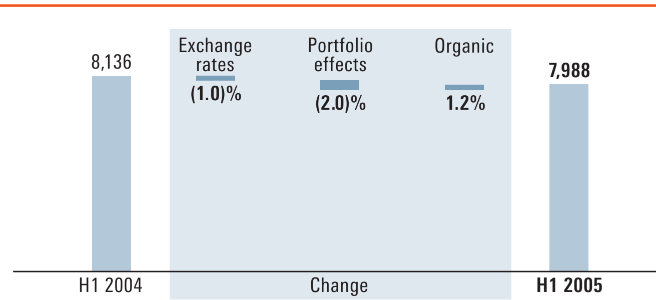
Operating EBIT, the key performance indicator used by Bertelsmann, increased to €644 million (first half of 2004: €596 million). Return on sales rose to 8.1 percent (first half of 2004: 7.3 percent). This year-on-year improvement is the result of better performance in nearly all corporate divisions. Random

Overview of Group Performance

Operating EBIT in € millions



Revenues in € millions



House, Gruner + Jahr and Arvato all posted significantly higher earnings thanks to positive business developments. RTL Group maintained its high performance level, posting a virtually unchanged result. BMG was on plan, but well below the previous year's earnings, which were shaped by specific successes. Direct Group improved its operating result slightly.

Operating EBITDA for the first half of fiscal year 2005 was €949 million (first half of 2004: €920 million).

First-Half Net Income

Based on the Operating EBIT and taking special items into account, EBIT for the first six months was €564 million (first half of 2004: €843 million). While the sum total of special items was positive at €247 million for the first half of 2004, due to high capital gains, the special items during the period under review impacted EBIT by minus €80 million: Restructuring expenses of minus €71 million at BMG and minus €24 million at Direct Group more than offset €15 million in capital gains. Taking the financial result and taxes into account, net income before minority interest was €349 million for the first half of the year. The decline versus last year's first-half net income of €550 million is due mainly to changes in special items. Minority interest amounted to €125 million (first half of 2004: €104 million).

Additional Information

Investments in property, plant and equipment, financial assets, and intangible assets amounted to €765 million during the period under review (first half of 2004: €446 million). This year-on-year increase reflects a stepping up of Bertelsmann's investment activities. At June 30, 2005, economic debt (net financial debt plus profit participation capital and provisions for pensions) totaled €3.3 billion after €2.6 billion at December 31, 2004. Cash flow from operating activities amounted to €451 million (first half of 2004: €590 million). The year-on-year change resulted from higher tax and restructuring payments. The process of building plan assets by using a contractual trust arrangement (CTA) was begun and, in combination with dividend payments and investments made, caused cash and cash equivalents to decrease to €1.3 billion after €2.1 billion at December 31, 2004. Bertelsmann had 78,122 employees worldwide on June 30, 2005 (December 31, 2004: 76,266 employees).

Events after the End of the First Half

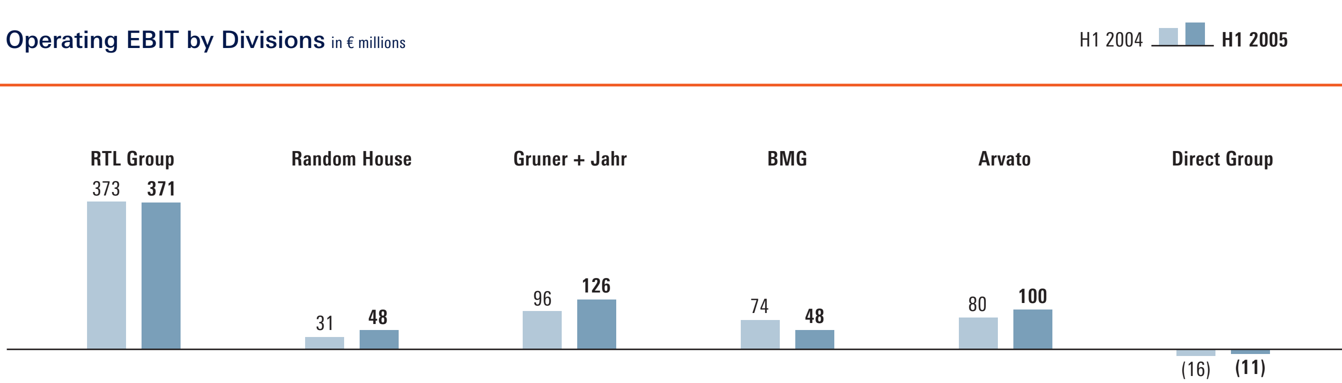
In July 2005, Bertelsmann increased its holdings in RTL Group by taking over the shares previously held jointly with the WAZ group via BW-TV Verwaltungs-GmbH (7.5 percent economic interest). Bertelsmann now owns 90.4 percent of the shares in RTL Group.

RTL Group took over United Business Media's 35.4 percent minority stake in the British TV channel Five.

RTL Group also acquired a 30 percent stake in the Russian TV network Ren TV, in a transaction that is subject to clearance by the responsible authorities and the governing bodies of the companies involved. The process is expected to be concluded by the end of the year.

Gruner + Jahr disposed of its U.S. magazines business, a continuation of its course of focusing on markets and segments where it can attain a leading market position.

Operating EBIT by Divisions in € millions



Business Development in the Divisions in € millions

	RTL Group H1 2005	RTL Group H1 2004	Random House H1 2005	Random House H1 2004	Gruner + Jahr H1 2005	Gruner + Jahr H1 2004	BMG H1 2005	BMG H1 2004
Consolidated revenues	2,389	2,451	798	810	1,182	1,215	950	1,181
Intercompany revenues	8	6	1	8	6	8	2	13
Divisional revenues	**2,397**	**2,457**	**799**	**818**	**1,188**	**1,223**	**952**	**1,194**
Operating EBIT	**371**	**373**	**48**	**31**	**126**	**96**	**48**	**74**
Special items	–	(19)	–	1	–	10	(71)	(40)
EBIT	**371**	**354**	**48**	**32**	**126**	**106**	**(23)**	**34**

RTL Group

RTL Group made a good showing in a market environment that was reserved on the whole. While revenues declined marginally, operating result remained on a par with the previous year's record level. Record results at M6 in France, Antena 3 in Spain, and Five in the U.K. compensated for the effects of difficult market conditions in Germany – where both revenue and results were down – thus demonstrating the benefits of having an internationally diversified portfolio. Fremantle Media continued to enjoy format successes around the world especially with telenovelas, drama and entertainment. RTL Group continued its strategy of expanding regionally and building "families" or clusters of channels. RTL Group signed agreements to acquire a stake in Russia's Ren TV, as well as the remaining shares in Five in the U.K. for a complete takeover of the channel.

Random House

Random House delivered a significant increase in its worldwide profits for the first half of 2005 compared to the previous year, receiving its largest gains from its London-based company as well as from a strong publishing performance in the U.S. The slight decline in reported revenues from the prior year is entirely due to a euro exchange rate unfavorable to the U.S. dollar. In North America, Random House benefited from the million-copy success of "French Women Don't Get Fat" by Mireille Guiliano, John Grisham's two-million-copy "The Broker," and additional printings of 1.2 million copies of "The Da Vinci Code" by Dan Brown. The Random House U.K. Group published all the top-six British "Bookseller" magazine national bestsellers of the half year. Verlagsgruppe Random House in Germany posted notable improvements in sales of its adult hardcover frontlist and children's books.

Gruner + Jahr

The magazine publisher Gruner + Jahr showed a slight decline in revenues, due to portfolio changes such as the sale of "TV Today" magazine and the US teen magazine "YM." The operating result increased markedly. This improvement is attributable to effective cost management as well as successful developments as part of the innovation campaign launched last year. The positive performance of the biweekly TV guides in France, "Télé 2 Semaines" and "TV Grandes Chaînes," played a major role. By taking over the majority of shares in Motor-Presse Stuttgart, the division strengthened its core business and laid further foundations for growth. Gruner + Jahr's U.S. magazine business was sold due to its inadequate market position. The formation of a gravure joint venture with Arvato and Axel Springer AG helped to improve and extend the competitive position of Gruner + Jahr's printing business and allows for its future growth.

Arvato H1 2005	Arvato H1 2004	Direct Group H1 2005	Direct Group H1 2004	Total Divisions H1 2005	Total Divisions H1 2004	Corporate H1 2005	Corporate H1 2004	Consolidation/Other H1 2005	Consolidation/Other H1 2004	Total Group H1 2005	Total Group H1 2004
1,653	1,426	1,009	1,046	7,981	8,129	7	7	–	–	7,988	8,136
221	269	7	6	245	310	–	–	(245)	(310)	–	–
1,874	**1,695**	**1,016**	**1,052**	**8,226**	**8,439**	**7**	**7**	**(245)**	**(310)**	**7,988**	**8,136**
100	**80**	**(11)**	**(16)**	**682**	**638**	**(32)**	**(32)**	**(6)**	**(10)**	**644**	**596**
–	–	(24)	(1)	(95)	(49)	15	296	–	–	(80)	247
100	**80**	**(35)**	**(17)**	**587**	**589**	**(17)**	**264**	**(6)**	**(10)**	**564**	**843**

BMG

The BMG music division made good progress. In recorded music, the process of integrating the joint venture Sony BMG, 50 percent of which belongs to BMG, is ahead of plan and will be largely concluded by the end of 2005. Sony BMG achieved chart successes with artists including Jennifer Lopez, the Backstreet Boys, System of a Down, and Shakira. In the music publishing business, BMG Music Publishing delivered a strong performance based on artists including Coldplay, R. Kelly and Backstreet Boys. In a market environment that continues to be difficult, BMG's overall business performance did not match the previous year's excellent first-half results. The revenue decline was primarily induced by a change in the reporting of the distribution business to account for the distribution margin instead of the wholesale price. The decline in results was fueled by the amortization of music rights which were revaluated according to IFRS during the course of the merger, and by a higher weighting of new releases on the second half-year.

Arvato

The media services provider Arvato grew its revenues and profit considerably during the first half of 2005. All of the division's business units contributed to this sustained positive performance. The revenue increase is due both to organic growth in core businesses and to acquisitions. In the rapidly growing services business, the company expanded its network of service centers. The antitrust authorities also cleared the Infoscore joint venture, a company specializing in data, information and receivables management, which was finalized on July 1, 2005. Internationalization continued at the heart of the division's business activities. The merger of Arvato's existing German gravure operations with Gruner + Jahr and the Axel Springer AG (Prinovis) was successfully concluded. The new gravure plant in Italy is now operational.

Direct Group

Following its turnaround in 2004, Direct Group continued to make progress. The division posted a moderate revenue decline, attributable to factors including exchange rate effects. The operating result improved slightly, and the typical first-half seasonal loss was reduced as compared with the first six months of 2004. Cost management and systematic restructuring efforts in the German and British clubs also contributed to this. Direct Group has laid the foundation for future growth with innovative business models in existing clubs on the one hand, and acquisitions on the other. For instance, it recently acquired Columbia House, the largest specialized retailer of DVDs in the U.S. This transaction also gives Direct Group new significance within Bertelsmann. The recently acquired Family Leisure Club in the Ukraine delivered a very gratifying business performance and steep growth.

Outlook 2005

Bertelsmann remains confident in its forecast for the full fiscal year 2005 and still expects revenues and results to exceed those of the previous year. The Executive Board expects a 15 percent payout on par value for the Bertelsmann Profit Participation Certificate ISIN DE0005229942 once again for fiscal year 2005.

Consolidated Income Statement in € millions

	H1 2005	H1 2004
Revenues	**7,988**	**8,136**
Change in inventories	59	86
Own costs capitalized	94	15
Cost of materials	(2,380)	(2,281)
Royalty and license fees	(667)	(745)
Personnel costs	(2,045)	(2,075)
Amortization of intangible assets and depreciation of property, plant and equipment	(298)	(324)
Other operating income and expenses	(2,172)	(2,226)
Income from investments accounted for using the equity method	40	4
Income from other participations	25	6
Special items	(80)	247
EBIT (Earnings before interest and taxes)	**564**	**843**
Net interest	(40)	(39)
Other financial expenses and income	(88)	(65)
Financial result	**(128)**	**(104)**
Income taxes	(87)	(189)
Net income before minority interest	**349**	**550**
Minority interest	(125)	(104)
Net income after minority interest	**224**	**446**

Reconciliation to Operating EBIT

EBIT (Earnings before interest and taxes)	**564**	**843**
Special items*		
Impairment of goodwill	–	1
Gains/losses on disposals of participations	(15)	(113)
Other special items	95	(135)
Operating EBIT	**644**	**596**
Operating EBITDA	**949**	**920**

* Positive special items are deducted, negative special items are added.

Consolidated Balance Sheet in € millions

	6/30/2005	12/31/2004
Assets		
Non-current assets		
Goodwill	6,404	6,395
Other intangible assets	1,381	1,321
Property, plant and equipment	2,489	2,369
Investments accounted for using the equity method	435	437
Other financial assets	654	621
Trade accounts receivable	24	14
Other accounts receivable and other assets	303	311
Deferred tax assets	331	286
	12,021	**11,754**
Current assets		
Inventories	2,017	1,933
Trade accounts receivable	2,733	2,813
Other accounts receivable and other current assets	1,863	1,977
Other financial assets	311	149
Current income tax receivable	218	252
Cash and cash equivalents	1,255	2,092
	8,397	9,216
Assets held for sale	224	–
	20,642	**20,970**
Equity and liabilities		
Equity		
Subscribed capital	1,000	1,000
Capital reserve	2,331	2,331
Retained earnings	4,021	3,147
Net income after minority interest	224	1,032
Shareholders' equity	**7,576**	**7,510**
Minority interest	1,322	1,336
	8,898	**8,846**
Non-current liabilities		
Provision for pensions and similar obligations	1,667	1,874
Other provisions	95	136
Deferred tax liabilities	224	208
Profit participation capital	706	706
Financial debt	1,942	1,880
Trade accounts payable	77	75
Other liabilities	357	446
	5,068	**5,325**
Current liabilities		
Other provisions	500	484
Financial debt	267	264
Trade accounts payable	3,530	3,610
Other liabilities	2,101	2,162
Current income tax payable	238	279
	6,636	**6,799**
Liabilities included in disposal groups held for sale	40	–
	20,642	**20,970**

Consolidated Cash Flow Statement in € millions

	H1 2005	H1 2004
Net income before minority interest	**349**	**550**
Depreciation and write-ups of non-current assets	305	324
Change in long-term provisions	20	18
Other income/expenses not affecting cash flows	(105)	(191)
Change in net working capital	(118)	(111)
Cash flow from operating activities	**451**	**590**
Investments	(765)	(446)
Proceeds from disposals	93	202
Cash flow from investing activities	**(672)**	**(244)**
Change in financial debt	(9)	(127)
Change in equity/dividends	(419)	(276)
Cash flow from financing activities	**(428)**	**(403)**
Change in cash and cash equivalents	**(649)**	**(57)**
Contribution to Bertelsmann Pension Trust e.V. (CTA)	(200)	–
Exchange rate movements and other changes in cash and cash equivalents	12	103
Cash and cash equivalents at January 1	2,092	1,642
Cash and cash equivalents at June 30	**1,255**	**1,688**

Consolidated Statement of Changes in Shareholder's Equity in € millions

	Shareholders' equity	Minority interest	Total
Balance at January 1, 2004	**6,666**	**965**	**7,631**
Dividends	(220)	(49)	(269)
Other changes	47	237	284
Currency translation differences	50	6	56
Measurement under IAS 39	41	4	45
Net income	446	104	550
Balance at June 30, 2004	**7,030**	**1,267**	**8,297**
Balance at January 1, 2005	**7,510**	**1,336**	**8,846**
Dividends	(324)	(95)	(419)
Other changes	(10)	(59)	(69)
Currency translation differences	165	4	169
Measurement under IAS 39	11	11	22
Net income	224	125	349
Balance at June 30, 2005	**7,576**	**1,322**	**8,898**

Accounting Standards

This Interim Report was prepared in accordance with IAS 34 (Interim Financial Reporting) and reviewed by our auditors. Substantially the same accounting policies were used as those applied in the annual financial statements for the year ended December 31, 2004, in which the accounting policies are described in detail.

As part of its "Improvement Project" and beyond, the International Accounting Standards Board (IASB) changed existing standards and issued new standards, with all changes becoming effective January 1, 2005, or earlier.

For Bertelsmann, the most substantial "Improvement Project" change is IAS 1, which states that the balance sheet shall be structured by maturity. Assets and liabilities with a remaining life of over 12 months are considered non-current and must therefore be shown separately from equivalent current items. The December 31, 2004, balance sheet was adjusted.

The first time application of IFRS 5, Assets Held for Sale, means that components of the company awaiting disposal are shown separate from other assets and liabilities. These separately listed assets are the G+J USA magazines being held for sale. The net assets held for sale of €184 million include €174 million of non-current assets, €50 million of current assets, and €40 million current liabilities. At June 30, 2005, the fair value of these assets, after deducting expected transaction costs, was $368 million. The transaction was concluded in July 2005.

In accordance with IAS 32 (revised), financial instruments that grant the owner the right to put them back to the issuer in return for cash and cash equivalents or other financial assets shall be shown on the balance sheet as third-party liabilities. In its draft pronouncement (IDW ERS HFA 9 revised), the Institut der Wirtschaftsprüfer (IDW; Institute of German Auditors) is of the opinion, among other things, that this rule also applies to shares in a limited partnership.

In Bertelsmann AG's view, shares in a limited partnership governed by articles of incorporation similar to those of a corporation are not financial instruments as defined by IAS 32. Based on the ongoing debate about the interpretation, Bertelsmann AG has decided to apply IAS 32 to its interim financial statements without this controversial rule, and to continue to include such shares in limited partnerships as minority shares in equity.

M6's own shares held for the stock option program (€58 million) and related provisions (€39 million) have been balanced with equity – following IAS 32 (revised) – as of January 1, 2005.

Financial Calendar

November 16, 2005
Announcement of figures for the first nine months of 2005

March 22, 2006
Annual Press Conference for the Fiscal Year 2005

May 3, 2006
Announcement of figures for the first three months of 2006

September 6, 2006
Announcement of figures for the first half of 2006

November 8, 2006
Announcement of figures for the first nine months of 2006

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The Interim Report and current information on Bertelsmann is also posted at:

www.bertelsmann.de
www.bertelsmann.com

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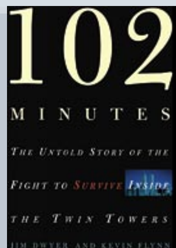
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MINUTES
THE UNTOLD STORY OF THE
FIGHT TO SURVIVE INSIDE
THE TWIN TOWERS
JIM DWYER AND KEVIN FLYNN


PARK AVENUE
Die Akte
Abramowitsch
Tom Cruise
Millionäre
in Angst
Endlich!
Der deutsche Film hat wieder Stars


ANA VELOSO
Der Duft der
Kaffeeblüte