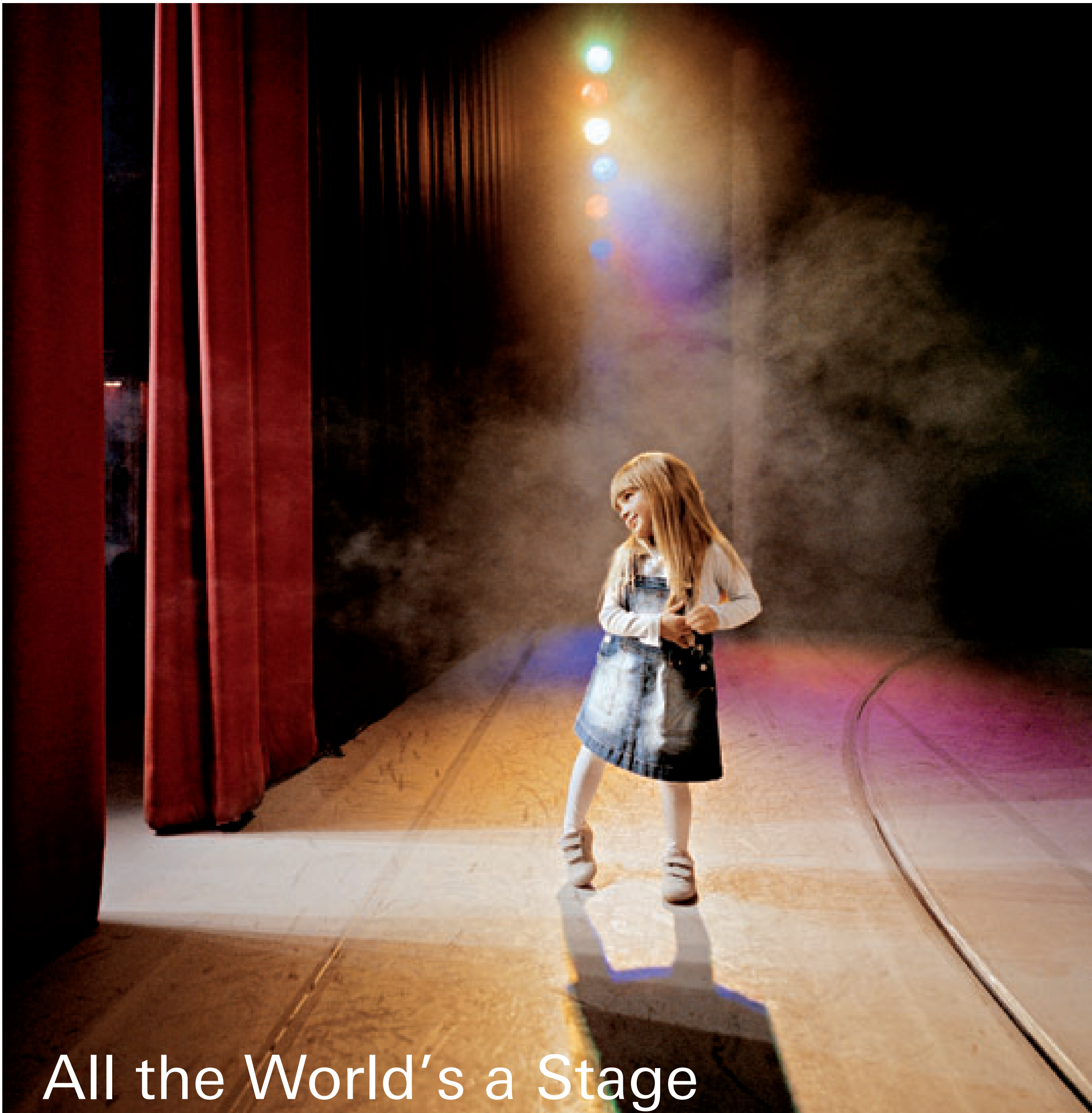


All the World's a Stage

Annual Report 2005

BERTELSMANN

media worldwide

Bertelsmann Financial Highlights

Key Ratios (IFRS)	2005	2004	2003	2002	2001 Pro forma
in € millions					
Business Development					
Consolidated revenues	**17,890**	17,016	16,801	18,312	18,979
Operating EBIT[1]	**1,610**	1,429	1,026	787	–
Operating EBITA	**–**	–	1,123	936	573
Operating EBITDA	**2,274**	2,112	1,866	1,666	–
ROS in percent	**9.0**	8.4	6.7	5.1	3.0
Net income	**1,041**	1,217	208	968	1,378
Investments	**2,565**	930	761	5,263	2,639
Consolidated Balance Sheet					
Equity	**9,170**	8,846	7,631	7,744	8,384
Equity ratio in percent	**40.0**	42.2	37.9	34.9	35.3
Total assets	**22,932**	20,970	20,164	22,188	23,734
Economic debt[2]	**3,931**	2,632	3,227	5,184	3,247
Leverage factor[3]	**2.2**	1.6	1.9	–	–
Employees (in absolute numbers)					
Germany	**32,117**	27,350	27,064	31,712	31,870
Other countries	**56,399**	48,916	46,157	48,920	48,426
Total	**88,516**	76,266	73,221	80,632	80,296
Dividends to shareholders of Bertelsmann AG	**287**	324	220	240	–
Profit participation payments	**76**	76	76	77	77
Employee profit sharing	**48**	29	29	34	–

This overview shows the figures reported in the Annual Reports of preceding years.

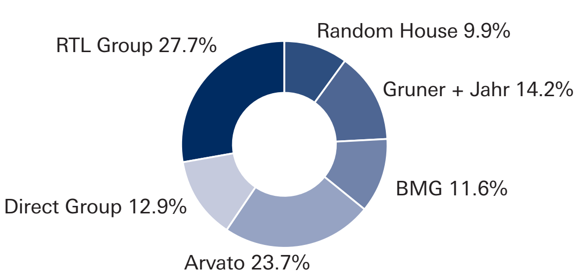
[1] With effect from January 1, 2004, Bertelsmann has used Operating EBIT to measure income from operating activity. The figures for the 2003 and 2002 fiscal years were adjusted for the sake of comparability.

[2] Net financial debt plus provisions for pensions and profit participation capital

[3] Economic debt/Operating EBITDA (after modifications)

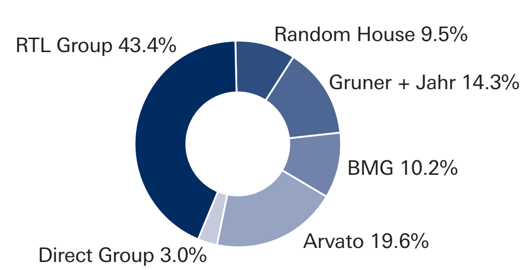
Total Revenues by Division

in percent*



Operating EBIT by Division

in percent*



* Based on total from divisions not including Corporate/Consolidation

Corporate Divisions at a Glance

RTL Group is Europe's leading broadcast and TV production company, with holdings in 34 TV channels and 34 radio stations in eleven countries, and worldwide content production.

Random House is the world's largest consumer book publisher. Its portfolio comprises more than 100 editorially independent imprints that publish some 9,000 new books each year.

The Gruner + Jahr printing and publishing company is Europe's largest magazine publisher. It produces more than 285 magazines and newspapers in over 20 countries, as well as the publications' complementary websites.

The BMG division consists of the Sony BMG Music Entertainment joint venture and the BMG Music Publishing company. Sony BMG unites legendary labels like Columbia Records, Epic, RCA Records, Arista, Jive and J Records under one roof.

Media requires service providers. Arvato AG, one of the world's largest media and communications service providers offers this diversity – from conventional printing down to modern services such as service centers, financial clearing houses and mobile services.

The Direct Group division brings media to people – from books to DVDs. The selection and service offered by Direct Group's clubs, shops and online stores have won over more than 35 million members in 22 countries.

Key Ratios

RTL Group	2005	2004	2003	2002	2001 Pro forma
in € millions					
Revenues	**5,112**	4,878	4,452	4,362	4,054
Operating EBIT [1)]	**756**	668	503	465	–
Operating EBITA	**–**	–	503	465	385
Employees (in absolute numbers)	**8,970**	8,117	7,254	7,378	6,625

Random House	2005	2004	2003	2002	2001 Pro forma
in € millions					
Revenues	**1,828**	1,791	1,776	1,995	2,039
Operating EBIT [1)]	**166**	140	115	147	–
Operating EBITA	**–**	–	147	168	33
Employees (in absolute numbers)	**5,395**	5,383	5,525	5,626	6,121

Gruner + Jahr	2005	2004	2003	2002	2001 Pro forma
in € millions					
Revenues	**2,624**	2,439	2,481	2,800	2,973
Operating EBIT [1)]	**250**	210	233	220	–
Operating EBITA	**–**	–	234	226	198
Employees (in absolute numbers)	**13,981**	11,671	11,352	11,367	13,033

BMG	2005	2004	2003	2002	2001 Pro forma
in € millions					
Revenues	**2,128**	2,547	2,712	2,714	2,982
Operating EBIT [1)]	**177**	162	54	43	–
Operating EBITA	**–**	–	110	125	(79)
Employees (in absolute numbers)	**3,597**	4,259	4,880	6,452	5,010

Arvato	2005	2004	2003	2002	2001 Pro forma
in € millions					
Revenues	**4,365**	3,756	3,639	3,668	3,520
Operating EBIT [1)]	**341**	310	261	217	–
Operating EBITA	**–**	–	261	217	167
Employees (in absolute numbers)	**42,155**	33,813	31,405	31,174	28,892

Direct Group	2005	2004	2003	2002	2001 Pro forma
in € millions					
Revenues	**2,384**	2,175	2,286	2,707	3,089
Operating EBIT [1)]	**53**	32	4	(160)	–
Operating EBITA	**–**	–	4	(150)	(61)
Employees (in absolute numbers)	**13,493**	12,116	11,893	12,309	13,535

This overview shows the figures reported in the Annual Reports of preceding years.

[1)] With effect from January 1, 2004, Bertelsmann has used Operating EBIT to measure income from operating activity. The figures for the 2003 and 2002 fiscal years were adjusted for the sake of comparability.

"Bertelsmann is a company comprised of entrepreneurs – a decentralized, international and innovative enterprise that grants its executives the greatest possible freedom. The world's best artists, journalists and managers work here to create the world's best media products."

GUNTER THIELEN
Bertelsmann AG Chairman and CEO

Annual Report 2005

Company Information

Financial Information

“We Are in Great Shape”

Bertelsmann is full of possibilities. In the 2005 fiscal year, forward-looking investments and numerous creative innovations resulted in a 5.1 percent growth in revenue, to €17.9 billion (2004: €17.0 billion). An interview with Bertelsmann’s Chairman and CEO, Gunter Thielen.

Question: Mr. Thielen, at the beginning of 2005, you announced that the group would be accelerating its growth. Are you happy with what you’ve achieved?

Gunter Thielen: We have indeed picked up a great deal of speed: Bertelsmann AG has just finished the second-strongest year of investments in its history. Direct Group’s acquisition of the Columbia House DVD club, which added eight million customers to the club business, was the group’s largest investment in the U.S. since the purchase of Random House. Gruner + Jahr expanded to ten new countries by buying Motor Presse Stuttgart. We bought up the WAZ group’s stake in RTL Group. RTL Group laid the foundation for accelerated growth in the British market by taking over the remaining shares in Five. We bought a stake in Ren-TV in Russia, where the TV advertising market is growing rapidly.

Arvato and Gruner + Jahr jointly and very successfully launched Prinovis, their gravure joint venture with the Axel Springer AG. Prinovis is the European leader in illustration printing, with a 9 percent share of the market. All these examples show that Bertelsmann is moving ahead at high speeds, but on a firm footing.

Question: The group’s operating result and return on sales (ROS) have risen significantly. Bertelsmann employs more people than ever before.

Gunter Thielen: Operating EBIT is now at €1.6 billion, which translates to year-on-year growth of roughly 12.7 percent. ROS has risen to 9.0 percent.

We owe our excellent result to the extraordinary dedication of our 88,500 employees around the world, 12,250 more than the year before. Together with our executives, who include the best managers in the media world, we quickly and systematically seized every opportunity before us. Bertelsmann continues to attract the best artists, authors and creative minds in the business.

Question: For decades, Bertelsmann’s business strategy has been successful by consistently alternating between consolidation and growth. What overall strategy are you persuing?

Gunter Thielen: Our goals have always been ambitious, but not excessive. This principle applies for our target of growing Operating ROS to 10 percent in 2007 as well.

Our company has the right structures and systems to form a vast number of profit centers into a powerful group. This includes internationally accepted financial ratios. Bertelsmann is in great shape. We have once again met our financing targets and are established in the capital markets, which facilitates our access to financing. Our equity ratio of 40 percent provides us with exceptional financial resources. We are growing on a very solid foundation.

GUNTER THIELEN
Bertelsmann AG Chairman and CEO

Question: Bertelsmann is in a different league compared to where it was just 15 years ago. This is true in every respect. For instance, back then the TV business made no appreciable contribution to total revenue. Today, RTL Group is Bertelsmann's biggest revenue and earnings driver.

Gunter Thielen: We have worked on acquiring the majority in RTL Group step by step since 1984. No one could have predicted this in the beginning. However, the record results achieved in recent years can only continue if Europe's largest television, radio and TV production group is able to realize its ambitious plans: creating more families of channels by adding complementary new channels, reducing dependence on TV advertising sales, and expanding into new key markets for growth beyond our core markets of Germany, France and the Benelux countries. That is why we increased our stake in the British TV channel Five and got involved in Spain's Antena 3, one of Europe's most profitable channels. Add to that the investments in Portugal, Croatia and Russia.

Question: Gruner + Jahr has delivered a dazzling display of innovations since 2003, launching 47 new titles in a challenging advertising environment, 16 of them in 2005.

Gunter Thielen: Yes, we are seeing the dawning of a new age at G+J – and many of the new titles were an immediate success. The acquisition of Motor Presse Stuttgart provided an additional boost.

But there was sobering news as well: We sold our magazine business in the U.S. In hindsight, it was a mistake to spend a lot of money at the peak of the stock-market boom on buying magazines that we were never able to bring to a leading and thus sustainably profitable market position. As a result, we knew we must make this divestment – a purposeful if painful correction. You can't be a real entrepreneur if you don't sometimes miscalculate. Attempting to avoid mistakes at all costs results in stagnation. This insight by our post-war founder Reinhard Mohn has governed management conduct at Bertelsmann for many years.

Question: The Sony BMG joint venture is turning out to be a real challenge.

Gunter Thielen: The merger was the right step at the right time, the only sensible response to changes in the music market, which is still shrinking. CD sales are declining, but Internet and wireless music sales are showing impressive growth rates. Sony BMG is the global market leader in the digital music business.

The unification of two distinguished competitors in nearly 50 countries has indeed been challenging, but the integration was completed quickly and successfully. We have already achieved significant cost savings. Unfortunately, we did not yet manage to grow our share of the market in 2005 – in fact we lost market shares.

In the months ahead, one of the priorities will be to better bridge the two very distinct corporate cultures. This will not be easy.

Question: 2005 was an excellent year for the Arvato division.

Gunter Thielen: It was. In fact, the division's revenues exceeded the €4 billion threshold for the first time. Arvato continually launches exciting new businesses and expands into new markets, such as Arvato Services' entry into the public services sector in the U.K. The takeover of a majority stake in the Infoscore group in Baden-Baden makes us Europe's leading service provider in the management of data, information and receivables. And in early 2006 a new directory assistance number was launched in Germany (1 18 18).

Arvato invested in China, a major growth market, and built new production facilities in Australia and Russia. Our IT service providers now have local offices in Malaysia and Thailand as well. The burgeoning Arvato Mobile unit now has a business presence in 47 countries, and launched its “GNAB” download platform for all types of digital content.

Question: And how important is the traditional book medium in the digital media realm?

Gunter Thielen: Anyone who claims that books are obsolete hasn’t seen the figures. It simply isn’t true that electronic media are pushing books onto the sidelines: In 2005, the Random House group alone sold four times as many books as the entire worldwide book industry did 50 years ago. Each day, more than a million people buy a book published by one of Random House’s more than 100 imprints. We believe in the future of books and we will continue to publish books that the world wants to read.

Question: Direct Group now has book, music and DVD clubs in 22 countries, and more than 35 million members.

Gunter Thielen: …which makes it one of the world’s largest media retailers. Its international sales power enables it to develop young writers into bestselling authors: We provide a stage for creative talent to become successful. Direct Group is already Europe’s biggest bookseller. In the U.S., the world’s most important media market, the BMG Columbia House subsidiary is the leading direct-to-customer vendor of music and DVDs.

Direct Group is a good example of a successful turnaround; its profits are visibly on the rise. In France, our experiences following the acquisition of the largest independent chain of booksellers, Librairies Privat, have been encouraging. This is a systematic evolution of our strategy of catering to new customer groups apart from member-based businesses. This expansion in book retail and the resulting increase in opportunities for exploitation are a model for other countries.

Question: What growth opportunities and development potential do you see ahead in 2006?

Gunter Thielen: We’re well aware that the competition never sleeps and that technology is making rapid advances. Things that took a full generation to develop in the past now can be developed in just two years. Add to that the fact that traditional media businesses operate in mature markets in Europe and in the U.S.

A few years from now, today's 8- to 14-year-olds will determine user behavior in the media realm. They are the first truly interactive generation. The "Content is King" strategy, with which we do good business, needs to be adjusted to the needs of this generation. Even today, consumers are creating content themselves: with videophones, home videos, in countless weblogs and podcasts. This trend has only just begun. By responding with products that offer optimum user benefit, we are seizing the opportunities inherent in technological advances. This applies for existing businesses as well as new ones.

Question: You always say that Bertelsmann has a world-class management team at all executive levels. It goes without saying that this team is made up of individuals with exceptional business skills and talents. But how important are the traditional and longstanding values embodied in Bertelsmann's corporate culture to your business success?

Gunter Thielen: The principles you refer to bear the stamp of Reinhard Mohn and have evolved over decades. They provide transparency and guidance for all and are a basis for identifying with the company. The Bertelsmann Essentials describe the four core values in our corporate culture: partnership, entrepreneurship, creativity and citizenship.

Our corporate culture offers executives every possibility of managing their decentralized businesses with a high degree of freedom and flexibility. However, we also demand that our executives not only identify with their own businesses, but act responsibly and in the interests of the group and its employees. This includes elements like leadership through partnership, delegation of responsibility for tasks and employee profit participation. Exceptional performance is rewarded, that goes for every employee. We firmly believe that our principles of management are more up to date than ever.

Question: It also includes developing young creative and entrepreneurial talent in the company.

Gunter Thielen: A subject that is very important to me. More than anything else, the quality of leadership determines the enduring success of an organization. Bertelsmann University, Round Tables for junior executives at company, division and corporate levels, and a special Bertelsmann Entrepreneur's Program are all elements in our innovative and progressive management development scheme. Our new project "Next-generation Talent Management" will help us to develop a shared understanding of what tomorrow's leaders should look like and how we can continue to attract them to Bertelsmann.

But we're not only concerned about young executives. A company like Bertelsmann also must explore ways to keep experienced employees with proven expertise. We have highly creative people in our ranks, and these individuals do terrific things for Bertelsmann. We strive to ensure that they continue to have a constructive environment, an appropriate platform, and significant opportunities for development.

Question: What are the Executive Board's goals for 2006?

Gunter Thielen: We expect a continued rise in revenues and profits as we continue to rely on organic growth. Also, the acquisitions made in 2005 will be fully consolidated for the first time. There are some indicators for a relaxed global economy and a recovery in Germany's domestic demand, which should have a positive effect on the advertising economy. I'm confident that the Soccer World Cup in Germany will have some positive effects as well.


Question: Which brings us to the last question: Will Germany become the new soccer world champion?

Gunter Thielen: I'm definitely keeping my fingers crossed! But as a global company, we at Bertelsmann will play in the finals in any case. Indeed, Bertelsmann will score plenty of goals with the World Cup. We are the world football association FIFA's exclusive licensee for all official print products in German-speaking countries. Six Bertelsmann companies have formed an excellent team for this project, and are bringing all sorts of World Cup-related magazines, nonfiction books, encyclopedias, children's books and audiobooks to the market, along with puzzles, calendars and posters – a total of about 120 licensed products. Products to warm the heart of any soccer fan – and of any CEO.

The Executive Board of Bertelsmann AG

DR. THOMAS RABE
Member of the Bertelsmann AG Executive Board since January 1, 2006, Chief Financial Officer and Head of the Bertelsmann AG Corporate Center, Gütersloh. Head of Bertelsmann Music Group (BMG) since February 10, 2006. Born August 6, 1965 in Luxembourg.

GERHARD ZEILER
Member of the Bertelsmann AG Executive Board since October 1, 2005, Chief Executive Officer of RTL Group, Luxembourg. Born July 20, 1955 in Vienna (Austria).

HARTMUT OSTROWSKI
Member of the Bertelsmann AG Executive Board and Chairman of the Arvato AG Executive Board since September 1, 2002, Gütersloh. Born February 25, 1958 in Bielefeld (Germany).

DR. BERND KUNDRUN
Member of the Bertelsmann AG Executive Board and Chairman of the Gruner + Jahr AG Executive Board since November 1, 2000, Hamburg. Born November 8, 1957 in Wuppertal (Germany).

DR. GUNTER THIELEN
Member of the Bertelsmann AG Executive Board since July 1, 1985, Chairman of the Bertelsmann AG Executive Board and Chief Executive Officer since August 5, 2002, Gütersloh. Born August 4, 1942 in Quierschied (Germany).

ROLF SCHMIDT-HOLTZ
Member of the Bertelsmann AG Executive Board, Chairman and Chief Executive Officer of Bertelsmann Music Group (BMG), Chief Creative Officer of Bertelsmann AG until February 10, 2006, Hamburg and New York. Born August 31, 1948 in Martinsreuth (Germany).

DR. EWALD WALGENBACH
Member of the Bertelsmann AG Executive Board since February 6, 2002, Chief Executive Officer of Direct Group Bertelsmann, Gütersloh. Born February 10, 1959 in Neustadt/Wied (Germany).

PETER OLSON J.D./MBA
Member of the Bertelsmann AG Executive Board since April 1, 2001, Chairman and Chief Executive Officer of Random House, New York. Born May 1, 1950 in Chicago (U.S.).

Bertelsmann: The Principle of Diversity

The past year has confirmed a truth that we know well at Bertelsmann: Success can come quite naturally. To explain this phenomenon, let's take a look at two concepts that form the basis of everything we do at Bertelsmann: creativity and diversity.

In the past, centralism was a prevailing economic theory

Common wisdom maintained that a well-run company was one defined by tightly structured hierarchies. Under this world view, openness and transparency were considered weaknesses. Some experts felt that a company could only be successful if all its employees adhered to a central, rigid plan. According to this doctrine, anything else would lead to chaos. If it wasn't uniform, it couldn't be a commercial success. Many companies operated under this assumption.

A decade and a half ago, the Internet began to conquer the media world. Its rise was no coincidence, taking place as it did in a world where the principle of centralism was already in decline. The downfall of the Communist states and their command economy was a big step on this path. In today's global markets, people from a wide range of cultures cross paths. Ideas and creativity can spread faster and more freely than ever before. Our markets increasingly transcend borders. Those still thinking and acting on the principle of centralism find this bewildering.

But what exactly are markets? They consist of a vast number of people and needs. And these people each have their own, unmistakable skills and talents. They are the ones who drive creativity and invention. Their diversity fuels the economic and social development. People will continue to develop new needs, tastes and desires, which they expect will be met with the appropriate products or processes. This is the cycle, the principle by which success is born.

In nature, the principle of diversity translates to evolution

The point is to take diversity, the various respective skills and talents that each individual has, and use them for the success of the overall system. The method has obvious advantages. While centralism knows only one answer, or one truth, the principle of diversity is never at a loss for answers and choices. During formative, productive periods in history, old answers often no longer apply, but diversity always offers an alternative. Diversity is a resource that never dries up. It is sustainable and future-proof. Success will come naturally to people who learn to use it well.

For these reasons, Bertelsmann's operational structure is decentralized. We are the world's most international media company. The creative commitment of our 88,500 employees, and the high-quality content, products and services they deliver, prove that the principle of diversity pays. In the 63 countries where we do business, this up-to-date approach offers us a unique, growing network of experience and knowledge that enables us to quickly and efficiently identify and master new challenges.

Naturally, our decentralized organization requires a high degree of autonomy and responsibility. Diversity will only breed creativity – our most important resource and the base of our success – if it can unfurl in freedom. Freedom in business means having the ability to make decisions and act independently and responsibly.

Four of some 88,500 employees whose creativity and skills make the diversity principle the cornerstone of our success in 63 countries.
ERIC WON-SUK YANG, JANE LIGHTING, GAIL REBUCK, BRIAN SHULTS

In business, the principle of diversity translates to entrepreneurship

Entrepreneurial spirit thrives in a world of diversity. Entrepreneurial thinking is just another word for creativity – which is why we see it as our goal to cultivate this foundation for business excellence at all levels of our company. Our international reach – our diversity – provides excellent nourishment for this foundation.

Our understanding of management is based on the fundamental virtues of entrepreneurship: creative power, coupled with a high degree of freedom and a generous measure of personal, economic and social responsibility.

At Bertelsmann, the principle of diversity translates to responsibility

All business success aside, we see the proper application of the principle of diversity as a priority. Freedom requires a sense of responsibility. This idea is anchored in our core values, our Essentials: "Our executives act not only in the best interests of their individual businesses, but are also obligated to the interests of the group as a whole." Partnership, entrepreneurship, creativity and citizenship form the pillars of our core values. Far from contradicting the principle of diversity, they make it possible in the first place.

These pillars create a shared identity and offer guidance for independent action in a dynamic, decentralized structure. Understanding the overarching goals of the organization is vital and always will be to our ongoing success. Diversity in responsibility defines that which is most important to us: The people we work for, our customers, and the people we work with, our partners and colleagues.

We know that only then will our success keep coming naturally.

Bertelsmann Essentials

The Bertelsmann Essentials convey the goals and basic values of our company's employees, executives and shareholders and are based on the Corporate Constitution. It is the responsibility of our executives to spread and exemplify these values and to serve as role models. The Bertelsmann Essentials reflect the current status of consensus and are subject to constant review, revision and improvement.

Our Mission

Bertelsmann is an international media corporation. We provide information, entertainment and media services to inspire people's daily lives. We aspire to make a valuable contribution to society. We strive to be leaders in our markets and to achieve returns on capital that guarantee the growth and continuity of our corporation. Our joint efforts focus on creative content and customer relations. We seek to provide working conditions that are equitable and motivating for our employees. We commit ourselves to the continuity and ongoing progress of our corporation.

ERICH RUPPIK
Chairman of the Bertelsmann AG Corporate Works Council

GUNTER THIELEN
Chairman and Chief Executive Officer of Bertelsmann AG

"The company's Executive Board, Supervisory Board, executives and Works Council have condensed the Bertelsmann Essentials to their core messages: partnership, entrepreneurship, creativity and citizenship. This facilitates communication and is designed to promote dialog about the Essentials. We want our values to be lived and breathed throughout the company, which is why we included a clear reference to the binding nature of the Essentials."

Our Core Values

Partnership

Our corporate culture is based on a mutually beneficial partnership between our employees and the company. Motivated individuals who identify with our values are the driving force behind quality, efficiency, innovation and growth within our corporation. The hallmarks of our participatory leadership approach are mutual trust and respect as well as the principle of delegation of responsibility. Our employees enjoy autonomy to the greatest extent possible. They receive comprehensive information and participate in decision-making as well as in the financial success of the company. We are committed to the professional development of our employees and seek to provide long-term employment.

Entrepreneurship

The principle of decentralization is at the heart of Bertelsmann's management philosophy. It enables our employees to act with flexibility, responsibility, efficiency and entrepreneurial freedom. Our operating businesses are run by managers who act as entrepreneurs: They enjoy considerable independence and bear full responsibility for the performance of their companies. Our executives act not only in the best interests of their individual businesses, but are also obligated to the interests of the group as a whole.

Creativity

We provide a home for artists, authors and creative talents in all of our fields of business, promoting their creative development as well as their commercial success. We strive for the protection of intellectual property on a worldwide basis. We promote artistic freedom and freedom of thought, the protection of democracy and human rights, and the respect of traditions and cultural values. Consequently, the content we provide reflects a wide range of viewpoints and opinions. Continuous innovation and improvement, guided by customer needs and interests, are the cornerstones of our success, both in media services and in content businesses.

Citizenship

The continuity and development of Bertelsmann as an independent entity is ensured by the Bertelsmann Management Company's control of the majority of voting rights. In the view of our shareholders, the possession of property creates an obligation to the community. They are committed to the idea that in a market economy a corporation derives its legitimacy by making a valuable contribution to society. The work done by the Bertelsmann Foundation – to which the majority of Bertelsmann shares has been contributed – is also guided by this principle. Our businesses are managed in accordance with the spirit and the letter of the law. They maintain high standards of ethical conduct and act responsibly toward society and the environment.

Our Commitment

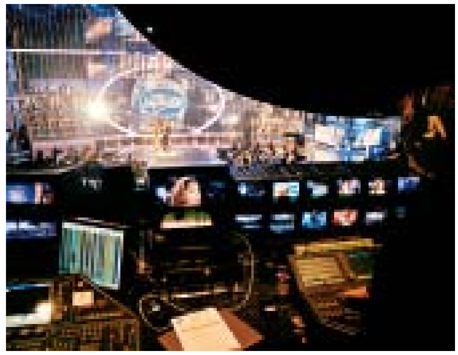
We expect everyone at Bertelsmann to adhere to this mission and these core values.

Where Stars Are Born

The Superformat

"Pop Idol" gives the best young talent the opportunity of their lives – like NEVIO PASSARO in "Deutschland sucht den Superstar" 2006.

1.



2.

"Idol" is a global superstar. Its sensational success is the result of masterful television production – and passion.

It is entirely possible to raise understatement to an art form, and Alan Boyd is a master of the art. "You know," he says without a trace of condescension, "one might ask: What's so new about this format? It's just a singing contest – the idea's been around for at least 2,000 years." Yes, the question could arise if the person asking it hadn't seen a television or newspaper in recent years. But as Alan Boyd, Fremantle Media Production's President Worldwide Entertainment, knows well – everyone knows "Idol." And it's not just a singing show.

A Song Contest – Is That Really All It Is?

Fremantle Media, an RTL Group company, is one of the world's biggest developers and producers of TV brands. The company operates in 43 countries, creating over 8,000 hours of programming each year, including plenty of multiple-award-winning movies, series, shows and comedy programs. Fremantle Media also happens to own programming rights in more than 150 nations, which makes it the biggest independent TV distributor outside the United States. And then, of course, Fremantle Media also does this "singing contest" thing.

In the U.K., it's known as "Pop Idol." In the U.S., it's called "American Idol" and in Germany, the show's name is "Deutschland sucht den Superstar." France and Belgium have their own idol shows, as do Portugal and Finland, Denmark, Iceland, Sweden, Norway, Poland, Russia, Serbia and Montenegro, Croatia, New Zealand, the Czech Republic, Canada and Kazakhstan, Australia, South Africa, Indonesia, Malaysia, Singapore, India, Slovakia and the Netherlands. And in many of these countries, RTL Group channels broadcast the program.

The British impresario Simon Fuller and Simon Cowell invented this particular singing contest. And as the producer of the worldwide "Idol" shows, Fremantle Media is in charge of what the judges of Britain's prestigious "Broadcast Award" succinctly described as a "superformat."

It Takes an Idol to Beat an Idol

From the very first "Idol" broadcast in 2001 through the end of 2005, 1.8 billion viewers all over the world reached for their phones to vote their favorite candidate into superstardom. The show won multiple awards and was nominated for 14 "Emmys." It seemed nothing would be able to beat the superformat – except, perhaps, the superformat itself.

When "Malaysia Idol" hosted its final show last year, its audience share peaked at 63 percent. "Slovensko hlada Superstar" on Slovakia's STV went straight to 41.4 percent. When "Indian Idol" was on, the counters registered 55 million calls. Last year in the U.S., 26.8 million people were glued to their screens watching and voting for their "American Idol" during each

1. ALAN BOYD
President Worldwide Entertainment, Fremantle Media Production.

2. Like all "Pop Idol" shows, "Deutschland sucht den Superstar" 2006 is a flawless stage show that sets new standards in TV entertainment.

Branded for success: "Pop Idol" logos from Singapore to New Zealand – and everywhere, the show sets new viewer records.

1.

2.

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episode. By the time Carrie Underwood emerged as the winner, the makers of "American Idol" had counted 500 million calls. Just a singing contest, the man said.

Yeah, right – a singing contest. Well, says Alan Boyd, in his characteristically understated way, it does have some new stuff. "We just updated the idea for the 21st century and integrated the latest technologies: call-ins, SMS and so forth." And, fair enough, he's willing to concede that the candidate backgrounders and backstage stories are important elements that fascinate viewers as much as the contest. And that Fremantle Media has taken "production standards for talent shows to a new level for 'Idols': We make sure that the lighting, the sound, the camerawork and the stage design are all top-notch. That's what makes the show such a success."

But state-of-the-art technology and supreme TV craftsmanship alone cannot account for the success of the superformat. Nor is it attributable solely to the fact that "Idol" is interactive programming in the truest sense of the word, where the people in front of the screens and on the phones are more than viewers looking to be entertained. They are part of the show. They get emotionally involved. It's their show. How can something like this work on a global scale?

Core Values of Success

One of the secrets to "Idol's" success is that Fremantle Media treats it with extreme care and prudence. When a show like "Idol" goes on to break all sorts of records in so many different countries and cultural regions, one might conclude that far-reaching concessions were made to appeal to various audience tastes. But this, Alan Boyd says, is not the case: "The music may sound different. But the story behind it is always a tale of human interest. It's about fair competition and what motivates its protagonists to compete. It's a drama about moments of victory and defeat."

Having said that, he adds that the format "does require slight adjustments for different cultures. But the core must remain intact." Does the core have a name? "Passion. We want to make people laugh and cry. And this passion is communicated in all cultures, to everyone who gets involved: the viewers and singers, the judges and the production team." We've left the realm of understatement now. Passion, says Alan Boyd, is a human element. We all have it. And that's why it works all over the world.

1. "Superstar" candidate VANESSA JEAN DEDMON: The final touches…

2. …before the big show.

3. Laughter and tears – "Australian Idol."

4. A Star is Born – CARRIE UNDERWOOD, "American Idol" 2005.

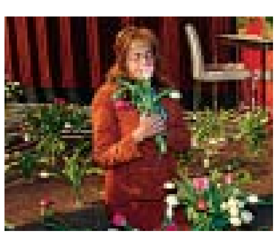
RTL Group – Quality Entertainment on All Stations

GERHARD ZEILER Chief Executive Officer, RTL Group

"RTL Group strives to offer popular high-quality entertainment and information to all our audiences by encouraging and supporting the imagination, talent and professionalism of the people who work for us."

Highlights

M6 Mobile – Upwardly Mobile in France M6 Mobile was launched in June 2005 – and just six months later, this new star on the French wireless horizon has exceeded expectations by a hundred percent, delivering twice what was expected: By the end of the year, more than 200,000 subscribers had signed up for the service. As a joint project between RTL Group's French subsidiary M6 and the wireless carrier Orange, M6 Mobile caters to young adults. It offers a wide range of services: among other things, subscribers can use their mobile phones to tune into the M6 radio station "M6 Music Hits." Once again, M6 blazes the trail to new fields of business.

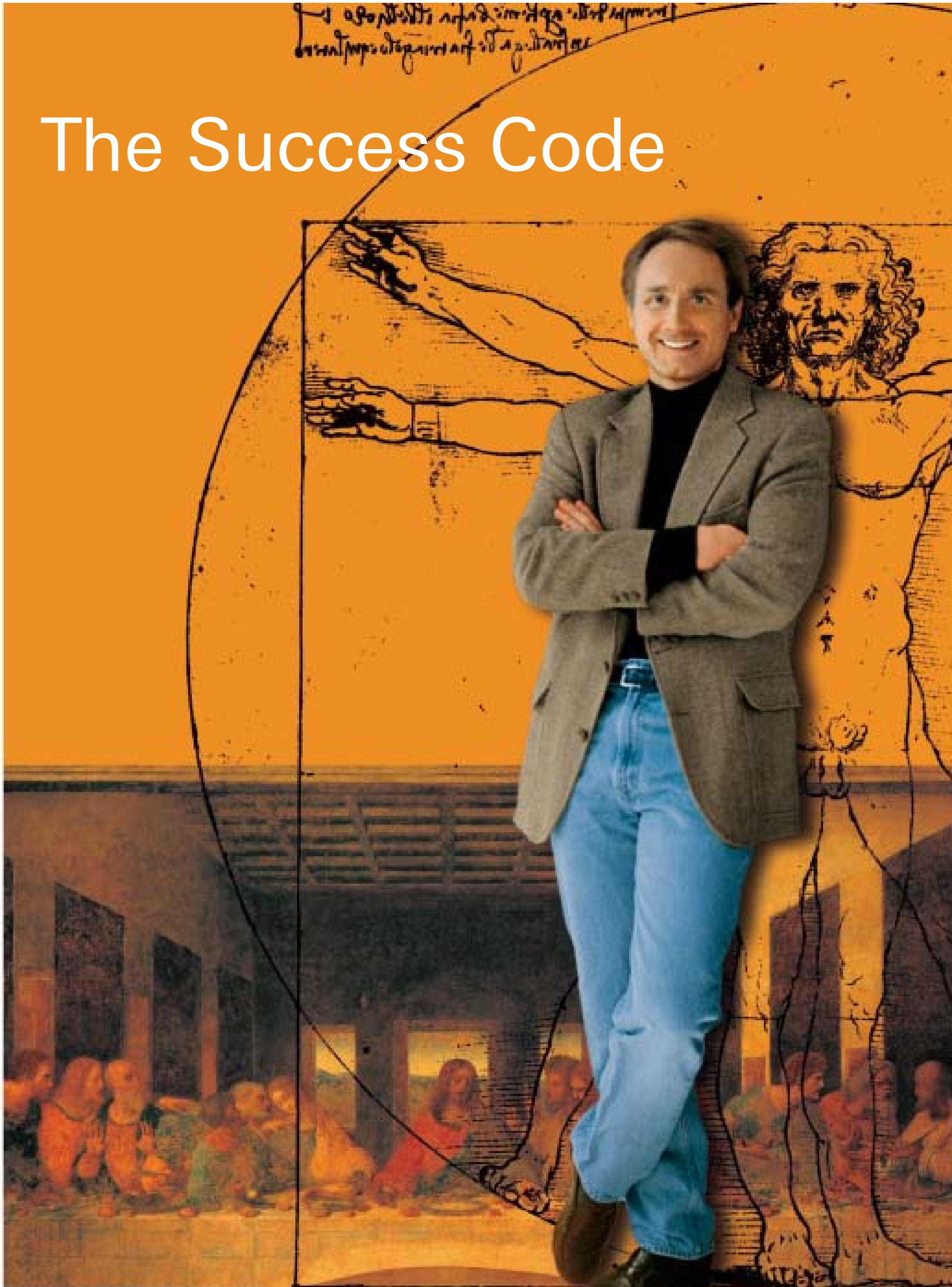


Telenovelas – Serial Success Bianca Berger enchanted afternoon TV audiences in Germany until the late days of fall 2005. "Bianca – Wege zum Glück" and "Verliebt in Berlin" have since become synonymous with excellent ratings – a success powered by RTL Group. For many decades, telenovelas have been veritable TV blockbusters in Latin America. But it took a systematic adaptation to German audience tastes by the Grundy-UFA production company to turn them into a comparable success in Germany last year. The RTL Group subsidiary is a bona fide expert on the production of successful "serial" entertainment like daily soaps and telenovelas. The demand is so enormous that Grundy-UFA opened an Academy for Series Storylining in Potsdam in November 2005. Here, talented narrators learn to write stories that cater specifically to the requirements of TV series and telenovelas.

Creating Bestsellers

RANDOM HOUSE
BERTELSMANN

The Success Code



Great books call for great publishing. Authors and their work get undivided attention
at Random House.

Random House's Doubleday imprint has broken every record for adult hardcover fiction in the book industry with Dan Brown's "The Da Vinci Code." What are the secrets behind the bestseller?

The novel's protagonist, Robert Langdon, lives in a world fraught with symbols. As a symbologist, he researches their meaning and mysteries. Art and life are full of symbols – and Paris, the city the Harvard researcher is visiting, is the capital of both art and life. But then things take a dangerous turn: Langdon is asked to testify in a murder case: The chief curator of the Louvre is the victim of a mysterious and bizarre killing. His dead body itself is arranged into a symbol. There will be more murders – and an even greater secret. To get to the bottom of it, you'll have to do what more than 40 million people the world over have already done: Read Dan Brown's novel "The Da Vinci Code."

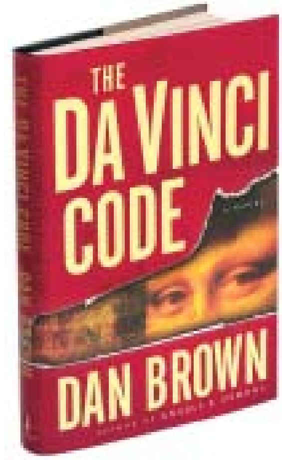
Secret No. 1: The Right Decisions

Random House is the world's largest trade book publisher, admired globally as the wellspring of great reading. Random House comprises more than 100 publishing imprints in sixteen countries, including the historic American imprint Doubleday, which first published Dan Brown's "The Da Vinci Code" in March 2003. According to "The New York Times," "The Da Vinci Code" is Harry Potter for grown-ups. The thriller has inspired games, audiobooks, and shelffuls of books about the book, along with countless events and international communities of people who meet at many of the book's locations or participate in ongoing debates on the Internet. In May 2006, "The Da Vinci Code" motion picture opens in theaters worldwide: Academy Award Winner Ron Howard ("A Beautiful Mind") directed the screen adaptation, starring Tom Hanks as Robert Langdon, alongside other big-screen legends like Jean Reno.

Unquestionably, Dan Brown, wrote a phenomenal book, but the publishing efforts that went into "The Da Vinci Code" are just as remarkable.

Doubleday publisher Stephen Rubin tells the story behind this particular success: "When Dan Brown came to us from his previous publisher, he had already written three books, which together had sold just 26,000 copies in hardcover. That didn't stop us from believing in the success of 'The Da Vinci Code' – we knew what an extraordinary manuscript we had in front of us. And we were right. We went straight to #1 on the 'New York Times' hardcover fiction national bestseller list the very first week."

The platform for this stratospheric liftoff was set in motion two years earlier. When Dan Brown's editor Jason Kaufman moved to Doubleday from another publishing house, he submitted the proposal of "The Da Vinci Code" to his boss Bill Thomas, Doubleday's Editor in Chief. He instantly shared Kaufman's enthusiasm for acquiring Dan Brown and The Da Vinci Code. In the subsequent negotiations, Doubleday offered a $400,000 advance for Brown's "The Da Vinci Code," and Brown's next novel. Brown's old publisher bid more than that just for the newly conceived book. Nonetheless, the author declined the higher offer. He knew what successful authors all know: Working with



THE DA VINCI CODE
The embodiment of success: More than 40 million copies in 44 languages have been sold worldwide to date – and the screen adaptation has an all-star cast.

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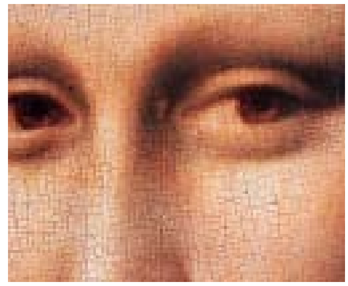

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an editor you trust and a publisher with a vision for your work is more imperative than the size of the advance.

Secret No. 2: Word of Mouth and Hard Work

Doubleday developed a sophisticated strategy to set the best possible launch for the publication of the book. Here, too, experience, trust, credibility and creativity counted for far more than any marketing budget, be it ever so large. “You can spend all sorts of money on newspaper, radio and TV advertising, have the best press relations and collect rave reviews – but the most important salesmanship for a book is still word-of-mouth recommendations. People read a book and are fascinated; they talk to their family, their colleagues, and friends about it and say: You’ve got to read this book,” says Rubin.

Doubleday and the Random House sales force sent advance copies to booksellers to win them over. “Booksellers are indispensable to our success, which is why we are so relentlessly conscientious about cultivating our relations with them. Before the hardcover edition ever hit the marketplace, we had already sent out 10,000 advance copies to booksellers and reviewers. The feedback was enormous and instantaneous: everyone was thrilled,” reports Mr. Kaufman, Dan Brown’s editor. The publisher also introduced Dan Brown to their sales force, who play a vital role in setting up a book’s publication with the booksellers. “Dan Brown is a perfect promoter – he’s not just intelligent and witty, but also modest and genuinely appreciative. That goes down well in our business,” says Rubin.

Secret No. 3: “Success Breeds Success”

The first day of sales in March 2003 was accompanied by a spectacular and provocative promotion campaign: Full-page ads were run in the most important U.S. daily newspapers such as “The New York Times,” showing a picture of the Mona Lisa and the caption: “Why is this man smiling?” To further promote the launch of the book, Doubleday organized a reading tour that took Dan Brown all over North America.

Other essential elements in the success code include a nonstop, constantly reinventive advertising campaign. The reward is publishing the bestselling adult work of fiction of all time with 40 million copies in print, translations into 44 languages to date, and the # 1 slot on bestseller lists all over the world. In the U.S. and Canada, “The Da Vinci Code” has sold twelve million hardcover copies. Random House imprints also publish the book in the U.K., Australia, and New Zealand, where it has sold an astonishing 7.5 million copies thus far in hardcover and paperback. And the success story is far from over. Thanks to “The Da Vinci Code”, top authors and agents are beating down Doubleday’s doors. “Success breeds success” is the last line in this success code.

1. A mysterious murder at the Louvre...

2. ...leads to Leonardo da Vinci’s masterpiece...

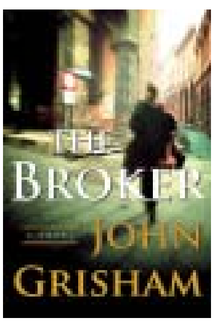
3. ...and to the biggest secret in history.

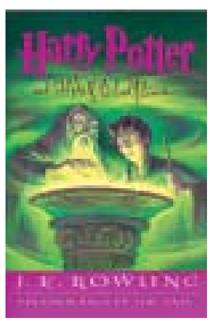
4./5. What secrets lie hidden in Paris, the capital of resplendence?

Random House –
Number One in the World of Book Publishing

PETER OLSON Chairman and CEO, Random House
“Random House is home to many of the world’s preeminent book publishers, each uniquely empowered with the freedom to create, without corporate or external interference, autonomous, diverse, reader-focused editorial programs.”

Highlights





Bestsellers in 2005 22 Random House, Inc. titles reached # 1 on the “New York Times” bestseller lists in 2005. They include “The Broker,” John Grisham’s latest novel, which has six million copies in hardcover and paperback print. The audiobook edition of J.K. Rowling’s “Harry Potter and the Half-Blood Prince” became the largest-selling children’s audio in publishing history. “Eldest,” Part II in Christopher Paolini’s dragonrider trilogy, delivered a brilliant North American chart-topping repeat of the success scored by Part I, “Eragon.” Paolini’s epic fantasy was # 1 in the bestseller lists in the U.K., Germany, and Australia as well. Verlagsgruppe Random House in Germany topped the nonfiction bestseller lists with celebrity TV chef Tim Mälzer’s “Born to Cook.”

Awards in 2005 Seven of the ten “Best Books of 2005” picked by the editors of the “New York Times Book Review” are published by Random House imprints, e.g. “De Kooning: An American Master” by Mark Stevens and Annalyn Swan, who also won a “Pulitzer Prize” for their brilliant biography. Their authors Joan Didion and Jeanne Birdsall each received a “National Book Award” – the prestigious U.S. literary prize. And authors weren’t the only ones associated with Random House to win accolades last year: Random House Australia, New Zealand, and South Africa all were named “Publisher of the Year” by their respective national bookseller trade organizations, as was Random House of Canada.

Strong and Vocal

"Strong Voices": Quality You Can Hear

"Brigitte" and twelve strong narrative voices transformed the German-language audiobook market last year.
"Strong Voices" grew from a small idea into a large-scale success – to be continued in 2006 with twelve more titles.

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Before "Brigitte" magazine's "Strong Voices" edition sent several audiobooks straight to the top of the bestseller lists, listening to stories wasn't a popular pastime.

In hindsight, big successes seem easy to explain. You spot out a trend, do everything right and achieve your objective straightforwardly. Of course, most people don't think these great successes are possible to begin with. Perhaps that's because they don't have an eye for the right ratio of ingredients for success. The secret is combining several key ingredients to come up with a whole new product. To create this sort of effect, however, you have to listen carefully.

At First, Audiobooks Appealed Mainly to Men

Let's briefly go back to 2004, to the beginnings of the success tale we're about to tell. At the time, a new trend was slowly emerging in the book market. Publishers were beginning to market literature and nonfiction books on CDs. Called audiobooks, this new product was purchased almost exclusively by men who were looking for something to keep them awake on long car journeys. Most audiobooks were not considered a success.

Germany's prestigious news magazine "Der Spiegel" pointed to the modest market, saying: If an audiobook sold 5,000 units, it was doing well. High-brow literature was labeled a bestseller as soon as it sold 2,500 discs. The industry standard said that if an audiobook sold roughly ten percent of the hardcover print run it was a success.

But this was before the launch of "Brigitte's" "Strong Voices" program in 2005. The twelve volumes in the "Brigitte" and Random House Audio audiobook library together sold more than 1.5 million units – indisputably a bestseller, and not just by audiobook standards. Every single audiobook published in the "Brigitte" edition sold at least 100,000 copies. How could this have happened?

Julia Jäkel is the executive publisher of "Brigitte," Gruner + Jahr's top magazine. The biweekly women's magazine has been the leading medium in its segment for decades. Not a small feat. On a random evening in 2004, Jäkel joined colleagues from the "Brigitte" editorial team and from Random House Audio, including its Managing Director Karl-Heinz Pütz, for a friendly get-together. "We actually planned it as a casual evening without Powerpoint presentations or a hard-and-fast agenda. Just a get-together, to have a chat," recalls Jäkel. But of course, what business colleagues usually end up talking about is how they can work together and more specifically, what they could do better together. In this case, the group discussed audiobook titles that would be of interest to "Brigitte" readers. Successful audiobooks that wouldn't simply tinkle along in the background as an appendage to the printed magazine. Sometimes, successes arise when people start talking, and they hinge on the attention you pay to details. Of the group's conversation, Jäkel remembers one point in particular: "We noticed that for most audiobooks, the focus was on the book's author and title. The narrator was usually a minor consideration."

1. JULIA JÄKEL
Executive Publisher of "Brigitte" magazine.

2. The "Strong Voices" are featured in the magazine.

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Now, an Appeal to Strong Women

"Brigitte" is written for strong, self-confident, successful, decisive women. So, "If 'Brigitte' were to do an audiobook series, the speakers would have to be as significant as the books they narrate. The voices couldn't just be anyone's. They would have to be strong voices," Jäkel says. After several follow-up discussions, one audiobook idea in particular inspired the editorial team and its partners: "Let's get together with the country's best actresses – various generations of outstanding, strong women – and get them to read out loud the books that they feel are right. This concept matched the 'Brigitte' approach: Think about it and do the right thing, because that's what will inspire and energize you."

"Strong Voices" Create a New Market

In February 2005, "Brigitte" launched its "Strong Voices" series with twelve distinctive voices: eleven leading German actresses, and the popular author and literary critic Elke Heidenreich, who kicked off the spoken-word series with a reading of "New Yorker Geschichten" (The Portable Dorothy Parker). "It was important to us that the narrators be able to read exactly what they wanted," says Jäkel. The featured works included 20th century classics as well as contemporary literature. Corinna Harfouch selected "Kassandra" by Christa Wolf, while Heike Makatsch picked "Mary Poppins" by Pamela L. Travers. Senta Berger chose to read "Fräulein Else" by Arthur Schnitzler, and Sophie Rois added her own personal touch with "The Friendship" by Connie Palmen. Fritzi Haberlandt selected a 1930s bestseller, Irmgard Keun's "The Artificial Silk Girl." Hear, hear.

Audiobooks suddenly had a brand new audience: Strong Women! Most of the buyers were women who wanted to hear the "Strong Voices." Two thirds of them had never bought an audiobook before. "Strong Voices" was an exceptional success on two counts: Record sales, right in "Brigitte's" target demographic.

"Of course we're going to keep going," remarks Jäkel. There will be new "Strong Voices" in 2006 – including Nina Hoss, winner of the "Grimme Award" and a leading light in new German cinema. Once again, the series will demonstrate what happens with the power of ideas: Strong Success.

1. ELKE HEIDENREICH
A writer, celebrated literary critic and "strong voice."

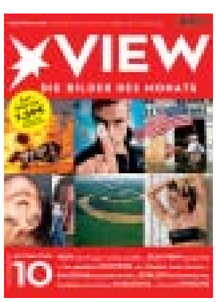
2. Success, Round Two: Actress NINA HOSS, one of the new "Strong Voices" for 2006.

Gruner + Jahr – Page after Page of Quality Journalism

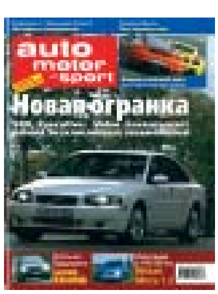
BERND KUNDRUN Chairman and CEO, Gruner + Jahr AG
"The international printer and publisher Gruner + Jahr is the journalistic home of the world's most fascinating magazines, newspapers and Internet sites – a market leader in many segments. Powerful brands, the cultivation of journalistic and entrepreneurial talents, and independent editorial departments have turned us into Europe's biggest magazine publisher."

Highlights

"Geo International" – Branching Out to New Markets The name is synonymous with exceptional journalism: "Geo" is a magazine that focuses on Planet Earth and its inhabitants. "Empathy with the foreign, attentiveness to the endangered, curiosity about interesting facts, and an open mind about the future" – these are, in brief, the principles that guide the multiple-award-winning editorial team behind "Geo." In October 2005, G+J simultaneously launched "Geo" in six countries for the first time in its history: "Geo International" is now published monthly in Turkey, Croatia, Rumania, Slovakia, the Czech Republic and Hungary.



Picture Perfect – "View" Gruner + Jahr launched 16 new, high-end titles internationally in 2005, thus creating a broad foundation for long-term success. One of these new titles, "View – The Month in Pictures," delivered a brilliant newsstand debut. A general-interest magazine in the "Stern" family, it presents the pictures – and by extension the stories – that shaped the events of the past month. "View" provides photojournalism stories on large-format double-page spreads, accompanied by outstanding texts. "View" builds on best practices in traditional magazine journalism.



A Working Majority – Motor Presse Stuttgart In 2005, G+J acquired the majority stake in the Motor Presse Stuttgart publishing company. Motor Presse Stuttgart publishes more than 140 car, motorcycle, telecommunications and recreation magazines in 14 different countries on three continents – Europe, South America and Asia. They include Germany's leading car magazine "Auto, Motor und Sport" and the lifestyle publication "Men's Health." The acquisition has considerably enhanced G+J's market position in Germany and beyond.

The Masters of Sound

The Secret of the "Backstage Boys"

Two "Grammys" and the year's # 3 bestselling album in the U.S. ("Breakaway"), which sold over six million units – 2005 was a success down the line for KELLY CLARKSON and her band.

1.

2.

BMG Music Publishing is so successful because music is a critical part of everyday life. A sonnet to the subtle charms of our music publisher.

Everything Hartwig Masuch touches turns to music. That was the case even back when he wasn't yet the Senior Vice President/Managing Director of BMG Music Publishing Germany/Austria/Switzerland. Even when he was still in school. "Of course it was much more important that we get our hands on a major album like Pink Floyd's 'Ummagumma' than anything else that was going on in the classroom."

Sure, you hear that kind of thing a lot. But in Hartwig Masuch's case, it's actually true. Pink Floyd in particular and music in general really were more important to him. And everything he has touched since has turned to music. Like the legendary German band Extrabreit, which scored its first platinum record with his help. Or the young lead singer of a small band, who became known as Nena.

Let's do a sound check: BMG Music Publishing is there when stars and hits are born. Coldplay. Rammstein. R. Kelly. Nelly. Linkin Park. Robbie Williams. Keane. Rosenstolz. Peter Maffay. Artists who are songwriters for BMG Music Publishing regardless of the label they're signed with.

The Boys in the Background

Labels like Sony BMG turn out stars, and perhaps listeners sometimes sense the amount of work, time and money that goes into doing so: building an artist, producing a CD, performances and promotion. Finally, if all this effort culminates in a hit, people buy the recording, and it becomes a commercial success as well. Let's just call this the Hit Factory.

Things aren't quite so glamorous at BMG Music Publishing, where the folks tend to stay in the background. If one were to give the music publisher a band name, it might well be the "Backstage Boys" – taking one's cue from one of BMG Music Publishing's famous partners, the Backstreet Boys. The "hits" that the music publisher and its more than 500 worldwide employees launch take place discreetly and independently of the recorded music business.

The world is full of music – and we're not being poetic. Music is used in commercials, as ringtones, it provides the backdrop or atmospheric underpinning in movies. It issues forth from websites and from all sorts of electronic devices. "Technology is our friend," says Nicholas Firth, Chairman and CEO of BMG Music Publishing: "We benefit from every technological advance. This is one of the reasons that 2005 was one of BMG Music Publishing's best years ever."

Which brings us to a very special sound of music: BMG Music Publishing is flourishing. Whenever a song from the music publisher's catalog of one million works is played anywhere in the world, it means money in the bank for BMG Music Publishing. They can be recent hits (e.g. Mariah Carey's "We Belong Together") or songs that were written decades ago (e.g. Bee Gees' "Stayin' Alive"). For a music publisher, it makes no difference who performs or samples a piece. It is also irrelevant

1. HARTWIG MASUCH
Managing Director, BMG Music Publishing Germany/Austria/Switzerland.

2. KEANE – two "Brit Awards" 2005 for the high fliers.

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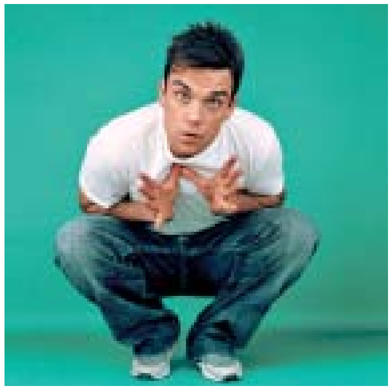

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whether the tune is played on a CD, at a concert or in a restaurant. The business model works wherever and whenever people listen to music.

Music as Ultimate Software

Nicholas Firth puts it this way: "We are in the creative software business. Our software is words and music." For instance, in a commercial for a compact car starring Robbie Williams as himself, he hears a street musician singing a less-than-wonderful rendition of his hit "Feel." Robbie, all smiles, shows him how it's done. The result is good entertainment – and double royalties for the song. A number of commercials and movies incorporate popular songs and melodies from the BMG Music Publishing catalog, such as last year's "King Kong." Or, as mentioned earlier, ringtones for mobile phones, a technology that was completely unknown until a few years ago. Today, ringtones account for 3 percent of total revenues. One might well second Nicholas Firth's claim that no matter what the technology, it's our friend, because it creates new media outlets that are enhanced by music.

It all sounds so easy somehow: Buy up rights and wait for someone to start singing or playing your song, and then just watch the money roll in. However, success is the last link in a very long chain of hard work and well-tuned instincts for artistic potential.

How Stars Are Born

Clearly it's easier to forecast the revenue earned from music recorded by established artists than revenue earned from newcomers. But given the high costs of superstar deals, music publishers must assess the long-term performance of current hit acts. The repertoire experts at BMG Music Publishing know exactly when a major star is planning a new album – and is looking for a hit. An example of this was Mariah Carey's recording of "We Belong Together," co-written by BMG Music Publishing composer Manuel Seal, which became a mega-hit in 2005.

What Hartwig Masuch calls the "core competency of our business" is the "generating of rights right at the onset of a career – the shared and systematic building of a lucrative catalog." This includes having the ear for talent and a precise commercialization strategy. This involves a higher risk, but if it works out, the rewards are higher as well. This sort of partnership is often found at the beginning of great careers like that of Coldplay, who have worked with BMG Music Publishing prior to their debut recording. Nicholas Firth says: "Music publishers look first at the songs. Coldplay's extraordinary talent as songwriters stood out even at the beginning."

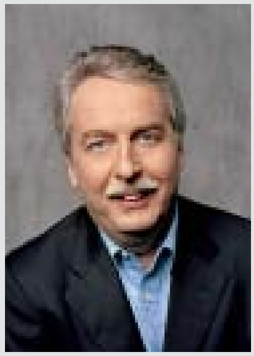
For young artists, partnership with BMG Music Publishing is a crucial step on the path to greater material and artistic independence. And apart from music, says Hartwig Masuch, that independence is what is really important.

1. NICHOLAS FIRTH
Chairman and CEO, BMG Music Publishing.

2. "Intensive Care" pays off: Superstar ROBBIE WILLIAMS.

3. LINKIN PARK – "Grammy" winner 2006 and a fixture at the top of the charts.

BMG – A Passion for Music

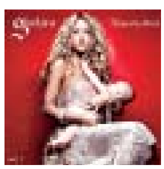


THOMAS RABE CFO and Head of the BMG division (left)
"Music is a global language, and the language of the Bertelsmann Music Group: It is the language spoken by our artists, producers and songwriters."

ROLF SCHMIDT-HOLTZ CEO of Sony BMG (right)
"Music is passion, whether you listen to, feel or make it. Sony BMG's job is to scout, build and market artists."

Highlights

SONY BMG MUSIC ENTERTAINMENT

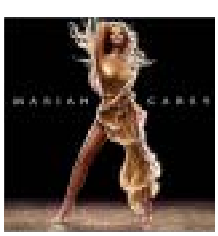


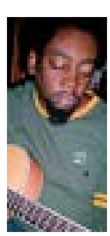
Success Fixation Vol. 1 – Shakira "Latin Pop Artist of the Year" – "Latin Song of the Year" – Shakira, a Colombian Sony BMG act and the personification of musical passion, delivered a unique double winner with her bestselling albums "Fijacion Oral Vol. I" and "Oral Fixation Vol. 2" 2005, which went straight to the top of the charts upon release. In November, she topped it off with an "MTV Europe Music Award" for "Best Female Act."

BMG MUSIC PUBLISHING BERTELSMANN

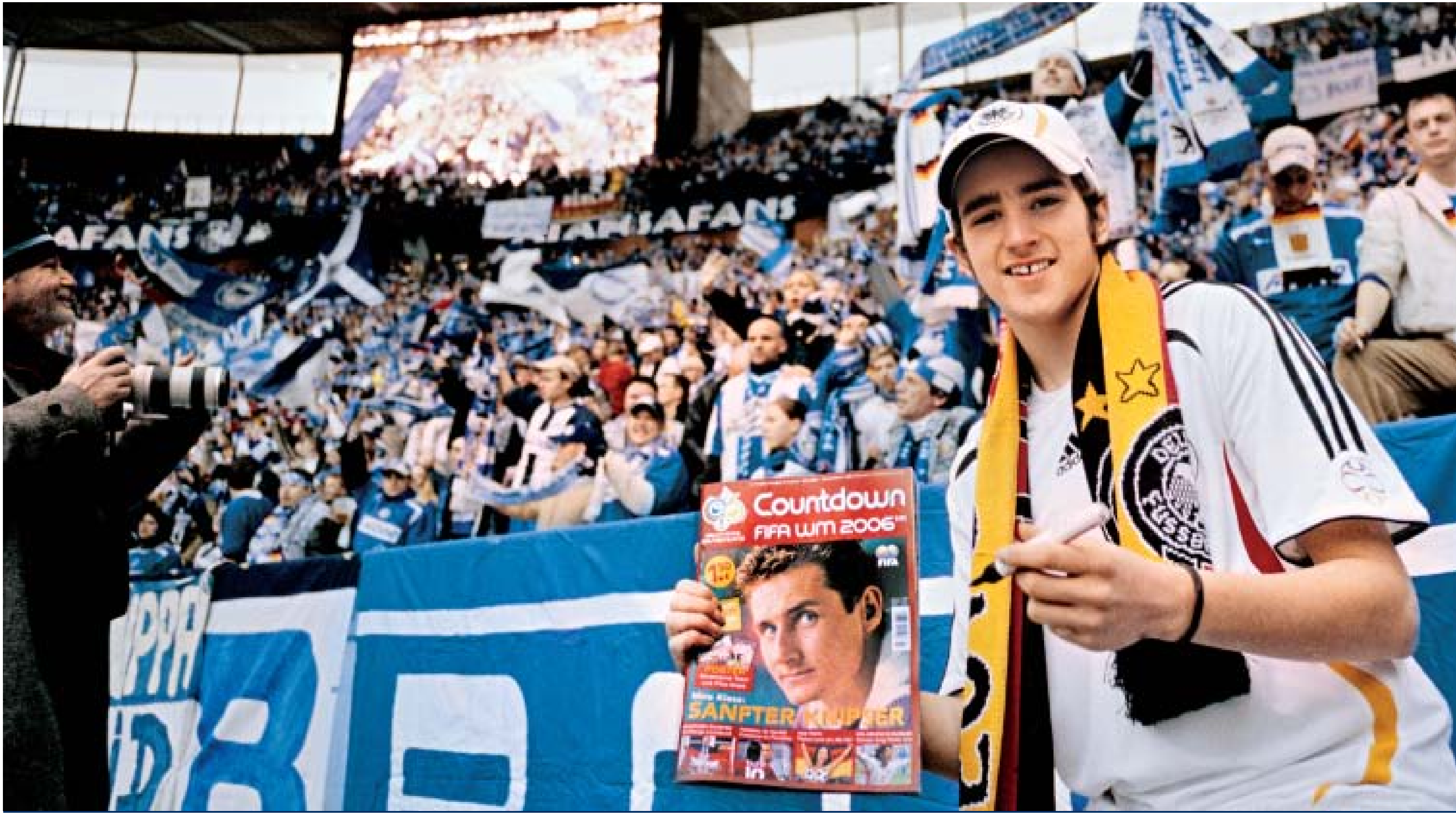
Coldplays Speed of Sound Is there such a thing as intelligent music? If so, can intelligent music be successful? With sophisticated lyrics and an unmistakable sound, "X&Y," the third album by the BMG Music Publishing band Coldplay, provides a definitive answer to these questions. The four Brits have been signed with BMG Music Publishing as songwriters since the very beginning of their career. "X&Y" sold nearly eight million units by year-end 2005, and hits like "Speed of Sound" dominated the top of the charts for weeks.

BMG MUSIC PUBLISHING BERTELSMANN





Mariah Carey – The Return of "The Voice" Mariah Carey has managed to eclipse her own fame with "The Emancipation of Mimi." It was the hottest selling album in the U.S. The second single off the album, "We Belong Together" became the worldwide #1 hit of 2005. Mariah owes this success partly to Manuel Seal, a songwriter signed with BMG Music Publishing, who co-wrote and co-produced the song.



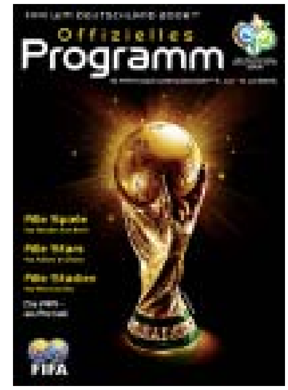
The Dream Team

How to Score

Teaming up for success: Arvato is always working towards new goals – as demonstrated here by graphic artists ANDREA STITZ and BIRGIT DECKER.

1.

2.



3.

The Arvato dream team is making sure that the FIFA Football World Cup in Germany stays unforgettable.

Hundreds of millions of fans feverishly await The Big Day. The date is already set: July 9th, 2006. The FIFA Football World Cup 2006 finals. The best teams in the world have been working towards this day. They have been working towards it for years. One dream team won't be on the field on The Big Day. But its products will be. This team has been preparing products for nearly three years and without them, the Big Day wouldn't be what it is: A great day for football, one that will always be remembered. The dream team we're referring to keeps its eyes firmly on the goal as it advances: the Arvato team.

How to Take Opportunities and Score Points

Who are the members of this dream team? The players at Arvato Print, Mohn Druck and Prinovis keep the ball rolling and keep every deadline in the process. Then, the experts at Arvato Storage Media and Arvato Systems take the ball and run with it – the masters of technique, so to speak. In the midfield, the pros at Arvato Logistic Services advance the ball steadily towards the opponents' goal – where it is received by a striker who has been on the ball for the FIFA World Cup since 2003: Medienfabrik Gütersloh, which keeps the cheering fans informed with more than 15 print publications before, during and after the 2006 World Cup. Pass and score.

Business successes are always the result of good teamwork – which is why Arvato's players join up with other all-star teams in the Bertelsmann family: Verlagsgruppe Random House, Mohn Media Kalender & Promotion Service, Wissen.de, Sony BMG Germany and the Wissen Media publishing company. The Bertelsmann Corporate Network (BCN), which is in charge of group synergies and paved the way for the FIFA business, acts as their collective coach. As a team, they set out to score. There are no "lucky shots" in this game: "You have to think of everything, like what sort of shape and design a shopping bag should have, to hold a stadium magazine we created for the World Cup that weighs in at over a pound. And of course fans have to be happy toting it around the stadium," says Stefan Postler, Managing Director – i.e. captain – of Medienfabrik Gütersloh. There are no precedents to refer to: "We really had to reinvent the wheel here. These are creative processes where you keep asking yourself: What will work, what will fly? And then you have to put it all into practice with master craftsmanship."

1. Captain – STEFAN POSTLER, Managing Director of Medienfabrik Gütersloh.

2. Key Players – Medienfabrik Gütersloh's team for the FIFA World Cup 2006.

3. The official stadium magazine – 186 pages, 610 grams, proof positive that you were there.

1.

2.

3.

Before the Score – Integration and Timing

Stefan Postler's strikers include some of Germany's leading providers of integrated communication services. They know better than anyone that timing is everything. Fans are prepped for the Big Day with "Countdown," a monthly magazine with a circulation of 250,000 that delivers top background articles and facts on the FIFA World Cup. The popular sports journalist Bernd Linnhoff is its editor-in-chief, or as the team refers to him, the top player at "Countdown."

The World Cup – More Than Great Games

Football is all about passion, energy, and joy. But the FIFA World Cup is also an excellent opportunity to learn more about each other – beyond the team lineups and the sound of each other's national anthems.

Postler is particularly proud of a FIFA 2006 World Cup-related project that isn't just about football: a book entitled "Goal." In it, 32 correspondents whose job it is to collect facts and information worldwide on behalf of the German Office for Foreign Trade write about the countries that will encounter each other on Germany's soccer pitches. How do people, say, from Ecuador, Brazil, the Ukraine or Australia live and work? "That's what we understand by the official World Cup motto 'Time to Make Friends'," says Postler. "That, all entertainment and all fun and games aside, we can take time to learn about the economic, political and social conditions of the countries we're cheering in the stadiums." A one-two, so to speak. Part of the proceeds from the book's sales will go to sponsor the World Cup for People with Disabilities in September 2006.

But even in September, long after the Big Day, the Arvato team still won't have left the playing field: "After the World Cup is before the (next) World Cup," says Postler and smiles. "Our job extends well beyond the finals. We plan to use the expertise we gain to generate more business." With products that capture the highlights of the games in books, magazines, calendars and posters, and with productions for FC Bayern or the German Football Association DFB. And of course, says Postler, his team is in talks with the FIFA for the time after 2006 as well. A winning team always has its bases covered.

Bertelsmann's players will take one timeout: on June 9, 2006, the day of the opening game, when Germany plays Costa Rica. "We'll all be busy watching a large-screen TV and being fans," says Postler. By the way, he adds, it's great to know that you can't lose: "No matter who wins the World Cup, it will be a country where our friends and colleagues work."

1./2. All-time Champion – never before have there been so many print products for a FIFA World Cup.

3. Going all out for fans – the Bertelsmann team reinvented the wheel for the FIFA World Cup, including new sales displays.

Arvato – At Your Service

HARTMUT OSTROWSKI Chairman of the Board, Arvato AG
"Arvato AG is an international media and communications services provider. We form a unique high-performance network holding leading market positions. We measure our success through the successes of our customers. Our goals are achieved by means of experience, state-of-the-art technologies, creativity, passion and commitment to quality and innovation."

Highlights

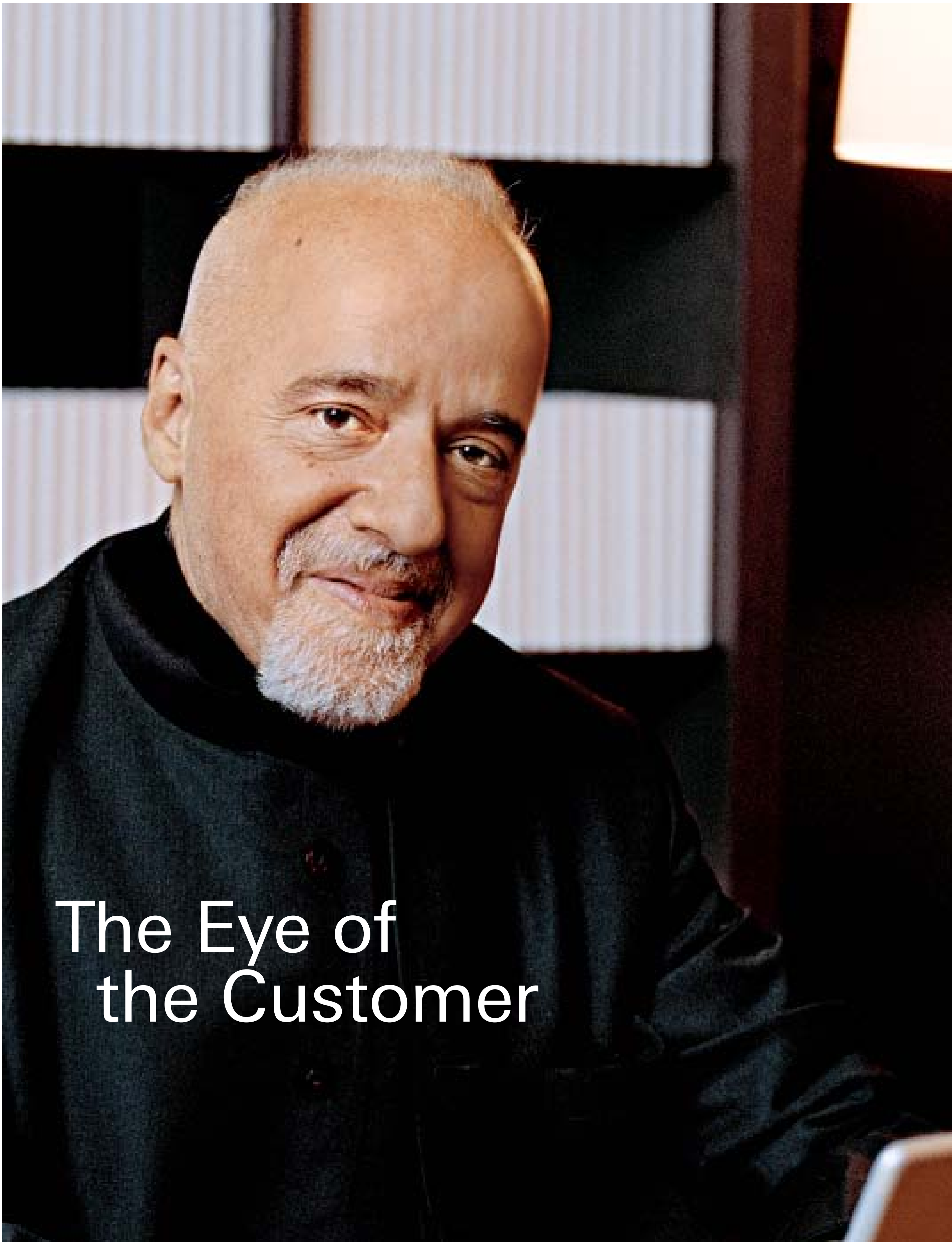
East Riding – A Public-Private Partnership East Riding in Yorkshire, Great Britain, is home to roughly 300,000 people. On October 1, 2005, Arvato and the East Riding council launched one of Europe's most heavily publicized outsourcing projects. Arvato employees now handle numerous and extensive front- and back-office municipal services, as well as tasks that were formerly seen as the heart of the administration's sovereignty: collecting council taxes and paying out social benefits to citizens. Cost cuts aren't the chief objective behind East Riding's decision; the partners are interested primarily in improving the quality of services and benefiting from Arvato's innovative potential. Arvato has achieved a milestone in the market for municipal services – a model that is sure to set a precedent.

Eurogravure – Setting New Records, Italian Style In late October 2005, Arvato's Eurogravure printing plant, one of the world's leading state-of-the-art gravure operations, started production in Treviglio, Northern Italy – a good three months before it was scheduled to go live. Thanks to the enormous dedication of Arvato's Italian team, the signs for new growth at Arvato Print Italy will be rolling off the four rotation presses even sooner than expected. The capacity of former Arvato plants in Bergamo and Milan is now being concentrated in Treviglio. And production on the high-tech printing center's first new job is already in full swing: The new Italian men's magazine "Style" in a print run of 700,000 copies.

“Madagascar,” a DreamWorks animation release

The Power of Change

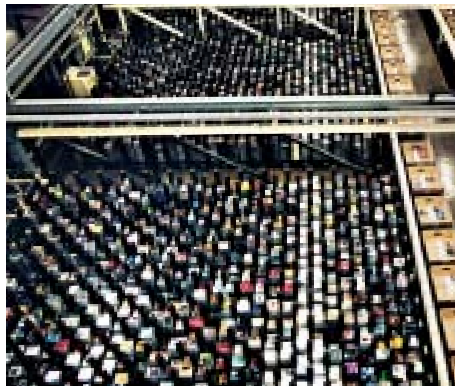
DirectGroup
Bertelsmann



The Eye of the Customer

PAULO COELHO, esteemed author and member of the book club. The new volume by the celebrated Brazilian author will be published exclusively through 13 Direct Group clubs worldwide.

1.



2.

Adopting the right attitude toward change is vital to sustaining success: Often this new attitude comes when things are viewed through a new perspective that sharpens your vision. And a newly focused approach will often change how we see our business, as illustrated by the acquisition of Columbia House.

Times of transition and change are never easy – they're a challenge

What determines success? What traits and insights are needed? The things that have been successful in the past may not be sufficient for the future. Tastes and attitudes change as new possibilities are discovered. With this in mind, Direct Group recently expanded its club business beyond books and CDs to DVDs.

"The club business is the nucleus of Bertelsmann," says Direct Group CEO Ewald Walgenbach. "And our job is to revitalize this nucleus. We're already back in the black for good, and we are growing our businesses. Today's Direct Group has a clearer focus and a new attitude."

Stuart Goldfarb, President and CEO of the U.S. music club BMG Direct from 2001 to 2005 and CEO of the newly created company BMG Columbia House, embodies this new attitude and approach: "Success comes to those who are able to change their way of thinking and their view of the business." For BMG Columbia House, what changed was the vantage point from which they viewed things. "We took a new look at the business from our customers' viewpoint and asked ourselves, 'What do our customers really need and what needs can we meet?'"

Speed and Determination

This focused approach propelled Direct Group's impressive turnaround, and in 2005, it led to the biggest acquisition in Direct Group's history: Columbia House, the largest U.S. direct-to-customer distributor of DVDs, with more than eight million members.

"Columbia House always had a business structure very similar to ours here at BMG Direct. One sells DVDs, the other music, and the way we approach customers is very similar," says Goldfarb. It was clear that the acquisition would not only make BMG Columbia House a force in the DVD market, but also result in new possibilities as well as significant savings. "We saw the opportunity to expand our customer base and offer a broader selection of entertainment products while realizing savings in such things as warehousing, shipping and operational functions. The operational synergies may sound unexciting, but they played a key role in recognizing the acquisition as one that offered great potential."

In practice, it isn't quite as unexciting as Goldfarb suggests. The company runs the world's most advanced automated shipping center for DVDs and CDs in Duncan, South Carolina. High-tech robotic equipment speedily selects the right product, which is then automatically packaged and addressed. Following the acquisition of Columbia House, the distribution center is working at full capacity: "A tremendous synergy effect," says Goldfarb. The integration of Columbia House with the music club BMG Direct was accomplished with remarkable speed.

1. STUART GOLDFARB
President and CEO, BMG Columbia House – Success through out-of-the-box thinking.

2. The world's most advanced distribution center for CDs and DVDs in Duncan, South Carolina.

1.

2.

Television on DVD

Speed is essential to integration. But customers should notice only one thing: the quality of the service. Their perspective alone is what guides the actions of the company. Employees must view their work through the eyes of the customer.

“One thing our customers have come to expect from us is a wide range of titles with movies available as soon as the DVD is released,” says Goldfarb. “There has been a significant shift in consumer viewing habits, and people can now experience the latest big-screen blockbuster from the comfort of their own homes. Consumers have changed how they want to see movies, and we are able to give them the experience they want, where they want it.”

“DVDs have become a very important part of the entertainment industry,” explains Goldfarb. Consumer demand for DVD movies remains high. “But we don’t just offer our customers movie choices – TV programs on DVD are a big part of the market, too,” says Goldfarb. Approximately 15 percent of all DVDs sold in the U.S. are TV series purchased by fans of the shows or new viewers who wish to watch the shows at their own convenience.

And what about new Internet distribution technologies for movies and music? How will this impact the business?

New Technologies, New Opportunities

Goldfarb sees it this way: “As a rule, I see technology not as a threat, but as a challenge and an opportunity. A look at history shows that changes in format have always boosted the business. Ultimately, we sell films and music – not DVDs and CDs. We’ve been doing this since the 1950s. First there was vinyl, then music- and videocassettes, and now CDs and DVDs. After each change in format, our business was better than before. Technology is not a threat – quite the contrary.” Stuart Goldfarb stresses that he cannot predict “how we’ll be selling our films and music in the future. But I can promise you one thing: We will be selling them.”

Ewald Walgenbach considers this as more than merely a turning point after years of restructuring: “We’ve won back people’s trust in our business concept. Customers like our clubs, the selection, the preferred pricing and the service. Trust, along with hard work, is the most important means to successful change management.”

1. The Web is an important promotion and distribution platform for Columbia House.

2. Blockbusters and TV series are available on DVD.

Direct Group – Always the First Choice

EWALD WALGENBACH Chief Executive Officer, Direct Group
"Direct Group strives to be the preferred source of media and entertainment products for customers and subscribers worldwide. We offer a carefully selected variety of products through multiple channels. We are dedicated to further advancing our expertise in direct marketing and in applying innovative solutions to serve our customers' individual interests."

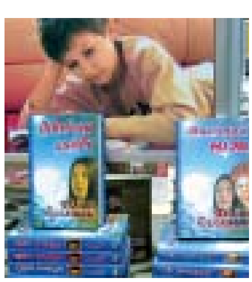
Highlights

Paulo Coelho "It is an honor and privilege for us to work with him and for him," said Ewald Walgenbach, addressing the great Brazilian writer Paulo Coelho, who became the recipient of Direct Group's first "International Author Award" in December 2005. Coelho is one of the most esteemed and successful writers of our time. Coelho is also a member of the French book club France Loisirs. He paid a compliment to it in his acceptance speech: "I greatly appreciate the club and its selection of books from both a reader and an author's perspective."

FRANCE LOISIRS

France Loisirs – Where Clubs and Shops Ensure Success In 2005, the French company France Loisirs further strengthened its position as the Grande Nation's second-biggest bookseller. The concept of tightly integrating club and book retail has been a model for success that will now be extended to other European countries where Direct Group has operations. The club in France has led the way by acquiring Librairies Privat, the country's largest independent bookselling chain.

BOOK CLUB



Family Leisure Club Who is the Ukrainian postal service's biggest customer, with 30,000 packages shipped each day? The Family Leisure Club. The Ukraine is a country of readers – and as such, it quickly turned the club into the country's biggest bookseller. Profitable from the start, the Family Leisure Club already has more than a million members. And in spring 2005, the Ukrainian success story proved the perfect starting point for a new market, Russia, where the club welcomed 170,000 new members by the year's end.

Group Management Report

Bertelsmann increased its revenues and further improved profitability in 2005. The company seized opportunities for acquisitions, thereby enhancing its market positions in key business segments. Though market development was restrained, revenues grew significantly, from €17.0 billion in 2004 to €17.9 billion. Operating EBIT improved by 12.7 percent to €1,610 million (2004: €1,429 million). The operating return on sales was 9.0 percent, showing a year-on-year improvement (2004: 8.4 percent). Consolidated net income amounted to €1,041 million, compared with €1,172 million for the previous year. [1)]

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, and the provision of production and other services for companies inside as well as primarily outside the group.

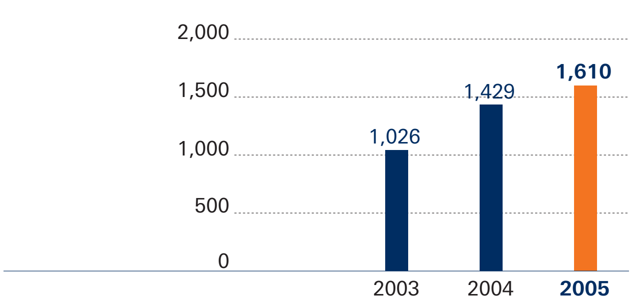
The Bertelsmann group comprises six corporate divisions; all six are operationally autonomous. RTL Group has operations in the television and radio sector as well as in TV production. Its television business includes the family of channels clustered around RTL Television in Germany, M6 in France, Five in the U.K., the RTL channels in the Benelux region, and Antena 3 in Spain. The Random House portfolio includes more than 100 editorially independent book publishing imprints. The group publishes hardcover and paperback fiction and nonfiction books for adults and children in English, German, Spanish, Japanese and Korean. Bertelsmann's printing and publishing division Gruner + Jahr is Europe's biggest magazine publisher. The BMG division, Bertelsmann's music operations, consists of the Sony BMG Music Entertainment joint venture and BMG Music Publishing. Arvato is Bertelsmann's media services division and includes the companies in the Arvato Print, Arvato Direct Services, Arvato Logistics Services, Arvato Storage Media and Arvato Systems units. Direct Group with its book, music and DVD clubs unites Bertelsmann's worldwide direct-to-customer media sales.

Geographically speaking, Bertelsmann's core markets are located in Western and Central Europe and the U.S. They were the focus of business development in 2005, generating over 90 percent of total revenues. Business in emerging markets will become increasingly important in the future.

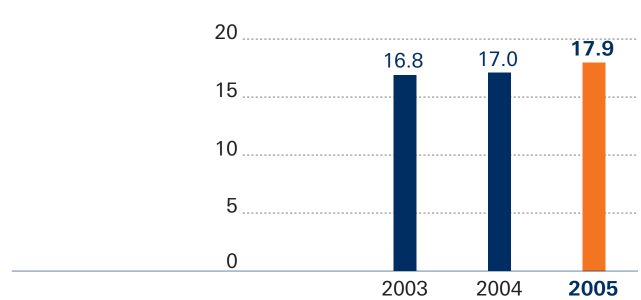
Bertelsmann AG serves as an operative management holding company. One fundamental organizational principle at Bertelsmann is decentralization, with the aim of fostering entrepreneurial responsibility. Accordingly, the entire group is structured into spheres of responsibility with few management levels. Internal management and reporting are based on the corporate structure, divided into segments that correspond to the corporate divisions.

Bertelsmann has defined goals and fundamental values for all employees, executives and shareholders. These "Bertelsmann Essentials" reflect the present shared understanding of the

Operating EBIT
in € millions



Revenues
in € billions



1) The figures for 2004 have been adjusted to reflect IAS 32 (cf. notes p. 80)

corporate culture and are subject to permanent critical review, revision and improvement. A reformulated version of the Bertelsmann Essentials was adopted in 2005 (cf. pp. 12–13).

Strategy

All Bertelsmann companies seek to attain or strengthen leading positions in attractive markets. The strategic focus is on media and services markets in Europe and the U.S., and is complemented by investments in growth regions. A number of strategic measures were put into practice in 2005 to accelerate the enhancement of leading market positions in key areas of business. The acquisition of the DVD specialist retailer Columbia House in the U.S., of the magazine publisher Motor Presse Stuttgart, and of Infoscore, as well as the establishment of the Prinovis gravure company are some examples. Bertelsmann exercises business and management control largely by aspiring to sole ownership of its businesses. Specifically, this strategy was put into practice in 2005, strengthening the group's ownership position in RTL Group by acquiring the RTL Group shares owned by the WAZ group (Westdeutsche Allgemeine Zeitung) and buying the remaining shares in the British TV channel, Five.

The "GAIN" growth and innovation initiative launched in late 2003 has spawned numerous business ideas that have already been put into practice or are currently in the pipeline. Examples include the launch of the download platform "GNAB," the introduction of biweekly TV guides in France, and Arvato's partial assumption of administration tasks for the East Riding council in Great Britain. In 2005, the Executive Board initiated the "Growth Opportunities and Development Potential" project to conduct an ongoing analysis of major future opportunities and challenges that may arise from changed consumer behavior, technological advances and new forms of advertising.

In all its businesses, Bertelsmann strives for an attractive return on capital invested and to augment the company's value as defined by rising, sustainable profitability. Bertelsmann's strategy is consistent with the values espoused in its corporate culture.

Overall Economic Developments

In fiscal year 2005, overall economic development in Germany was fueled by a strong expansion in exports, while domestic demand continued to be weak. Private consumer spending stagnated at the levels seen in 2004. The change in the price of oil had a strongly negative effect. The Federal Statistical Office reports that Germany's gross domestic product (GDP) was up by 0.9 percent (previous year: 1.6 percent).

The global economy appeared robust in 2005 despite massive increases in the price of oil, but lost some of the vitality seen in 2004. Developments were fueled primarily by a strong economy in the United States and in China, while the euro region was once again characterized by a lower increase in GDP. Eurostat reports that GDP rose by 3.5 percent in the U.S. (2004: 4.2 percent) and by 1.3 percent in the euro zone (2004: 2.1 percent).

Developments in Relevant Markets

Overall economic growth had negligible positive effects on media markets in 2005, due to generally weak consumer demand, stagnating at the previous year's level. Developments in Germany's advertising market showed little in the way of positive tendencies. Both the TV advertising and the magazine advertising market remained roughly at last year's levels. The pan-European advertising market delivered a mixed performance. The U.S. book market labored heavily under consumer reticence in 2005 and remained slightly below the previous year. The international music markets again showed a strong decline, due in part to the fact that digital music sales, despite high growth rates, were not yet able to compensate for dwindling CD sales. The printing market was slightly above previous year's levels in 2005. The services business benefited from an increasing trend toward outsourcing business processes.

Results Analysis

Revenues

Consolidated revenues for 2005 amounted to €17.9 billion, a significant year-on-year increase of 5.1 percent (2004: €17.0 billion). Apart from improved organic growth of 2.3 percent (2004: 1.9 percent), major contributors to this development were the investments made during fiscal year 2005. They included, first and foremost: the acquisition of the remaining stake in the British TV channel Five; acquisition of the magazine publisher Motor Presse Stuttgart; the merging of gravure printing operations owned by Arvato, Gruner + Jahr and Axel Springer AG into Prinovis; and the acquisitions of Infoscore and Columbia House. All the projects listed were consolidated as of July 1, 2005, with the exception of Five (as of September 2005). Overall, portfolio adjustments and other effects increased revenues by 2.5 percent (2004: 1.7 percent), while exchange rate movements increased revenues by 0.3 percent (2004: minus 2.3 percent).

The year saw only slight changes in the regional breakdown of revenues, which were caused by portfolio and currency effects. Germany's contribution to total revenues remained unchanged at 29.7 percent, while the other European countries accounted for 43.8 percent (2004: 42.2 percent). The U.S. contributed 20.5 percent to total revenue (2004: 22.4 percent). All other countries contributed 6.0 percent (2004: 5.7 percent). The revenue share contributed by the various categories of business changed only slightly.

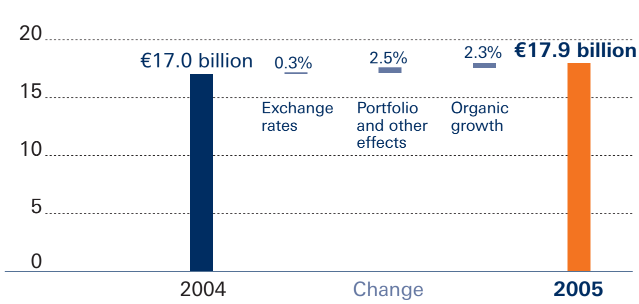
Operating EBIT

Bertelsmann's Operating EBIT increased by 12.7 percent to €1,610 million in 2005 (2004: €1,429 million). This translates

Revenues by Division

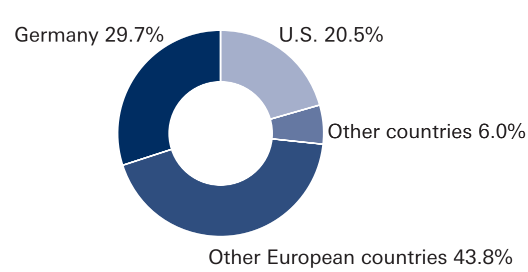
in € millions			2005			2004
	Germany	International	Total	Germany	International	Total
RTL Group	1,975	3,137	**5,112**	1,951	2,927	4,878
Random House	202	1,626	**1,828**	196	1,595	1,791
Gruner + Jahr	956	1,668	**2,624**	919	1,520	2,439
BMG	179	1,949	**2,128**	305	2,242	2,547
Arvato	1,803	2,562	**4,365**	1,557	2,199	3,756
Direct Group	304	2,080	**2,384**	354	1,821	2,175
Total revenues by division	**5,419**	**13,022**	**18,441**	**5,282**	**12,304**	**17,586**
Corporate/Consolidation	(106)	(445)	**(551)**	(223)	(347)	(570)
Consolidated revenues	**5,313**	**12,577**	**17,890**	**5,059**	**11,957**	**17,016**

Revenue Breakdown



Consolidated Revenues by Region

in percent



Results Breakdown

in € millions	2005	2004
Operating EBIT by division		
RTL Group	**756**	668
Random House	**166**	140
Gruner + Jahr	**250**	210
BMG	**177**	162
Arvato	**341**	310
Direct Group	**53**	32
Total Operating EBIT by division	**1,743**	**1,522**
Corporate/Consolidation	**(133)**	(93)
Group Operating EBIT	**1,610**	**1,429**
Special items	**61**	318
EBIT (Earning before interest and taxes)	**1,671**	**1,747**
Financial result	**(386)**	(312)
Income taxes	**(244)**	(263)
Net income	**1,041**	**1,172**
of which: Share of profit of Bertelsmann shareholders	**880**	1,032
of which: Minority interest	**161**	140

to a 9.0 percent return on sales (2004: 8.4 percent). Essentially, operating expenses changed proportionately to the increase in revenue.

The RTL Group, Arvato and Gruner + Jahr divisions were the prime contributors to Operating EBIT. All corporate divisions contributed to the positive development in Operating EBIT by improving their results year on year. Group Operating EBITDA amounted to €2,274 million (2004: €2,112 million).

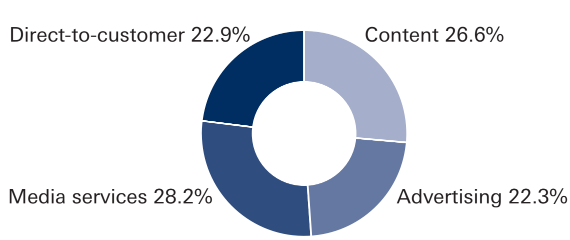
Net Income

Based on Operating EBIT, earnings before interest and taxes (EBIT) totaled €1,671 million (2004: €1,747 million). This includes special items of €61 million (2004: €318 million).

The Group's financial result came to minus €386 million (previous year: minus €312 million) and includes the effect on net income of the first-time application of IAS 32 of minus €106 million (2004: minus €45). The financial result also includes payouts on Bertelsmann AG profit participation certificates of 76 million (2004: €76 million).

Revenues by Category

in percent*



* Based on total from divisions not including Corporate/Consolidation

Group income tax expense was down from the previous year due to one-time tax effects such as the reversal of valuation allowances on tax losses carried forward.

Taking into account the financial result and taxes, consolidated net income at €1,041 million was slightly below the previous year's level (€1,172 million). A steep increase in the operating result nearly compensated for the year-on-year reduction in the positive effect of special items. Net income for Bertelsmann AG shareholders amounted to €880 million (2004: €1,032 million), and for minority shareholders to €161 million (2004: €140 million).

Special Items

At €61 million, the total effect of special items on EBIT in 2005 was much lower than in 2004 (€318 million). Special items with a positive effect were Gruner + Jahr's sale of the U.S. magazine publishing operations (which contributed €91 million), a merger gain in connection with the establishment of Prinovis (€72 million) and a merger gain from Arvato's acquisition of the majority stake in Infoscore (€52 million). These positive effects were largely offset by restructuring and integration charges of minus €185 million (minus €105 million at BMG, minus €64 million at Direct Group, and minus €16 million at RTL Group).

Assets and Financial Analysis

Financial Guidelines

The financial guidelines adopted by the Bertelsmann group are designed to ensure a balance between financial security, return on equity and growth. These parameters ensure a long-term safeguarding of the group's financing, the best possible use of the group's financial power, and optimized costs of financing. In this context, financing is concentrated at group level wherever it is legally possible, taking into account the requirements and views of capital market participants.

Financial Targets

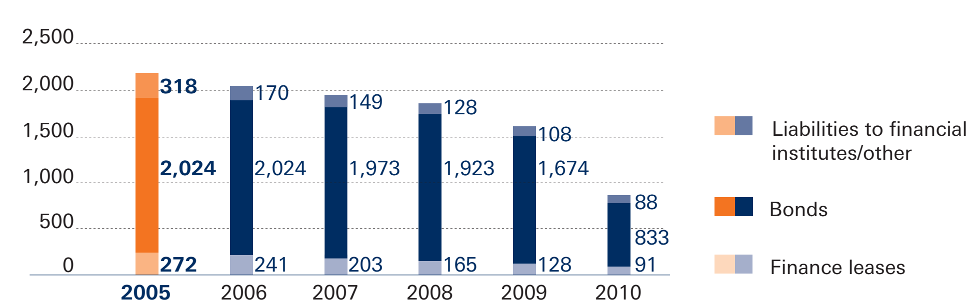
Bertelsmann has long practised a system of controlling based on quantified financial targets that are a key contributor to the company's independence and ability to act. These targets take their cue from the group's financial debt and traditionally, but decreasingly, from its capital structure. Key financial targets include a leverage factor of 2.3 or below and a coverage ratio exceeding 4. The leverage factor in 2005 was 2.2 (2004: 1.6), and the coverage ratio reached 5.3 (2004: 6.0). The increase in the

Financial Targets

	Target	2005	2004 [2]
Leverage factor: Economic debt/Operating EBITDA [1]	< 2.3	**2.2**	1.6
Coverage ratio: Operating EBITDA/Financial result [1]	> 4.0	**5.3**	6.0
Equity ratio: Equity to total assets (in percent)	> 25.0	**40.0**	41.6

[1] After modifications
[2] The figures for 2004 have been adjusted to reflect IAS 32 (cf. notes p. 80)

Maturity Structure of Financial Debt
in € millions



leverage factor is attributable to the high level of investment activity, especially in the second half of 2005.

The leverage factor is the ratio of economic debt to Operating EBITDA. Economic debt amounted to €3,931 million in 2005 (2004: €2,632 million). Economic debt includes net financial debt as well as debt substitutes, which at Bertelsmann include pension provisions and profit participation capital. In calculating the leverage factor, modifications are made to the balance sheet figures, to better reflect the group's actual financial strength from an economic viewpoint. The coverage ratio is calculated as the ratio between Operating EBITDA and financial result.

At 40.0 percent, the equity ratio exceeded the 25.0 percent target and was only slightly below the previous year's ratio of 41.6 percent. In addition, Bertelsmann is careful to ensure that equity exceeds the goodwill, including rights similar to goodwill with indefinite useful life shown on the balance sheet. At €787 million, this coverage was achieved in 2005 (2004: €1,949 million).

Financing Activities

In September 2005, Bertelsmann AG issued a new €500 million benchmark bond in the capital market. The Eurobond has a maturity of ten years and pays a nominal interest of 3.625 percent. Bertelsmann thus took advantage of the low interest rates to pay back existing bank loans with the proceeds from the new issue. In 2005, Bertelsmann also paid back a €50 million promissory note ahead of time and a DEM300 million loan as scheduled. Both promissory notes had been issued by Bertelsmann U.S. Finance. At December 31, 2005, the group had outstanding loans and promissory notes totaling €1,600 million and US$500 million.

Rating

Bertelsmann has a BBB+ rating from Standard & Poor's, and a Baa1 from Moody's, both with a stable outlook.

Credit Lines

The Bertelsmann group has various contractual agreements giving access to floating-rate and fixed-interest credit lines. A syndicated loan has been in place since October 2004, that Bertelsmann AG and its international financing companies can draw on in euros, U.S. dollars and pounds sterling, up to an equivalent value of €1.2 billion, during the life of the contract. In 2005, this credit line was amended, involving

Bonds, Promissory Notes

Nominal interest, Issuer, Due date	Type	Effective interest rate in %	Total amount in millions
4.70% Bertelsmann Capital Corp. N.V. 02/07	Promissory note	4.91	EUR 50
4.40% Bertelsmann Capital Corp. N.V. 03/08	Promissory note	4.56	EUR 50
4.48% Bertelsmann Capital Corp. N.V. 99/09	Promissory note	4.49	EUR 50
4.375% Bertelsmann U.S. Finance, Inc. 99/09	Bond	4.53	EUR 200
4.69% Bertelsmann U.S. Finance, Inc. 03/10	U.S. private placement	4.83	USD 100
4.625% Bertelsmann U.S. Finance, Inc. 03/10	Bond	4.70	EUR 750
5.23% Bertelsmann U.S. Finance, Inc. 03/13	U.S. private placement	5.38	USD 200
5.33% Bertelsmann U.S. Finance, Inc. 03/15	U.S. private placement	5.46	USD 200
3.625% Bertelsmann AG 05/15	Bond	3.74	EUR 500

Cash Flow Statement (Summary)

in € millions	2005	2004
Cash flow from operating activities	**1,791**	1,829
Cash flow from investing activities	**(2,129)**	(497)
Cash flow from financing activities	**(428)**	(845)
Change in cash and cash equivalents	**(766)**	**487**
Funding of Bertelsmann Pension Trust e.V. (CTA)	**(360)**	–
Currency effects and other changes in cash and cash equivalents	**70**	(37)
Cash and cash equivalents at the beginning of the year	**2,092**	1,642
Cash and cash equivalents at the end of the year	**1,036**	**2,092**

among other things an adjustment of its maturity to seven years (through 2012). The syndicated loan set up in October 2004 replaced a syndicated loan dating from 2002. Apart from this, the Bertelsmann group has bilateral credit agreements with major international banks. The financial reserves from these credit lines amount to roughly €1.7 billion and are freely utilizable for business purposes.

Consolidated Cash Flow Statement

The consolidated cash flow statement for 2005 starts from EBIT and not, as in the previous year, from net income. This will facilitate the derivation of Bertelsmann's cash conversion in the interest of transparency. At €1,791 million net cash from operating activities in 2005 was nearly on par with 2004 (€1,829 million). The acquisitions made during the year resulted in a significant net cash outflow from investing activities totaling minus €2,129 million in 2005 (2004: minus €497 million). This includes €1,734 million paid out for the acquisition of participations (net of acquired cash and cash equivalents), a figure that increased steeply year-on-year (2004: €85 million), offset by proceeds from disposals of €436 million (2004: €366 million). The section on investments below sets out further details about the acquisitions.

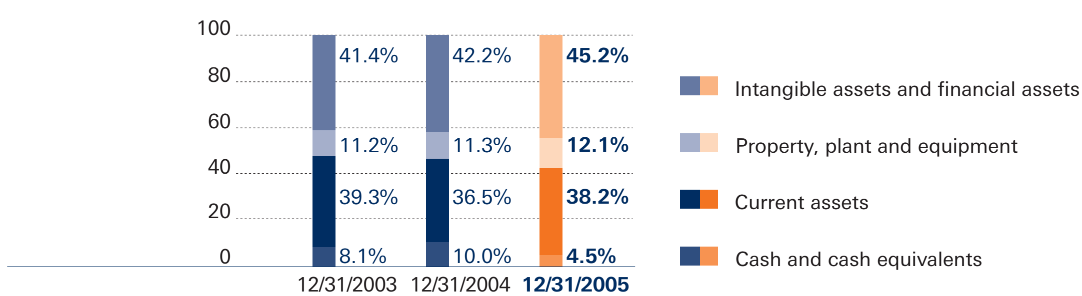
Net cash outflows from financing activities totaled minus €428 million in 2005, a significant reduction compared with the previous year (minus €845 million). This is largely attributable to the issuance of the €500 million benchmark bond. €414 million were distributed to shareholders of Bertelsmann AG and minority shareholders of consolidated companies.

In 2005, Bertelsmann began investing funds outside the company to cover pension obligations, by means of a "Contractual Trust Arrangement" (CTA). For this purpose, cash and cash equivalents in the amount of €360 million were paid into the Bertelsmann Pension Trust e.V. These funds qualify as plan assets and are thus deducted from the provisions for pensions.

The above measures reduced the group's cash to €1.0 billion (2004: €2.1 billion).

Balance Sheet Structure Assets

in percent



Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities include contingent liabilities and other financial obligations (cf. notes p. 111 ff.). The revised IAS 32 accounting standard has been in force since January 1, 2005. It stipulates that financial instruments that in principle authorize the owner to put them back to the issuer for cash and cash equivalents or other financial assets, are no longer to be shown as a minority interest under shareholders' equity, but as liabilities on the balance sheet. The new rule affects minority holdings in partnerships as well as putoptions held by minority shareholders. To date, put options held by minority shareholders were shown as off-balance-sheet liabilities under other financial commitments. The new standard requires shares subject to such put options to be recognized on consolidation as if they had already been bought.

Investments

2005 was characterized by high investment activity. Investments in property, plant and equipment, intangible assets and financial assets including acquisition price payments increased considerably, totaling €2,565 million for the year (2004: €863 million). Property, plant and equipment accounted for €568 million (2004: €498 million), most of which was invested at Arvato. Investments in intangible assets totaled €204 million (2004: €157 million), mostly at RTL Group, Direct Group and BMG. Investments in financial assets amounted to €59 million (2004: €123 million). There was a considerable increase in the purchase price paid for consolidated investments: €1,734 million (2004: €85 million). In particular, this increase is the result of RTL Group's acquisition of the remaining shares in Britain's TV channel Five, Gruner + Jahr's increase of its holdings in Motor Presse Stuttgart, Direct Group's acquisition of the North American DVD club Columbia House, and Bertelsmann's acquisition of the RTL Group shares indirectly held by the WAZ group, a minority shareholder.

Investments

in € millions	2005	2004
RTL Group	**768**	214
Random House	**47**	28
Gruner + Jahr	**384**	38
BMG	**59**	112
Arvato	**494**	369
Direct Group	**228**	57
Corporate	**585**	45
Total	**2,565**	**863**

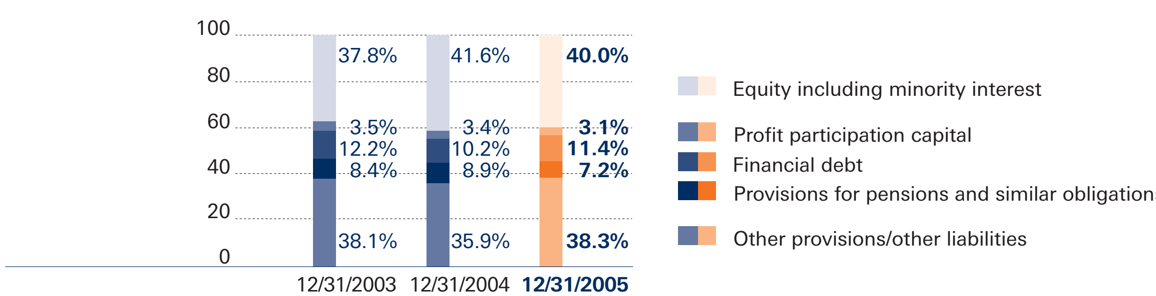
Balance Sheet

At €22.9 billion, total assets are roughly €1.9 billion above the previous year's amount (€21.0 billion). The year-on-year increase is due primarily to the full consolidation of channel Five in the U.K., the magazine publisher Motor Presse Stuttgart, the Columbia House DVD club, and Infoscore. Apart from this, the first-time inclusion of put options on consolidation as a result of IAS 32 and currency effects, especially on the U.S. dollar, enhanced total assets.

The year-on-year increase in goodwill by €1,340 million is largely due to the above mentioned acquisitions, and the inclusion of put options on the balance sheet. The effect of including the put options was €259 million. Shareholders' equity was at €9,170 million, resulting in an equity ratio of 40.0 percent.

Balance Sheet Structure Liabilities

in percent



Bertelsmann AG shareholders' equity has risen by €0.8 billion to €8.3 billion over the previous year.

The decline in provisions for pensions results mainly from the outsourcing of pension liabilities into the Bertelsmann Pension Trust e.V. newly established in 2005. Economic debt increased by €1.3 billion year-on-year, to €3.9 billion.

Profit Participation Capital

The par value of profit participation capital remained unchanged at €516 million. Including the premium, the total volume of profit participation capital at December 31, 2005 was €706 million. Profit participation certificates 2001 (ISIN DE0005229942) account for 97 percent of the nominal profit participation capital. PPCs 2001 are approved for official trading on the Frankfurt and Düsseldorf stock exchanges, where they are briskly traded. They are listed in percent of their par value. In fiscal year 2005, the price in Frankfurt peaked at 255 percent and bottomed out at 225 percent. Under the terms and conditions governing the PPC 2001, the payout for each full fiscal year is 15 percent of par value, payable whenever consolidated net income and Bertelsmann AG net income are sufficient. These conditions were met in the year under review. Thus a 15 percent payout on the par value of PPCs 2001 will again be made for the fiscal year 2005.

Only a minor number of the profit participation certificates 1992 (ISIN DE0005229900) is in circulation, so that they are traded only to a limited extent on the stock market. In fiscal year 2005, the price in Frankfurt peaked at 204 percent and the low was at 156 percent. Distribution on PPCs 1992 depends on the group's return on total assets. As the return on total assets for fiscal year 2005 was 5.97 percent, the payout on PPCs 1992 will be 6.97 percent on the par value. In the previous year, the return on total assets was 7.42 percent, and the resulting payout was 8.42 percent on par value.

Distributions on both types of profit participation certificates are scheduled to be paid out on May 23, 2006 and will amount to roughly €76 million. The terms and conditions governing Bertelsmann PPCs require that Bertelsmann AG's auditors verify whether the profit distribution was correctly calculated. A confirmatory report from the auditors has been received for both types of profit participation certificates.

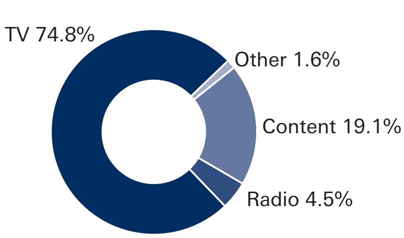
Corporate Divisions

RTL Group

RTL Group, Europe's leading television, radio and TV production group, delivered a continued positive performance in 2005. The company increased its revenues by 4.8 percent to €5.1 billion (2004: €4.9 billion), and its operating result by 13.2 percent to €756 million (2004: €668 million). Return on sales improved to 14.8 percent (2004: 13.7 percent). In the year under review, RTL Group profited from its broad business presence in the European TV markets. Overall, RTL Group's viewer and listener market shares were on par with the high levels of the previous year.

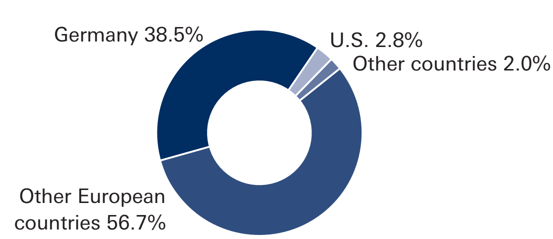
RTL Group – Revenues by Category

in percent*



RTL Group – Revenues by Region

in percent*



* Without intercompany revenues

RTL Group systematically continued on its strategic course: it strengthened its established families of channels in the core markets, taking into consideration their increasing digitization, advanced its geographic expansion, and continued building up its diversification ventures. The complete takeover of Five, in which RTL Group acquired the remaining 35.4 percent stake in September, added strategic weight to the British TV market. The increased stake of 32.9 percent in Portugal's Media Capital, which owns the country's most-watched TV channel, TVI, enhanced the Group's presence in the Southern European markets. By acquiring a 30-percent holding in the Russian channel Ren-TV, RTL Group improved its market position in Eastern Europe. In terms of new businesses, M6 in France once again proved to be the industry's pacemaker by creating M6 Mobile together with the telecom operator Orange. The service delivered a very promising entry into the French mobile business and was able to recruit more than 300,000 customers in just eight months. In December 2005, M6 and TF1 announced an agreement combining the pay TV business of TPS with that of Group Canal+. M6 will retain a 5.1 percent holding in the new entity, subject to approval from the relevant authorities.

The reduction of the Group's dependence on singular markets helped improve overall performance. In Germany, the RTL Family of channels defended its leading market position, keeping revenues stable. However, results were slightly down due to an overall weak market in the first half of 2005 and restructuring costs. In France, M6 showed positive development, scoring record viewer and advertising market shares. Five in the U.K. was able to increase its revenues and results considerably while Antena 3 in Spain also posted a hefty increase in results by growing its market share.

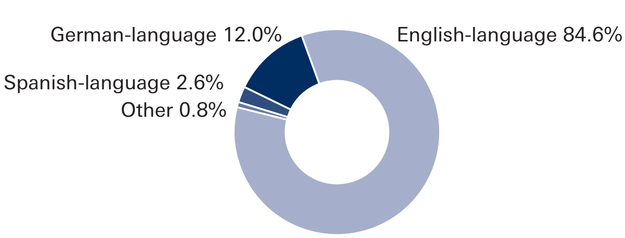
RTL Group's production arm Fremantle Media maintained the previous year's level of profitability while growing its revenues. The "Idol" format continued to break records around the world and is now broadcast in 32 countries, including repeated huge audience shares in the U.S. ("American Idol" in its fifth season) and in Germany ("Deutschland sucht den Superstar" in its third season). "The X Factor" won the National Television Award for Best Entertainment show and achieved top ratings in the U.K.; local productions of the format were also produced in Australia, Belgium, Colombia and Russia. In addition, Fremantle Media was able to set a trend with telenovelas ("Verliebt in Berlin").

Random House

Despite the ongoing flat international book retail marketplace, Random House worldwide increased both its sales and its profitability over the preceding year. Revenues increased slightly by 2.1 percent to €1.8 billion (2004: €1.8 billion), while the operating result grew to €166 million (2004: €140 million). Each of the company's North American divisions was profitable. The London-based Random House UK Group posted the largest increases of any Random House division in revenues and profits.

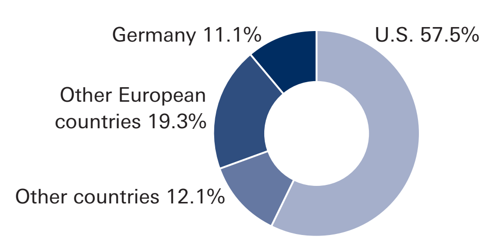
Random House – Revenues by Language Region

in percent*



Random House – Revenues by Region

in percent*



* Without intercompany revenues

In North America, Random House had twenty-two #1 bestsellers on the national New York Times bestseller lists, and led the industry for the seventh consecutive year in overall title placement. John Grisham's "The Broker," has six million copies in hardcover and paperback print. An additional 1.6 million copies in 2005 of the bestseller "The Da Vinci Code" by Dan Brown brings the total copies in print to more than twelve million just in North America. J. K. Rowling's "Harry Potter and the Half-Blood Prince," read by Jim Dale, became the fastest- and largest-selling children's audio in publishing history. "Eldest," the second novel in Christopher Paolini's fantasy trilogy, which began with the bestselling "Eragon," has nearly two million hardcover copies in print in the U.S. and was also a #1 bestseller in the U.K., Germany, and Australia.

The London-based Random House UK Group had its best year ever. The group commanded nearly 40 percent of the titles on the "Sunday Times" bestseller lists in 2005, among them, the paperback editions of all four Dan Brown novels, "Saturday" by Ian McEwan and "Mao: The Unknown Story" by Jung Chang and Jon Halliday.

Germany's Verlagsgruppe Random House improved its market position with the acquisition of the FAZ imprints Deutsche Verlags-Anstalt, Kösel Verlag, and Manesse. Its significantly improved operating results for 2005 were highlighted by books by the year's two biggest-selling German authors Charlotte Link and Tim Mälzer, as well as the million-copy bestselling "Starke Stimmen" audiobook series, published with "Brigitte" magazine.

Random House Mondadori in Spain and Latin America had a solidly profitable year highlighted by the runaway success of Julia Navarro's "La Hermandad De La Sábana Santa," which has over half a million copies in print. The paperback imprint Debolsillo enhanced its stature as the international leader in this Spanish-language market sector.

The Asian joint ventures Random House Kodansha (Japan) and Random House JoongAng (Korea) each continued their development through the growth of their hardcover and paperback publishing programs.

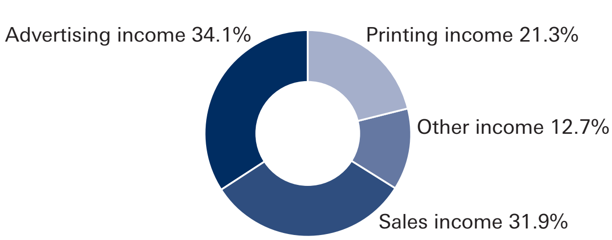
Random House underscored its global status in trade book publishing with the formation of Random House India in July 2005, which will publish indigenous authors as well as distribute international titles. A new local publishing imprint, Umuzi, was established in South Africa.

Gruner + Jahr

Europe's biggest magazine publisher Gruner + Jahr delivered a gratifying performance in 2005. Following a phase of consolidation, the company returned to growth and significantly improved its profitability in an advertising market that continued to be weak. Revenues were up by 7.6 percent to €2.6 billion (2004: €2.4 billion), boosted by the acquisition of the majority stake in Motor Presse Stuttgart and the establishment of the gravure joint venture, Prinovis. The sale of the U.S. magazine business had a negative impact. Adjusted for these portfolio effects, all of which became effective at July 1, 2005, revenues

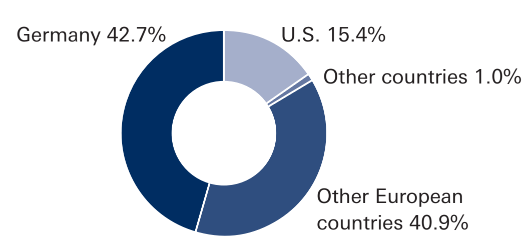
Gruner + Jahr – Revenues by Category

in percent



Gruner + Jahr – Revenues by Region

in percent*



* Without intercompany revenues

rose by 1.2 percent. Gruner + Jahr's operating result grew considerably by 19.0 percent to €250 million (2004: €210 million). Return on sales improved to 9.5 percent (2004: 8.6 percent). The improvement was largely achieved in the core business. G+J again made steep investments in new titles which impacted results in 2005 but create a foundation for future growth.

Since its innovation campaign in 2003, Gruner + Jahr has launched 47 new titles, including 16 in 2005 alone. In Germany, they include the popular magazine "View," "Healthy Living," which enhances Gruner + Jahr's market position in the growing health segment, and "Park Avenue" as the latest addition to the luxury sector. By acquiring a majority stake in Motor Presse Stuttgart, G+J achieved strong market positions in new segments and entered ten new countries. Another event of international significance was the simultaneous launch of locally adapted editions of "Geo" in five Eastern European countries and Turkey. Gruner + Jahr opened up another growth market by acquiring a 50-percent stake in Daphne Communications S.A., one of Greece's leading magazine publishers. In a streamlining of the G+J portfolio, the U.S. magazine business was sold off because it would not have been possible to attain a leading position there in the foreseeable future based on internal growth.

Gruner + Jahr was able to increase its revenues and results year-on-year in the German magazine market. Successful cost management and improved ad sales during the second half of 2005 more than made up for the higher development costs of new titles. Though the advertising and sales market in Germany continued to be difficult, Gruner + Jahr stood its ground against the competition with strong brands like "Brigitte" and "Stern." Prisma Presse further enhanced its position in France. The biweekly TV magazines "Télé 2 Semaines" and "TV Grandes Chaînes," which were launched to great success in 2004, registered continued growth in circulation and were key contributors to the improved result. The International Magazine and Newspaper divisions also showed growth and a year-on-year improvement in their performance.

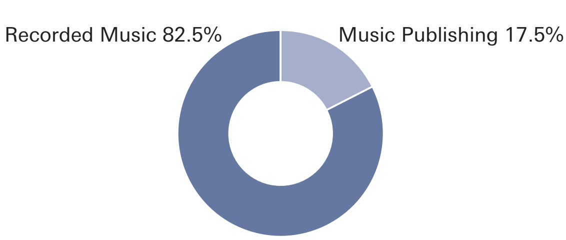
The printing business was characterized by high price and cost pressure. The operating result declined slightly year-on-year after adjustments for regrouping effects. Gruner + Jahr, Arvato and Axel Springer AG merged their German gravure operations in the Prinovis joint venture, which includes a plant currently under construction in Liverpool. As the merger has resulted in Europe's largest and most powerful printing group, G+J is well equipped for the future in this business segment as well. Gruner + Jahr and Arvato each consolidate half of the results of Prinovis.

Bertelsmann Music Group (BMG)

Bertelsmann Music Group faced difficult market conditions in 2005, as did the entire music industry. Revenues declined by 16.5 percent to €2.1 billion (2004: €2.5 billion) in a shrinking market. Another major contributor to this development was the change in how distribution revenues are reported at the Sony BMG Music Entertainment joint venture, in which BMG owns 50 percent. Instead of distribution revenues only the handling

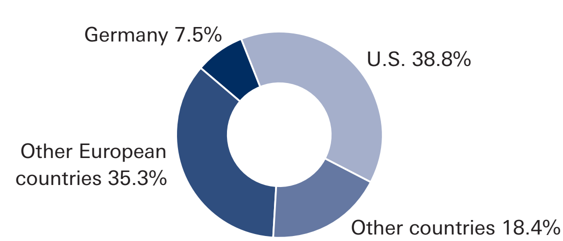
BMG – Revenues by Category

in percent



BMG – Revenues by Region

in percent*



* Without intercompany revenues

fees are reported. Adjusted for this change, revenues declined by 7.2 percent. However, despite the revenue decline, BMG was able to raise its operating result by 9.3 percent to €177 million (2004: €162 million). The main contributor to this increase was cost savings achieved at the Sony BMG joint venture. However, depreciations of music rights – which were upgraded at the time of the merger pursuant to IFRS – diminished the result by €21 million. BMG's financials include 50 percent of the results of Sony BMG, and 100 percent of the results of BMG Music Publishing.

The world's second-largest music company, Sony BMG, largely completed its integration process by year-end 2005. The restructuring costs associated with the integration amounted to €210 million, half of which were borne by Bertelsmann. Annual cost savings by merging the headquarters in New York and the business units in 45 countries amounted to €265 million, a large part of which already benefited the overall result for the 2005 business year. These savings compensated for revenue losses incurred from the market decline, as well as from the postponement of numerous new releases. The latter led to losses in market share, especially in the U.S. In 2005, 13 Sony BMG albums sold more than two million units worldwide and 29 others over a million units. Numerous Sony BMG acts achieved breakthrough, including Il Divo, John Legend and Kelly Clarkson. Kelly Clarkson alone sold more than six million units worldwide in 2005. Sony BMG has also defended its global lead in the digital music business. Digital sales accounted for seven percent of total revenue. Sony BMG renewed its successful collaboration with Simon Cowell and Simon Fuller on the "American Idol" TV show. This involved buying Simon Cowell's stake in a joint venture that owns the music rights to the "Pop Idol" format as well as other important TV and music rights.

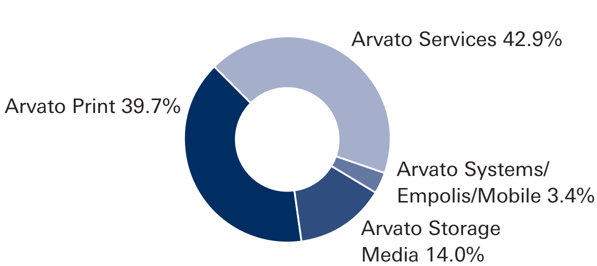
BMG Music Publishing, the world's third-largest music publisher, had its most successful year to date, again generating a double-digit return on sales. Growth was especially achieved in the Pop & Rock core business in its major markets – the U.S., U.K., and Germany. Acts including Coldplay, Robbie Williams, R. Kelly, Peter Maffay and The Backstreet Boys, whose song rights are owned by BMG Music Publishing, celebrated international successes. Songwriters signed with BMG Music Publishing were involved in more than 180 Top Ten albums and 65 Top Ten singles, including Mariah Carey's hit "We Belong Together," which spent twelve weeks at the top of the U.S. charts. BBC Worldwide's music catalog was bought to strengthen the TV music rights licensing business. On the creative side of the business, the company signed songwriters Per Magnusson (Il Divo, Westlife) and Stephen Duffy (Robbie Williams), and renewed its longstanding collaboration with Dave Stewart (Eurythmics).

Arvato

The international media and communications services provider, Arvato, posted a successful performance in 2005. In a macroeconomic environment that was characterized by muted growth in Germany, the European core markets and the U.S., Arvato significantly increased its revenues and operating result year-over-year. Revenues rose by 16.2 percent to €4.4 billion (2004: €3.8 billion), which puts it above four

Arvato – Revenues by Category

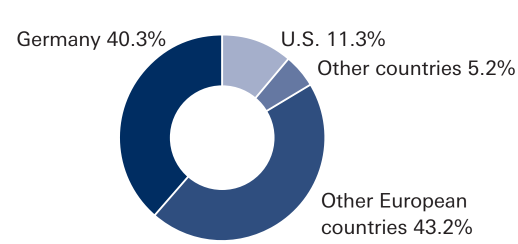
in percent*



* Without intercompany revenues

Arvato – Revenues by Region

in percent*



billion euros for the first time in the company's history. The rise in revenues is fueled first and foremost by strong organic growth of 9.2 percent. Acquisitions and other portfolio effects were other significant growth factors. Operating results rose markedly by 10.0 percent to €341 million (2004: €310 million). The number of employees worldwide grew by over 8,000 to more than 42,000 during the course of the year.

The service businesses bundled in Arvato Services delivered a very positive performance. The purchase of a majority stake in the Infoscore group and its amalgamation with the Arvato units AZ Direct and BFS Finance resulted in Arvato Infoscore, a European leader in the provision of data, information and receivables management. Logistics services to the wireless sector were fundamentally enlarged by acquiring Teleservice International, a mobile phone repair company and further internationalized its business with 13 locations in eight European countries. Arvato Services strengthened its position in Europe's emerging Healthcare Logistics market by acquiring the BG Group Healthcare. In the U.K., the company entered the market for public administration services by taking on extensive administrative tasks and other services for the East Riding council.

Arvato Print's operations in Germany and beyond did well in a difficult market fraught with surplus capacity. The new gravure group Prinovis took up operations, a joint venture between Arvato, Gruner + Jahr and the Axel Springer AG. Gruner + Jahr and Arvato each consolidate half of the results of Prinovis. In Treviglio, Italy, one of Europe's most progressive state-of-the-art gravure printers took up production as scheduled. Investments at nearly all plants served to systematically enhance the company's technology leadership. The Mohn Media group showed very gratifying operative developments in 2005; the first printed products to accompany the FIFA World Cup 2006 in Germany were successfully launched.

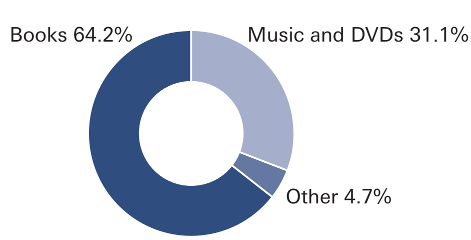
Arvato Storage Media stood its ground in its relevant markets despite high competitive and price pressure on the raw materials front. It added market shares both in the CD and the DVD segment. The group entered the Chinese market by acquiring a 30-percent stake in the storage media manufacturer Zhejang Huahong Opto Electronics. The IT service provider, Arvato Systems, registered sustained growth and sharpened its profile in the external market. Arvato Mobile successfully pursued its internationalization strategy and now has operations in 47 countries. The new download platform "GNAB" is proving popular with customers in the marketplace.

Direct Group

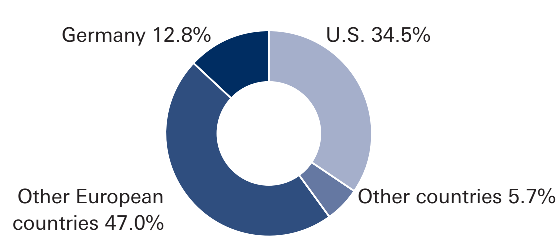
After several years of revenue decline, Direct Group and its international club businesses returned to growth in 2005. Revenues rose sharply by 9.6 percent to €2.4 billion (2004: €2.2 billion), due to acquisitions made during the year. Adjusted for portfolio and currency effects, revenues otherwise declined by 4.8 percent. The operating result was up considerably year-on-year to €53 million (2004: €32 million).

Nearly all club businesses contributed to the improved result with the U.S. book club business showing the steepest year-

Direct Group – Revenues by Category
in percent*



Direct Group – Revenues by Region
in percent*



* Without intercompany revenues

on-year growth by improving its results by over 70 percent. The Spanish book club was able to maintain its high level of profitability.

In the German club business, the ground for significantly improved results was prepared with a restructuring program. Furthermore, key functions of the club business were moved to Berlin. Comprehensive cost-cutting measures were introduced at the U.K. club as well in order to reach breakeven in 2006. These two programs led to one-time expenses.

The club businesses in the growth markets of Eastern Europe showed rapid expansion. The Family Leisure Club in the Ukraine achieved the highest growth rate. Its membership grew by more than 40 percent to over a million members in a single year. The company is the country's largest bookseller and is now expanding to Russia and fueling Direct Group's growth in Eastern Europe.

In addition to tapping additional lines of business and establishing new club models, Direct Group further enhanced its position as Europe's biggest bookseller by acquiring several companies. In France, Direct Group bought the Le Grand Livre du Mois book club. France Loisirs also acquired France's largest independent bookselling chain, Librairies Privat, thereby strengthening its position as the second-biggest bookseller in France. Direct Group sees considerable growth potential in the tight dovetailing of club and book retail, which France Loisirs is putting into practice as a strategic example for other markets.

In the U.S., Direct Group acquired the country's leading DVD specialist retailer Columbia House – the largest acquisition in Direct Group's history and a milestone on its expansionist course. The merger between Columbia House and the BMG Direct music club is proceeding faster than planned and gives rise to one-time integration-related costs.

Bertelsmann AG

Status of Bertelsmann AG

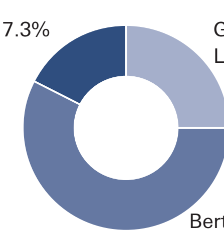
Bertelsmann AG serves as an operative management holding company. Its tasks include supervisory functions for the Bertelsmann group, the management of its participations, financing, and service functions performed by some departments at the Corporate Center. The AG's major sources of income are dividend payouts from subsidiaries and proceeds from services provided to subsidiaries. Shareholders' equity in Bertelsmann AG totals €10.4 billion. Bertelsmann AG's total assets were €13.1 billion. Net income totaled €1,358 million (2004: €401 million), and profit available for distribution in the balance sheet amounted to €1,150 million (2004: €871 million).

Shareholder Structure

Bertelsmann AG is a privately held stock corporation. Its shareholders, by way of holding companies, are the Bertelsmann Stiftung foundation (57.6 percent), the Mohn family (17.3 percent), and Groupe Bruxelles Lambert (25.1 percent). The voting rights of Bertelsmann Stiftung and the Mohn family are exercised by Bertelsmann Verwaltungsgesellschaft (BVG). BVG controls 75.0 percent of voting rights at the Bertelsmann AG

Ownership Structure – Capital Shares

in percent



General Meeting, while Groupe Bruxelles Lambert controls 25.0 percent.

Corporate

"Corporate" includes the cost of the Corporate Center and results from investments made at the corporate level (corporate investments). Corporate Center expenditure arises from corporate management and governance tasks. Corporate Investments include all holdings that are not assigned to a specific corporate division. Corporate Operating EBIT totaled minus €115 million in 2005 (previous year: minus €72 million).

Corporate Management System

The Bertelsmann group perceives itself as an operating management holding with a uniform control system. Its corporate control system is based on the Bertelsmann AG statutes, and on resolutions passed by the Annual General Meeting, Supervisory Board and Executive Board. The Executive Board is responsible for the entrepreneurial management of the group.

Bertelsmann's operating control system follows the group's segmentation into corporate divisions.

One key goal of Bertelsmann's business activities is to increase the company's value through increasing and sustained profitability. This focus on corporate value is expressed both in the management of its business operations and in the strategic management of its investments and portfolio. For the past five years, the group has implemented a value-oriented management concept to assess the performance of existing businesses and/or the value contributed by planned investments. There is value added whenever the return on investment generated exceeds the weighted capital costs of shareholders' equity and third-party liabilities. Using this concept, the cost of capital constitutes the minimum return on investment demanded by the providers of capital. Management salaries in the group tie in with this value-added management concept.

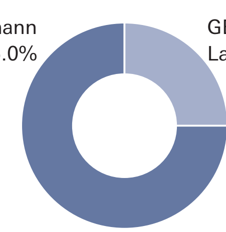
Another key performance indicator at Bertelsmann is Operating EBIT. It serves to assess business operations. This indicator refers to an operating result before financial result and taxes that can be replicated under normal economic conditions. The EBIT is then adjusted for special items which do not have operating characteristics, as they are non-recurring. This adjustment for special items yields a normalized ratio, which improves forecasting and comparability.

Other elements in the control system are financial targets (e.g. the leverage factor), which were presented in the section on financing above.

Employees

As in the previous year, Bertelsmann again registered net growth in its number of employees. At the end of fiscal year 2005, the Bertelsmann group had 88,516 employees worldwide (2004: 76,266). The divisional breakdown is: Arvato 47.6 percent, Gruner + Jahr 15.8 percent, Direct Group 15.2 percent, RTL Group 10.1 percent, Random House 6.1 percent, BMG 4.1 percent and Corporate Center 1.1 percent. The reasons behind this increase of 12,250 staff include organic growth, the

Ownership Structure – Voting Rights
in percent



establishment of the Prinovis gravure company, and acquisitions. At the end of the year, the company had 1,074 apprentices in Germany (previous year: 890). The increase is primarily due to the formation and acquisition of companies.

Bertelsmann sees the implementation and ongoing evolution of its corporate culture of partnership as a key to its long-term commercial success. Human resource management at Bertelsmann supports the implementation of this corporate culture of partnership and its ongoing development.

The executives are a formative element in this culture. In 2005, existing executive development activities were again expanded, and a new program was initiated. Bertelsmann has offered its time-honored “Grundkurs Führen” in Germany for many years, a course in three modules that explores the qualities and attitudes that are expected of executives at Bertelsmann. The series has been introduced as a “Leadership Program” beyond Germany since 2002, with country-specific adaptations in each case. In 2005, 27 modules of the Leadership Program were hosted worldwide. Having successfully been introduced in Spain, the U.S. and France in recent years, the program is scheduled to debut in the U.K. in 2006. In 2004, the Senior Management Program was introduced in Germany, catering to the specific needs of middle management. Other countries have expressed a great deal of interest in the program, which will premiere in Spain in 2006.

In Germany alone, Bertelsmann companies hosted 37 different vocational training programs in 2005. At December 31, 2005, 1,074 people were undergoing vocational training at Bertelsmann. Of these, 952 were trainees and dual-qualification students, and 122 were student apprentices and journalists-in-training. Of the 314 trainees who graduated in 2005, 238 (76 percent) found employment within the group.

In addition to comprehensive, innovative training, Bertelsmann offers its employees a broad range of skills enhancement and continued qualification options. An average of over 11,000 employees have participated in various professional trainings and continuing-education programs in the past few business years.

In 2005, as in 2004, employee surveys were again carried out upon the initiative of corporate divisions and companies. In all, more than 20,000 employees in 20 countries had the opportunity to voice their views in an employee survey between 2004 and 2005. Thus, the intensified use of this instrument by the subsidiaries, a trend that has been observed since the last worldwide employee survey in 2002, continued in 2005. The seventh group-wide employee survey will be carried out in 2006.

Promoting employee health is becoming increasingly important, especially as the average age of employees rises. Prevention and early detection are especially important. Starting in 2006, the health checkups for executives introduced by Bertelsmann in 2001 will be extended to all employees in Germany above the age of 45. Employees above the age of 50 receive this special preventive medical checkup every two years.

Corporate Responsibility

Corporate responsibility is anchored in the Bertelsmann Essentials and has been a fixture in Bertelsmann’s corporate culture of partnership for decades. In addition to employee-related measures, the Bertelsmann group continued and further enhanced its historically extensive commitment to social matters in fiscal year 2005. As an international media company, Bertelsmann focuses on measures in the fields of creativity, culture and education – given the affinity between the Random House, Gruner + Jahr and Direct Group divisions and this topic – with a special emphasis on promoting reading as a cultural skill. Since 1974, the company has regularly issued a Social Report documenting its non-commercial achievements. Bertelsmann will publish its second international Corporate Responsibility Report in 2006.

In January 2005, Bertelsmann AG set up a €1.0 million relief fund for victims of the tsunami disaster in Southeast Asia. A worldwide donations drive among employees generated an additional €200,000, which was matched by the company, for a total €1.4 million contribution to a joint project with SOS Children’s Villages. The money will be used to sponsor children hit by the disaster in India, Sri Lanka and Indonesia for at least ten years. In September 2005, Bertelsmann AG donated €500,000 for the citizens of New Orleans hit by Hurricane Katrina.

Another example of Bertelsmann's corporate citizenship activities is the "Du bist Deutschland" campaign, which Bertelsmann initiated and put into practice with 24 other German media companies. The objective of the campaign was to contribute to greater self-confidence and optimism about the future in Germany. The campaign was launched on September 23, 2005. With a pro-bono media volume exceeding €32 million, it is the largest non-commercial campaign ever mounted in Germany. The idea for "Du bist Deutschland" was born of the "Partners for Innovation" initiative – an alliance of high-ranking representatives from business, academia, politics and unions. Apart from this, Bertelsmann is involved in Germany's nationwide "Initiative for Employment", the largest concerted action program of its kind in German industry: 19 networks involving over 400 companies planned and implemented more than 200 projects.

Significant Events After the Balance Sheet Date

Groupe Bruxelles Lambert announced on January 27, 2006 that its "Board of Directors decided to ask for, as from the end of May 2006, the implementation of the possibility that it is offered to list Bertelsmann if the market conditions are favourable."

In February, Rolf Schmidt-Holtz was appointed the new CEO of Sony BMG Music Entertainment and therefore resigned his seat on the Bertelsmann AG Executive Board. Thomas Rabe, Chief Financial Officer of Bertelsmann AG, has taken on the management of the BMG division.

Risk Report

Bertelsmann has an integrated risk management system. This system is established as a fixed part of the company's management structure, is subject to continual evolution, and is integrated into the regular reporting process. The risk management system strives to identify and control potential risks from operating businesses, participations and financial assets. A major element of the risk identification process is a risk inventory which lists risks year by year, and then aggregates them at corporate level. This year, the risk reporting process identified the following significant risks for the Bertelsmann group and for Bertelsmann AG. Measures are continuously taken to monitor, reduce and/or eliminate these risks, which are subject to constant observation.

Bertelsmann is exposed to a number of financial risks as a result of its international activities. These include in particular interest-rate, currency and liquidity risks. These risks are controlled centrally by Corporate Treasury within the framework of an active treasury management system and currently valid group-wide guidelines. Derivative financial instruments are used solely for hedging purposes.

Bertelsmann uses foreign currency derivatives (currency swaps, futures and forwards) particularly to hedge on-balance-sheet and forecast transactions exposed to foreign currency fluctuation risks. Firm commitments made in foreign currency are only partly hedged at the time the commitment is made, with the hedged amount increasing over time. Foreign currency translation risks arising from net investments in foreign entities are not hedged. This translation risk is the risk of a change in the amount of shareholders' equity of a subsidiary due to a change in the foreign exchange rate. The effects of the translation risk become apparent when translating the financial statements of foreign subsidiaries from their functional currency into the group's reporting currency.

Interest-rate derivatives are used groupwide to manage interest-rate change risk. The maturity structure of interest-bearing debt is controlled at two levels, first by selecting appropriate fixed interest-rate periods of the original financial assets and liabilities affecting liquidity, then by using interest-rate derivatives consisting solely of interest-rate swaps.

Further details are set out on pages 112–114 in the notes to the consolidated financial statements.

Revenues generated by RTL Group's TV channels are highly dependent on advertising sales and thus exposed to the risk of a deteriorating TV advertising market. Retaining and extending viewer numbers are thus important goals. At the same time, RTL Group is further reducing its dependency on advertising sales by diversifying its revenue base. International sports and movie rights are generally bought in U.S. dollars. Thus, significant exchange rate movements can have direct implications for RTL Group's profitability. To limit the currency risk, the RTL Group treasury department hedges foreign-currency contracts to an appropriate extent.

Random House is very dependent on the economic climate in North America, the U.K. and Germany, and this dependency can limit its growth prospects in these markets. This leads to greater competition for market share and established authors. Further concentration among important key customers could also lead to increased pressure on margins. Random House counteracts these competitive risks with publications in new product segments and with expansion in Asia.

At Gruner + Jahr, advertising and sales revenues, as well as the revenue performance of the printing operations, are directly dependent on macroeconomic developments and competition in the magazine sales and advertising market. A weak economy could lead to a decline in sold circulation, which could result not only in declining revenues, but would also necessitate intensified sales and marketing expenditure. An appropriate product and marketing strategy is in place to try and maintain, or even improve, the market position achieved.

The music industry is highly dependent on the market for physical storage media. Market conditions are undergoing a paradigm shift that is manifested in changing consumer behavior, i.e. consumer spending on entertainment products and new distribution channels. This dependence may change Sony BMG's revenue situation. Sony BMG is responding to changing consumer demands by signing new acts and by developing new products.

The unlicensed use of copyrights by free downloads, file sharing and product piracy contains a high risk of additional revenue losses for Sony BMG's recorded music business, as well as to a lesser extent for the music publishing rights business of BMG Music Publishing.

The Arvato division pursues a business strategy focused on growth, which finds expression in the opening of new markets, the building of new product lines and the acquisition of new companies. This growth strategy could involve business risks as well. Arvato identifies and controls these risks with an appropriate corporate structure that is implemented at all levels. As a manufacturer of "physical storage media" Arvato also faces the risks posed by an anemic music market with declining CD volumes and the substitution of CD-ROMs by DVD-ROMs.

In its core markets Europe and North America, Direct Group is exposed to increasingly intense competition and a direct dependence on consumers' buying behavior. A lasting improvement in member recruitment, activation and loyalty continues to be a major challenge for Direct Group. Given the situation in various countries – including in the U.K. and Germany – further consolidation and/or strategic realignment may become necessary.

As an international group, Bertelsmann is also subject to several legal risks. This applies particularly to legal disputes in the U.S., where there are legal institutions unknown in Germany, such as class actions, punitive damages and pre-trial discovery. The outcomes of currently asserted or future unasserted lawsuits cannot be foreseen with any degree of certainty, nor can they be fully influenced.

Legal risks could arise from the following lawsuits: Various music publishers and record labels have filed complaints against Bertelsmann in a U.S. court in 2003. The plaintiffs base their purported claims on the allegation that Bertelsmann, by granting loans to the music file-sharing platform Napster (which has since gone bankrupt) enabled the service to survive longer than it would have done otherwise, and thereby contributed to copyright infringements by Napster and its users. The plaintiffs further contend that Bertelsmann had de facto taken over Napster in the fall of 2000, and had thus assumed control of Napster's day-to-day business. In 2005, the judge in

San Francisco confirmed Bertelsmann's interpretation of the law that the mere listing of names of music titles on Napster's former server does not constitute a copyright violation. The pre-trial discovery, which began in the summer of 2004 and is still ongoing, has not to date yielded any evidence supporting plaintiffs' theories. Accordingly, Bertelsmann's view remains unchanged that the allegations and legal theories brought forth by the plaintiffs are untenable and completely without legal foundation. Therefore, Bertelsmann has only made provisions for expected legal fees on the balance sheet.

Outlook

The German Council of Advisors on Economic Development expects that rising prices of energy will have an increasing impact on global economic development in 2006. High energy costs and the attendant price increases will deprive private households of buying power. In the United States, growth in Gross Domestic Product will slow down slightly vs. 2005. Economic development in Europe is expected to accelerate somewhat, fueled by intensifying investment activity. In Germany, the country's economy is characterized by uncertainty about reform processes as well as a possible recovery in domestic demand. A slight recovery could also result from pull-in effects in light of the scheduled VAT increase after 2007.

The Football World Cup in 2006 may result in slight growth in the advertising markets that are relevant for Bertelsmann. Expectations for the book business in Bertelsmann's core markets tend to be restrained. A slowing of the decline appears possible in the worldwide music markets.

Rising energy prices constitute a fundamental risk for a possible downturn in the global economy in 2006 and 2007 and could have negative effects, including on consumer behavior.

In light of these developments, Bertelsmann expects overall growth in revenues and results for 2006 and 2007. Revenue growth in 2006 will still be significantly shaped by acquisitions made in 2005. Growth in the following year is expected to at least be in line with developments in the relevant markets.

The revenue and result developments expected for the Bertelsmann group in 2006 and 2007 basically apply for the six corporate divisions as well. Besides anticipated organic growth, possible opportunities for acquisitions will be considered. RTL Group is planning for a moderate rise in revenues and results within the scope of overall market expectations. Developments in the advertising markets remain difficult to predict. Random House expects profitable growth with an increase in revenues, slightly above the rate of inflation in its core markets. In 2006 and 2007, the increases in revenue and result forecast by Gruner + Jahr will be driven both by core business and by positive effects from the first-time full-year consolidation of Prinovis and Motor Presse Stuttgart in 2006. BMG expects a worldwide decline of several percent in the physical recorded music market, which will be partially compensated for by growth in digital product sales. Based on the postponement of numerous releases to 2006, BMG expects to achieve a growing global market share and slight revenue growth in its recorded music business. In light of a stronger release schedule and restructuring measures that were taken in 2005, a continued improvement in results is expected for 2006, with a positive outlook for 2007 as well. Arvato expects revenues and results to grow in the low double digits, based on strong organic growth as well as on consolidation effects. Direct Group expects a revenue increase that in 2006 and 2007 will be partly fueled by acquisitions made in 2005. The result is expected to improve and should at least mirror anticipated consumer behavior. Adequate funds are available for investments to achieve the division's targets; this investment budget will be used in line with the group strategy.

This outlook foots on Bertelsmann's present business strategy as outlined in the Chapter on "Business and Economic Conditions" (pp. 50–51). In general, the forecasts reflect our risk and opportunity considerations and are based on operational planning and the medium-term outlook of the corporate divisions. All statements regarding possible future developments should be seen as estimates made based on the information currently available. If the suppositions do not materialize and/or further risks arise, actual results may deviate from the expected results. Therefore, no guarantee is made for the information provided.

Corporate Governance at Bertelsmann

At Bertelsmann, good and modern Corporate Governance is a defined demand and important element of the Corporate Culture. Referring to the recognised standards set forth by the German Corporate Governance Code, Bertelsmann AG consults the Code for guidance in good corporate leadership and control.

The Bertelsmann AG Executive Board is responsible for independently managing the enterprise. It informs the Supervisory Board regularly, without delay and comprehensively, of all issues significant to the enterprise regarding planning, business development, financial and earnings situation, risk situations and risk management. The Supervisory Board supervises the Executive Board and advises it in strategic matters and significant business operations. The Executive and Supervisory Boards co-operate closely and are therefore able to reconcile the demands of effective corporate governance with the necessity of rapid decision-making. Fundamental matters of corporate strategy and its implementation are candidly discussed and co-ordinated in joint sessions. Any significant measures to be taken by the Executive Board are subject to the agreement of the Supervisory Board. The shareholders exercise their rights at the General Meeting and vote there. Among other responsibilities, the General Meeting resolves on amendments to the articles of association as well as the appropriation of net income and elects members to the Supervisory Board. The members of the Executive Board are appointed by the Supervisory Board. The members of both the Executive and Supervisory Boards are obligated in their assignments to serve the company's best interests.

For some time, an integral component of the Supervisory Board's work at Bertelsmann has been the delegation of task assignments to committees with sufficient expertise. In doing so, the supervisory efficiency and advisory competence of the Supervisory Board is increased. In addition to the Personnel Committee, the Bertelsmann AG Supervisory Board has formed a Strategy and Investment Committee, an Audit and Finance Committee, as well as a Working Group of Employee and Management Representatives. Through evaluation processes, the breadth and range of responsibilities and tasks delegated to these committees, is continuously examined. Reflected in the Supervisory Board's composition are Bertelsmann's international business activities. The size and composition of the Supervisory Board, with the professional competence of its members, are an essential foundation to its effectiveness and independence. The extensive evaluation of the Supervisory Board's work, conducted by Bertelsmann in 2005, confirmed the high efficiency.

Bertelsmann AG is an unlisted company with a limited number of shareholders. Despite this, the company closely follows the standards and recommendations of the June 2005 version of the German Corporate Governance Code, which primarily addresses listed companies. Exceptions are made, especially in respect to those code guidelines which, in the opinion of Bertelsmann AG, apply to publicly held enterprises with large numbers of shareholders. Compensation and incentives of the members of Executive Board and Supervisory Boards are not made public. The shareholders of Bertelsmann AG have full knowledge of the individual compensation of each member of the Executive and Supervisory Boards. Furthermore, the Director's and Officer's liability insurance (D&O) provides for no deductible for members of the Executive and Supervisory Boards.

The Executive Board The Supervisory Board

Report of the Supervisory Board

During fiscal year 2005, the Supervisory Board fulfilled the duties incumbent upon it by law, the articles of association and by-laws. It was involved in all decisions of key relevance to the company. The Supervisory Board received regular oral and written reports on the business developments, the state of the company including its risk situation, plans for major investments, and the financial state. It discussed the company's strategic alignment and significant business transactions with the Executive Board, made recommendations and monitored compliance with the outline conditions set for the management of the company. The Supervisory and Executive Boards also held a whole-day meeting to review basic matters of corporate strategy.

During fiscal year 2005, the Supervisory Board convened for four regular meetings and two unscheduled meetings in form of conference calls. The Strategy and Investment Committee met seven times including conference calls. The Personnel Committee met four times, the Audit and Finance Committee five times, including conference calls. The Working Group of the Employee and Management Representatives on the Supervisory Board convened four times. In each case, the work done by the Supervisory Board committees was reported on in the following Supervisory Board sessions. Between meetings, the Supervisory Board was notified, in writing, about projects and plans that were of special relevance and urgency for the company and – if applicable – asked for its opinion and/or decision. Beyond the Supervisory Board meetings, the Chairman of the Supervisory Board maintained an ongoing dialog with the Executive Board in general and the Chairman & CEO in particular. The primary topics covered were the current business situation and major business transactions.

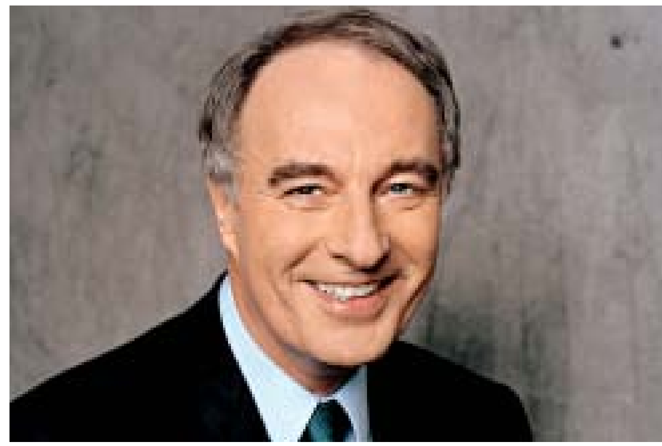
The Supervisory Board underwent a routine evaluation of its work in 2005. This extensive process resulted in a very positive score both for the composition of and work done by the Supervisory Board and its committees. At the same time, several helpful suggestions were identified and immediately put into practice in the spirit of continual progress. The group's Corporate Governance was the object of a separate and comprehensive discourse on the Supervisory Board. Please refer to page 71 of this Annual Report for further information about Corporate Governance at Bertelsmann.

Bertelsmann AG's consolidated financial statements and group management report for the fiscal year from January 1 through December 31, 2005 were audited by the KPMG Deutsche Treuhand-Gesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and received an unqualified auditor's opinion. The Supervisory Board Audit and Finance Committee had determined the main focuses of the annual audit earlier together with the auditor.

The KPMG audit reports and the other annual accounting documents had been submitted to all members of the Supervisory Board and were on the agenda at the financial review meetings of the Audit and Finance Committee and the Supervisory Board; the findings of the audit were discussed in detail in each case. The auditor attended the financial review meetings both of the Audit and Finance Committee and of the Supervisory Board itself, at which it gave an extensive report and answered questions. The Supervisory Board noted and accepted the findings of the audit. After its own, final scrutiny of the consolidated financial statements and the group management report, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – raises no objections. The Supervisory Board approves the consolidated financial statements as prepared by the Executive Board.

The year under review saw the following changes to the composition of the Supervisory Board: In May 2005, the Bertelsmann AG Annual General Meeting elected Dr.-Ing. Joachim Milberg, Chairman of the Supervisory Board of BMW AG, and Lars Rebien Sørensen, President and Chief Executive Officer of the Danish pharmaceuticals company Novo Nordisk A/S, as new Supervisory Board members. Dr. Rolf-E. Breuer, Chairman of the Supervisory Board of Deutsche Bank AG, and Sir Peter Job, former Chief Executive Officer of Reuters Group PLC, left the Supervisory Board at the same time, their term of office having expired. The Supervisory Board thanks Messrs. Breuer and Job for a mutually trusting collaboration and their contributions to the group's development, also on behalf of the shareholders.

The following changes were made to the Bertelsmann AG Executive Board during the year under review: The Supervisory Board of Bertelsmann AG appointed Gerhard Zeiler, Chief Executive Officer of RTL Group, to the Bertelsmann Executive Board. As a result, the heads of all corporate divisions now hold a seat on the Bertelsmann AG Executive Board. Dr. Siegfried Luther, the longstanding Chief Financial Officer and Deputy Chairman of the Bertelsmann AG Executive Board, retired from the Executive Board of Bertelsmann AG when his contract expired on December 31, 2005. Bertelsmann AG's shareholders and Supervisory Board express their gratitude and great respect to Siegfried Luther for his lifetime achievement. In the past 31 years, fifteen and a half of them as CFO, he was formative in Bertelsmann's success and growth. The Supervisory Board has appointed Dr. Thomas Rabe, formerly Chief Financial Officer of RTL Group, to the Bertelsmann AG Executive Board to succeed Mr. Luther as Chief Financial Officer, effective January 1, 2006.



PROF. DR. DIETER H. VOGEL
Chairman of the Supervisory Board of Bertelsmann AG

Overall, the year 2005 was characterized by restrained economic development in Bertelsmann's core markets. Despite this challenging environment, Bertelsmann increased its operating result and return on sales (ROS). At the same time, strategic acquisitions served to strengthen important core businesses. They included the acquisition of The Columbia House, a specialized retailer of DVDs, in the U.S., of the French bookselling chain Librairies Privat, of the minority holdings in Britain's TV channel Five, and the establishment of the Prinovis (gravure) and Infoscore (data management) joint ventures. These investment projects involved extensive consulting and facilitation by the Supervisory Board. Another topic was the takeover of the RTL Group stake previously held by the WAZ group (7.5 percent economic interest).

The Supervisory Board pays tribute to the Executive Board for its entrepreneurial success during the past fiscal year. It also thanks all executives and employees for their dedication and achievements.

Gütersloh, March 17, 2006

Prof. Dr. Dieter H. Vogel

Consolidated Income Statement

in € millions	Notes	2005	2004
Revenues	1	**17,890**	**17,016**
Other operating income	2	**591**	685
Change in inventories		**30**	80
Own costs capitalized		**217**	188
Cost of materials		**(5,328)**	(4,988)
Royalty and license fees		**(1,500)**	(1,491)
Personnel costs	3	**(4,458)**	(4,204)
Amortization of intangible assets and depreciation of property, plant and equipment	4	**(656)**	(671)
Other operating expenses	5	**(5,267)**	(5,222)
Results from investments accounted for using the equity method	6	**76**	37
Income from other participations	6	**15**	(1)
Special items	7	**61**	318
EBIT (earnings before interest and taxes)		**1,671**	**1,747**
Interest income		**170**	175
Interest expenses		**(264)**	(253)
Other financial expenses	8	**(292)**	(234)
Financial result		**(386)**	**(312)**
Income taxes	9	**(244)**	(263)
Net income		**1,041**	**1,172**
Attributable to:			
Share of profit of Bertelsmann shareholders		**880**	1,032
Minority interest		**161**	140

Reconciliation to Operating EBIT

in € millions	Notes	2005	2004
EBIT		**1,671**	**1,747**
Special items	7		
– Impairment of goodwill and income from release of badwills		**12**	34
– Capital gains/losses		**(246)**	(328)
– Other special items		**173**	(24)
Operating EBIT	28	**1,610**	**1,429**
Operating EBITDA	29	**2,274**	**2,112**

Consolidated Balance Sheet

in € millions	Notes	12/31/2005	12/31/2004
Assets			
Non-current assets			
Goodwill	10	7,755	6,415
Other intangible assets	10, 11	1,611	1,321
Property, plant and equipment	10, 12	2,785	2,369
Investments accounted for using the equity method	10, 13	691	437
Other financial assets	10, 14	264	621
Trade accounts receivable	16	93	14
Other accounts receivable and other assets	16	452	311
Deferred tax assets	9	420	286
		14,071	**11,774**
Current assets			
Inventories	15	2,108	1,933
Trade accounts receivable	16	3,205	2,813
Other accounts receivable and other assets	16	1,963	2,064
Other financial assets		39	62
Current income tax receivable		219	252
Cash and cash equivalents	17	1,036	2,092
		8,570	**9,216**
Assets held for sale		291	
		22,932	**20,990**

Equity and Liabilities			
Equity	18		
Subscribed capital		1,000	1,000
Capital reserve		2,331	2,331
Retained earnings		4,997	4,179
Shareholders' equity		**8,328**	**7,510**
Minority interest		842	1,212
		9,170	**8,722**
Non-current liabilities			
Provisions for pensions and similar obligations	19	1,647	1,874
Other provisions	20	105	136
Deferred tax liabilities	9	273	208
Profit participation capital	21	706	706
Financial debt	22	2,435	1,880
Trade accounts payable	23	130	75
Other liabilities	23	576	590
		5,872	**5,469**
Current liabilities			
Other provisions	20	646	484
Financial debt	22	179	264
Trade accounts payable	23	4,022	3,610
Other liabilities	23	2,435	2,162
Current income tax payable		364	279
		7,646	**6,799**
Liabilities included in disposal groups held for sale		244	
		22,932	**20,990**

Consolidated Cash Flow Statements

in € millions	2005	2004
EBIT	**1,671**	**1,747**
Taxes paid	(253)	(244)
Depreciation and write-ups of non-current assets	699	695
Capital gains/losses	(246)	(328)
Change in provisions for pensions	(22)	(52)
Other effects	(46)	(108)
Change in net working capital	(12)	119
Cash flow from operating activities	**1,791**	**1,829**
Investments in:		
– intangible assets	(204)	(157)
– property, plant and equipment	(568)	(498)
– financial assets	(59)	(123)
– purchase price for consolidated investments (minus acquired cash)	(1,734)	(85)
Proceeds from disposal of non-current assets	436	366
Cash flow from investing activities	**(2,129)**	**(497)**
Change in bonds and promissory notes	310	(297)
Change in financial debt	(120)	(78)
Interest paid	(165)	(175)
Change in shareholders' equity	–	20
Dividends to Bertelsmann shareholders and minority interest	(414)	(262)
Additional payments to partners (IAS 32)	(39)	(53)
Cash flow from financing activities	**(428)**	**(845)**
Change in cash and cash equivalents	**(766)**	**487**
Funding of Bertelsmann Pension Trust e.V. (CTA)	(360)	–
Currency effects and other changes in cash and cash equivalents	70	(37)
Cash and cash equivalents at the beginning of the period	2,092	1,642
Cash and cash equivalents at the end of the period	**1,036**	**2,092**

Details of the cash flow statement are set out in note 27

Change in Net Financial Debt

in € millions	2005	2004
Net financial debt at 1/1	**(52)**	**(820)**
Cash flow from operating activities	1,791	1,829
Cash flow from investing activities	(2,129)	(497)
Interests, dividend and changes in equity, additional payments (IAS 32)	(618)	(470)
Currency effects and other changes in net debt	(570)	(94)
Net financial debt at 12/31	**(1,578)**	**(52)**

Net financial debt is the net of cash and cash equivalents and financial debt

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital	Capital reserve	Retained earnings	Other comprehensive income: Currency translation differences	Other comprehensive income: Available-for-sale securities	Other comprehensive income: Derivative financial instruments	Share-holders' equity	Minority interest	Total
Balance at December 31, 2003	**606**	**2,725**	**3,281**	**68**	**31**	**(45)**	**6,666**	**849**	**7,515**
Change in equity due to									
Dividends	–	–	(220)	–	–	–	(220)	(42)	**(262)**
Other comprehensive income									
Currency translation differences	–	–	–	(67)	–	–	(67)	1	**(66)**
Other changes	394	(394)	381	(335)	51	2	99	264	**363**
Change recognized in income									
Net income	–	–	1,032	–	–	–	1,032	140	**1,172**
Balance at December 31, 2004	**1,000**	**2,331**	**4,474**	**(334)**	**82**	**(43)**	**7,510**	**1,212**	**8,722**
Change in equity due to									
Dividends	–	–	(324)	–	–	–	(324)	(90)	**(414)**
Other comprehensive income									
Currency translation differences	–	–	–	238	–	–	238	6	**244**
Other changes	–	–	19	(1)	(39)	45	24	(447)	**(423)**
Change recognized in income									
Net income	–	–	880	–	–	–	880	161	**1,041**
Balance at December 31, 2005	**1,000**	**2,331**	**5,049**	**(97)**	**43**	**2**	**8,328**	**842**	**9,170**

Details of the statement of changes in equity are set out in note 18

Segment Reporting Primary Format

	RTL Group		Random House		Gruner + Jahr		BMG	
in € millions	2005	2004	2005	2004	2005	2004	2005	2004
Consolidated revenues	5,095	4,862	1,823	1,777	2,598	2,425	2,126	2,532
Intercompany revenues	17	16	5	14	26	14	2	15
Divisional revenues	**5,112**	**4,878**	**1,828**	**1,791**	**2,624**	**2,439**	**2,128**	**2,547**
Operating EBIT	**756**	**668**	**166**	**140**	**250**	**210**	**177**	**162**
Special items	(17)	(24)	1	7	124	(11)	(103)	66
EBIT	**739**	**644**	**167**	**147**	**374**	**199**	**74**	**228**
ROS in percent[1]	14.8%	13.7%	9.1%	7.8%	9.5%	8.6%	8.3%	6.4%
Scheduled depreciation and amortization	186	212	41	48	81	76	87	70
Investments[2]	768	214	47	28	384	38	59	112
Segment assets	7,387	6,824	1,998	1,749	1,789	1,286	2,864	2,521
Segment liabilities	2,249	1,935	804	709	706	595	1,540	1,293
Invested capital	**5,138**	**4,889**	**1,194**	**1,040**	**1,083**	**691**	**1,324**	**1,228**
Results from investments accounted for using the equity method	63	28	–	–	12	4	3	7
Investments accounted for using the equity method	617	376	1	2	17	11	14	10
Employees (closing)	8,970	8,117	5,395	5,383	13,981	11,671	3,597	4,259
Employees (average)	8,701	7,717	5,340	5,408	12,719	11,632	3,738	4,510

[1] Operating EBIT in percentage of divisional revenues
[2] Net of acquired cash

Secondary Format

	Germany		Other European countries		U.S.		Other countries	
in € millions	2005	2004	2005	2004	2005	2004	2005	2004
Consolidated revenues	5,313	5,059	7,836	7,182	3,669	3,816	1,072	959
Invested capital	4,360	7,825	6,061	6,263	2,459	3,438	565	246
Investments	1,192	307	1,084	312	233	180	56	64

Details of the segment reporting are set out in note 28

Arvato		Direct Group		Total divisions		Corporate		Consolidation/other		Total group	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
3,868	3,249	2,365	2,158	17,875	17,003	15	13	–	–	17,890	17,016
497	507	19	17	566	583	–	–	(566)	(583)	–	–
4,365	3,756	2,384	2,175	18,441	17,586	15	13	(566)	(583)	17,890	17,016
341	310	53	32	1,743	1,522	(115)	(72)	(18)	(21)	1,610	1,429
90	(12)	(63)	2	32	28	29	290	–	–	61	318
431	298	(10)	34	1,775	1,550	(86)	218	(18)	(21)	1,671	1,747
7.8%	8.3%	2.2%	1.5%	9.5%	8.7%	–	–	–	–	9.0%	8.4%
210	186	40	40	645	632	19	17	–	–	664	649
494	369	228	57	1,980	818	585	45	–	–	2,565	863
3,012	2,181	1,415	935	18,465	15,496	2,477	2,538	(86)	(262)	20,856	17,772
1,382	1,339	644	520	7,325	6,391	150	413	(64)	(215)	7,411	6,589
1,630	842	771	415	11,140	9,105	2,327	2,125	(22)	(47)	13,445	11,183
–	2	1	2	79	43	(3)	(6)	–	–	76	37
5	2	8	5	662	406	29	31	–	–	691	437
42,155	33,813	13,493	12,116	87,591	75,359	925	907	–	–	88,516	76,266
37,998	32,957	12,774	11,879	81,270	74,103	906	947	–	–	82,176	75,050

Group	
2005	2004
17,890	17,016
13,445	17,772
2,565	863

Notes

General Principles

The consolidated financial statements of Bertelsmann AG for the year ended December 31, 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) as to be applied in the EU. Furthermore, all currently applicable standards and interpretations issued by the International Accounting Standards Board (IASB) have been applied. Supplementary requirements, as set out in § 315 a of the German Commercial Code (HGB), have been met.

The consolidated financial statements have been prepared in euros; all amounts are stated in millions of euros (€ million). For the sake of clarity, certain captions in the income statement and in the balance sheet have been combined. These captions are disclosed in more detail and explained in the notes.

Effects of Applying New Accounting Standards

As part of its improvements project, the International Accounting Standards Board (IASB) revised existing standards and promulgated new standards. All the resulting changes are to be applied as from January 1, 2005 or earlier. The most significant change for Bertelsmann arising from the improvements project is in IAS 1, which requires the balance sheet to be classified in order of maturity. Assets and liabilities to be realized and settled in more than twelve months are classified as non-current and must therefore be disclosed separately from related current assets and liabilities.The balance sheet at December 31, 2004 was accordingly reclassified.

IAS 32 (revised) is also to be applied as from January 1, 2005. This requires that financial instruments which entitle the holder to return the instrument to the issuer in exchange for cash or another financial asset are no longer to be included in equity as minority interest, but are to be classified as a financial liability in the balance sheet. The requirements set out in IAS 32.18 b) relate both to minority interest in a partnership and to put options held by minority shareholders (puttable instruments). Previously, put options held by minority shareholders were disclosed as off-balance-sheet amounts included in other financial commitments. The new requirement assumes that the put option is a form of installment purchase rather than an off-balance-sheet commitment. Hence, the shares underlying the put option are reflected on consolidation as if they had already been acquired.

As a result of the reclassification to other liabilities of the minority interests affected by this requirement, profits attributable to these minority interests are now to be classified as other financial expenses in the consolidated income statement. Due to the retrospective application required by IAS 32.97, the amounts for 2004 were reclassified accordingly, and have been disclosed in the relevant notes to the consolidated financial statements.

M6 treasury shares (€58 million), held to cover the stock option program, and the related provisions (€39 million) have been offset in shareholders' equity effective January 1, 2005 as required by IAS 32 (revised).

As a result of the first-time application of IFRS 5 "Assets held for sale," non-current assets or disposal groups held for sale are presented separately from other assets and liabilities on the face of the consolidated balance sheet. The assets held for sale shown separately mainly consist of shares in Télévision Par Satellite S.N.C. (TPS) held for sale, previously proportionately consolidated. In December 2005, M6 and TF1 announced an agreement to merge the pay-TV operations of TPS and the Canal + group. Pending clearance by the appropriate regulatory authorities, M6 will retain a 5.1 percent stake in the new company.

Consolidation

Consolidation Methods

All material subsidiaries controlled either directly or indirectly by Bertelsmann AG as defined by IAS 27 have been consolidated. Material jointly-controlled companies as defined by IAS 31 have been proportionately consolidated. Material associated companies as defined by IAS 28 are consolidated using the equity method. This is deemed to be the case if between 20 percent and 50 percent of the company's voting rights are held. A list of material subsidiaries and participations is set out in note 32. All consolidated financial statements of the Bertelsmann group are prepared in accordance with uniform accounting policies.

In accordance with IFRS 3 "Business combinations," investments in subsidiaries are consolidated using the purchase method, by which, at the time of purchase, the acquisition cost of the investment is offset against the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the acquisition cost exceeds the fair values of assets and liabilities acquired, this difference is recognized in the balance sheet as goodwill. Deferred taxes are recognized on temporary differences arising as a result of stating the proportion of assets and liabilities acquired at fair values at the time of acquisition to the extent such fair value adjustments are not also recognized for tax purposes. Differences arising as a result of stating assets and liabilities acquired at their fair values are carried forward, depreciated or released in the periods following the acquisition, depending on the nature of the assets and liabilities to which they relate. Negative goodwill is reflected as income in the period in which the acquisition is made. Minority interest also includes the fair values of their share of assets and liabilities. Investments in proportionately consolidated companies are measured using the same principles.

Investments in associated companies using the equity method are included at the proportionate equity share of the investment. The same method as for fully consolidated subsidiaries is used when accounting for differences between the purchase cost at the time of acquisition and the share of net assets acquired. Associated company losses which exceed their carrying values are not recognized unless there is an obligation to make additional contributions.

All intercompany gains, losses, revenues, expenses, income, assets, liabilities, and provisions falling within the scope of consolidation are eliminated. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12. Proportionate consolidations are carried out using the same principles. The group's share of unrealized profits or losses on intercompany transactions between group companies and associated companies is eliminated.

Scope of Consolidation

There are 1,380 (2004: 1,206) entities included in the group, including Bertelsmann AG. These include 974 (2004: 842) fully consolidated entities.

217 (2004: 239) joint ventures were proportionately consolidated and further 189 (2004: 125) associated companies were included at equity. Not included in the consolidation scope were 396 (2004: 237) affiliated companies without significant business operations, because of their negligible importance for the asset, financial and earnings situation.

The list of shareholdings held by the Bertelsmann group has been filed with the commercial register at the Gütersloh district court (section B No. 3100). Those domestic subsidiaries disclosed in section 33 took advantage in 2005 of the option to be exempted from preparation, audit and publication of financial statements as set out in § 264 para. 3 HGB (German Commercial Code) and § 264 b No. 4 HGB.

The companies included in the consoldidated financial statements changed as follows during the year:

Change in Scope of Consolidation

	Domestic	Foreign	Total
Consolidated at December 31, 2004	282	924	1,206
Additions	89	211	300
Disposals	(29)	(97)	(126)
Consolidated at December 31, 2005	342	1,038	1,380

Acquisitions and Disposals

The purchase consideration for shares in consolidated entities, less cash and cash equivalents acquired, totaled €1,734 million and related primarily to the following acquisitions:

- Minority interest in RTL Group (7.5 percent)
- Remaining shares in Five (35.4 percent)
- Increase in investment in Grupo Media Capital to 32.9 percent
- Acquisition of the majority of Motor Presse Stuttgart (54.9 percent)
- Acquisition of the majority of Infoscore (63 percent)
- Acquisition of Columbia House (100 percent)

In July 2005, Bertelsmann acquired the shares held by WAZ, the minority shareholder, in RTL Group for €44 per share. This transaction led to the recognition of goodwill of €113 million in the consolidated balance sheet including transaction costs.

RTL Group increased its holding in Five, the British television station, from 64.6 percent to 100 percent through the acquisition of the 35.4 percent investment of fellow shareholder UBM in September 2005. Prior to this acquisition, Five had been proportionately consolidated. With a purchase price of €357 million, goodwill amounted to €256 million.

RTL Group increased its investment in Groupo Media Capital to 32.9 percent in November 2005. The purchase price was €111 million; goodwill at year-end totaled €128 million.

Gruner + Jahr took over the majority of Motor Presse Stuttgart (MPS) effective July 1, 2005. Gruner + Jahr already held a 17.1 percent investment in Vereinigte Motor Verlage (VMV), the previous entity of MPS. For the increase in its holding, to 54.9 percent of MPS, Gruner + Jahr paid €209 million, leading to recognition of goodwill of €207 million.

Arvato acquired a majority holding in Infoscore effective July 1, 2005 in return for payment of €80 million and merging BFS Finance and AZ Direct. The seller has retained a 37 percent holding in Infoscore. The new entity has been named Arvato Infoscore and has been fully consolidated as from July 1, 2005. Arvato can acquire the remaining shares as from 2010 in accordance with a put and call agreement. The transaction resulted in goodwill of €231 million.

Direct Group acquired the North American DVD club Columbia House for €275 million, including financial debt, from private-equity investor Blackstone effective July 1, 2005. Thereafter, Columbia House was merged with BMG Direct, Direct Group's music club business and renamed BMG Columbia House. Goodwill arising as a result of the acquisition was €305 million.

Effective July 1, 2005, Arvato, Gruner + Jahr and Axel Springer merged their German printing operations, together with Arvato's start-up printing activities in the U.K., to form the Prinovis printing group. This gave rise to a merger gain of €72 million included under special items. Arvato and Gruner + Jahr each hold 37.45 percent of the shares, with Axel Springer holding the remaining 25.1 percent. Prinovis is fully consolidated and is shown in the segment reporting as a joint venture, with half each allocated to Arvato and Gruner + Jahr.

Effective July 1, 2005, Gruner + Jahr sold its U.S. publishing activities for €313 million, realizing a gain on disposal of €91 million.

The acquisitions and disposals during the year had the following effect on Bertelsmann group's consolidated assets and liabilities at the time of their initial consolidation or deconsolidation:

Effects of Acquisitions and Disposals

in € millions	Additions	Disposals	Total
Goodwill	1,367	(160)	**1,207**
Other intangible assets	255	(2)	**253**
Property, plant and equipment	288	(16)	**272**
Other non-current assets	10	(3)	**7**
Current assets	353	(56)	**297**
Cash and cash equivalents	82	(563)	**(481)**
Accounts payable	907	(75)	**832**

Since being included, these acquisitions contributed €899 million to consolidated revenue and minus €10 million to EBIT. The goodwill arising on the acquisitions reflect potential synergies. Providing detailed disclosures of individual acquisitions is not practicable. Other intangible assets determined as a result of applying IFRS 3 relate to Columbia House (€65 million), Five (€60 million), MPS (€59 million) and Prinovis (€46 million).

Proportionate Consolidation

The 217 (2004: 239) joint ventures had the following effect on Bertelsmann group's assets, liabilities, income and expenses:

Effects of Proportionate Consolidation

in € millions	12/31/2005	12/31/2004
Non-current assets	**1,557**	1,175
Current assets	**1,362**	1,318
Liabilities	**1,776**	1,829
Income	**2,620**	2,302
Expenses	**2,569**	2,287

Currency Translation

In Bertelsmann AG's consolidated financial statements, the financial statements of foreign subsidiaries are translated into euros using the reporting currency concept as described in IAS 21. Assets and liabilities are translated at the closing-date rate, while the income statement is translated at the average rate for the year. Currency translation differences are charged or credited directly to shareholders' equity. Such differences arise from translating items in the balance sheet at different rates compared with the previous year, and from using different rates to translate the income statement and balance sheet. When subsidiaries are deconsolidated, any related cumulative translation differences are reversed and recognized in income.

The following euro exchange rates were used to translate the currencies of those countries which are most significant to the Bertelsmann group:

Euro Exchange Rates for Major Foreign Currencies

		Average rate		Closing rate	
		2005	2004	12/31/2005	12/31/2004
US dollar	USD	**1.2475**	1.2461	**1.1797**	1.3621
Canadian dollar	CAD	**1.5106**	1.6166	**1.3725**	1.6416
British pound	GBP	**0.6847**	0.6812	**0.6853**	0.7051
Japanese yen	JPY	**137.10**	134.12	**138.90**	139.65
Swiss franc	CHF	**1.5475**	1.5448	**1.5551**	1.5443

Accounting Policies

Revenue Recognition

Revenue is recognized when the service has been performed and risks have been transferred, except for revenue recognized using the percentage-of-completion method as set out in IAS 11. Other income is recognized when it is probable that the economic benefits will flow to Bertelsmann group and the amount can be measured reliably. Expenses are deferred based on underlying facts or the period of time to which they relate.

Interest income and expense are allocated to the period to which they relate. Dividends are recognized in the period in which the distribution is received.

Goodwill

Goodwill represents the excess of the purchase price of an acquired entity over the share of fair values of the assets and liabilities acquired. Goodwill is not amortized, but is subject to an annual impairment test. Any write-down is immediately charged to income as an impairment expense. Impairments of goodwill are not reversed.

Intangible Assets

Internally generated intangible assets are recognized at their development cost if the conditions for recognition as set out in IAS 38 have been met. Related borrowed capital costs are generally included as set out in IAS 23, but the amounts involved are insignificant to the group. Purchased intangible assets are stated at acquisition cost. Intangible assets are amortized on a straight-line basis over their useful lives. This does not apply to intangible assets with indefinite useful lives, determined in connection with the purchase price allocation set out in IFRS 3.

Capitalized software is amortized over a 3 to 4 year period, and licenses are amortized over the term of the respective license agreement. Supply rights and long-term subscribers are amortized over a maximum of 5 years, and music, film and publishing rights over a maximum period of 20 years.

Property, Plant and Equipment

Items in property, plant and equipment are measured at acquisition or manufacturing cost less depreciation. The cost of property, plant and equipment produced internally within the group includes direct costs and a portion of overheads directly attributable to their production. The cost of property, plant and equipment whose production takes place over a longer period of time includes third-party interest accrued up to the time of completion. The amounts involved are insignificant to the group. Maintenance expenses are recorded as expense in the period in which they were incurred, whereas costs incurred resulting in a prolongation of the asset's useful life or in an improvement to its use, are recognized as an increase in the carrying value of the asset.

Items included in property, plant and equipment are depreciated straight-line over their estimated useful lives. Such depreciation is based on the following group-wide useful lives:

• Buildings	10 to 35 years
• Plant, technical equipment and machinery	3 to 10 years
• Other furniture and other equipment	3 to 12 years

The individual components of individual assets, recognized in non-current assets and which are made up of significant components, are recorded and depreciated separately.

Leasing

To the extent the Bertelsmann group assumes all significant opportunities and risks relating to a leased asset and is thus to be seen as the economic owner of the asset (finance lease), the leased asset is recognized in the balance sheet in the amount of the asset's fair value at the inception of the lease or the present value of future lease payments, if lower. Payment obligations arising from finance leases are recognized as leasing liabilities in the same amount.

If it is sufficiently certain that ownership of the leased asset will pass to the lessee at the end of the lease term, the asset is depreciated over its useful life. Otherwise, it is depreciated over the term of the lease. There are no conditional lease payments or subleases.

The leased assets consist mainly of buildings, as well as program and sports rights. The finance leases that involve buildings are generally subject to non-cancelable minimum lease terms of approximately 20 years. Upon expiry of this term, the lessee is entitled to purchase the leased asset at its residual value. The installments paid by the lessee under the lease vary in accordance with changes in interest rates paid by the lessor. Additional finance leases refer to program and sports rights owned by RTL Group.

In addition to finance leases, the Group has also entered into operating lease agreements. This means that economic ownership of the leased assets lies with the lessor and lease installments are recorded as expenses in the period in which they are due for payment. The total amount of lease installments due over the minimum uncancelable lease terms of these operating leases is disclosed in the notes as part of other financial commitments.

Impairments

As set out in IAS 36, write-downs are made to items included in property, plant and equipment if their recoverable amount is lower than their carrying value. The recoverable amount is the higher of the asset's net selling price and the present value of expected future cash flows from the asset (DCF method). If cash flows cannot be attributed to the asset itself, the amount of any write-down is computed based on the cash flows of the next higher cash-generating unit to which the asset can be allocated. Forecast cash flows are taken from the group's internal budgets, consisting of three specific years and a residual period. These cash flows are determined individually based on industry-specific growth rates of 0 percent – 3 percent and discounted using the group's pre-tax weighted average cost of capital (WACC) of 12.3 percent. If the reason for a write-down no longer exists, write-downs are reversed up to the amount that would have been determined if no impairment loss had been recognized in previous years. The last requirement does not apply to goodwill and intangible assets with indefinite useful lives recognized as part of the purchase price allocation as set out in IFRS 3.

Participations and Securities

Significant participations are included using the equity method, and all other participations and other securities included in non-current assets and in current assets in the Bertelsmann group's consolidated financial statements are classified as available-for-sale or held-to-maturity.

Available-for-sale financial assets are stated at fair value on the balance sheet date in accordance with IAS 39, to the extent fair value can be determined. Any resulting unrealized gains and losses are recorded, net of deferred taxes, directly in shareholders' equity. However, any probable impairment losses which are other than temporary are recognized as an expense in the income statement. If the reasons for recording the write-down no longer exist, the write-down is reversed. Unrealized gains and losses on such financial assets are reclassified to income upon disposal of the asset concerned. If a fair value cannot be determined, the participations and securities are stated at amortized acquisition cost.

Financial assets with fixed payments and maturities and which are held-to-maturity are stated at amortized cost using the effective interest method.

Inventories

Inventories are stated at acquisition or manufacturing cost. Similar inventories are reported at average cost or using the FIFO (first in, first out) method. Inventories originating from intra-group suppliers are adjusted to eliminate intercompany profits and are measured at group's manufacturing cost. If the acquisition or manufacturing cost exceeds their current fair value at the balance sheet date, inventories are written down to their net realizable value.

Customer-specific Contracts

A small volume of customer-specific contracts are reported in the IAS financial statements using the percentage-of-completion method, which requires revenues and profits from contracts to be recognized according to the percentage-of-completion of the respective project. The percentage-of-completion is calculated as the ratio of contract costs incurred up to the end of the year to total estimated project costs (cost-to-cost method). Irrespective of a project's percentage-of-completion, losses resulting from customer-specific contracts are immediately recognized in full in the period in which the loss is identified.

Receivables

Other receivables and other assets are stated at their nominal value or, where appropriate, at their fair value. Long-term receivables are discounted. Foreign currency receivables are translated at closing-date rates. Allowances are recognized for any discernible risks.

Cash and Cash Equivalents

Cash and cash equivalents include securities with an original maturity of less than three months, bank balances and cash on hand. Amounts in foreign currency are translated using rates ruling at the end of the year.

Deferred Taxes

As set out in IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between carrying amounts reported for tax purposes and those reported in the IAS consolidated balance sheet (with the exception of goodwill not recognizable for tax purposes) and for tax loss carryforwards. Through the deduction of a valuation allowance, deferred tax assets are only reported to the extent to which they can be subsequently utilized. Such taxes are calculated using enacted tax rates that will apply in the future. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period in which the relevant legislation has been enacted.

Other Comprehensive Income

Other comprehensive income includes foreign currency translation gains and losses, unrealized gains and losses from the fair value recognition of available-for-sale securities and derivatives acting as cash flow hedges, as set out in IAS 39. Deferred taxes arising on items taken directly to equity are also charged or credited directly to equity.

Provisions

Provisions for pensions and similar obligations are calculated actuarially using the projected unit credit method as set out in IAS 19, which, in contrast to the entry-age-normal method, includes expected future salary increases. This method involves use of biometric calculation tables, current long-term market interest rates and current estimates of future increases in salaries and pensions. The interest element of pension expense is included in financial expense in the income statement.

With the exception of other personnel-related provisions calculated as set out in IAS 19, all other provisions have been recognized in line with IAS 37 and to the extent that there is a legal or constructive obligation to a third party. Provisions are measured at full cost in the amount of the probable obligation. Long-term provisions are discounted.

Liabilities

Liabilities are stated at nominal values. Long-term liabilities are discounted. Liabilities in foreign currency are translated into the reporting currency at rates ruling at the end of the year.

Derivative Financial Instruments

As set out in IAS 39, all derivative financial instruments are recognized at fair value on the balance sheet. Financial instruments are recognized on their transaction date. At the time a contract involving a derivative is entered into, it is determined whether it is intended to serve as a fair value hedge or as a cash flow hedge. However, some derivatives do not meet the requirements included in IAS 39 for recognition as a hedge, despite it being their economic purpose. Changes in fair values of derivatives are recorded as follows

1. Fair value hedge: Fair value changes of these derivatives, which serve as hedges of assets or liabilities, are recorded in the income statement, thereby offsetting the change in fair value of the underlying balance sheet items also included in the income statement.
2. Cash flow hedge: Changes in fair values of these derivatives, which act as hedges of future cash flows, are recorded directly in other comprehensive income. These amounts are released to income in the same period as the underlying transaction affects the income statement.
3. Stand alone (no hedge relationship): Fair value changes of these derivatives, which do not meet the conditions for being recognized as hedges, are recognized in the income statement as held-for-trading financial instruments.

Equity Compensation Benefits

Share options are granted to select directors and senior employees. The options are granted at the market price on the grant date and are exercisable at that price.

No compensation cost is recognized in the income statement for share options granted before November 7, 2002. When the options are exercised, the proceeds received, net of any transaction costs, are credited to the company's equity.

For share options granted after November 7, 2002, the fair value of options granted is recognized as personnel costs with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a trinomial option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options, whereby share options forfeited only due to share prices not achieving the vesting threshold are excluded.

Non-current Assets and Related Liabilities Held For Sale

IFRS 5 requires non-current assets and related liabilities to be disclosed as separate line items in the balance sheet. They are measured at the lower of their carrying amount or fair value less costs to sell. The scheduled amortization is stopped therefore.

Notes to the Income Statement and Balance Sheet

1 Revenues

in € millions	2005	2004
Revenues from selling goods and merchandise	**10,565**	9,693
Revenues from providing services	**6,371**	6,258
Revenues from grant of use of assets	**1,450**	1,475
Gross revenues	**18,386**	**17,426**
Discounts	**(496)**	(410)
Revenues	**17,890**	**17,016**

The accounting method for revenues at BMG was changed in 2005 compared with the previous year. As from 2005, revenue from distribution agreements is no longer shown using dealer sales prices, but rather only in the amount of the handling fee. This resulted in a decrease in revenues of €239 million compared with the previous year.

2 Other Operating Income

in € millions	2005	2004
Extra and supplementary income	**216**	166
Interest and foreign exchange gains	**32**	18
Prior-year income and reimbursements	**131**	134
Reversal of provisions	**–**	99
Gains from disposals of non-current assets	**20**	24
Other	**192**	244
	591	**685**

Reversals of provisions are recorded in the same line item within the income statement as was charged when the provision was initially recognized.

3 Personnel Costs

in € millions	2005	2004
Wages and salaries	**3,663**	3,502
State social security contributions	**574**	539
Profit sharing	**48**	29
Expense for pensions and similar obligations	**162**	126
Other employee benefits	**11**	8
	4,458	**4,204**

State social security contributions include employer contributions to the state pension insurance plan, which is a defined contribution plan as described in IAS 19.

4 Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

in € millions	2005	2004
Amortization/depreciation of		
– intangible assets	**261**	268
– property, plant and equipment	**395**	403
	656	**671**

5 Other Operating Expenses

in € millions	2005	2004
Administrative expenses	**1,478**	1,235
Consulting and audit fees	**265**	205
Interest and foreign exchange losses	**38**	19
Advertising costs	**1,091**	1,107
Selling expenses	**890**	765
Allowances on current assets	**433**	372
Operating taxes	**119**	113
Losses on disposals of non-current assets	**23**	18
Sundry operating expenses	**930**	1.388
	5,267	**5,222**

Consulting and audit fees include fees of €3 million for the group external audit and other audit-related services of €1 million, mainly in connection with the half-year review.

Administrative expenses include travel costs and communication expenses. Other operating expenses include rentals, repair and maintenance costs.

6 Results from Investments Shown at Equity and Other Participations

in € millions	2005	2004
Income from investments accounted for using the equity method	**82**	53
Expenses from investments accounted for using the equity method	**(6)**	(16)
Results from investments accounted for using the equity method	**76**	**37**
Income from participations	**23**	11
Impairments of financial assets	**(8)**	(15)
Write-ups of financial assets	**–**	3
Results of participations	**15**	**(1)**

Income from investments accounted for using the equity method mainly arises from Antena 3 at €39 million (2004: minus €3 million). The loss from investments accounted for using the equity method originated from various companies. As in the previous year, Bertelsmann had no share of contingent liabilities of associated companies.

7 Special Items

in € millions	2005	2004
Impairment of goodwill and income from release of badwills		
U.S. publisher, Gruner + Jahr	–	(26)
Income from release of badwills	6	–
Other	(18)	(8)
Capital gains/losses		
U.S. publisher, Gruner + Jahr	91	–
Shopping.com, Direct Group	15	22
Merger gain Prinovis, Gruner + Jahr/Arvato	72	–
Merger gain Infoscore, Arvato	52	–
Merger gain joint venture Sony BMG, BMG	–	180
Bertelsmann Venture Fonds, Corporate Center	–	47
"TV Today," Gruner + Jahr	–	10
Sportfive, RTL Group	–	(14)
Legal dispute AOL Europe, Corporate Center	–	74
Other	16	9
Other special items		
Closing sale of Bertelsmann Springer, Corporate Center	12	–
Sale Bertelsmann Building New York, Corporate Center	–	174
Restructuring/integration BMG	(105)	(115)
Restructuring/integration Direct Group	(64)	(23)
Restructuring/integration RTL Group	(16)	–
Restructuring/integration Arvato	–	(12)
	61	**318**

Special items are those matters which are not of an operating nature, as they are non-recurring. They include income and expense items which, due to their size and frequency of occurrence, have an effect on the assessment of the results of operations of the operating segment and of the group.

Gains on disposals of €246 million were realized in 2005. They are attributable to the sale of the U.S. publishing activities and of the shares in shopping.com, together with merger gains.

A merger gain of €72 million arose within the group from the formation of Prinovis, the printing group, allocated equally between Arvato and Gruner + Jahr in the segment reporting.

A further merger gain, of €52 million, resulted from the merger of BFS Finance and AZ Direct into the newly formed Arvato Infoscore.

From the group's point of view, a merger gain reflects the excess of assets received over assets contributed.

A provision was released following finalization of the sale of Bertelsmann Springer. As the original gain on sale was included as a special item, the release of the provision has also been treated as a special item.

Negative special items relate to restructuring and integration expenses at the RTL Group, BMG and Direct Group segments.

8 Other Financial Expenses

in € millions	2005	2004
Defined benefit plans (pensions and other)	107	105
Dividend entitlement on profit participation certificates	76	76
Minority interest of partnerships	85	42
Other	24	11
	292	234

As a result of the changes to IAS 32, both minority interest in partnerships and put options of minority shareholders are to be recognized as a financial liability retrospectively. Hence, the amounts previously shown as attributable to minority interest are now charged against group net income. As a result, other financial expenses for 2004 increased by €45 million.

9 Income Taxes

Income taxes, divided between domestic and foreign, current and deferred, are as follows:

in € millions	2005 Domestic	2005 Foreign	2005 Total	2004 Domestic	2004 Foreign	2004 Total
Net income before income taxes	359	926	1,285	266	1,169	1,435
Current income taxes	(138)	(237)	(375)	(43)	(243)	(286)
Deferred income taxes	47	84	131	4	19	23
Total income taxes	(91)	(153)	(244)	(39)	(224)	(263)
Net income after income taxes	268	773	1,041	227	945	1,172

Tax loss carryforwards of €1,446 million (2004: €353 million) were utilized, reducing current tax expenses by €435 million (2004: €132 million). Of the tax loss carryforwards utilized, €74 million related to domestic corporation tax, €118 million to domestic trade tax, and €1,254 million to foreign income tax.

Deferred tax assets and liabilities resulted from the following items and factors:

Deferred Taxes

in € millions	12/31/2005 Assets	12/31/2005 Liabilities	12/31/2004 Assets	12/31/2004 Liabilities
Intangible assets	791	393	304	205
Property, plant and equipment	40	181	13	117
Investments	6	48	8	88
Inventories	60	5	77	2
Accounts receivable	236	52	128	10
Prepayments and other assets	133	72	185	582
Provisions	284	49	182	29
Financial debt	36	–	37	–
Accounts payable	27	2	19	1
Prepayments and other liabilities	123	53	103	33
Loss carryforwards/tax credits	2,748	–	3,216	–
Valuation allowance	(3,482)	–	(3,127)	–
Total	**1,002**	**855**	**1,145**	**1.067**
Netting	(582)	(582)	(859)	(859)
Carrying amount	**420**	**273**	**286**	**208**

The increase in deferred tax assets on intangible assets is primarily attributable to a transfer within the group, which led to a reduction in tax loss carryforwards. The decrease in deferred tax liabilities on advance payments and other assets is mainly due to the reversal of a temporary difference arising from a consolidation entry. This reversal led to an increase in valuation allowance, with no effect on income.

Deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and can be offset.

Valuation allowances are deducted from deferred tax assets to the extent it is improbable they can be utilized in the foreseeable future.

Effective January 1, 2004, loss carryforwards in Germany can only be offset against the first €1 million of taxable profits, plus 60 percent of the excess over the first €1 million. Loss carryforwards in Germany can still be carried forward indefinitely.

The temporary differences, tax loss carryforwards and tax credits against which a valuation allowance was made can be carried forward for the following limited periods of time:

Maturity

in € millions	12/31/2005	12/31/2004
Tax loss carryforwards and temporary differences		
To be carried forward for more than 5 years	10,093	9,565
To be carried forward for up to 5 years	105	44
Tax credits		
To be carried forward for more than 5 years	27	8

A reconciliation of expected net tax income/expense to actual tax income/expense is shown in the following table:

Reconciliation of Expected Net Tax

in € millions	2005	2004
Net income before income tax	1,285	1,435
Income tax rate applicable to Bertelsmann AG	38.40%	38.40%
Expected tax expense	**(494)**	**(551)**
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment for differing national tax rates	64	34
Changes in tax regulations or tax status	–	(6)
Amortization of goodwill not recognized for tax purposes	(6)	(2)
Tax-free disposal and merger gains	34	7
Changes to tax-related factors in previous year	(15)	44
Valuation allowance on deferred tax assets, current year	214	303
Permanent differences	(46)	(78)
Other	5	(14)
Total	**250**	288
Actual tax expense	**(244)**	**(263)**

The income tax rate applicable to Bertelsmann AG consists of corporation tax, solidarity surcharges and trade tax.

Effective Tax Rate

	2005	2004
Corporation tax including solidarity surcharges	26.38%	26.38%
Trade tax	12.02%	12.02%
Effective income tax rate	**38.40%**	**38.40%**

At December 31, 2005 there were still corporation tax credits available on distributions of €136 million.

10 Non-current Assets

in € millions	Goodwill	Other intangible assets	Property, plant and equipment	Investments accounted for using the equity method	Other financial assets	**Total**
Acquisition/production cost						
Balance at January 1, 2005	**6,443**	**3,663**	**6,059**	**767**	**777**	**17,709**
Currency differences	145	217	218	4	22	**606**
Acquisitions/disposals of entities	1,181	324	661	197	7	**2,370**
Additions	–	221	548	75	139	**983**
Disposals	–	(147)	(369)	(69)	(258)	**(843)**
Reclassifications and other changes	–	(29)	(151)	31	(141)	**(290)**
Balance at December 31, 2005	**7,769**	**4,249**	**6,966**	**1,005**	**546**	**20,535**
Depreciation/amortization						
Balance at January 1, 2005	**28**	**2,342**	**3,690**	**330**	**156**	**6,546**
Currency differences	1	105	133	–	3	**242**
Acquisitions/disposals of entities	(26)	71	389	3	4	**441**
Regular additions	–	270	394	–	–	**664**
Impairments	11	10	17	1	8	**47**
Disposals	–	(127)	(317)	(18)	(31)	**(493)**
Write-ups	–	(11)	(1)	–	–	**(12)**
Reclassifications and other changes	–	(22)	(124)	(2)	142	**(6)**
Balance at December 31, 2005	**14**	**2,638**	**4,181**	**314**	**282**	**7,429**
Book value at December 31, 2005	**7,755**	**1,611**	**2,785**	**691**	**264**	**13,106**
Book value at December 31, 2004	6,415	1,321	2,369	437	621	**11,163**

The additions shown under acquisitions/disposals of entities primarily relate to the acquisitions named in a previous section of these notes. Additions to goodwill of €259 million (2004: €20 million) arose as a result of including put options in the consolidated balance sheet. Corresponding liabilities for these put options are included as part of other liabilities. Other additions not requiring the use of funds were insignificant.

11 Other Intangible Assets

in € millions	Music, film, and publishing rights	Other rights and licenses	Advance payments	**Total**
Acquisition/production cost				
Balance at January 1, 2005	**2,474**	**1,169**	**20**	**3,663**
Currency differences	170	47	–	**217**
Acquisitions/disposals of entities	–	324	–	**324**
Additions	127	74	20	**221**
Disposals	(47)	(98)	(2)	**(147)**
Reclassifications and other changes	74	(76)	(27)	**(29)**
Balance at December 31, 2005	**2,798**	**1,440**	**11**	**4,249**
Depreciation/amortization				
Balance at January 1, 2005	**1,651**	**691**	**–**	**2,342**
Currency differences	89	16	–	**105**
Acquisitions/disposals of entities	–	71	–	**71**
Regular additions	129	141	–	**270**
Impairments	3	7	–	**10**
Disposals	(45)	(82)	–	**(127)**
Write-ups	(10)	(1)	–	**(11)**
Reclassifications and other changes	70	(92)	–	**(22)**
Balance at December 31, 2005	**1,887**	**751**	**–**	**2,638**
Book value at December 31, 2005	**911**	**689**	**11**	**1,611**
Book value at December 31, 2004	823	478	20	**1,321**

12 Property, Plant and Equipment

in € millions	Land, rights equivalent to land and buildings	Plant, technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in process	**Total**
Acquisition/production cost					
Balance at January 1, 2005	**1,797**	**2,767**	**1,455**	**40**	**6,059**
Currency differences	43	123	50	2	**218**
Acquisitions/disposals of entities	112	350	199	–	**661**
Additions	46	127	235	140	**548**
Disposals	(24)	(83)	(262)	–	**(369)**
Reclassifications and other changes	29	39	(107)	(112)	**(151)**
Balance at December 31, 2005	**2,003**	**3,323**	**1,570**	**70**	**6,966**
Depreciation/amortization					
Balance at January 1, 2005	**678**	**2,050**	**962**	**–**	**3,690**
Currency differences	15	91	27	–	**133**
Acquisitions/disposals of entities	48	200	141	–	**389**
Regular additions	70	207	117	–	**394**
Impairments	1	2	14	–	**17**
Disposals	(16)	(74)	(227)	–	**(317)**
Write-ups	(1)	–	–	–	**(1)**
Reclassifications and other changes	(5)	(67)	(52)	–	**(124)**
Balance at December 31, 2005	**790**	**2,409**	**982**	**–**	**4,181**
Book value at December 31, 2005	**1,213**	**914**	**588**	**70**	**2,785**
Book value at December 31, 2004	1,119	717	493	40	**2,369**

13 Investments Accounted for Using the Equity Method

in € millions	**2005**	2004
Proportionate equity	**258**	198
Goodwill	**433**	239
	691	**437**

The increase in goodwill for associated companies relates mainly to the further purchase of shares in Grupo Media Capital, the Portuguese TV group (€128 million) as well as to the acquisition of shares in Ren-TV, the Russian TV station (€68 million).

Total assets of investments accounted for using the equity method were €2,832 million at December 31, 2005 (2004: €2,468 million). Total liabilities at December 31, 2005 were €1,927 million (2004: €1,721 million). Revenues for 2005 were €2,624 million (2004: €1,926 million). Net income for 2005 was €304 million (2004: €125 million).

These disclosures are total key figures for the significant investments accounted for using the equity method. The values are calculated on a 100 percent basis.

The following investments accounted for using the equity method are listed. The market values of these investments at December 31, 2005 were as follows:

Market Values of Investments Accounted for Using the Equity Method

in € millions	2005	2004
Lycos Europe	63	38
Buch.de	11	8
Antena 3	770	518
Grupo Media Capital	199	52
	1,043	616

14 Other Financial Assets

In accordance with IAS 39, available-for-sale investments and securities are measured at fair value or, if fair value cannot be determined, at acquisition cost.

	At acquisition cost		At fair value		Total	
in € millions	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Current						
Loans	38	59	–	–	38	59
Investments available-for-sale	1	3	–	–	1	3
	39	62	–	–	39	62
Non-current						
Loans	109	321	–	–	109	321
Investments in affiliates	19	28	–	–	19	28
Investments available-for-sale	68	66	5	125	73	191
Securities available-for-sale	60	57	3	24	63	81
	256	472	8	149	264	621

15 Inventories

in € millions	12/31/2005	12/31/2004
Film rights	1,352	1,273
Raw materials and supplies	161	146
Work in process	119	101
Finished goods and merchandise	474	410
Advance payments	2	3
	2,108	1.933

16 Receivables and Other Assets

in € millions	12/31/2005	12/31/2004
Non-current		
Trade accounts receivable	**93**	14
Other accounts receivable and other assets	**452**	311
Current		
Trade accounts receivable	**3,099**	2,707
Accounts receivable from royalties and licenses	**106**	106
Trade accounts receivable	**3,205**	**2,813**
Accounts receivable from participations	**24**	44
Advance payments for royalties and licenses	**827**	747
Tax receivables	**173**	202
Securities available-for-sale	**35**	87
Derivative financial instruments	**84**	264
Net assets from pension plans	**–**	–
Prepaid expenses	**184**	160
Other receivables	**636**	560
Other accounts receivable and other assets	**1,963**	**2,064**

Non-current trade accounts receivable of €93 million are primarily for fees and royalties. The largest amount within the €452 million non-current other accounts receivable and other assets is €359 million for advance payments for fees and royalties. In accordance with IAS 39, available-for-sale securities are measured at fair value or, if no market value is obtainable, at acquisition cost.

Other Assets: Available-for-sale

	At acquisition cost		At fair value		Total	
in € millions	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004
	21	87	**14**	–	**35**	87

The decrease is mostly attributable to offsetting treasury shares in Metropole Television (M6), held to fund an employee stock option plan, against the related provisions in the balance sheet.

17 Cash and Cash Equivalents

in € millions	12/31/2005	12/31/2004
Cash	**798**	1.847
Other securities	**238**	245
	1,036	**2,092**

Following contractual amendments relating to Pinnacle's distribution activities, there are no longer any significant restrictions on the use of cash and cash equivalents (2004: €141 million).

18 Shareholders' Equity

Effects of Applying IAS 32

Following amendments made to IAS 32, minority interest in partnerships and put options of minority shareholders are to be recognized as other financial liabilities and hence may no longer be included in shareholders' equity. As this accounting method is to be applied retrospectively, the prior year's balance sheet has been adjusted accordingly.

Other financial expenses in 2004 increased by €45 million, with a corresponding decrease in net income for the year attributable to minority interest. Dividends in 2004 were decreased by €53 million. Overall, the new accounting method reduces minority interest by €124 million to €1,212 million.

The share of results attributable to minority shareholders in partnerships of €85 million in 2005, and dividends of €39 million, have been reclassified.

Subscribed Capital

Number of shares	
Ordinary shares	83,760
Type A non-voting preference shares	149
Type B voting preference shares	27,920
Total shares	**111,829**

Bertelsmann AG's subscribed capital is made up of 111,829 no-par-value shares of various types. The ordinary shares are bearer shares and the preference shares are registered shares. The type B preference shares have preferred profit-sharing rights through December 31, 2010. The preferred profit-sharing rights of the type A preference shares are not limited in time. The type A preference shares have no voting rights.

Indirect holdings in the subscribed capital are as follows: 57.6 percent Bertelsmann Stiftung, 25.1 percent Groupe Bruxelles Lambert, 17.3 percent Mohn family. 75.0 percent of the voting rights are held by Bertelsmann Verwaltungsgesellschaft and 25.0 percent by Groupe Bruxelles Lambert.

Capital Reserve

The capital reserve includes mainly additional paid-in capital, or share premium, received on the issue of preference and ordinary shares in excess of their par values.

Retained Earnings

Retained earnings include the past results of those companies included in the consolidated financial statements, to the extent that they have not been distributed, as well as other comprehensive income.

Other Comprehensive Income

Movements in other comprehensive income were as follows:

in € millions	Available-for-sale securities Pre-tax amount	Tax	Post-tax amount	Cash flow hedges Pre-tax amount	Tax	Post-tax amount	Currency	Total
December 31, 2003	**31**	**–**	**31**	**(71)**	**26**	**(45)**	**68**	**54**
Change in fair value	59	–	59	6	(3)	3	(67)	**(5)**
Disposals affecting income	(8)	–	(8)	–	–	–	–	**(8)**
Change in scope of consolidation	–	–	–	(2)	1	(1)	(335)	**(336)**
December 31, 2004	**82**	**–**	**82**	**(67)**	**24**	**(43)**	**(334)**	**(295)**
Change in fair value	16	–	16	68	(23)	45	238	**299**
Disposals affecting income	(22)	–	(22)	–	–	–	0	**(22)**
Change in scope of consolidation	(33)	–	(33)	–	–	–	(1)	**(34)**
December 31, 2005	**43**	**–**	**43**	**1**	**1**	**2**	**(97)**	**(52)**

There was a reclassification for the previous year between retained earnings and currency translation differences.

Stock Option Plans at Subsidiaries

Various stock option plans are in operation at subsidiaries. At RTL Group in particular, stock option plans for senior management were introduced in 2000. The option price is derived from the market price at the time the options are granted. Within RTL Group there are also stock option plans at Metropole Télévision (M6).

RTL Group Stock Option Plan

RTL Group established a stock option plan for selected directors on July 25, 2000. In order to participate in the stock option plan (SOP), the participant must be employed by RTL Group or one of its subsidiaries at the date the options are granted.

The number of options granted to a participant in the SOP is determined by the compensation committee. The compensation committee is made up of the company's Executive Board or a constituted committee thereof. Participants may renounce options granted to them. Participants do not have to make any payments for options granted under the SOP. The number of ordinary shares which may be placed under the SOP in any one year may not exceed one-half of one per cent of the company's issued ordinary share capital.

As a general rule, the exercise price of options issued under the SOP is the average price of RTL shares over a period of 20 trading days before the day on which the options are granted. The exercise price may be another, higher or lower amount to be determined by the compensation committee.

One-third of the options granted may be exercised on each of the second, third and fourth anniversaries of the date the options were granted, or as otherwise determined by the compensation committee. The options granted must normally be exercised within ten years of the date the options were granted, or within a shorter period of time to be determined by the compensation committee. Options can be exercised earlier by the heirs in the event of death.

Movements in stock options during the year:

Number of Options (RTL Group)

in thousands	Average exercise price in € per share	2005	Average exercise price in € per share	2004
Options outstanding at the beginning of the year	86	**217**	86	**241**
Options exercised/expired during the year	85	**(44)**	85	**(24)**
Options outstanding at the end of the year	**86**	**173**	**86**	**217**

The options outstanding at the end of the year have the following conditions:

Conditions for Stock Options (RTL Group)

Expiry date	Exercise price in €	Number of options (in thousands) 2005	Number of options (in thousands) 2004
August 2010	120.00	**6**	6
December 2010	85.24	**166**	209
May 2011	85.24	**1**	2
		173	**217**

RTL Group's closing share price on the Brussels stock exchange was €68.00 at December 31, 2005.

Métropole Télévision (M6) Employee Stock Option Plan

M6 has established employee share option plans open to directors and certain employees within the group. The number of options granted to participants is determined by the Executive Board of Métropole Télévision in accordance with the authorization given by the Shareholders' General Meeting.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of options (in thousands)	Vesting conditions	Contractual life of options
September 1998	645	4 years of service	7 years
December 1998	685	4 years of service	7 years
June 1999	500	4 years of service	7 years
January 2000	20	4 years of service	7 years
June 2000	219	4 years of service	7 years
June 2001	377	4 years of service	7 years
June 2002	558	4 years of service	7 years
July 2003	626	4 years of service	7 years
November 2003	20	4 years of service	7 years
April 2004	773	4 years of service	7 years
June 2005	531	4 years of service	7 years
June 2005	105	2 years of service + performance conditions	7 years
	5,057		

The exercise price of the remaining options amounts to 95 percent of the average price of the shares in Métropole Télévision on the Paris stock exchange, calculated over the 20 days preceding the grant date with the exception of the management free share allocation plan for 104,000 options issued in June 2005.

Movements in stock options during the year:

Number of Options (M6)

in thousands	Average exercise price in € per share	2005	Average exercise price in € per share	2004
Options outstanding at the beginning of the year	26	**3,513**	26	**3,082**
Options granted during the year	20	**636**	25	**861**
Options exercised during the year	16	**(572)**	16	**(175)**
Options expired during the year	29	**(156)**	29	**(255)**
Options outstanding at the end of the year	**27**	**3,421**	**26**	**3,513**

The options outstanding (in thousands) at the end of the year have the following conditions:

Conditions of Stock Options (M6)

	Exercise price in €	**Number of options (in thousands) 2005**	Number of options (in thousands) 2004
Expiry date			
2005	14.00	**–**	391
2006	19.00	**194**	375
2007	57.00	**239**	253
2008	30.80	**377**	398
2009	28.60	**558**	580
2010	23.00	**645**	693
2011	25.00	**773**	823
2012	20.00	**635**	–
Options outstanding at the end of the year		**3,421**	**3,513**
Out of which exercisable		**810**	1,019

M6's closing share price on the Paris stock exchange was €23.40 at December 31, 2005.

The fair value of services received in return for share options granted are measured by reference to the fair value of the share options granted. The estimate of fair value of the services received is measured based on a trinomial model.

Fair Values of Share Options (M6)

Grant date	07/25/2003	11/14/2003	04/28/2004	06/02/2005	06/02/2005	**Total**
Share price	€23.66	€25.07	€24.97	€20.17	€20.17	
Strike price	€22.48	€23.82	€24.97	€19.94	€0.00	
Volatility	52.30%	52.30%	52.30%	41.80%	41.80%	
Risk-free interest rate	3.05%	3.54%	3.32%	3.24%	3.24%	
Expected return	€0.86 + 15% annual growth	€0.86 + 15% annual growth	€0.86 + 15% annual growth	€0,84 + 15% annual growth	€0.84 + 15% annual growth	
Liquidity discount	15%	15%	15%	15%	15%	
Option life	4 years	4 years	4 years	4 years	2 years	
Employee expense						
2005	1.3	0.0	1.6	0.4	0.7	**4.0**
2004	1.3	0.0	1.1	0.0	0.0	**2.4**

Minority Interest

Minority interest in the equity of consolidated subsidiaries consists primarily of minority interest in the RTL Group. The decrease compared with the previous year is mainly due to the acquisition of shares held by WAZ, the minority shareholder, in RTL Group. Minority interest in partnerships totaling €194 million was included as liabilities in the consolidated balance sheet at December 31, 2005.

19 Provisions for Pensions and Similar Obligations

in € millions	12/31/2005	12/31/2004
Defined benefit plans	**1,482**	1,717
Obligations similar to pensions	**165**	157
	1,647	**1,874**

The Bertelsmann group operates various forms of pension plans for current and former employees and their surviving dependants, which are determined by the legal, tax and economic situation of each country concerned. These company pension plans include both defined contribution and defined benefit schemes.

In the case of defined contribution plans, the company makes payments into an external fund or other welfare fund on a statutory, contractual or voluntary basis. Once the company has paid the contributions due, it is not obliged to provide any further benefits and hence no provision is recognized in the balance sheet. Defined contribution plan expenses for 2005 amounted to €22 million (2004: €21 million).

All other pension plans are defined benefit schemes. Some are funded via an external investment (plan assets), others are unfunded. Provisions are set aside for these plans, most of which are final salary plans.

The provisions are actuarially calculated in accordance with IAS 19. The amount of provisions depends on employees' periods of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, which, in contrast to the components-based method, assumes increasing salary costs over the period of service. The computation also involves using biometric calculations, prevailing long-term capital market interest rates and assumptions about future salary and pension increases. In Germany, the biometric calculations are based on the mortality tables 2005 G issued by Prof. Dr. Klaus Heubeck. The following actuarial assumptions have been used:

Actuarial Assumptions

	12/31/2005 Germany	12/31/2005 Foreign	12/31/2004 Germany	12/31/2004 Foreign
Discount rate	**4.0%**	**2.0–5.75%**	4.75%	2.0–6.25%
Expected return on plan assets	**4.0%**	**2.5–8.25%**	5.00%	2.5–8.25%
Rate of salary increase	**2.5%**	**1.5–5.0%**	2.50%	1.5–5.0%
Rate of pension increase	**1.7%**	**1.0–2.7%**	1.70%	1.0–3.0%
Fluctuation	**Experience values**		Experience values	

The corridor method is used to calculate provisions for defined benefit plans and related costs. This method does not take into account actuarial gains and losses resulting from the difference between actual amounts and the assumptions underlying the calculations unless they exceed 10 percent of either the amount of the defined benefit obligation or plan assets, whichever is the greater. The amount in excess of this corridor is spread over the employees' average remaining period of service.

Expenses related to defined benefit plans were €163 million (2004: €163 million). This amount is divided between €56 million (2004: €58 million) personnel costs and €107 million (2004: €105 million) other financial expenses. The amortization of actuarial gains and losses was included in other financial expenses. The expenses are made up as follows:

Expenses for Defined Benefit Plans

in € millions	2005	2004
Current service cost	61	56
Interest expenses	133	122
Expected return on plan assets	(38)	(28)
Amortization of actuarial gains/losses	12	11
Amortization of past service cost	(3)	1
Effect of curtailments or settlements	(2)	1
	163	163

Actual return on plan assets for the year amounted to €68 million (2004: €39 million).

The net pension liability reported on the balance sheet is made up as follows:

Net Pension Obligation Recognized

in € millions	12/31/2005	12/31/2004
Defined benefit obligation of unfunded plans	1,641	1,914
Defined benefit obligation of funded plans	1,412	625
Total defined benefit obligation	**3,053**	**2,539**
Fair value of plan assets	(969)	(452)
Actuarial gains/losses not yet recognized	(624)	(382)
Past service cost not yet recognized	(1)	–
Net liability recognized in the balance sheet	**1,459**	**1,705**

Under the terms of a Contractual Trust Arrangement (CTA), €360 million was transferred to the Bertelsmann Pension Trust e.V. in Germany in 2005 to partly fund pension obligations of Bertelsmann AG.

This results in a shift within defined benefit obligations to funded plans. The net pension liability is included in the following balance sheet items:

Net Pension Liability

in € millions	12/31/2005	12/31/2004
Provisions for pensions and similar obligations	1,482	1,717
Other assets	(23)	(12)
Net liability recognized in the balance sheet	**1,459**	**1,705**

Movements in net pension liability were as follows:

Movements in Net Pension Liability

in € millions	12/31/2005	12/31/2004
Net liability at the beginning of the year	**1,705**	1,597
Pension expense	**163**	163
Pension payments	**(78)**	(67)
Contributions to plan assets	**(444)**	(43)
Other effects	**16**	2
Changes in scope of consolidation	**78**	60
Currency differences	**19**	(7)
Net liability at the end of the year	**1,459**	**1,705**

The net liability is divided by geographic region as follows:

Breakdown on Net Pension Liability by Region

in € millions	12/31/2005	12/31/2004
Germany	**1,233**	1,501
U.S.	**137**	87
Other European countries	**81**	111
Other countries	**8**	6
Net liability recognized in the balance sheet	**1,459**	**1,705**

The U.S. subsidiaries' liabilities for their employees' healthcare costs once they have retired constitute defined benefit obligations and account for €93 million (2004: €66 million) of the provisions. They have been calculated according to the international standards described above.

Obligations similar to pensions include provisions for employees' long-service awards, old age part-time schemes, amounts due but not yet paid for defined contribution plans, and severance payments at dismissal or retirement ("Abfertigungen"). These severance payments become due when an employee leaves the company and are based on legal obligations, mainly in Italy and Austria. Provisions for employees' longservice awards and for severance pay at retirement are calculated in the same manner as liabilities for defined benefit plans, but without using the corridor method.

Employees in Germany who are at least 55 years old and have an unlimited employment contract with the company qualify for its old age part-time scheme. The part-time employment period lasts for between two and five years.

20 Other Provisions

in € millions	12/31/2004	Change in scope of consolidation	Other effects	Usage	Additions	Releases	12/31/2005
Provisions for taxes	21	–	(4)	(9)	12	(2)	**18**
Restructuring provisions	89	8	10	(107)	112	(10)	**102**
Other	510	73	29	(213)	329	(97)	**631**
	620	**81**	**35**	**(329)**	**453**	**(109)**	**751**

Other provisions are set up for probable contractually-related losses, indemnity risks and litigation costs. As an international group, Bertelsmann is also subject to several legal risks. This applies particularly to legal disputes in the U.S., where there are legal institutions unknown in Germany, such as class actions, punitive damages or pre-trial discovery. The outcomes of currently asserted or future unasserted lawsuits cannot be foreseen with any degree of certainty, nor can they be fully influenced.

Legal risks could arise from the following lawsuits: Various music publishers and record labels have filed complaints against Bertelsmann in a U.S. court in 2003. The plaintiffs base their purported claims on the allegation that Bertelsmann, by granting loans to the music file-sharing platform Napster (which has since gone bankrupt) enabled the service to survive longer than it would have done otherwise, and thereby contributed to copyright infringements by Napster and its users. The plaintiffs further contend that Bertelsmann had de facto taken over Napster in the fall of 2000, and had thus assumed control of Napster's day-to-day business. In 2005, the judge in San Francisco confirmed Bertelsmann's interpretation of the law that the mere listing of names of music titles on Napster's former server does not constitute a copyright violation. The pre-trial discovery, which began in the summer of 2004 and is still ongoing, has not to date yielded any evidence supporting plaintiffs' theories. Accordingly, Bertelsmann's view remains unchanged that the allegations and legal theories brought forth by the plaintiffs are untenable and completely without legal foundation. Therefore, Bertelsmann has only made provisions for expected legal fees on the balance sheet.

As set out in IAS 37, restructuring provisions include employee severance costs and other costs incurred in connection with the discontinuation of business activities. Total provisions of €102 million (2004: €89 million) were set aside for various restructuring programs within the Bertelsmann group.

Other provisions at December 31, 2005 include €33 million for the first time, relating to settlement obligations to Axel Springer AG arising from joint obligations to pensioners of the Ahrensburg printing works, which is part of the Prinovis print joint venture.

21 Profit Participation Capital

in € millions	**12/31/2005**	12/31/2004
Par value	**516**	516
Premium	**190**	190
	706	**706**

The profit participation capital is made up of profit participation certificates issued in 2001 (ISIN DE 000 522 9942, hereafter referred to as 2001 profit participation certificates) and profit participation certificates issued in 1992 (ISIN DE 000 522 9900, hereafter referred to as 1992 profit participation certificates). Whereas the 2001 profit participation certificates have a nominal value of €10, the 1992 profit participation certificates have a nominal value of €0.01. Nominal profit participation capital at December 31, 2005 was made up of €499 million for 2001 profit participation certificates and €17 million for 1992 profit participation certificates. Both the 1992 and 2001 profit participation certificates are admitted for trading on the stock exchange.

22 Financial Debt

Financial debt includes all of Bertelsmann group's interest-bearing liabilities to banks and capital markets at the balance sheet date. Carrying values are as follows:

	Current		Non-current			
	12/31/2005	12/31/2004	Remaining term in years		12/31/2005	12/31/2004
in € millions			1–5	> 5		
Bonds	**–**	156	1,040	833	**1,873**	1,326
Promissory notes	**–**	–	151	–	**151**	202
Syndicated loan facility	**–**	–	–	–	**–**	–
Liabilities to banks	**135**	87	45	12	**57**	31
Leasing liabilities	**31**	19	150	91	**241**	222
Other financial debt	**13**	2	37	76	**113**	99
	179	**264**	**1,423**	**1,012**	**2,435**	**1,880**

The amount of non-current financial debt recognized includes transaction costs, which are being amortized over the term of the debt instruments to which they relate. Liabilities in foreign currencies are translated into euros at rates ruling at the end of the year. The Bertelsmann group has access to floating-rate and fixed-interest funds through various contractual agreements. Financial debt is usually unsecured and has equal creditor ranking.

The contractual conditions of a syndicated credit line, agreed with an international consortium of banks in 2004, were revised in September 2005. The term of the credit line was prolonged to seven years. Amounts can be drawn down by Bertelsmann AG and its financing companies (Bertelsmann U.S. Finance, Inc., Bertelsmann Capital Corporation N.V.) in EUR, USD and GBP up to the equivalent of €1.2 billion. Depending on the currency, interest on amounts drawn down use EURIBOR (European Interbank Offered Rate) or LIBOR (London Interbank Offered Rate) as the reference rate. Additionally, the Bertelsmann group has bilateral loan agreements with international banks, involving Bertelsmann AG and Bertelsmann U.S. Finance, Inc. These credit lines can be utilized to draw down revolving floating rate loan facilities based on EURIBOR or LIBOR. The funding reserve from these credit lines, including the amounts not drawn down on the syndicated loan facility, totals some €1.7 billion and is freely available for use in the group's operating activities.

The remaining terms and amounts drawn down under these agreements at December 31, 2005 are set out in the table below:

Remaining Term

in € millions	Credit line 12/31/2005	Drawn down 12/31/2005	Available credit line 12/31/2005	Available credit line 12/31/2004
< 1 year	**345**	**–**	**345**	492
1 to 2 years	**–**	**–**	**–**	–
2 to 3 years	**–**	**–**	**–**	–
3 to 4 years	**110**	**–**	**110**	–
4 to 5 years	**–**	**–**	**–**	1,310
> 5 years	**1,200**	**–**	**1,200**	–
	1,655	**–**	**1,655**	**1,802**

There were stock-exchange traded bonds, private placements and promissory notes with a nominal volume of €2,025 million outstanding at December 31, 2005 (2004: €1,670 million). The increase was due to the issue of a €500 million benchmark bond by Bertelsmann AG. This bond, launched in September 2005, has a 3.625 percent coupon. This was partly offset by repayment on its due date of a €153 million bond and early repayment of a €50 million promissory note.

The differences between book values and fair values set out in the following table consist of transaction costs and fair value effects of establishing hedge relationships by entering into derivative transactions. Transaction costs are deducted from the book values of the bonds and promissory notes issued and the deferred amount was €10 million at December 31, 2005 (2004: €6 million). Changes in deferred transaction costs are included in interest expense over the remaining terms of the bonds and promissory notes concerned.

Bonds, Promissory Notes

in € millions	Due date	Effective interest rate in %	**Book value 12/31/2005**	Book value 12/31/2004
4.500% Bertelsmann U.S. Finance, Inc. (EUR 153 million bond) 98/05	11/25/2005	4.62	**–**	156
Floating rate Bertelsmann U.S. Finance, Inc. (EUR 50 million promissory note) 02/07	12/20/2007	–	**–**	50
4.70% Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 02/07	12/27/2007	4.91	**51**	51
4.40% Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 03/08	2/7/2008	4.56	**50**	51
4.48% Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 99/09	5/7/2009	4.49	**50**	50
4.375% Bertelsmann U.S. Finance, Inc. (EUR 200 million bond) 99/09	5/12/2009	4.53	**199**	199
4.69% Bertelsmann U.S. Finance, Inc. (USD 100 million U.S. private placement) 03/10	4/17/2010	4.83	**84**	73
4.625% Bertelsmann U.S. Finance, Inc. (EUR 750 million bond) 03/10	6/3/2010	4.70	**757**	762
5.23% Bertelsmann U.S. Finance, Inc. (USD 200 million U.S. private placement) 03/13	4/17/2013	5.38	**169**	146
5.33% Bertelsmann U.S. Finance, Inc. (USD 200 million U.S. private placement) 03/15	4/17/2015	5.46	**169**	146
3.625% Bertelsmann AG (EUR 500 million bond) 05/15	10/6/2015	3.74	**495**	–
			2,024	**1,684**

Documentation of the bonds is based on framework documentation in the form of a debt issuance program with a maximum issue volume of €3 billion, last updated in October 2004 and having an unchanged rating of BBB+ (Standard & Poor's) and Baa1 (Moody's).

The USD private placements and the promissory notes were agreed with institutional investors based on separate documentation. Bertelsmann U.S. Finance, Inc.'s EUR issues were hedged by USD currency swaps. Furthermore, original interest terms for some of these transactions were changed by entering into interest-rate swaps for some bond issues and loans. The hedge relationships between the underlying transaction and the corresponding derivative qualify as a hedge relationship as set out in IAS 39.

The table below sets out interest rates for bonds and promissory notes issued after reflecting existing interest-rate swaps:

Interest on Bonds and Promissory Notes

in € millions	Fair value at 12/31/2005 Fixed interest	Floating rate	Total	Fair value at 12/31/2004 Fixed interest	Floating rate	Total
Bonds	1,331	542	**1,873**	780	702	1,482
Promissory notes	50	101	**151**	100	102	202
	1,381	**643**	**2,024**	**880**	**804**	**1,684**

Finance lease obligations have the following maturities:

Minimum Lease Payments for Finance Leases

in € millions	12/31/2005 Nominal value of lease payments	Discount amounts	Present value	12/31/2004 Nominal value of lease payments	Discount amounts	Present value
Up to 1 year	38	7	**31**	27	8	19
1 to 5 years	205	55	**150**	132	41	91
Over 5 years	114	23	**91**	189	58	131
	357	**85**	**272**	**348**	**107**	**241**

23 Liabilities

in € millions	12/31/2005	12/31/2004
Non-current		
Trade accounts payable	**130**	75
Other liabilities	**576**	590
Current		
Trade accounts payable	**4,022**	3,610
Liabilities to participations	**25**	25
Tax liabilities	**262**	226
Derivative financial instruments	**22**	106
Social security contributions	**113**	102
Personnel-related liabilities	**567**	533
Payment in advance	**62**	67
Deferred income	**313**	291
Other	**1,071**	812
Other liabilities	**2,435**	**2,162**

Non-current trade accounts payable of €130 million (2004: €75 million) mainly relate to liabilities for fees and royalties. The other non-current liabilities amount to €576 million (2004: €590 million). These include put option rights of minority shareholders amounting to €225 million (2004: €33 million) and minority interest in partnerships of €194 million (2004: €111 million). The decrease in other non-current liabilities was due to a liability of €186 million to Five included at December 31, 2004 and no longer included at December 31, 2005, as Five has been fully consolidated in the 2005 financial statements.

The increase in other current liabilities is due to application of IAS 32 (revised). It includes put options of minority shareholders of €135 million (2004: €0 million). This caption also includes, as in 2004, delivery obligations, credit balances in accounts receivable and liabilities to third-parties.

Put options have been reclassified at their fair value. Minority interest in partnerships have been measured at nominal value, as their fair value cannot be determined.

Off-balance-sheet Commitments

24 Contingent Liabilities

in € millions	12/31/2005	12/31/2004
Guarantees	**159**	145
Warranties	**–**	–
	159	**145**

It is considered unlikely that the contingent liabilities listed will be used.

25 Other Financial Commitments

in € millions	12/31/2005	12/31/2004
Rental and leasing commitments	**1,949**	1,611
Other commitments	**3,931**	3,551
	5,880	**5,162**

Of the other commitments, €2,942 million (2004: €2,543 million) relates to RTL Group's supply agreements for rights, (co-) productions and programming, contracts for TV licenses and broadcasting rights, as well as other rights and services. Other commitments of Random House amount to €392 million (2004: €349 million) and represent the portion of commitments to authors for which no payments have yet been made and future payments depend on further events (such as delivery and acceptance of manuscripts).

There are the following payment obligations under all long-term rental commitments classified as operating leases:

Minimum Payments Under Operating Leases

in € millions	12/31/2005	12/31/2004
Nominal value		
Up to 1 year	**360**	294
1 to 5 years	**1,062**	947
Over 5 years	**527**	370
	1,949	**1,611**
Present value	**1,583**	1,347

These obligations essentially relate to long-term real estate tenancy agreements. These are partly offset by subleases with a nominal value of €111 million. The present values were computed taking country-specific interest rates into account. They show the net payout currently needed to cover the commitment.

Some program rights have been sold to a special purpose vehicle within RTL Group (Fremantle Media) and have been leased back (sale-and-lease-back) as a finance lease. The liquid funds received are maintained in a bank account with restricted access and are used to satisfy the corresponding lease payments. Outstanding commitments related to this arrangement at December 31, 2005 amounted to €129 million (2004: €132 million). The remaining lease term is twelve years.

26 Financial Instruments

Financial Risk Management

Because of its international activities, Bertelsmann group is exposed to a variety of financial risks, especially the effects of movements in foreign exchange and interest rates. The aim of the Bertelsmann group's risk management function is to mitigate these risks.

The Executive Board sets out overall risk management guidelines and stipulates the general procedures for hedging foreign exchange rate and interest rate risk and for the use of derivative financial instruments.

A treasury department located at corporate headquarters advises subsidiaries on operating risk and, where appropriate, hedges risks using derivatives. However, the subsidiaries are not obliged to use the services provided by this department for their operating risks. Certain subsidiaries, such as RTL Group, have their own treasury departments, but they must report their hedging activities to the treasury department located at corporate headquarters on a quarterly basis.

Exchange Rate Risk

Bertelsmann is exposed to exchange rate risk in various currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against exchange rate risks in the local reporting currency by concluding forward agreements with banks of impeccable credit standing. Loans within the group which are subject to exchange rate risk are hedged by derivatives.

A number of subsidiaries operate outside the euro currency area. Management of the resulting translation risk is based on the relationship of financial debt to Operating EBITDA for significant currency areas. The objective is to achieve a reasonable relationship between financial debt and operating results for each major currency area in the long-term, whereby Bertelsmann uses the upper limits for leverage defined for the group as a target.

Interest Rate Risk

Interest rate risk is managed in accordance with the group's planned net financial debt and expected interest-rate movements. The proportion of fixed-interest financing increased compared with the previous year. This increase resulted from the issuance of a €500 million benchmark bond and repayment of financial debt during 2005.

Funds available are generally invested at floating rates for periods of less than one year.

Default Risk

The Bertelsmann group is exposed to default risks amounting to invested cash and cash equivalents, and the positive fair value of derivatives used. However, as financial transactions and instruments are only concluded with banks of impeccable credit standing, these risks are deemed to be low.

Accounting for Derivative Financial Instruments and Hedges

All derivatives are reported at their fair value. On the day a contract for a derivative is entered into, it is determined whether it is intended to be a fair value hedge or a cash flow hedge. However, some derivatives do not qualify as hedges despite the fact that they do economically represent a hedge.

Bertelsmann documents all relationships between hedging instruments and hedged positions as well as its risk management objectives and strategies in connection with the various hedges. This method includes linking all derivatives used for hedging purposes to the underlying assets, liabilities, firm commitments and foreseeable transactions. Furthermore, the Bertelsmann group assesses and documents, both when derivatives are concluded and on an ongoing basis, to what extent the derivatives used are either fair value hedges or cash flow hedges.

Financial Derivatives

The vast majority of financial derivatives used by the Bertelsmann group are derivatives which are not traded on an organized exchange (“OTC instruments”). These mainly consist of forward agreements, currency swaps, currency options and interest rate swaps, and are concluded with banks of impeccable credit standing. Central treasury department transactions are only made with banks approved by a member of the Executive Board. Nominal volumes are the total of all underlying buying and selling amounts.

The great majority of the financial derivatives serve as hedges against foreign currency and interest rate risks arising from existing financial debt (41.3 percent). Foreign exchange fluctuation risks on internal funding within the group are normally hedged by foreign currency forward transactions. The volume of such transactions is €1,512 million (35.6 percent). Additionally, subsidiaries use financial derivatives to hedge against current and future foreign currency risks arising from operating receivables or payables (23.1 percent). No financial derivatives are used for speculative purposes.

Nominal Amounts of Financial Derivatives

	Nominal amounts at 12/31/2005				Nominal amounts at 12/31/2004			
in € millions	< 1 year	1–5 years	> 5 years	Total	< 1 year	1–5 years	> 5 years	Total
Currency derivatives								
Forward contracts and currency swaps	2,165	1,228	–	**3,393**	2,359	587	655	3,601
Currency options	–	2	–	**2**	–	–	–	–
Interest rate derivatives								
Interest rate swaps	13	812	26	**851**	150	477	282	909
Other	–	–	–	**–**	–	7	–	7
	2,178	**2,042**	**26**	**4,246**	**2,509**	**1,071**	**937**	**4,517**

Determination of Fair Value

The fair value of traded financial derivatives is determined on the basis of published market prices at the balance sheet date.

In order to determine the fair values of derivatives that are not publicly traded, Bertelsmann group uses various financial-related economic models based on market conditions and risks prevailing at the balance sheet date.

Fair Value of Financial Derivatives

in € millions	Nominal amounts 12/31/2005	Nominal amounts 12/31/2004	Present value 12/31/2005	Present value 12/31/2004
Currency derivatives				
Forward contracts and currency swaps	**3,393**	3,601	**53**	177
Currency options	**2**	–	**–**	–
Interest rate derivatives				
Interest rate swaps	**851**	909	**9**	(2)
Other	**–**	7	**–**	3
	4,246	**4,517**	**62**	**178**

Factoring

In individual cases, Bertelsmann group sells receivables to banks. These exceptions are limited to agreements in which Bertelsmann grants financing to its customers in separate contracts. The volume of receivables sold is limited contractually to €431 million and amounted to €417 million at December 31, 2005 (2004: €373 million). The contractual conditions provide for transfer of the default and interest risks to the buyer of the receivables. Bertelsmann's remaining risk is limited, and the resulting risks are included in provisions. The carrying value of these risks at December 31, 2005 amounts to €18 million (2004: €13 million).

27 Cash Flow Statement

Bertelsmann's consolidated cash flow statement has been prepared in accordance with IAS 7. It is intended to assist the reader in assessing the group's ability to generate cash and cash equivalents. Cash flows are divided into those relating to operating, investing and financing activities. Cash flows from operating activities are shown using the indirect method, with EBIT adjusted for the effects of items not affecting cash flows. Income and expenses relating to cash flow from investing activities are also eliminated.

Bertelsmann Group monitors operating results based on Operating EBIT and thus excludes interest. Operating results and resulting cash flow from operating activities should thus be consistent and comparable. Hence, the net balance of interest paid and interest received during the year is shown in the cash flow statement as part of financing activities. The previous year's figures have been adjusted for comparability.

Payment to CTA is a cash outflow. This relates to a payment which cannot reasonably be allocated to any group of cash flows and which has therefore been shown separately as an item affecting cash and cash equivalents.

The change in pension provisions is made up of the balance of personnel expenses for service cost and pension payments (see note 19). Other payments to external pension funds (plan assets) of €84 million (2004: €43 million) are allocated to other effects.

The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in companies included in the consolidated financial statements. Hence, the items in the consolidated cash flow statement cannot be compared with changes in items disclosed on the face of the consolidated balance sheets. Investing activities include investments for non-current assets and purchase price payments for investments acquired and proceeds from disposal of non-current assets. Purchase price payments for investments acquired include payments relating to the acquisitions described above. Significant proceeds from disposal of non-current assets are also described in more detail above. Financing activities include changes in shareholders' equity providing or using cash, changes in financial debt and net interest paid.

28 Segment Reporting

Segment reporting disclosures are made in accordance with IAS 14. The primary reporting format uses business segments of the Bertelsmann group. The secondary reporting format is broken down by the main geographical markets in which the Bertelsmann group operates.

Information on Segments

Segment reporting, comprising six operating segments, is based on the internal management and reporting structures applied within the Bertelsmann group. To the extent they reflect the financial management of the group, the segments are different from the group's legal structure.

Information on Segment Data

The definition of the various segment data is the same as that used for the group's management system. Segment data are reconciled to the relevant group figures in the "consolidation" column.

Intercompany revenues are recognized at normal market conditions, as applied to transactions with third parties.

A key performance indicator within the Bertelsmann group is Operating EBIT. Under normal business conditions, Operating EBIT represents normal operating earnings before interest and taxes. Hence, earnings before interest and taxes, or EBIT, are adjusted for special items which do not have operating characteristics, as they are non-recurring. These include income and expense items which, due to their size and frequency of occurrence, have an affect on the assessment of the results of operations of the operating segment and of the group. Elimination of these special items thus enables determination of a normalized result and hence simplifies forecasting and comparability. Special items include impairment of goodwill and depreciation of property, plant and equipment.

Depreciation, net of reversals of impairment write-downs, per segment includes depreciation of property, plant and equipment, amortization of intangible assets and write-downs of financial assets as set out in the statement of movements in non-current assets.

Investments consist of payments for ongoing capital investments and acquisitions of entities.

Segment assets constitute the operating assets for each segment. They consist of property, plant and equipment, intangible assets, including goodwill and investments. They also include current assets with the exception of cash and cash equivalents, tax receivables and other non operating assets.

Segment liabilities consist of operating liabilities and provisions. They therefore do not include provisions for pensions and similar obligations, tax liabilities, financial debt, or other non operating liabilities and provisions.

Each segment shows the earnings of, and investments in, associated companies, provided these companies can be clearly allocated to the segment concerned. Results of associated companies are shown before depreciation of goodwill.

In addition, the number of employees at balance sheet date and the average number of employees for the year are shown for the primary reporting format.

For the secondary reporting format, revenues are shown by customer location, while segment assets and segment investments are included by company location.

Reconciliation from the Primary Reporting Format to the Consolidated Financial Statements

in € millions	2005	2004
Operating EBIT	**1,610**	**1,429**
Special items	61	318
EBIT	**1,671**	**1,747**
Financial result	(386)	(312)
Income taxes	(244)	(263)
Net income	**1,041**	**1,172**

	12/31/2005	12/31/2004
Segment assets	**20,856**	**17,772**
Other assets (not allocated)	620	840
Cash and cash equivalents	1,036	2,092
Deferred tax assets	420	286
Total assets	**22,932**	**20,990**
Segment liabilities	**7,411**	**6,589**
Equity	9,170	8,722
Profit participation capital	706	706
Provisions for pensions and similar obligations	1,647	1,874
Financial debt	2,614	2,144
Other liabilities (not allocated)	1,111	747
Deferred tax liabilities	273	208
Total liabilities	**22,932**	**20,990**

29 Reconciliation to Operating EBITDA

Starting with Operating EBIT, Operating EBITDA is determined by adding other depreciation and amortization of non-current assets, less any reversals of impairment write-downs made in previous years.

Reconciliation to Operating EBITDA

in € millions	2005	2004
Operating EBIT	1,610	1,429
Impairment of goodwill	12	34
Amortization of intangible assets	280	269
Depreciation of property, plant and equipment	411	405
Impairments of other financial assets	8	15
Write-ups of property, plant and equipment	(12)	(28)
Impairments/Write-ups in special items	(35)	(12)
Operating EBITDA	**2,274**	**2,112**

Impairment of goodwill and proceeds from release of badwill amounting to €11 million, and €1 million for associated companies, has been eliminated, as it is included in special items and has thus not reduced Operating EBIT. This also applies to impairment write-downs of non-current assets of €23 million required in connection with restructuring activities.

30 Related Party Transactions

For the Bertelsmann group, related parties as defined in IAS 24 are those persons and entities controlled by the Bertelsmann group or over which it has a significant influence, as well as those persons or entities controlling, or having a significant influence over, the Bertelsmann group. Hence, members of the Mohn and Frère families, those entities above Bertelsmann AG controlled or significantly influenced by these families, members of the Executive Board and Supervisory Board of Bertelsmann AG and its subsidiaries, associated companies and joint ventures making up the Bertelsmann group, are defined as related parties.

Bertelsmann Verwaltungsgesellschaft mbH, Gütersloh, a non-operating holding company, exercises control over the Bertelsmann group. Johannes Mohn GmbH, GBL Verwaltungs S.A.R.L. and Reinhard Mohn Verwaltungsgesellschaft mbH have informed Bertelsmann AG that they each own more than one-quarter of its share capital.

In addition to the transactions between subsidiaries consolidated in the group financial statements, there were the following transactions with related persons and entities:

	2005	2004
Income Statement		
Revenues	**159**	73
Other operating income	**26**	19
Cost of materials	**10**	10
Personnel costs	**44**	35
Other operating expenses	**7**	6
Financial result	**(1)**	–
Balance sheet		
Other financial assets towards related parties	**91**	105
Accounts receivable towards related parties	**60**	78
Provision for pensions towards related parties	**13**	12
Liabilities towards related parties	**37**	60

Transactions with related parties and associated companies involve primarily delivery of goods and services and other financial assets. They are made at arm's length conditions. The resulting income and expenses are insignificant to the group.

The remuneration of members of the Supervisory Board for 2005 amounted to €1,359,250 plus value added tax. The remuneration of members of the Executive Board for 2005 totalled €39,635,105, of which €28,576,176 related to Bertelsmann AG. In previous years, a loan of USD5 million was granted to one member of the Executive Board. The loan currently bears interest at 5.06 percent p.a. and is repayable in one lump sum in 2010. There is no separate collateral for the loan. Former members of the Executive Board and their surviving relatives received pension payments from Bertelsmann AG totaling €2,614,193 in 2005. The provision for pensions payable to former members of the Executive Board by Bertelsmann AG amounted to €39,467,395. The members of the Executive Board and Supervisory Board are listed on pages 124–126.

31 Events After the Balance Sheet Date

Groupe Bruxelles Lambert announced on January 27, 2006 that its "Board of Directors decided to ask for, as from the end of May 2006, the implementation of the possibility that it is offered to list Bertelsmann if the market conditions are favourable."

In February, Rolf Schmidt-Holtz was appointed the new CEO of Sony BMG Music Entertainment and therefore resigned his seat on the Bertelsmann AG Executive Board. Thomas Rabe, Chief Financial Officer of Bertelsmann AG, has taken on the management of the BMG division.

32 Major Subsidiaries and Participations at December 31, 2005

RTL Group

Television			
GZSZ Vermarktungsgesellschaft GmbH, Cologne	Germany	90.13	v
IP Deutschland GmbH, Cologne	Germany	90.13	v
IP New Media GmbH, Cologne	Germany	90.13	v
N-TV Nachrichtenfernsehen GmbH & Co. KG, Berlin	Germany	45.07	q
RTL 2 Fernsehen GmbH & Co. KG, Munich	Germany	32.35	e
RTL Disney Fernsehen GmbH & Co. KG, Cologne	Germany	45.07	q
RTL New Media GmbH, Cologne	Germany	90.13	v
RTL Shop GmbH, Cologne	Germany	90.13	v
RTL Television GmbH, Cologne	Germany	90.13	v
S4M Solutions for Media GmbH, Cologne	Germany	90.13	v
Traumpartner TV GmbH, Cologne	Germany	90.13	v
Vox Film- und Fernseh GmbH & Co. KG, Cologne	Germany	89.86	v
Westdeutsche Universum-Film GmbH, Cologne	Germany	90.13	v
Antena 3 de Televisión S.A., Madrid	Spain	15.62	e
Bayard d'Antin S.A., Paris	France	90.13	v
Broadcasting Center Europe S.A., Luxembourg	Luxembourg	90.13	v
Channel 5 Broadcasting Ltd., London	U.K.	90.13	q
CLT-UFA S.A., Luxembourg	Luxembourg	90.13	v
Grupo Media Capital SGPS SA, Oeiras	Portugal	29.84	e
IP Belgium S.A., Brussels	Belgium	59.49	v
IP France S.A., Paris	France	90.13	v
IP Luxembourg S.A.R.L., Luxembourg	Luxembourg	90.13	v
M6 Editions S.A., Neuilly sur Seine	France	44.16	v
M6 Films S.A., Neuilly sur Seine	France	44.16	v
M-RTL Rt (RTL Klub), Budapest	Hungary	44.12	e
OOO Ren-TV, Moscow	Russia	27.13	e
Paris Première S.A., Paris	France	44.16	v
RTL 9 S.A., Luxembourg	Luxembourg	31.54	e
RTL 4 Beheer B.V., Hilversum	Netherlands	90.13	v
RTL Nederland B.V., Hilversum	Netherlands	90.13	v
RTL Croatia d.o.o., Zagreb	Croatia	59.04	v
Télévision Indépendante (TVI) S.A., Brussels	Belgium	59.48	v
Télévision Par Satellite S.N.C., Issy les Moulineaux	France	15.02	q
Yorin FM B.V., Hilversum	Netherlands	90.13	v
Content			
CLT-UFA Multi Media GmbH, Hamburg	Germany	90.13	v
Grundy Light Entertainment GmbH, Hürth	Germany	90.42	v
Grundy-UFA TV-Produktions GmbH, Berlin	Germany	90.13	v
ISPR GmbH, Munich	Germany	22.53	e
Sportfive GmbH, Hamburg	Germany	22.53	e
Teamworx Television & Film GmbH, Berlin	Germany	90.13	v
UFA Entertainment GmbH, Berlin	Germany	90.13	v
UFA Fernsehproduktion GmbH, Berlin	Germany	90.13	v
UFA Film- und Fernseh GmbH, Cologne	Germany	90.13	v
Trebitsch Produktion Holding GmbH, Hamburg	Germany	90.13	v
Blu A/S, Copenhagen	Denmark	67.82	v
Fremantle Media Australia Pty Ltd., St. Leonard	Australia	90.42	v
Fremantle Media Ltd., London	U.K.	90.42	v
Fremantle Media North America, Inc., Wilmington	U.S.	90.42	v
Fremantle Productions Asia Ltd., Hong Kong	China	90.42	v
Grundy Productions Ltd., London	U.K.	90.42	v
Sportfive S.A., Paris	France	22.53	e
Talkback Productions Ltd., London	U.K.	90.42	v
Radio			
Antenne Mecklenburg-Vorpommern GmbH & Co. KG, Plate	Germany	22.93	e
AVE Gesellschaft für Hörfunkbeteiligungen mbH, Berlin	Germany	90.13	v
BB Radio Landeswelle Brandenburg GmbH & Co. KG, Berlin	Germany	36.05	e
Hitradio RTL Sachsen GmbH, Dresden	Germany	50.02	e
RTL Radio Deutschland GmbH, Berlin	Germany	90.13	v
Ediradio S.A., Paris	France	90.13	v
Contact S.A., Brussels	Belgium	44.97	e

Random House

Random House North America			
Content Link, Inc., Delaware	U.S.	100.00	v
Fodors LLC, New York	U.S.	100.00	v
Golden Treasurers, Inc., Delaware	U.S.	100.00	v
G24 NA LLC, Wilmington	U.S.	100.00	v
McClelland & Stewart Ltd., Toronto	Canada	25.00	e
Random House, Inc., New York	U.S.	100.00	v
Random House Direct, Inc., New Jersey	U.S.	100.00	v
Random House Films LLC, Delaware	U.S.	100.00	v
Random House of Canada Ltd., Toronto	Canada	100.00	v
Random House TPR, Inc., New York	U.S.	100.00	v
Random House Ventures LLC, New York	U.S.	100.00	v
Verlagsgruppe Random House			
Gütersloher Verlagshaus GmbH, Gütersloh	Germany	100.00	v
Verlag RM GmbH, Gütersloh	Germany	100.00	v
Verlagsgruppe Random House GmbH, Munich	Germany	100.00	v
Random House U.K., Australia, New Zealand, South Africa			
Mainstream Publishing Company Ltd., Edinburgh	U.K.	50.00	q
Random House (Proprietary) Ltd., Parktown (Johannesburg)	South Africa	75.00	v
Random House Australia Pty. Ltd., Melbourne	Australia	100.00	v
Random House New Zealand Ltd., Glenfield	New Zealand	100.00	v
Random House Publishers India Private Ltd., New Delhi	India	100.00	v
RHA Holdings Pty. Ltd., Melbourne	Australia	100.00	v
The Random House Group Ltd., London	U.K.	100.00	v
Random House Mondadori			
Editorial Lumen, S.A., Barcelona	Spain	50.00	q
Editorial Sudamericana, S.A., Buenos Aires	Argentina	50.00	q
Editorial Sudamericana Uruguaya, S.A., Montevideo	Uruguay	49.95	q
Grupo Editorial Random House Mondadori, S.L., Barcelona	Spain	50.00	q
Random House Mondadori S.A., Barcelona	Spain	50.00	q
Random House Mondadori S.A., Santiago de Chile	Chile	50.00	q
Random House Mondadori S.A. de C.V., Mexico City	Mexico	50.00	q
Random House Mondadori S.A., Bogotá	Colombia	50.00	q
Random House Mondadori S.A., Caracas	Venezuela	50.00	q
Random House Asia			
Random House JoongAng, Inc., Seoul	Korea	50.00	q
Random House Kodansha Co., Ltd., Tokyo	Japan	50.00	q

Gruner + Jahr

Magazines Germany			
Auto Szene Verlag GmbH, Stuttgart	Germany	20.88	q
Berlin Online Stadtportal GmbH & Co. KG, Berlin	Germany	33.71	e
Berliner Presse Vertrieb GmbH, Berlin	Germany	74.90	v
Börse Online Verlag GmbH & Co. KG, Munich	Germany	74.90	v
DPV Network GmbH (former IPV Inland Pressevertrieb GmbH), Hamburg	Germany	74.90	v
DPV Worldwide GmbH (former DPV Deutscher Pressevertrieb GmbH), Hamburg	Germany	74.90	v
Ehrlich & Sohn GmbH & Co. KG, Hamburg	Germany	74.90	v
G+J Corporate Media GmbH, Hamburg	Germany	74.90	v
G+J Electronic Media Sales GmbH, Hamburg	Germany	74.90	v
G+J Emotion Verlag GmbH, Munich	Germany	74.90	v
G+J Woman Verlag GmbH, Hamburg	Germany	74.90	v
G+J Women New Media GmbH, Hamburg	Germany	74.90	v
G+J Zeitschriften-Verlagsgesellschaft mbH, Hamburg	Germany	74.90	v
G+J/RBA GmbH & Co. KG, Hamburg	Germany	37.45	e
Gruner + Jahr AG & Co KG, Hamburg	Germany	74.90	v
Life & Health Verlagsgesellschaft mbH, Hamburg	Germany	74.90	v
Living at Home Multi Media GmbH, Hamburg	Germany	74.90	v
Motor Presse Stuttgart GmbH & Co.KG, Stuttgart	Germany	41.12	v
Neon Magazin GmbH, Hamburg	Germany	74.90	v
Norddeutsche Verlagsgesellschaft mbH, Hamburg	Germany	74.90	v
Park Avenue GmbH, Hamburg	Germany	74.90	v
„Picture Press" Bild- und Textagentur GmbH, Hamburg	Germany	74.90	v

Rodale-Motor Presse GmbH & Co. KG Verlagsgesellschaft, Stuttgart	Germany	20.56	q
Scholten Verlag GmbH, Stuttgart	Germany	41.12	v
Sport+Freizeit Verlag GmbH & Co. KG, Stuttgart	Germany	41.12	v
Stern.de GmbH, Hamburg	Germany	74.90	v
View Magazin GmbH, Hamburg	Germany	74.90	v
W.E. Saarbach GmbH, Cologne	Germany	18.65	e
Magazines France			
First Invest SA, Paris	France	74.90	v
Lexa TV S.N.C., Paris	France	74.90	v
Motor Presse France, SAS, Issy-les-Moulineaux	France	41.12	v
NG France S.N.C., Paris	France	74.90	v
Orion S.N.C., Paris	France	74.90	v
Prisma Presse S.N.C., Paris	France	74.90	v
Société des Publications Modernes Spécialisées S.A.R.L., Issy-les-Moulineaux	France	41.12	v
Vivia S.N.C., Paris	France	74.90	v
VSD S.N.C., Paris	France	74.90	v
Magazines International			
Daphne Communications S.A., Athens	Greece	36.48	q
Gala Ediciones, S.L., Madrid	Spain	37.45	q
G+J CLIP (Beijing) Publishing Consulting Co., Ltd., Beijing	China	38.20	v
G+J Glamour C.V.,Diemen	Netherlands	74.90	v
G+J RBA Sp. z o.o. & Co. Spolka komanditowa, Warsaw	Poland	74.90	v
G+J Uitgevers C.V., Diemen	Netherlands	74.90	v
G+J/RBA Publishing C.V. National Geografic Nederland, Amsterdam	Netherlands	74.90	v
Gruner + Jahr/Mondadori S.p.A., Milan	Italy	37.45	q
Gruner + Jahr Polska Sp. z o.o. & Co. Spolka Komandytowa, Wroclaw	Poland	74.90	v
Gruner + Jahr ZAO, Moscow	Russia	74.90	v
G y J España Ediciones, S.L., S. en C., Madrid	Spain	74.90	v
G y J Publicaciones Internacionales, S.L. y Cia., S. en C., Madrid	Spain	37.45	v
G y J Revistas y Comunicaciones, S.L., Sociedad Unipersonal, Madrid	Spain	74.90	v
Maxiediciones S.L., Madrid	Spain	41.12	v
Motor Press Argentina, S.A., Buenos Aires	Argentina	34.54	v
Motor Press Brasil Editora Ltda., São Paulo	Brazil	18.81	v
Motor Presse Budapest Lapkiadó Kft., Budapest	Hungary	41.12	
Motor Press Ibérica, S.A., Madrid	Spain	41.12	v
Motor Presse Polska Sp.zo.o., Wroclaw	Poland	41.12	v
Motor Press Lisboa S.A., Cruz Quebrada	Portugal	41.12	v
RBA Lexa Venture Polska Sp.zo.o., Warsaw	Poland	74.90	v
Shanghai G+J Consulting and Service Co., Ltd., Shanghai	China	74.90	v
Verlagsgruppe News Ges.m.b.H., Vienna	Austria	41.96	v
Newspapers			
Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden	Germany	44.94	v
Dresdner Magazin Verlag GmbH, Dresden	Germany	44.94	v
Döbelner Verlags GmbH & Co. KG, Döbeln	Germany	22.47	v
Financial Times Deutschland GmbH & Co. KG, Hamburg	Germany	37.45	q
Morgenpost Sachsen GmbH, Dresden	Germany	44.94	v
MVD Medien Vertrieb Dresden GmbH, Dresden	Germany	44.94	v
Saxo-Phon GmbH, Dresden	Germany	44.94	v
WVD Mediengruppe GmbH, Chemnitz	Germany	22.47	v
Printing			
Prinovis Ahrensburg GmbH & Co. KG, Hamburg	Germany	28.05	v
Prinovis Dresden GmbH & Co. KG, Dresden	Germany	28.05	v
Prinovis Itzehoe GmbH & Co. KG, Hamburg	Germany	28.05	v
Prinovis Ltd. & Co. KG, Hamburg	Germany	28.05	v
Prinovis Nürnberg GmbH & Co. KG, Nuremberg	Germany	28.05	v
Brown Printing Company, Waseca	U.S.	74.90	v
Corporate and Publishing Services			
Druck- und Verlagshaus Gruner + Jahr AG, Hamburg	Germany	74.90	v
Hamburger Journalistenschule Gruner + Jahr – Die Zeit GmbH, Hamburg	Germany	71.16	v
Manager Magazin Verlagsgesellschaft mbH, Hamburg	Germany	18.65	e
Spiegel-Verlag Rudolf Augstein GmbH & Co. KG, Hamburg	Germany	18.91	e
Gruner + Jahr Printing and Publishing Company, New York	U.S.	74.90	v

BMG

Sony BMG Music Entertainment

North America			
Arista Records, Delaware	U.S.	50.00	q
Columbia Records Corporation, New York	U.S.	50.00	q
Epic Records, New York	U.S.	50.00	q
J Records, New York	U.S.	50.00	q
La Face Records, New York	U.S.	50.00	q
Legacy Recordings – Sony BMG Catalog, New York	U.S.	50.00	q
Provident Music Group, Wilmington	U.S.	50.00	q
RCA Label Group, Nashville	U.S.	50.00	q
RCA Music Group, New York	U.S.	50.00	q
Sony BMG Canada, Toronto	Canada	50.00	q
Sony BMG Masterworks, New York	U.S.	50.00	q
Sony Music Nashville	U.S.	50.00	q
Sony Wonder, New York	U.S.	50.00	q
Zomba Records, Wilmington	U.S.	50.00	q
Europe			
Sony BMG Germany, Munich	Germany	50.00	q
Sony BMG Belgium, Brussels	Belgium	50.00	q
Sony BMG France , Paris	France	50.00	q
Sony BMG Italy, Milan	Italy	50.00	q
Sony BMG Netherlands, Hilversum	Netherlands	50.00	q
Sony BMG Spain, Madrid	Spain	50.00	q
Sony BMG Sweden, Stockholm	Sweden	50.00	q
Sony BMG UK & Ireland, London	U.K.	50.00	q
Latin America			
Sony BMG Argentina, Buenos Aires	Argentina	50.00	q
Sony BMG Brazil, Rio de Janeiro	Brazil	50.00	q
Sony BMG Chile, Santiago	Chile	50.00	q
Sony BMG Mexico, Mexico City	Mexico	50.00	q
Asia/Pacific			
BMG Funhouse, Tokyo	Japan	50.00	q
Sony BMG Africa, Johannesburg	South Africa	50.00	q
Sony BMG Australia, Sydney	Australia	50.00	q
Sony BMG Hong Kong, Hong Kong	China	50.00	q
Sony BMG Korea, Seoul	Korea	50.00	q
Sony BMG New Zealand, Auckland	New Zealand	50.00	q
Sony BMG Singapore, Singapore	Singapore	50.00	q
Sony BMG Taiwan, Taipeh	Taiwan	50.00	q

BMG Music Publishing

North America			
BMG Songs, Inc., Sacramento	U.S.	100.00	v
Zomba Enterprises, Inc., New York	U.S.	100.00	v
Europe			
Arabella Musikverlag GmbH, Munich	Germany	100.00	v
BMG Music Publishing B.V., Hilversum	Netherlands	100.00	v
BMG Music Publishing France SARL, Paris	France	100.00	v
BMG Music Publishing Ltd., London	U.K.	100.00	v
BMG Ricordi Music Publishing S.p.A., Milan	Italy	100.00	v
Cezame Argile Productions Editions S.A., Paris	France	100.00	v
Editions Durand S.A., Paris	France	100.00	v
Silvertone Records Ltd., London	U.K.	100.00	v
Zomba Music Publishers Ltd., London	U.K.	100.00	v
Latin America			
BMG Music Publishing, S.A. de C.V., Mexico City	Mexico	100.00	v
Asia/Pacific			
BMG Funhouse Music Publishing, Inc., Tokyo	Japan	100.00	v
Zomba Production Music (Australia), Pty Ltd., North Sydney	Australia	100.00	v

Arvato

Printing

Deutscher Supplement Verlag GmbH, Nuremberg	Germany	75.00	v
Fernwärme GmbH, Gütersloh	Germany	51.00	v
GGP Media GmbH, Pößneck	Germany	100.00	v
MBS Nürnberg GmbH, Nuremberg	Germany	28.09	v
Medienfabrik Gütersloh GmbH, Gütersloh	Germany	90.00	v
Mohn Media Kalender & Promotion Service GmbH, Gütersloh	Germany	100.00	v
Mohn Media Mohndruck GmbH, Gütersloh	Germany	100.00	v
Prinovis Ahrensburg GmbH & Co. KG, Ahrensburg	Germany	28.09	v
Prinovis Dresden GmbH & Co. KG, Dresden	Germany	28.09	v
Prinovis Itzehoe GmbH & Co. KG, Itzehoe	Germany	28.09	v
Prinovis Itzehoe Service GmbH, Itzehoe	Germany	28.09	v
Prinovis Itzehoe Weiterverarbeitung und Logistik GmbH, Itzehoe	Germany	28.09	v
Prinovis Klebebindung GmbH, Nuremberg	Germany	28.09	v
Prinovis Ltd. & Co. KG, Hamburg	Germany	28.09	v
Prinovis Nürnberg GmbH & Co. KG, Nuremberg	Germany	28.09	v
Pro Bind Professional Binding GmbH, Gütersloh	Germany	95.00	v
TV Information Services GmbH, Nuremberg	Germany	75.00	v
Vogel Druck und Medienservice GmbH & Co. KG, Höchberg	Germany	49.00	v
Wahl Media GmbH, Munich	Germany	100.00	v
Arti Grafiche Johnson S.p.A., Seriate	Italy	99.86	v
Berryville Graphics, Inc., Wilmington	U.S.	100.00	v
Cobrhi, S.L., Madrid	Spain	100.00	v
Coral Graphic Services, Inc., Horsham	U.S.	95.10	v
Dynamic Graphic Finishing, Inc., Dauphin County	U.S.	95.10	v
Euro-Papier N.V., Temse	Belgium	28.09	v
Eurogravure S.p.A., Bergamo	Italy	69.90	v
Eurohueco, S.A., Castellbisbal (Barcelona)	Spain	75.00	v
Istituto Italiano d'Arti Grafiche S.p.A., Bergamo	Italy	99.86	v
Mohn Media France S.A.R.L., Villepinte	France	100.00	v
Nuovo Istituto Italiano d'Arti Grafiche S.p.A., Bergamo	Italy	98.86	v
OAO Jaroslawskij Poligraphitscheskij Kombinat, Jaroslawl	Russia	84.98	v
Offset Paperback MFRS., Inc., Dallas	U.S.	100.00	v
OOO Distribuziony zentr Bertelsmann, Jaroslawl	Russia	100.00	v
Prinovis Liverpool Ltd., London	U.K.	28.09	v
Printer Colombiana, S.A., Santa Fé de Bogotá	Colombia	50.00	v
Printer Indústria Gráfica S.A., Sant Vicenc dels Horts (Barcelona)	Spain	100.00	v
Printer Portuguesa-Indústria Gráfica, Limitada, Mem Martins (Algueirao)	Portugal	100.00	v
Rotedic, S.A., Madrid	Spain	100.00	v

Services

1 18 18 Auskunft GmbH, Dortmund	Germany	100.00	v
Abis GmbH, Frankfurt am Main	Germany	18.52	q
Adress Research GmbH, Gütersloh	Germany	24.67	q
Arvato Direct Services Cottbus GmbH, Cottbus	Germany	100.00	v
Arvato Direct Services Dortmund GmbH, Dortmund	Germany	100.00	v
Arvato Direct Services Eiweiler GmbH, Heusweiler-Eiweiler	Germany	100.00	v
Arvato Direct Services GmbH, Gütersloh	Germany	100.00	v
Arvato Direct Services GmbH, Neckarsulm	Germany	100.00	v
Arvato Direct Services Gütersloh GmbH, Gütersloh	Germany	100.00	v
Arvato Direct Services Münster GmbH, Münster	Germany	100.00	v
Arvato Direct Services Nürnberg GmbH, Nuremberg	Germany	100.00	v
Arvato Direct Services Stuttgart GmbH, Kornwestheim	Germany	100.00	v
Arvato Direct Services Wilhelmshaven GmbH, Schortens	Germany	100.00	v
Arvato Direct Services Wuppertal GmbH, Wuppertal	Germany	100.00	v
Arvato Distribution GmbH, Harsewinkel	Germany	100.00	v
Arvato Logistics Services GmbH, Gütersloh	Germany	100.00	v
Arvato Media GmbH, Gütersloh	Germany	100.00	v
Arvato Services Healthcare Germany GmbH, Monheim	Germany	100.00	v
Arvato Services OWL GmbH, Gütersloh	Germany	100.00	v
Arvato Technology ELC GmbH, Düren	Germany	100.00	v
Arvato Technology GmbH, Gütersloh	Germany	100.00	v
Auskunftei Kämpfer GmbH, Nuremberg	Germany	63.00	v
AZ Direct GmbH, Gütersloh	Germany	100.00	v
Bedirect GmbH & Co. KG, Gütersloh	Germany	50.00	q

BFS Finance GmbH, Verl	Germany	63.00	v
BFS Finance Münster GmbH, Münster	Germany	63.00	v
BFS Health Finance GmbH, Hagen	Germany	63.00	v
BFS Risk & Collection GmbH, Verl	Germany	63.00	v
BFS Risk Management GmbH, Verl	Germany	63.00	v
Credidata – Gesellschaft für allgemeine Datenverarbeitung mit beschränkter Haftung, Baden-Baden	Germany	63.00	v
Cross Marketing Arvato Services GmbH, Munich	Germany	100.00	v
Deutsche Post Adress GmbH, Bonn	Germany	30.87	q
E-Score GmbH, Baden-Baden	Germany	63.00	v
IFS Beteiligungs GmbH, Baden-Baden	Germany	63.00	v
Infoscore Accounting Services GmbH, Baden-Baden	Germany	63.00	v
Infoscore Business Data GmbH, Baden-Baden	Germany	63.00	v
Infoscore Business Support GmbH, Baden-Baden	Germany	63.00	v
Infoscore Consumer Data GmbH, Baden-Baden	Germany	46.27	v
Infoscore Finance GmbH, Baden-Baden	Germany	63.00	v
Infoscore Forderungsmanagement GmbH, Baden-Baden	Germany	63.00	v
Infoscore Software Service GmbH, Baden-Baden	Germany	63.00	v
Inmedia One GmbH, Gütersloh	Germany	100.00	v
Isar Inkasso GmbH, Munich	Germany	63.00	v
Lambourne Productions GmbH, Herne	Germany	100.00	v
Media Log Spedition GmbH, Gütersloh	Germany	100.00	v
Nürnberger Inkasso GmbH, Nuremberg	Germany	63.00	v
Rough Trade Distribution GmbH, Herne	Germany	100.00	v
Süd-Westdeutsche Inkasso GmbH, Baden-Baden	Germany	63.00	v
Teleservice International Germany GmbH, Flensburg	Germany	100.00	v
Thomas Abeking Verlag für technische Dokumentation GmbH, Grefrath	Germany	100.00	v
Verlag Automobil Wirtschaft GmbH, Grefrath	Germany	100.00	v
Verlegerdienst München GmbH, Gilching	Germany	100.00	v
Webmiles GmbH, Munich	Germany	100.00	v
Alldirekt Telemarketing GmbH, Salzburg	Austria	100.00	v
Arvato Communication Services France S.A.R.L., Laxou	France	100.00	v
Arvato Customer Services N.V., Kontich	Belgium	80.00	v
Arvato Government Services Ltd., East Riding	U.K.	80.10	v
Arvato Government Services (ERYC) Ltd., Liverpool	U.K.	100.00	v
Arvato Logistics Services AG, Pratteln	Switzerland	100.00	v
Arvato Media Services France SAS, Malakoff	France	100.00	v
Arvato Print and Mail Services N.V., Kontich	Belgium	80.00	v
Arvato Services Asia Pacific Pte. Ltd., Singapore	Singapore	100.00	v
Arvato Services Australia Pacific Pty. Ltd., Castle Hill (Sydney)	Australia	100.00	v
Arvato Services Belgium N.V., Antwerp	Belgium	80.00	v
Arvato Services Canada, Inc., Kitchener	Canada	100.00	v
Arvato Services France S.A.R.L., Noyelles sous Lens	France	100.00	v
Arvato Services Iberia, S.A., Barcelona	Spain	100.00	v
Arvato Services, Inc., Valencia	U.S.	100.00	v
Arvato Services Ltd., Liverpool	U.K.	100.00	v
Arvato Services Nederland B.V., Abcoude	Netherlands	80.00	v
Arvato Services Polska, Poznan	Poland*	100.00	v
Arvato Services S.A., Buenos Aires	Argentina	100.00	v
Arvato Telekomünikasyon Hizmetleri Anonim Sirketi, Istanbul	Turkey	100.00	v
Arvato Teleservice ApS, Padborg	Denmark	100.00	v
AZ Direct AG, Lucerne	Switzerland	63.00	v
Benefit Nation, Inc., Fairfax Station	U.S.	100.00	v
Bertelsmann Österreich GmbH, Vienna	Austria	100.00	v
BFS Finance Limited, Dublin	Ireland	100.00	v
Creditexpress Magyarorszag Penzügyi Szolgaltato Kft., Budapest	Hungary	32.13	q
DM Michelotti AG, Rotkreuz	Switzerland	63.00	v
Eurodirect Marketing Lettershop SAS, Geispolsheim	France	100.00	v
Euromedia Group k.s., Bertelsmann Service Center, Prague	Czech Republic*	100.00	v
Eurodirect – Société Européenne de Routage S.A., Geispolsheim	France	100.00	v
Europost SAS, Saulcy sur Meurthe	France	100.00	v
Gauntlet Entertainment Ltd., Orpington	U.K.	100.00	v
Inofscore France SARL, Strasbourg	France	63.00	v
Infoscore GmbH, Vienna	Austria	63.00	v

Infoscore Inkasso AG, Schlieren	Switzerland	60.97	v
Infoscore SOFTWARE SERVICES IRELAND Ltd., Kilkenny	Ireland	63.00	v
Phone Assistance, S.A, Casablanca	Marocco	59.49	v
Phone Group, S.A., Casablanca	Marocco	65.00	v
Phone Online S.A.R.L., Casablanca	Marocco	64.99	v
Phone Serviplus, S.A., Casablanca	Marocco	59.52	v
Pinnacle Entertainment Ltd., Orpington	U.K.	100.00	v
Pinnacle Software Ltd., Orpington	U.K.	100.00	v
Prosoft Scitechnology (Xiamen) Co., Ltd., Xiamen	China	100.00	v
Teleservice International Portugal, Limitada, Porto	Portugal	100.00	v
Teleservice International Switzerland GmbH, Oberägeri	Switzerland	100.00	v
Teleservice International Telefon Onarim ve Tic Ltd., Istanbul	Turkey	100.00	v
Teleservice Norway AS, Oslo	Norway	100.00	v
Total Distribución, S.A., Alcorcón (Madrid)	Spain	100.00	v
VAW CZ, s.r.o., Mladá Boleslav	Czech Republic	100.00	v
Verlag Automobil Wirtschaft GmbH do Brasil Ltda., São Paulo	Brazil	100.00	v
Verlag Automobil Wirtschaft (Pty.) Ltd., Port Elizabeth	South Africa	100.00	v
Verlag Automobil Wirtschaft, S.L., Barcelona	Spain	100.00	v
Verlagsservice für Bildungssysteme und Kunstobjekte GmbH & Co. KG, Vienna	Austria	75.00	v
Verlagsservice Süd AG, Glattbrugg	Switzerland	100.00	v
IT			
Arvato Mobile GmbH, Hamburg	Germany	100.00	v
Arvato Systems GmbH, Gütersloh	Germany	100.00	v
Arvato Systems Technologies GmbH, Rostock	Germany	100.00	v
Compu Tel GmbH, Hamburg	Germany	100.00	v
Empolis GmbH, Gütersloh	Germany	100.00	v
Moconta GmbH, Gütersloh	Germany	100.00	v
Arvato Mobile UK Ltd., London	U.K.	100.00	v
Arvato Mobile Solucoes para Telefonia Móvel, Ltda., São Paulo	Brazil	100.00	v
Arvato Sysstems Malaysia Sdn. Bhd., Kuala Lumpur	Malaysia	100.00	v
Arvato Systems North America, Inc., Wilmington	U.S.	100.00	v
Arvato Systems (Shanghai) Co. Ltd., Shanghai	China	100.00	v
Arvato Systems (Thailand) Ltd., Bangkok	Thailand	49.00	v
Arvato Systems UK & Ireland Ltd., London	U.K.	100.00	v
Empolis Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw	Poland	100.00	v
Movota Ltd., Witney	U.K.	79.25	v
OOO Arvato Mobile, Moscow	Russia	100.00	v
TJ.net S.p.A., Rome	Italy	100.00	v
Storage Media			
Arvato Storage Media GmbH, Gütersloh	Germany	100.00	v
Sonopress GmbH, Gütersloh	Germany	100.00	v
Topac Multimedia Print GmbH, Gütersloh	Germany	100.00	v
Arvato do Brasil Indústria e Servicos Gráficos, Logística e Distribuidora Ltda., São Paulo	Brazil	100.00	v
OOO Sonopress, Jaroslawl	Russia	100.00	v
Sonopress France SAS, Paris	France	100.00	v
Sonopress Iber-Memory S.A., Coslada (Madrid)	Spain	51.00	v
Sonopress Ireland Ltd., Dublin	Ireland[1]	100.00	v
Sonopress Italia S.r.l., Milan	Italy	100.00	v
Sonopress LLC, Wilmington	U.S.	100.00	v
Sonopress Pan Asia Ltd., Hong Kong	China	100.00	v
Sonopress Pan Asia Tokyo Co., Ltd., Tokyo	Japan	100.00	v
Sonopress Pty Ltd., Waterloo	Australia	100.00	v
Sonopress-Rimo Argentina, S.A., Buenos Aires	Argentina	52.00	v
Sonopress-Rimo Indústria e Comércio Fonográfica, São Paulo	Brazil	52.00	v
Sonopress Shanghai Multimedia Technology Co. Ltd., Shanghai	China	100.00	v
Sonopress Shenzhen Multimedia Technology Co., Ltd., Shenzhen	China	100.00	v
Sonopress Singapore Pte. Ltd., Singapore	Singapore	100.00	v
Sonopress South Africa (Proprietary) Ltd., Bromhof (Johannesburg)	South Africa	100.00	v
Sonopress (UK) Ltd., Wednesbury (Birmingham)	U.K.	100.00	v
Zheijang Huahong Opto Electronics Group Co. Ltd., Zhejiang Province	China	30.00	e

Direct Group

Clubs Central and Eastern Europe			
FCB Freizeit-Club Betreuungs-GmbH & Co., Hamburg	Germany	50.00	q
Nionex GmbH, Gütersloh	Germany	100.00	v
RM Buch und Medien Vertrieb GmbH, Gütersloh	Germany	100.00	v
RTL Club GmbH, Rheda-Wiedenbrück	Germany	100.00	v
Wissen Media Verlag GmbH, Gütersloh	Germany	100.00	v
Wissen.de GmbH Gesellschaft für Online-Information, Munich	Germany	100.00	v
Bertelsmann Media Moskau AO, Moscow	Russia	100.00	v
Bertelsmann Media – Swiat Ksiazki, Warsaw	Poland	100.00	v
Bertelsmann Medien (Schweiz) AG, Zug	Switzerland	100.00	v
Book Club „Family Leisure Club“ Ltd., Belgorod	Rußland	100.00	v
Book Club „Family Leisure Club“ Ltd., Charkow	Ukraine	100.00	v
Buchgemeinschaft Donauland Kremayr & Scheriau, Vienna	Austria	75.00	v
Euromedia Group k.s., Prague	Czech Republic	100.00	v
Ikar a.s., Bratislava	Slovakia	100.00	v
Clubs/Direct Sales South-West Europe			
BOL Books On Line Italia S.p.A., Milan	Italy	50.00	e
Círculo de Lectores, S.A., Barcelona	Spain	100.00	v
Círculo de Leitores, S.A., Lisbon	Portugal	100.00	v
ECI voor Boeken en Platen B.V., Vianen	Netherlands	100.00	v
France Loisirs Belgique S.A., Ath	Belgium	100.00	v
France Loisirs (Suisse) S.A., Crissier	Switzerland	100.00	v
France Loisirs S.A.R.L., Paris	France	100.00	v
Le Grand Livre du Mois S.A., Paris	France	48.99	v
Le Groupe Librairies Privat, Librairies du Savoir S.A., Paris	France	100.00	v
Lexicultural – Actividades Editoriais, Limitada, Buraca (Lisbon)	Portugal	100.00	v
Mondolibri S.p.A., Milan	Italy	50.00	q
Québec Loisirs Inc., Ville St. Laurent	Canada	100.00	v
Société Générale d'Edition et de Diffusion SGED, s.n.c. (i.L.), Paris	France	50.00	q
Clubs Asia			
Beijing 21st Century Book Chain Co., Ltd., Beijing	China	40.00	q
Bertelsmann Asia Publishing, Hong Kong	China	100.00	v
Daekyo Bertelsmann Co., Ltd., Seoul	Korea	25.00	e
Direct Sourcing (HK) Ltd., Hong Kong	China	100.00	v
Liaoning Bertelsmann Book Distribution Co., Ltd., Shenyang	China	49.00	q
Shanghai Bertelsmann Culture Industry Co. Ltd., Shanghai	China	80.00	v
English-speaking Clubs			
BOL Ltd., London	U.K.	100.00	v
Book Club Associates, London	U.K.	100.00	v
Bookspan (Partnership), Delaware	U.S.	50.00	q
Doubleday Australia Pty. Ltd., Lane Cove (Sydney)	Australia	100.00	v
Doubleday Canada Ltd., Toronto	Canada	100.00	v
BMG Columbia House			
BMG Direct Marketing, Inc., Wilmington	U.S.	100.00	v
Columbia House Company Canada, Scarborough	Canada	100.00	v
Columbia House Holdings, Inc., Albany	U.S.	100.00	v
Others			
Bertelsmann Multimedia GmbH, Gütersloh	Germany	100.00	v
BOL.com AG, Gütersloh	Germany	100.00	v
Buch.de AG, Münster	Germany	26.70	e

[1] The company has availed of exemptions under section 17 of the Irish Companies' (Amendment) Act 1986 from publicly filing its financial statements.

As of December 31, 2005

Ownership of Group companies by percentage.

Consolidation method is defined as follows:

v = fully consolidated
q = proportionally consolidated
e = associated companies recognized at equity
* = operating department

33 Exemption for Domestic Companies from Preparing, Audit and Publication of Financial Statements

The following subsidiaries took advantage of the exemption regulations set out in § 264 para. 3 HGB relating to additional requirements for limited liability companies to prepare annual financial statements and a management report, as well as the requirements for audit of, and publication by, limited liability companies for the year ended December 31, 2005:

ADLER Immobilienverwaltungs GmbH	Gütersloh
Arabella Musikverlag GmbH	Munich
Arvato AG	Gütersloh
Arvato Direct Services Cottbus GmbH	Cottbus
Arvato Direct Services Dortmund GmbH	Dortmund
Arvato Direct Services Eiweiler GmbH	Heusweiler-Eiweiler
Arvato Direct Services GmbH	Gütersloh
Arvato Direct Services Gütersloh GmbH; main office	Gütersloh
Arvato Direct Services Gütersloh GmbH; branch office	Springe
Arvato Direct Services München GmbH	Gütersloh
Arvato Direct Services Münster GmbH	Münster
Arvato Direct Services Neckarsulm GmbH	Neckarsulm
Arvato Direct Services Nürnberg GmbH	Nuremberg
Arvato Direct Services Stuttgart GmbH	Kornwestheim
Arvato Direct Services Wilhelmshaven GmbH	Schortens
Arvato Direct Services Wuppertal GmbH	Wuppertal
Arvato Distribution GmbH	Harsewinkel
Arvato Infoscore GmbH	Baden-Baden
Arvato Logistics Services GmbH	Gütersloh
Arvato Media GmbH	Gütersloh
Arvato Middle East Sales GmbH	Gütersloh
Arvato Mobile GmbH	Hamburg
Arvato Services OWL GmbH	Gütersloh
Arvato Storage Media GmbH	Gütersloh
Arvato Systems GmbH	Gütersloh
Arvato Systems Technologies GmbH	Rostock
Arvato Technology ELC GmbH	Düren
Arvato Technology GmbH	Gütersloh
ASM Holding GmbH	Gütersloh
Auskunftei Kämpfer GmbH	Nuremberg
AZ Direct GmbH; main office	Gütersloh
AZ Direct GmbH; branch office	Garching
Bertelsmann Capital Holding GmbH	Hamburg
Bertelsmann Capital Ventures GmbH	Munich
Bertelsmann Immobilien GmbH	Gütersloh
Bertelsmann Korea Beteiligungs GmbH	Gütersloh
Bertelsmann Multimedia GmbH	Gütersloh
Bertelsmann Music Group GmbH; main office	Gütersloh
Bertelsmann Music Group GmbH; branch office	Munich
Bertelsmann Online Beteiligungsgesellschaft mbH	Gütersloh
Bertelsmann Online International GmbH	Gütersloh
Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung	Gütersloh
Bertelsmann TV Beteiligungs GmbH	Gütersloh
BFS Finance GmbH	Verl
BFS Finance Münster GmbH	Münster
BFS Health Finance GmbH	Dortmund
BFS Risk & Collection GmbH	Verl
BMG Deutschland GmbH; main office	Gütersloh
BMG Deutschland GmbH; branch office	Munich
BOL.com AG	Gütersloh
Credidata – Gesellschaft für allgemeine Datenverarbeitung mit beschränkter Haftung	Baden-Baden
Cross Marketing Arvato Services GmbH	Munich
Direct Group Bertelsmann GmbH	Gütersloh
Dreiklang-Dreimasken, Bühnen- und Musikverlag Gesellschaft mit beschränkter Haftung	Munich
ED Transfer GmbH Gesellschaft für Qualifizierung	Gütersloh
Empolis GmbH	Gütersloh
E-Score GmbH	Baden-Baden
GGP Media GmbH	Pößneck
Hotel & Gastronomie Gütersloh GmbH	Gütersloh
IFS Beteiligungs GmbH	Baden-Baden
Infoscore Business Data GmbH	Baden-Baden
Infoscore Business Support GmbH	Baden-Baden
Infoscore Datenmanagement Beteiligungs GmbH	Baden-Baden
Infoscore Forderungsmanagement GmbH	Baden-Baden
Infoscore Infodata Beteiligungs GmbH	Baden-Baden
Infoscore Software Service GmbH	Baden-Baden
Inmedia One GmbH	Gütersloh
Interworld Musik-Verlag Gesellschaft mit beschränkter Haftung	Munich
Isar-Inkasso-GmbH	Munich
JKL Beteiligungs GmbH	Gütersloh
Lambourne Productions GmbH	Herne
Media Log Spedition GmbH	Gütersloh
Medien Dr. phil. Egon Müller Service GmbH	Verl
Medienfabrik Gütersloh GmbH	Gütersloh
MNO Beteiligungs GmbH	Gütersloh
Moconta GmbH	Gütersloh
Mohn Media Bindery GmbH	Gütersloh
Mohn Media Energy GmbH	Gütersloh
Mohn Media Kalender & Promotion Service GmbH	Gütersloh
Mohn Media Print GmbH	Gütersloh
Mohn Media Sales GmbH	Gütersloh
Musik Edition Discoton, Gesellschaft mit beschränkter Haftung	Munich
Nürnberger Inkasso GmbH	Nuremberg
Pro Bind Professional Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Reinhard Mohn GmbH	Gütersloh
RM Buch und Medien Vertrieb GmbH; main office	Gütersloh
RM Buch und Medien Vertrieb GmbH; branch office	Berlin
RM Club-Service GmbH	Rheda-Wiedenbrück
RM Customer Direct GmbH	Nordhorn
RM Erste Beteiligungsverwaltungs GmbH	Gütersloh
RM Filial-Vertrieb GmbH	Rheda-Wiedenbrück
RM Kunden-Service GmbH; main office	Gütersloh
RM Kunden-Service GmbH; branch office	Rheda-Wiedenbrück
RM Promotion GmbH	Gütersloh
Rough Trade Distribution GmbH	Herne
RTL Club GmbH	Rheda-Wiedenbrück
Süd-Westdeutsche Inkasso GmbH	Baden-Baden
Thomas Abeking Verlag für technische Dokumentation GmbH	Grefrath
UFA-Ton-Verlagsgesellschaft mit beschränkter Haftung	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH; main office	Gütersloh
Verlagsgruppe Random House GmbH – Random House Audio; branch office	Cologne
Verlagsgruppe Random House GmbH; branch office	Munich
Wahl Media GmbH	Munich
Wiener Bohème Verlag Gesellschaft mit beschränkter Haftung	Munich
Wissen Media Group GmbH	Munich
WOSCHEK Verlags GmbH	Mainz
„Young" Musikverlag GmbH	Munich
1 18 18 Auskunft GmbH	Dortmund

The exemption provisions set out in para. 264 b HGB were again used for the following companies for the year ended December 31, 2005:

Börse Online Verlag GmbH & Co. KG	Munich
Döbelner Verlag GmbH & Co. KG	Döbeln
Dresdner Druck- und Verlagshaus GmbH & Co. KG	Dresden
Ehrlich & Sohn GmbH & Co. KG	Hamburg
Gruner + Jahr AG & Co. KG	Hamburg
Motor Presse Stuttgart GmbH & Co. KG	Stuttgart
Motor Presse International Verlagsgesellschaft Holding mbH & Co. Betriebs-KG	Stuttgart
Prinovis Ahrensburg GmbH & Co. KG	Hamburg
Prinovis Dresden GmbH & Co. KG	Hamburg
Prinovis Itzehoe GmbH & Co. KG	Hamburg
Prinovis Ltd. & Co. KG	Hamburg
Prinovis Nürnberg GmbH & Co. KG	Nuremberg
SCW Media Vetriebs- GmbH & Co. KG	Stuttgart
Sport + Freizeit Verlag GmbH & Co. KG	Stuttgart
Verlegerdienst München Gesellschaft mit beschränkter Haftung & Co. KG	Gilching
Vogel Druck- und Medienservice GmbH & Co. KG	Höchberg

34 Recommendation on Appropriation of Retained Earnings

On May 23, 2006 and as provided by the statutes, €76 million will be distributed to the profit participation certificates out of Bertelsmann AG's retained earnings of €1,150 million. The Executive Board recommends to the General Meeting that the remaining retained earnings of €1,074 million be appropriated as follows:

	in € millions
Remaining retained earnings	1,074
Dividends to shareholders	(287)
Carryforward to new fiscal year	**787**

Bertelsmann AG's Executive Board approved the consolidated financial statements for issuance to the Supervisory Board on March 3, 2006. The Supervisory Board is responsible for reviewing the consolidated financial statements and stating whether it approves the consolidated financial statements.

Gütersloh, March 3, 2006

Bertelsmann AG
The Executive Board

Dr. Thielen Dr. Rabe Dr. Kundrun Olson

Ostrowski Dr. Walgenbach Zeiler

Supervisory Board

Reinhard Mohn
Honorary Chairman

Prof. Dr. Dieter H. Vogel
Chairman
Managing partner of
LGB & Vogel GmbH
- Gerling-Konzern Versicherungs-Beteiligungs AG (since 5/31/2005)
- Mobilcom AG (Chairman)
- Telunico Holding AG (since 12/14/2005)
- Wacker Construction Equipment AG (Chairman)
- WCM Beteiligungs- und Grundbesitz AG (Chairman)
- Gerling Beteiligungs-GmbH (until 5/31/2005)
- HSBC Trinkaus & Burkhardt KGaA
- Klöckner & Co GmbH (Chairman) (since 6/28/2005)

Prof. Dr. Jürgen Strube
Vice Chairman
Chairman of the Supervisory Board,
BASF AG
- Allianz Lebensversicherungs-AG
- BASF AG (Chairman)
- BMW AG
- Commerzbank AG
- Fuchs Petrolub AG (Chairman)
- Hapag-Lloyd AG
- Linde AG

Dr. Rolf-E. Breuer (until 5/18/2005)
Chairman of the Supervisory Board,
Deutsche Bank AG
- Deutsche Bank AG (Chairman)
- Deutsche Börse AG (Chairman) (until 10/10/2005)
- Eon AG
- Compagnie de Saint-Gobain S.A. (until 6/9/2005)
- Kreditanstalt für Wiederaufbau (until 4/9/2005)
- Landwirtschaftliche Rentenbank

André Desmarais
President and Co-Chief Executive
Officer, Power Corporation of Canada
- CITIC Pacific, Ltd.
- Gesca Ltée
- Great-West Lifeco, Inc.
- IGM Financial, Inc.
- Investors Group, Inc.
- Pargesa Holding S.A.
- Power Financial Corporation (Vice Chairman)
- Power Technology Investment Corporation
- The Great-West Life Assurance Company

Dr. Claus-Michael Dill
Chairman of the Executive Board,
DAMP Holding AG (since 1/1/2006)
Chairman of the Executive Board,
Axa Konzern AG and holder of seats
on various committees in the same
group (until 8/15/2005)
- Kölnische Rückversicherung AG (Vice Chairman)
- TÜV Rheinland Holding AG (Chairman)
- Deutsche Bank AG, Regionalbeirat West
- West LB (since 3/22/2005)

Sir Peter Job (until 5/18/2005)
Former Chief Executive Officer,
Reuters Group PLC
- Deutsche Bank AG
- Glaxo Smithkline PLC
- Instinet Group, Inc.
- Schroders PLC
- Shell Transport and Trading PLC
- Tibco Software, Inc.

John R. Joyce
Managing Director Silver Lake
Partners (since 7/19/2005)
Senior Vice President and Group
Executive, IBM Global Services
(until 7/15/2005)
- Gartner, Inc. (since 7/27/2005)
- Avago Technologies, Ltd. (since 12/1/2005)

Dr. Hans-Joachim Körber
Chairman of the Executive Board,
Metro AG
- Kaufhof Warenhaus AG (Chairman)
- Real Holding GmbH
- Loyalty Partner GmbH (until 1/24/2006)
- LP Holding GmbH (since 2/13/2006)
- Skandinaviska Enskilda Banken AB

Oswald Lexer
Vice Chairman of the Bertelsmann AG
Corporate Works Council

Prof. Dr.-Ing. Joachim Milberg
(since 5/18/2005)
Chairman of the Supervisory Board,
BMW AG
- Allianz Versicherungs-AG
- BMW AG (Chairman)
- Festo AG
- MAN AG (Vice Chairman)
- Deere & Company
- Leipziger Messe GmbH

Liz Mohn
Chairwoman of the Board of
Bertelsmann Verwaltungsgesellschaft
mbH (BVG),
Vice Chairwoman of the Bertelsmann
Stiftung Executive Board

Willi Pfannkuche
Member of the Bertelsmann AG
Corporate Works Council

Erich Ruppik
Chairman of the Bertelsmann AG
Corporate Works Council

Gilles Samyn
Managing Director, Frère-Bourgois, Managing Director and Vice Chairman, Compagnie Nationale à Portefeuille S.A.

- Groupe Bruxelles Lambert S.A.
- Groupe Taittinger S.A. (until 9/21/2005)
- Imerys S.A. (until 3/16/2005)
- Pargesa Holding S.A.
- Quick S.A. (until 3/16/2005)
- RTL Group S.A.
- Société du Louvre S.A. (until 9/21/2005)

Richard Sarnoff
Chairman of the Bertelsmann AG Management Representative Committee, President, Random House Corporate Development and Random House Ventures

- Activision, Inc. (since 8/1/2005)
- American Reading Company (since 4/1/2005)
- Audible, Inc.
- Classic Media
- Ebrary, Inc.
- Princeton Review, Inc.
- Xlibris, Inc.
- Vocel, Inc. (since 2/1/2005)

Lars Rebien Sørensen (since 5/18/2005)
President and CEO, Novo Nordisk A/S

- Scandinavian Airlines System AB
- Zymo Genetics, Inc.

Christian van Thillo
Chief Executive Officer, De Persgroep NV

- National Bank of Belgium (since 3/29/2005)

Committees of the Supervisory Board

Personnel Committee
Prof. Dr. Dieter H. Vogel (Chairman)
André Desmarais
Liz Mohn
Prof. Dr. Jürgen Strube

Audit and Finance Committee
Prof. Dr. Jürgen Strube (Chairman)
Dr. Claus-Michael Dill
John R. Joyce
Erich Ruppik
Gilles Samyn
Christian van Thillo

Strategy and Investment Committee
Prof. Dr. Dieter H. Vogel (Chairman)
André Desmarais
Dr. Hans-Joachim Körber
Prof. Dr.-Ing. Joachim Milberg
Gilles Samyn
Richard Sarnoff
Lars Rebien Sørensen

Working Group of Employee Representatives on the Supervisory Board
Liz Mohn (Chairwoman)
Oswald Lexer
Willi Pfannkuche
Erich Ruppik
Richard Sarnoff

• Membership of statutory domestic supervisory boards
• Membership of comparable domestic and foreign supervisory bodies of business enterprises

Executive Board

Dr. Gunter Thielen
Chairman and Chief Executive Officer
- Arvato AG (Chairman)
- Druck- und Verlagshaus Gruner + Jahr AG (Chairman)
- Bertelsmann, Inc. (Chairman)
- Leipziger Messe GmbH [1]
- RTL Group S.A.
- Sony BMG Management Co., LLC

Dr. Siegfried Luther
Vice Chairman and Chief Financial Officer (until 12/31/2005)
- Druck- und Verlagshaus Gruner + Jahr AG
- Bertelsmann, Inc. (until 12/312005)
- RTL Group S.A. (Chairman)
- Sony BMG Management Co., LLC (until 12/31/2005)

Dr. Bernd Kundrun
Chairman and Chief Executive Officer, Gruner + Jahr AG
- Gruner + Jahr USA Group, Inc.
- Prinovis, Ltd. (Chairman) (since 7/4/2005)
- Stern Magazine Corporation

Peter Olson, J.D./MBA
Chairman and Chief Executive Officer, Random House
- Bertelsmann, Inc.
- Grupo Editorial Random House Mondadori, S.L.
- Random House Direct, Inc.
- Random House Films LLC (since 4/28/2005)
- Random House JoongAng, Inc.
- Random House Kodansha Co., Ltd.
- Random House V.G., Inc.
- Random House Ventures LLC

[1] External mandates

- • Membership of statutory domestic supervisory boards
- • Membership of comparable domestic and foreign supervisory bodies of business enterprises

Hartmut Ostrowski
Chairman, Arvato AG
- Arvato Services Canada, Inc.
- Arvato Services, Inc.
- Bertelsmann Holding Spain S.A. (Chairman)
- Berryville Graphics, Inc.
- Coral Graphic Services of Kentucky, Inc.
- Coral Graphic Services, Inc.
- Coral Graphic Services of Virginia, Inc.
- Dynamic Graphic Finishing, Inc.
- Eurohueco S.A. (Chairman)
- Istituto Italiano d'Arti Grafiche S.p.A. (Chairman)
- Maul + co – Chr. Belser GmbH (Chairman)
- Media Finance Holding, S.L. (Chairman)
- Offset Paperback MFRS, Inc.
- Phone Assistance S.A.
- Phone Serviplus S.A.
- Printer Industria Grafica Newco, S.L. (Chairman)
- Stampers, Ltd.

Dr. Thomas Rabe
Chief Financial Officer (since 1/1/2006) Head of Bertelsmann Music Group (BMG) (since 2/10/2006)
- Antena 3 de Television S.A. (until 1/1/2006)
- Audiomédia Investments S.A. (until 1/1/2006)
- Bertelsmann, Inc. (since 1/1/2006)
- BMG Music Publishing NA, Inc. (since 2/10/2006)
- Broadcasting Center Europe S.A. (Chairman) (until 1/1/2006)
- Channel 5 Television Group, Ltd. (until 1/27/2006)
- CLT-UFA S.A. (until 1/1/2006)
- Ediradio S.A. (Vice Chairman) (until 1/1/2006)
- Fremantle Media S.A. (until 1/1/2006)
- Media-Assurance S.A. (Chairman) (until 1/1/2006)
- Métropole Télévision M6
- Media Holding Ren-TV (until 2/10/2006)
- RTL Group Central & Eastern Europe S.A. (Chairman) (until 1/1/2006)
- RTL Group Germany S.A. (until 1/1/2006)
- RTL Group S.A. (since 1/1/2006)
- RTL Hrvatska d.o.o. za uslugue
- Sony BMG Management Co., LLC (since 1/1/2006)
- S5 SARL
- Sportfive S.A.
- TVI S.A.
- Zomba Enterprises, Inc. (since 2/10/2006)

Rolf Schmidt-Holtz
Chief Creative Officer, Bertelsmann AG (until 2/10/2006) Chairman and Chief Executive Officer, Bertelsmann Music Group (BMG) (until 2/10/2006)
- Druck- und Verlagshaus Gruner + Jahr AG (until 2/10/2006)
- RTL Group S.A. (until 2/10/2006)
- Bertelsmann, Inc. (until 2/10/2006)
- BMG Music Publishing NA, Inc. (until 2/10/2006)
- Sony BMG Management Co., LLC (Chairman until 2/10/2006)
- The 25th Anniversary Foundation, Inc.
- Zomba Enterprises, Inc. (until 2/10/2006)

Dr. Ewald Walgenbach
Chief Executive Officer, Direct Group Bertelsmann
- BOL.com AG (Chairman)
- Bertelsmann Korea Co., Ltd. (until 3/31/2005)
- Bertelsmann Management (Shanghai) Co., Ltd.
- BOL Books Online Italia S.p.A. (Chairman) (since 4/15/2005)
- Bookspan
- FCB Freizeitclub GmbH & Co. KG
- Mondolibri S.p.A. (Chairman) (since 4/15/2005)
- RTL Group S.A.
- Shanghai Bertelsmann Culture Industry Co., Ltd.

Gerhard Zeiler (since 10/1/2005)
Chief Executive Officer, RTL Group
- Broadcasting Center Europe S.A. (Chairman) (since 1/30/2006)
- Channel 5 Television Group, Ltd. (Chairman) (since 1/27/2006)
- CLT-UFA S.A.
- Ediradio S.A.
- Fremantle Media S.A. (Chairman)
- Métropole Télévision M6
- M-RTL ZRT (Chairman) (since 8/26/2005)
- N-TV Nachrichtenfernsehen Beteiligungs GmbH
- RTL Hrvatska d.o.o. za uslugue (since 9/26/2005)
- RTL Television GmbH

Auditor's Report

We have audited the consolidated financial statements prepared by the Bertelsmann AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Bielefeld, March 6, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke	Kämpf
Wirtschaftsprüfer	Wirtschaftsprüfer

Select Terms at a Glance

Contractual Trust Arrangement (CTA)
Concept of funding and insolvency protection of pension obligations by transfer of assets into a trustlike structure. Assets are classified as plan assets under IFRS and netted with pension liabilities of the company.

IFRS
International Financial Reporting Standards. Accounting standards intended to ensure internationally comparable accounting and reporting.

Impairment
Write-down of assets to their recoverable amount.

Joint Venture
An agreement to jointly operate, contribute capital to, supply know-how to, and divide profits from, an entity.

Operating EBIT
Earnings before interest, taxes and special items.

Operating EBITDA
Earnings before interest, taxes, depreciation, amortization and special items.

Rating
Expression of creditworthiness of a creditor or financial instrument by an agency specialized in creditworthiness analysis.

Syndicated credit line
Syndicated loan facility involving a consortium of banks.

Special items
Income and expense items which are distinguished by their nature, amount or frequency of occurrence and disclosure of which is relevant for assessing the earnings power of the entity or its segments in the period affected. IFRS requires these items to be separately disclosed. They include, for example, restructuring measures, impairments and gains or losses on disposals of participations.

Merger gain
The positive difference between total carrying values of the net assets of the transferring entity and the total consideration paid by the acquiring entity.

Financial Calendar

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

May 23, 2006
Payout of dividends on Profit Participations
Certificates for the 2005 fiscal year

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

Further Information

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