Annual Report 2006

The Spirit to Create

BERTELSMANN
media worldwide

Bertelsmann Financial Highlights

Key Figures (IFRS)	2006	2005	2004	2003	2002
in € millons					
Business Development					
Consolidated revenues	**19,297**	17,890	17,016	16,801	18,312
Operating EBIT[1]	**1,867**	1,610	1,429	1,026	787
Operating EBITA	**–**	–	–	1,123	936
Operating EBITDA	**2,548**	2,274	2,112	1,866	1,666
Return on sales in percent[2]	**9.7**	9.0	8.4	6.7	5.1
Operating Bertelsmann Value Added (BVA[3])	**101**	28	3	–	–
Net income	**2,424**	1,041	1,217	208	968
Investments	**1,092**	2,565	930	761	5,263
Consolidated Balance Sheet					
Equity	**6,429**	9,170	8,846	7,631	7,744
Equity ratio in percent	**28.6**	40.0	42.2	37.9	34.9
Total assets	**22,498**	22,932	20,970	20,164	22,188
Economic debt[4]	**6,760**	3,931	2,632	3,227	5,184
Leverage factor[5]	**2.8**	2.2	1.6	1.9	–
Employees (in absolute numbers)[6]					
Germany	**34,336**	32,570	27,350	27,064	31,712
Other countries	**62,796**	58,989	48,916	46,157	48,920
Total	**97,132**	91,559	76,266	73,221	80,632
Dividends to shareholders of Bertelsmann AG	**120**	287	324	220	240
Profit participation payments	**77**	76	76	76	77
Employee profit sharing	**73**	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) Based on Operating EBIT

3) Bertelsmann uses the BVA as a controlling instrument to assess the profitability of its operations and its return on capital.

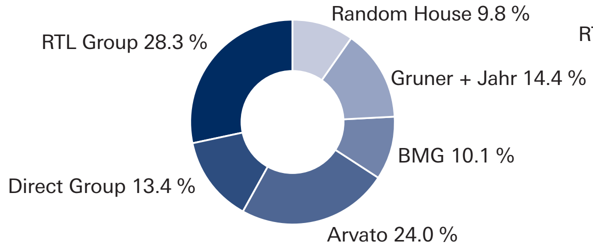
4) Net financial debt plus provisions for pensions and profit participation capital

5) Economic debt/Operating EBITDA (after modifications)

6) The number of employees for 2005 has been adjusted to reflect the changed measuring methodology.

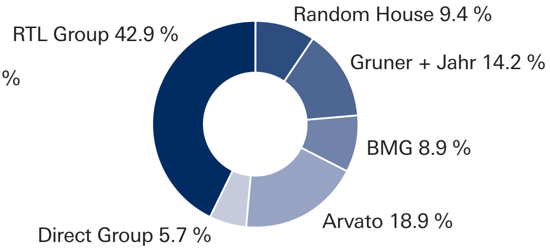
Total Revenues by Division

in percent*



Operating EBIT by Division

in percent*



* Based on total from divisions not including Corporate/Consolidation

Corporate Divisions at a Glance

Bertelsmann

RTL Group
Bertelsmann AG **89.8 %**
Free float **10.2 %**

Random House
Bertelsmann AG **100 %**

Gruner + Jahr
Bertelsmann AG **74.9 %**
Jahr Family **25.1 %**

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RTL Group is Europe's leading broadcasting and TV production company, with holdings in 38 TV channels and 29 radio stations in ten countries, and a worldwide presence in the content production sector.

RTL Group	**2006**	2005	2004	2003	2002
in € millions					
Revenues	**5,640**	5,112	4,878	4,452	4,362
Operating EBIT [1)]	**835**	756	668	503	465
Operating EBITA	**–**	–	–	503	465
Employees (in absolute numbers)	**11,307**	8,970	8,117	7,254	7,378

Random House is the world's biggest trade book publishing group. Its portfolio includes more than 120 editorially independent imprints, which together publish roughly 9,000 new releases a year.

Random House	**2006**	2005	2004	2003	2002
in € millions					
Revenues	**1,947**	1,828	1,791	1,776	1,995
Operating EBIT [1)]	**182**	166	140	115	147
Operating EBITA	**–**	–	–	147	168
Employees (in absolute numbers)	**5,804**	5,468	5,383	5,525	5,626

The Gruner + Jahr printing and publishing company is Europe's biggest magazine publisher. The company publishes more than 300 magazines and newspapers in over 20 countries, along with the accompanying online offerings.

Gruner + Jahr	**2006**	2005	2004	2003	2002
in € millions					
Revenues	**2,861**	2,624	2,439	2,481	2,800
Operating EBIT [1)]	**277**	250	210	233	220
Operating EBITA	**–**	–	–	234	226
Employees (in absolute numbers)	**14,529**	13,887	11,671	11,352	11,367

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BERTELSMANN
media worldwide

BMG

Sony BMG Music Entertainment:
Bertelsmann AG **50 %**
Sony Corporation of America **50 %**

BMG Music Publishing:
Bertelsmann AG **100 %**

Arvato

Bertelsmann AG **100 %**

Direct Group

Bertelsmann AG **100 %**

BMG BERTELSMANN

The BMG division consists of BMG Music Publishing and the Sony BMG Music Entertainment joint venture, which unites labels such as Arista, Columbia Records, Epic Record, Jive and RCA Records.

BMG	**2006**	2005	2004	2003	2002
in € millions					
Revenues	**2,017**	2,128	2,547	2,712	2,714
Operating EBIT [1)]	**173**	177	162	54	43
Operating EBITA	**–**	–	–	110	125
Employees (in absolute numbers)	**3,009**	3,736	4,259	4.880	6,452

arvato BERTELSMANN

Arvato, one of the world's largest media and communications services providers, offers classic printing services as well as modern services including service centers, financial clearing, and mobile services.

Arvato	**2006**	2005	2004	2003	2002
in € millions					
Revenues	**4,782**	4,365	3,756	3,639	3,668
Operating EBIT [1)]	**367**	341	310	261	217
Operating EBITA	**–**	–	–	261	217
Employees (in absolute numbers)	**46,584**	42,706	33,813	31,405	31,174

DirectGroup BERTELSMANN

The Direct Group division brings media to people, from books to DVDs. The selection and service provided by Direct Group's clubs, shops and online outlets have won over more than 35 million members in 24 countries.

Direct Group	**2006**	2005	2004	2003	2002
in € millions					
Revenues	**2,665**	2,384	2,175	2,286	2,707
Operating EBIT [1)]	**110**	53	32	4	(160)
Operating EBITA	**–**	–	–	4	(150)
Employees (in absolute numbers)	**14,996**	13,717	12,116	11,893	12,309

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[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.

Annual Report 2006

"Ready for the Next Period of Growth"

2006 was the best business year in Bertelsmann's history. It was a historic year for the company: In buying back the shares formerly owned by the Belgian investment group Groupe Bruxelles Lambert (GBL), Bertelsmann strengthened its independence while also accomplishing its greatest single transaction ever. In an interview, Chairman & CEO Gunter Thielen explains why Bertelsmann AG will continue to be a leading, world-class media corporation.

Question: Mr. Thielen, digitization has put the media industry in the middle of a far-reaching structural transformation. In this unlikely situation, Bertelsmann chose to spend billions on buying back 25.1 percent of its own shares. How do you justify this?

Gunter Thielen: I can understand the skepticism of some observers. But this was the right step to take. It safeguards our company's independence and strategic freedom for the long term. The price was appropriate and would be a great deal higher today – after not even a year – because we have continued to grow our value since.

Question: But didn't the buyback increase the debt pile?

Gunter Thielen: Yes, the buyback greatly increased our debt. But we will be very near our internal financing targets again by the end of 2007, thanks to the excellent performance of our operations and the successful sale of our music publishing business. 2006 was a great year for us. We significantly grew our revenues and profits. Fact is, Bertelsmann is in excellent shape. We are well set up and based on this we are now preparing for the next period of growth, which will begin before 2008.

Question: Did Bertelsmann's corporate culture play a part in the decision?

Gunter Thielen: It played a major part! By buying back our shares, we safeguard Bertelsmann's corporate culture of partnership for the long term. And we do so because we believe it is good for our employees, as well as for the business. Our corporate culture is the foundation of our success. We can focus more on long-term corporate goals than listed companies, which are forced to think in quarterly cycles. We can plan for the long term and we have the freedom

GUNTER THIELEN
Bertelsmann AG Chairman and CEO

"There are only few companies that have so many excellent, entrepreneurially minded executives and highly motivated employees. All of them share the will to craft something new, develop creative ideas to market readiness, and create value. That's what we mean by the 'Spirit to Create'."

to let our employees participate in profits without having to ask anyone for permission. We can give them continuity and future prospects. This motivates people and increases their loyalty to the company. Our second international employee survey, in fall 2006, confirmed these facts yet again. Four in five employees would immediately join Bertelsmann again given the choice. The results show that our culture is a tangible competitive edge, not a social indulgence.

Question: In the media industry, enormous prices are being paid these days for takeovers of Internet companies. Can Bertelsmann continue to play in the global league of media corporations without going public and having access to the capital market?

Gunter Thielen: Bertelsmann is still in the Champions League of the international media industry. Even without going public, we are a capital market-oriented company that can secure the necessary financing from the markets at any time. Witness our successful placement of two billion-euro bonds in 2006. And in 2005 and 2006, the Boston Consulting Group joined us in analyzing all of our corporate divisions. Are we fit for the digital future? Are our businesses well set-up for the long term? The results show that we are well prepared and stand poised on the threshold to a new period of growth. Most of our companies and divisions have successfully prepared the ground for the future. We are one of the world's biggest content producers and the European #1 by a large margin. We will continue to build the business on this position.

Question: Are there enough funds available for investments in future growth?

Gunter Thielen: We will continue to grow both organically and through acquisitions. Our goal is clear: starting in 2008, Bertelsmann's financial leeway will be between one and 1.5 billion euros per year again. Therefore, by 2010, we will be able to make investments on a scale of roughly 6 billion euros. Half of it will be available for acquisitions. We have our eye on our core markets in Europe and North America as well as emerging markets in Asia and Eastern Europe – this will be a good starting basis for my successor Hartmut Ostrowski, who will be taking over as CEO in early 2008.

Question: What are your plans for your last year as Chairman and CEO of Bertelsmann?

Gunter Thielen: There are two priorities on my personal agenda: first, to prepare the ground for the next stage of expansion, and second, to establish systematic innovation management.

Question: Do you feel there is a need to catch up in the case of the latter?

Gunter Thielen: Technological changes resulting from digitization confront our company with great challenges, and will result in major changes for our businesses in the years ahead. The Internet continues to become more and more relevant, and is becoming an increasingly important factor in advertising as well. New technologies, new competitors and new business models are changing market models as well as the rules of the game. Essentially, the question is how can a media company with our tradition continue its successful track record in an age of digitization? We have to develop new ideas, and become even more creative.

Question: Many of the new Internet companies weren't born in corporations, but were financed by venture capitalists. How do you plan to counter?

Gunter Thielen: By nature, recent startups are quicker and more agile than large corporations. They're full of young, creative people who are

We have grown our revenues and profits considerably. Fact is, Bertelsmann is in excellent shape. We have a strong, viable portfolio.

absolutely determined to turn their ideas into products in the shortest possible time. I visited a number of these young entrepreneurs in the past few months, especially in the U.S. One thing I learned from them: Bertelsmann needs to pick up its speed. We have top people with great creative potential and tremendous commitment. We will scout new areas related to our core businesses, corner them and build them swiftly. To do so, we will have to take larger risks. We will pick up on trends and quickly and unbureaucratically build them into new businesses.

We will scout new areas related to our core businesses, corner them and build them swiftly. To do so, we will have to take larger risks. We will pick up on trends and quickly and unbureaucratically build them into new businesses.

Question: Many large corporations are slow to develop new technologies and ideas themselves. Instead, recent startups are being taken over by the majors for spectacular sums again. Are you planning acquisitions on this scale?

Gunter Thielen: We prefer to develop new activities from the inside or identify them at an early stage and then build them up. In the process, we will closely interlink these activities with our core business in the companies and divisions. This strategy has made Bertelsmann great. The digitization of media presents a real opportunity for entrepreneurs as well. Bertelsmann will seize this opportunity. In fall of 2006, we set up a venture capital fund with starting-capital of €50 million. Its job is to scout interesting startups and buy stakes in them. The international team at Bertelsmann Digital Media Investments, headquartered in New York, is doing an excellent job – and the decentralized nature of our company, along with the myriad digitization-related activities in the divisions provide them with a huge advantage.

Question: The Annual Report 2006 has the theme “The Spirit to Create.” What ideas do you associate with this?

Gunter Thielen: If I think about what sets Bertelsmann apart from other companies, I quickly arrive at this very phrase. There are only few companies that have so many excellent, entrepreneurially minded executives and highly motivated employees. All of them share the will to craft something new, develop creative ideas to market readiness, and create value. In other words: to be more innovative than others, be willing to take risks, and put new technologies to work quickly. That’s what we mean by the “Spirit to Create.” That is the core of our brand. And that is why I firmly believe that we will continue to defend our role at the top of the global heap.

Question: What events of the year 2006 do you personally enjoy looking back on?

Gunter Thielen: Of course, there was the enthusiasm of people from all over the world, who witnessed a phenomenal Football World Cup here in Germany. I was also very happy with the success of the “Du bist Deutschland” (“You are Germany”) campaign initiated by numerous media companies under Bertelsmann’s auspices – the mood in our country has lifted considerably and ultimately contributed to an improved economy throughout Germany. This is something we all need to continue working on.

The Executive Board of Bertelsmann AG

FROM LEFT TO RIGHT

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).

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).

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

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).

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.).

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).

GUNTER THIELEN
Chairman and Chief Executive Officer of Bertelsmann AG

ERICH RUPPIK
Chairman of the Bertelsmann AG Corporate Works Council

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.

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 Verwaltungsgesellschaft'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 Stiftung – 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.

Partnership

Creativity

Entrepreneurship

Citizenship

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2006 was the best year in the company’s history. More than 75 percent of our businesses command #1 or #2 positions in their markets. No other company in the media industry is more international or broadly set-up than we are. A review of our strategic viability concluded that all lines of business have further growth potential. As we advance the digitization of media, we strengthen our position as one of the world’s leading content producers.

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now and in the future.

Bertelsmann is

We bought back the 25.1-percent stake in Bertelsmann from Groupe Bruxelles Lambert and paid €4.5 billion for it. The buyback secures the company’s independence and makes possible a long-view strategy geared towards sustainability. It was a good decision for the shareholders and the company from an economic standpoint as well. The debt will be paid down quickly through a number of measures, such as the sale of the music publishing business, a restrained dividend policy, and not least the strong performance of our operations.

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independent.

Entrepreneurial spirit and

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Creativity is prerequisite to any entrepreneurial action. It is the determination to create something new, be it creative content or innovative business models.

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go hand in hand.

RTL GROUP

Commercial Television for France

M6 Group is a model of profitability and diversification. The group is clustered around the TV channel M6. Launched 20 years ago, today it is an institution of French television. This success story would not have been possible without a meticulous, down-to-earth team worker who is also willing to experiment and take risks: Thomas Valentin.

Every minute counts in the TV business, and teamwork is often of the essence.

Passion, Professionalism, Patience

Television is both entertainment and information, and – these days – communication on all channels: TV, mobiles and the Internet. Thomas Valentin, Deputy CEO of the M6 Group and in charge of the group's networks and content, loves teamwork – and his audiences.

Television? Television is easy. You click on the remote and there it is. Then all you really have to do is watch. That's how easy it is. At first glance, taking a TV channel to success doesn't appear to be much more difficult, either. You go shopping for some great movies, meet stars and basically have fun and a great life.

Thomas Valentin smiles. As head of programming at the French channel M6 and its affiliated special-interest channels, he does have fun at work. Not to mention success: M6 is one of France's two big free-to-air commercial channels. One evening out of three more than four million people in the grande nation watch the programming he and his team put together. In autumn 2006, M6 gained up to 600,000 viewers per month compared to the previous year, in the keenly fought primetime slot. No other French channel has managed that.

What's it like to be Head of Programming? Easy, says Thomas Valentin. You just have to watch TV.

Valentin, a physicist by training, has been on board since M6 aired its very first program on March 1, 1987. Five years later, in 1992, he was appointed the channel's chief of programming. In the years since, Valentin has shaped and witnessed the rise of the formerly tiny commercial channel to become one of the major players in the French TV landscape. So what's his job like? "Oh, it's quite easy. 15 years ago, former M6 President Jean Drucker, shared this with me: You just have to watch TV every evening while at the same time going out to the movies, the theater, meeting people, and scouting new talents."

More than television: The brand is successful in mobile telephony and on the Web as well.

Well, okay, there are a few other things as well. "You have to keep a very close eye on your own programming and on the competition, and of course you also have to know what will be coming to market in the near future. At the same time, build a team of technical engineers, marketing people, business experts and so on. Because at the end of the day, television is one thing above all: Teamwork. And teamwork that leads to success is the fine art of integrating creativity, technology, organization, economy, the ability to identify and implement new things quickly while refraining from tossing the tried and proven overboard." And together with this team, Valentin has to develop a sixth sense, a capability of being attuned to the expectations of what French audiences really want to watch. What the woman in the street likes. In the TV industry, which can be quite flashy at times, you call this staying grounded. So, as we can see: Director of Programming is an "easy" job.

Viewers aren't interested in technology – they want programming that focuses on the main thing: good entertainment.

Preserve, change and discover are different dimensions that Thomas Valentin has to reconcile. In the 20 years that Valentin has been with M6, the industry has undergone a rapid, almost explosive development. "Television is changing dramatically – what used to be referred to as a General Interest channel, today has to play on many technical channels. We're successful in wireless and on the Web as well." Digitization has made it possible for viewers to demand programming from any place on Earth, and at all times. "For customers, the technologies behind the programming is becoming less and less important – for them, availability and easy handling are the top criteria," Valentin reports: "And it doesn't stop there: We have to be eager to experiment with extending all forms of exploitation." Diversification is the magic word here. One such experiment with a decidedly positive outcome is M6-Mobile, M6 programming for cell phones, which has been a smash hit with young French audiences.

Media convergence, the merging of different types of media – such as TV and mobiles – into a whole that is useful to customers, is in full swing, and M6 was one of France's pioneers in the field. As successful as cell-phone TV are the Web sites in the M6 universe, such as "wideo.fr." Here, users become creators: much of the content on "wideo.fr" consists of videos posted by M6 viewers. Community loyalty to the M6 brand is high – and is being further enhanced. For instance, the channel's home-shopping range – already well established thanks to "Mr.Gooddeal.com" – is gradually being extended to include further Internet sites. Here, too, the commercial channel has secured a stable position in a keenly competitive market.

Thomas Valentin leaves no doubt that competition will be tough: "For us, the multiplication of channels, content and exploitation paths naturally means that we have to deal with myriad new protagonists that traditional TV channels didn't compete with in the past. It's no longer just the other TV channels that we perceive as rivals, with whom we compete for viewers. Today, making programming means seeing and realizing the entire spectrum of exploitation," says Valentin, explaining the modern-day strategy of TV makers.

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1 Thomas Valentin keeps a firm eye on his programs.

Without good content, all new platforms are worthless – quality is the hard currency of the media business.

One could easily misunderstand the integration work that the M6 team copes with: When so much that is new needs to be realized as successful programming, doesn't one run the risk of forgetting the content for all the variety? Thomas Valentin smiles again: "That's just the point, the most important simple truth: The quality of programming content will continue to be the crucial thing. Technology only widens our scope for maneuver, and it makes the programming more accessible on many new platforms. But nothing goes without good content, without the good old virtue of creativity," he says.

It turns out that developments in the new media are not a revolution after all, not a complete overthrow of the status quo, but an evolution, a development that adds new options to the existing possibilities: "For instance, I don't believe that the major national radio and TV networks will disappear in the future." Although, from a technology point of view, the world may be a global village, what people love are the differences – including and especially on television. No matter how many niches emerge in the new media, no matter how much specialization is good and right: Viewers also love the things they can share with other viewers: "Major national networks can spark major community experiences, with shared emotions – just think of the 'Idol' shows or the Football World Cup."

The new world of television is one of special interests and communities. The two can only work together if people with commitment and perseverance come together, like the M6 team, which combines the best of all worlds. It's a tough job. And Thomas Valentin likes doing it. He's happy when the audience enjoys good entertainment. Valentin's overriding goal is to surprise audiences with the new and the unexpected, to enrich them with an outstanding portfolio of programs that inform, educate and entertain. His job is well done when every opportunity to gather audiences has been seized.

Highlights // RTL Group

"Television is here to stay. As the variety of options multiplies in the digital age, RTL Group will remain focused on what consumers want: which is high-quality content and trusted brands."

GERHARD ZEILER
Chief Executive Officer, RTL Group

1 RTL Donations Marathon – Setting Records for Children
Anke Schäferkordt, Managing Director of RTL Television, was visibly moved: "A big thank-you to our viewers!" The head of RTL's German family of channels had every reason to rejoice – the "RTL Donations Marathon 2006" raised €5,154,760, exceeding the record result of 2005 by nearly half a million euros. For many years, RTL has funded worldwide relief projects that devote themselves especially to children and teens. Last year, this included the construction of a new school in Colombia, whose sponsors at the "RTL Donations Marathon 2006" included superstar Shakira.

2 Super Idols
January 2006 saw the launch of the fifth season of "American Idol," the world's most popular TV talent show of all time. The program – with a panel of judges that includes Sony BMG executive Simon Cowell, an institution in his own right who regularly contributes provocative pronouncements – scored new record ratings. An average 30.6 million Americans tuned in throughout the season. The finale, from which Taylor Hicks emerged as the new "Idol," was watched by 36 million people, which makes "American Idol," produced by RTL Group's subsidiary Fremantle Media, the most popular primetime series on U.S. television.

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3 Five life & Five US – New TV Stars for the U.K.
Who said "Nothing good ever came out of America?" – The U.K. channel "Five US" roundly disproved its own claim in 2006. Its launch, like that of its sister channel "Five Life," was accompanied by a comprehensive marketing campaign. For Five's Chief Executive Jane Lighting, the launch of the two digital channels is the "most important new development ever" for the channel, which was established in 1997. With a blend of drama, movies, soaps and lifestyle programming, "Five Life" is tailored to young and predominantly female target audiences, while "Five US" offers viewers the best of drama, comedy, movies and sports programming in American television.

4 A Record-Setting Storm Tide
Germany's TV event of the year 2006 happened on RTL: Each of the two parts in the TV movie "Die Sturmflut" (The Storm Tide) drew over eleven million viewers to their TV screens, making for a market share of more than 39 percent among 14- to 49-year-old audiences. "Die Sturmflut," a Teamworx production with an €8 million budget, was filmed in Hamburg and involved spectacular special effects. Its cast included top-notch German TV stars such as Jan Josef Liefers, Nadja Uhl, Benno Fürmann, Heiner Lauterbach and Natalia Wörner.

5 RTL Netherlands – the Family of Stations
In August 2005, in response to the launch of an aggressive new competitor, the Dutch channels were repositioned as a "family." RTL, the quality brand in European commercial TV, uses the shared slogan "The family of stations" for the three channels RTL 4, RTL 5, RTL 7 to underscore its market leadership in The Netherlands. The 2006 relaunch accomplished the broadcaster's declared goal of making RTL 5 the #2 commercial station in its target demographic, as well as stabilizing the family's market share.

The Random House Dragonmeisters

Christopher Paolini wrote his first book at 15. Eight years later, he is the protagonist of a success story that is as magical as his fantasy novels. “Eragon” and “Eldest;” the first two books in the Inheritance trilogy about dragon rider Eragon, have sold more than eight million copies worldwide. But it takes more than just a good story to make a bestseller an enduring success. It takes a publisher with professionals full of creative ideas, like the team at Random House, several of whom are pictured above with Children’s Books Publisher Chip Gibson (seated).

RANDOM HOUSE

BERTELSMANN


Dec 15
swatch

Chip Gibson, head of Random House Children's Books in the U.S., and members of his team fine-tuning the "Eragon" marketing campaign.

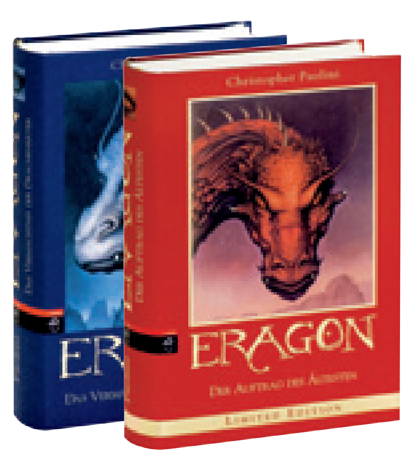
Riding a Dragon into the Book-Publishing Stratosphere

Young Christopher Paolini's fantasy novels "Eragon" and "Eldest" have enthralled millions of readers around the world. How his Random House publishing team transformed him from an unknown American teenager into an international literary star is as remarkable as Paolini's writing itself.

Growing up under the legendary big sky of his home state of Montana, nestled in the shadow of the majestic Rocky Mountains, Christopher Paolini did not have a typical childhood. With the nearest town a distant eighteen miles away, while most kids his age were playing baseball and soccer, Christopher – along with his sister, Angela – taught himself to fence, to paint, and to read ancient languages. By the time he was 14, Christopher had read more than 3,000 books. At 15, he decided to write his own.

Putting pen to paper, he imagined an entire fantasy world, inventing new languages, based on his study of ancient Scandinavian, for his book's characters. In two years of writing, he created the story of a farm boy, Eragon, who finds a mysterious blue stone in the forest. The stone hatches into a dragon and the boy's simple life is shattered. He takes up the mantle of the legendary Dragon Riders and sets out on a journey to save an Empire.

Eight years later, at age 23, Christopher Paolini enjoys a success that is as magical as the fantasy novels he writes. More than eight million copies of "Eragon" have been sold by Random House and its affiliates in North America, the U.K., Australia, and Germany, and by publishers in forty-five other languages licensed by Random House. There has been at least one Paolini book on the "New York Times" bestseller lists for four straight years. The novel has inspired countless Web sites and chat rooms, a popular video game, with its own Pepsi-Cola promotional tie-in – and a theatrical motion picture released worldwide



"Eldest" is Book Two in the Inheritance saga. The publication of Book Three is expected for 2008.

by 20th Century Fox pre-Christmas 2006 that has grossed more than $260 million.

What's behind the global success of the bold Dragon Rider? Great storytelling and great publishing.

The world of "Eragon" may be both mythical and mystical, but making the story of the Dragon Rider soar in the everyday world was accomplished very pragmatically, according to the author. "It requires a dedicated team full of inspiration and creativity that keeps coming up with more and more new ideas. In other words: my friends at Random House."

Chip Gibson, President and Publisher of Random House Children's Books in the U.S., first learned about "Eragon" from an early fan, the stepson of a bestselling Random House author, Carl Hiaasen. "At that time, the book was self-published. Christopher was its chief marketer and #1 salesman. The family was literally selling copies locally from the trunk of their car," Gibson recalled. "We read it. We loved it. We decided to buy it." Random House acquired world rights to the book in 2002, as well as to the next two novels in what Paolini called the "Inheritance trilogy."

"Eragon" immediately began its second – Random House – life. Paolini and his Random House editor, Michelle Frey, closely worked together on the self-published edition: polishing, tightening, and "making a great story even better," said Gibson. The celebrated fantasy artist John Jude Palencar was commissioned to paint the dragon Saphira, which became the centerpiece of the stunning new book jacket. The marketing team developed the largest promotional, advertising, and merchandising campaign ever undertaken by Random House Children's Books. A highly sophisticated Web site was launched, along with an enormous online marketing campaign for the novel.

Who's afraid of Harry Potter?

The Random House marketing team even used the publication of the new "Harry Potter" book to its advantage. "Knowing that 'Harry Potter' readers are potential 'Eragon' readers, we went straight for those fans jamming the bookstores and distributed posters, chapter excerpts, and other 'Eragon'-related giveaways. We wanted them to buy our novel after they finished Harry. It really worked," Gibson remembers.

Equally vital to the triumph of "Eragon" was the author-publicity campaign. Judith Haut, Vice President, Communications, Random House Children's Books, said, "We knew that its success and the success of the books to follow rested heavily on this extraordinary young author and his ability to tell his story. When I first met Christopher, he was 19 years old, full of youthful enthusiasm and ready to start this magical journey with us. Right from the start, I sensed he had a real gift for communicating all that was wonderful about his storytelling."

Haut and her publicity team coached a willing Paolini on how to conduct media interviews and rehearsed him for his bookstore appearances. Amid mounting buzz among booksellers and book buyers, "Eragon" debuted at #3 on the "New York Times" bestseller list. The author went on a fifteen-city North American tour and was a great hit with readers young and old. He appeared on national television and in leading newspapers and magazines as sales of the book exploded.

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Five months after publication, Random House sold its one-millionth copy of "Eragon" in North America and implemented a prodigious marketing effort to sell another million books while Paolini was back home in Montana writing his second novel. Again supported constantly by Michelle Frey, his editor, he completed it in early 2005. "Eldest" continues "Eragon's" journey as he encounters fearsome challenges and awesome adventures.

With a massive awareness campaign created by Gibson's team, the consumer and retailer anticipation for "Eldest" was Harry Potter-like in frenzy. Random House shipped one million copies to meet the late-summer first-day demand. Thousands of fans, many dressed as characters from the books, attended midnight parties hosted by bookstores, which placed the book on sale at 12:01 a.m. The first week's sales were record-breaking for Random House Children's Books and "Eldest" debuted at #1 on virtually every bestseller list.

Random House again licensed all the foreign editions and "Eldest" was published in 37 countries, instantly becoming #1 almost everywhere.

Paolini once more went on tour across North America and for the first time in continental Europe. He signed so many books for fans that his swollen hand had to be iced each night. "It was like touring a rock star, not a book author," Judith Haut observed.

More than 3.5 million copies of "Eldest" have been sold worldwide thus far. With the year-end release of the "Eragon" motion picture, the first novel was a #1 bestseller once more across the globe.

While his fans enjoy the "Eragon" film on DVD, sign up for the Random House "Eragon" e-newsletter, and receive personal messages from him in the original Dwarvish language of the characters, Paolini is busily working on the next volume of "Eragon's" journey. Publication is eagerly expected in 2008.

"Eragon's" new adventures surely will be greeted with a Random House Children's Books publishing effort just as dynamic and imaginative as the Dragon Rider's soaring flights. Christopher Paolini's storytelling creativity is the greatest inspiration for great publishing creativity.

1 Christopher Paolini at home in Montana.

2 Random House is the literary home of many celebrated authors. Chip Gibson with Random House first editions.

Highlights // Random House

"Random House's future success is ensured by our continuing creativity in developing great book ideas and discovering great new authors."

PETER OLSON
Chairman and CEO, Random House

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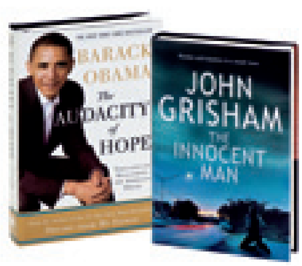

1 Record Bestselling Performance for Random House in the U.S. and U.K.
More than 200 Random House U.S. titles made the "New York Times" bestseller lists in 2006, and 37 of them became #1 bestsellers, a new record for Random House. They included U.S. Senator and presidential candidate Barack Obama's "The Audacity of Hope," and the first work of nonfiction by the master of legal thrillers – John Grisham's "The Innocent Man." In the U.K., the Random House Group again led the industry with bestselling titles commanding more than one-quarter of all positions on the "Sunday Times of London" bestseller lists in 2006.

2 Random House Author Orhan Pamuk Wins the "Nobel Prize"
Orhan Pamuk has "discovered new symbols for the clash and interlacing between cultures," the Swedish Academy declared when it bestowed the 2006 "Nobel Prize" in Literature on the Turkish writer. Random House publishes Orhan Pamuk's works in the U.S., Canada, Spain and Latin America. The world's biggest trade book publisher is the home to many of the world's most renowned writers: Its author roster includes more than 50 Nobel laureates in literature.

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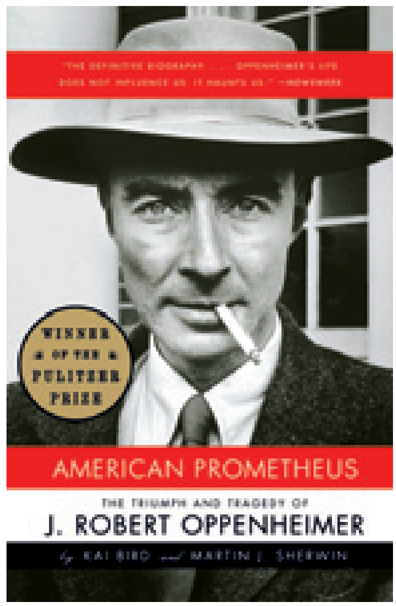

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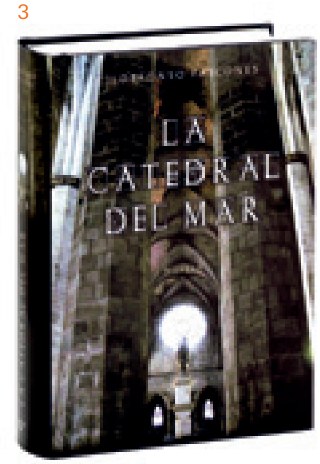

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BBC BOOKS

3 Ildefonso Falcones' Million-selling "La Catedral del Mar"
Random House Mondadori has achieved a breakout mega-success with Ildefonso Falcones' "La Catedral del Mar," which sold over a million copies in Spain in just nine months. The historical thriller, which attorney Falcones spent one hour writing every day for five years, tells the story of a medieval farmhand who flees to Barcelona in search of a better existence. Falcones' book brings the 13-th century world to life in the tradition of the great contemporary masters of historical suspense.

4 Pulitzer and More for Random House Authors
The Random House U.S. authors Kai Bird and Martin J. Sherwin won what, after the Nobel, is one of the world's most coveted prizes in literature for "American Prometheus: The Triumph and Tragedy of J. Robert Oppenheimer." Their monumental work about the rise and decline of the man who invented the atom bomb received the 2006 "Pulitzer Prize" in Biography, the ninth consecutive year a Random House, Inc. title has won a "Pulitzer." Another award-winning highlight of the year was Vincent Lam's novel "Bloodletting & Miraculous Cures," which received Canada's prestigious "Giller Prize for Literature."

5 Random House UK Acquires Majority Share of BBC Books
The BBC is one of the U.K.'s most important cultural institutions and its book publishing reflects the very high standards of its broadcasting. In 2006, the London-based Random House Group acquired a majority stake in BBC Books, which publishes a broad range of nonfiction, specializing in cookery, gardening, natural history, popular science, and history. BBC Books is now an imprint of Random House's Ebury Publishing and is a perfect complement to this division's existing imprints, which also have a reputation for outstanding nonfiction publishing.

Thinking in New Dimensions

When “Jetzt” was discontinued four years ago despite its popularity and journalistic prowess, it was a low point for the youth magazine’s makers, Timm Klotzek and Michael Ebert. On one of these depressing days, the chief editor of “Stern” called to ask whether they felt like developing something entirely new. The briefing was brief and straightforward. The result is “Neon,” the most successful German-language magazine launch of the past decade.


NEON
www.neon.de
Deutschland Euro 3,00 Österreich Euro 3,30 • Schweiz Sfr 5,90 • BeNeLux Euro 3,50 • Frankreich, Italien, Spanien, Portugal (cont.) Euro 4,10 • Griechenland 4,30
März 2007
Eigentlich sollten wir erwachsen werden NEON ist die Stimme einer ganzen Generation
Lead-Magazin des Jahres »Eindeutig das spannendste Heft dieser Tage«, urteilt die Lead-Academy
200 000 verkaufte Hefte Im Sommer 2006 macht die Auflage NEON nochmal einen großen Sprung
Journalisten des Jahres Das Medium-Magazin zeichnet Timm Klotzek und Michael Ebert aus

Make Something the People Really Want

"Neon" is the most successful German magazine launch in recent years – and proof of the fact that courage and quality are still the most important factors for success in journalism.

As a rule, the world of magazines and periodicals is a colorful one. But there are days in the lives of magazine makers that are gray through and through. Timm Klotzek and Michael Ebert know this firsthand. One such day happened nearly four years ago, when they were both in their late twenties. It was the day on which Klotzeck and Ebert completed the last issue of "Jetzt," the young-adult supplement to the "Süddeutsche Zeitung," a famous southern German daily. The product itself was recognized as a creative feat throughout the industry. People commended the young chief editors for its groundbreaking quality. But the figures and the times were bad. And the winds of crisis were felt even more harshly by anyone who dared to produce new, innovative media for young people at the time. Just a few months earlier, the Internet bubble had burst worldwide. Confidence, courage and entrepreneurial spirit were at an all-time low. And Klotzek and Ebert were caught in the middle. "It was a time when we had just about given up on everything," they remember. But things were about to change.

Something New.

On one of those exceedingly gray days, Klotzek and Ebert received a call from the chief editor's office at "Stern," Gruner + Jahr's popular flagship magazine. "We thought maybe they wanted to do a story about the shutdown." In fact, "Stern's" editor-in-chief Andreas Petzold wanted something else: The quality of the people behind the magazine. Their ideas, their minds. Long drawn-out negotiations ensued about continuing the youth supplement with the old publisher. Perhaps, together, it would be pos-

A thriving community: users have a say on "Neon" magazine's Web site.

sible to salvage anything worth saving? But courage proved non-negotiable, and the talks led nowhere. And so the folks in Hamburg asked their young colleagues in Munich a simple question: “How do you feel about developing something new for ‘Stern’?” The briefing was brief indeed and left all options open, as Klotzek and Ebert remember: “The only thing they told us was: Develop something that matches your idea of a good magazine. Something the people really want. Something new.”

Something New. “Neon” is derived from the Greek “neos,” which means “new.” In common parlance, the word is associated with the noble gas that puts the glow in neon lamps – a colorful and versatile sign of our times. Its versatility and newness are inseparable, and “Neon” is their common denominator. But what debuted on German newsstands in fall 2003, after half a year of research and development, wasn’t just “something new” in the conventional sense of magazine making. From the very first issue, which sold more than 100,000 copies, it refused to be pigeonholed. 20- to 35-year-old buyers were identified as the target demographic – so it wasn’t a teen magazine. The slogan developed by Klotzek and Ebert, summed up the generation’s attitude towards life: “Looks like it’s time we grew up.”

“Neon” is real – a magazine that offers no easy answers, but plenty of intelligent questions.
The slogan is perfect. With nearly 200,000 buyers per issue at this point, “Neon” is Germany’s most successful magazine launch since 1993. And more: The emotion and native intelligence of the magazine defy measurement by any available benchmark.

The magazine’s section headings are “Wild World,” “View,” “Feel,” “Know,” “Buy,” “Time Out” and “www.neon.de.” They contain stories full of “attitude,” a generation’s attitude to life, as Ebert and Klotzek put it, “who have to find their way in a world that lacks precedent. Our readers can no longer live the lives their parents are living. Everything has changed and continues to be in flux. That’s why ‘Neon’ contains so many more questions than answers,” comments Timm Klotzek. The editors-in-chief also know that this new attitude to life is not shared or understood by all people: “Many feel there’s something fishy about the pensiveness of our articles. They confuse it with dispiritedness, indecision and uncertainty.” But in times of far-reaching changes, there can be no total certainty. “Neon” doesn’t attempt to lead the new generation up the garden path. It describes the world without frills, takes a purist, realist approach: “Authenticity is crucial. Our readers tell themselves: I can cope with all the changes,” asserts Klotzek. “Neon’s” readers don’t need anyone to invent a nicer world for them.

Real and authentic are adjectives that typify “Neon’s” multiple award-winning stories. Most of them aren’t drafted on the drawing-board of an editors’ meeting, but in real life. “We don’t make a distinction between work and recreation, we don’t say: Work is work, and play is play. We might have the idea for a cover story at a party or at the beer garden – wherever we get talking with people who read ‘Neon’,” says Klotzek. “Neon’s” readers feel they’re part of a close-knit community, like they have something in common. It’s something you might notice when you’re reading the magazine on a bus and encounter other “Neon” readers. Or you notice it in the place where the word community has found its modern context, on the Internet. The guys at "Neon" deliberately designed the magazine's Web site so that the users would set the tone here. And beyond.

It can happen, the editors-in-chief tell us, that the editorial desk just touches on a topic online – merely sketches it in a few sentences. Sometimes there's no response or very little, sometimes users may just dismiss the topic with a terse "what rubbish." Or it can happen that many get all excited about what appeared to be a niche topic. "That's our benchmark," says Klotzek. Community isn't an artificial place, it is reality. And the readers who fill it.

Behind every new success, there's a lot of skill and hard work.

Is all that really new? Timm Klotzek shakes his head: "A good journalist has to get out of the editorial office, out into real life – there's nothing new about that. A good journalist lives with the people he writes for." Those are old-established rules of reporting. Like the one that behind every story, there's always another one that may be even more gripping and dramatic. When the whole world was reporting about the boat people from Africa swarming to EU nations across the Mediterranean, "Neon" sent its reporters to Morocco. There, they found refugees who lack even the money for the perilous crossing to the promised land. Who live in holes in the ground, in constant fear of being discovered by the authorities.

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Stories like this have extended "Neon's" fame well beyond its target demographic– and good sales figures aren't the only reward for these efforts: Timm Klotzek and Michael Ebert were named Germany's "Journalists of the Year 2006" by an independent panel of journalists and media experts. The makers of "Neon," reasoned the judges, showed how to win new readers: "With sophisticated journalism that makes people want to read more." That is the prize for courage, confidence and entrepreneurial spirit. Or in other words, for thinking in new paradigms.

1 Written for 20- to 35-year-olds: "Neon" magazine encapsulates a generation's attitude.

Highlights // Gruner + Jahr

"Media brands help to create orientation in the virtual information overload, the vast variety of offerings on the World Wide Web."

BERND KUNDRUN
Chief Executive Officer, Gruner + Jahr AG

1 "Capital" – Successful Relaunch of a Managers' Magazine

In September 2006, German newsstands were in for a surprise: a relaunch of "Capital" magazine with an all-new look, structure, and content. Editor-in-chief Klaus Schweinsberg, who has supervised the successful new concept since March 2006, says: "We see ourselves as a biweekly business magazine with the depth of a monthly." The magazine's new claim underscores this as well: "Capital – Read, then Decide." Medianalyse reports that "Capital," with 1.02 million readers, is indisputably Germany's most-read business magazine.

2 Communities of the Year: "augenzeuge.de" and "DuBistNews.at"

With roughly five million Page Impressions a month, "neon.de" is one of the most popular communities in the German-speaking countries. User-generated content continues to dominate the "augenzeuge.de" Web site launched in August 2006, as more and more videos and photos with a high news value are taken by amateurs and recreational photographers. Gruner + Jahr's popular Austrian magazine "News" has also had a successful online community of its own since 2006: "DuBist-News.at" presents the best stories and photos from News' "reader reporters."

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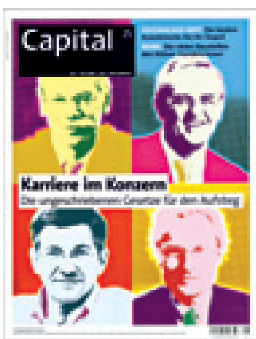

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3 "Focus/Xinzhike" – China's New Popular Periodical

In September 2006, China witnessed the birth of a new magazine: "Focus/Xinzhike," which in Chinese translates to "knowledge trendsetter," which is exactly what the new magazine, published in Beijing by Gruner + Jahr, seeks to be. It targets young, middle-class working Chinese, who are the engine fuelling China's development – and the driving force behind the country's Internet-based and wireless services. "We want to establish the magazine as China's most popular popular-science publication," says Wolfgang Kohl, Managing Director of G+J/Clip, commenting on the new venture in China.

4 Europe's Most State-of-the-Art Gravure Plant

In September 2006, Prinovis powered up Europe's most state-of-the-art gravure printing works in Liverpool, England. Part of the joint venture between Gruner + Jahr, Arvato and Axel Springer, the plant manufactures large batches of high-quality print products. It is capable of processing 160,000 tons of paper a year. With an initial workforce of 250 new employees, Prinovis Liverpool forms the basis for future growth in the U.K. gravure market. Accordingly, Prinovis CEO Stephan Krauss sees the Liverpool plant as "key to our strategy."

5 A Year of Anniversaries: "Geo" and "Geolino," "Eltern," "Auto Motor und Sport"

2006 was an anniversary year for several Gruner + Jahr magazines: Established in 1976 and with a current sold circulation of 440,000 copies, "Geo" is a flagship of sophisticated popular-science journalism to this day. Not to mention an idea giver for many new magazines: "Geolino," Geo for young readers, was first published ten years ago– and today is the clear subscription market leader among German children's and young-adult magazines. The parenting magazine "Eltern" was in a partying mood as well: 40 years old and going strong, and its spin-off "Eltern Family" turned ten in 2006. "Auto Motor und Sport," a car magazine established in 1946, also celebrated a big birthday.

The Times They Are A-Changin’

For over 100 years, records were the most important medium for recorded music. As technology changed and progressed, that changed as well. What remains is a passion for music. The latest addition to the media realm is the Internet, where stars, hits and videos are just a click away. In June 2006, Sony BMG Music Entertainment joined the forefront of this evolution by presenting an Internet-based music video network.

BMG
BERTELSMANN

Dan Weiner in Bleecker Bob's Golden Oldies Records Shop, New York.

Superstar Shakira's videos are among the hottest tickets on the Net. Dan Weiner and his colleagues discuss new possibilities in the digital realm.

The Music Video Revolution Takes to the Web

Two remarkable events occured in the summer of 1981: The music channel MTV aired its first music video, and the IBM computer corporation presented its first personal computer. A good 25 years later, both represent a market of billions of people – and the Internet now allows computer users to put together their own music video program.

In August of 1981 two remarkable things occurred. On the first day of the month, the music channel MTV went on air and began broadcasting music videos. The first clip to be aired was "Video Killed the Radio Star" by the British cult band "The Buggles." Just twelve days later, IBM presented the world's first personal computer.

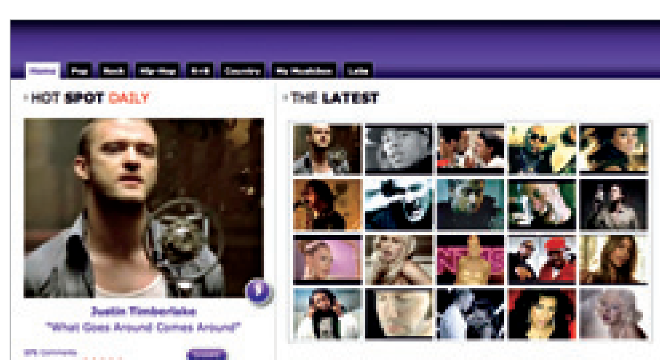
With the advent of the Internet, the computer revolutionized the ways in which people all over the world consumed entertainment content, first with text, later with audio files, and more recently by making film and video available with the click of a mouse.

In June of 2006, Sony BMG Music Entertainment unveiled another step in the evolution of music video and the computer – an Internet-based network of music video players that are deployed across the company's artist and label Web sites. Music videos on the Net are now the new standard, and in this expansive market, Sony BMG is the clear leader among the music majors.

You Are the Network

Sony BMG's music video network was created with the Internet culture in mind. Dan Weiner, Vice President of Strategy & New Ventures for the Global Digital Business Unit in New York, helped spearhead the project together with a team of employees from across the company and its label groups. "The network is great for consumers," Weiner said. "In the early 80's everyone wanted music television, but at the start of the new century everyone can have their own music television network."

Partners and fans can embed the video player right on their own Web sites.



Dan Weiner, Vice President of Strategy & New Ventures for Sony BMG Music Entertainment's Global Digital Business Unit.

The music video players are fully interactive and viral in nature, allowing fans to link directly to them and have frontline music videos run right on their own Web sites. And because the ads from companies such as Hewlett Packard, Procter & Gamble, and Sony Pictures travel with the players, fans act as an ancillary network for advertisers as well.

"Users don't need to download client software, so it's incredibly convenient. They can view the videos as often as they want, and explore deeper into the catalog of their favorite artists or the thousands of videos across the company's roster," Weiner explained. "It's also possible to integrate the videos into fan Web sites. For example, if Christina Aguilera fans want to embed a video on MySpace or another personalized page, they're welcome to do so. At that point, the site becomes part of our promotion and revenue-generating network. When Christina's latest single is released two months later, it can automatically be announced and premiered on all Web sites that integrate our player."

Videos by Sony BMG stars can also be aggregated in any number of ways – for example in Top 20 lists for Rock, Country, or Pop. They can also be programmed into playlists as love songs, summer favorites, road songs, or in a wide variety of other channels.

It's A Hit

What do Internet users and music fans think of the players? In the first six months of the project the company saw demand rise to nearly 20 million streams per month, a figure that continues to grow across the company's network of artist and label Web sites worldwide.

Weiner points out that the growth of music and music video online reflects some basic changes in the ways that consumers experience entertainment content. Traditional media outlets – the MTVs of the world – have already matured in terms of attracting new audiences. In contrast, video on the Internet is just beginning to develop. Currently in the U.S., roughly 1.7 billion videos are watched per month on Google, YouTube, Yahoo Video, and other online outlets, and the audience is growing.

"As video on the Internet continues to increase in popularity, we think this kind of video player could be a really important part of the entertainment mix and give artists and labels a direct channel to their fans. We're happy to be in on the ground floor," Weiner said.

The Evolving Marketplace

"The online music video network is just one example of how we are embracing challenges and changes in the digital market," Weiner noted. "We're going from a world in which there was a single product – the CD – to a vast universe in which multiple products are delivered over a broad array of platforms using a wider range of business models. In the process we're monetizing products that were previously promotional in nature – such as video – developing new entertainment configurations, and creating additional revenue streams."

This new world encompasses products relating to the mobile phone, such as ringtones, ringback tones, full track mobile downloads, SD cards and music embedded in phones, among many others, as well as online products such as downloads, music subscription services and ad supported video. Many of these digital offerings can be found on Sony BMG's artists' Web sites, which along with the music video network, are part of a larger initiative at the company to capitalize on the popularity of Sony BMG's artists and their music in the online and mobile spaces. The network of ad-funded sites are engaging fans and increasing traffic with their interactive and community features. Fans can learn more about the music and artists, write reviews, create profiles, upload photos, connect with other fans, and purchase products such as ringtones.

"Until fairly recently, music fans had just a few ways to connect to their favorite artists," Weiner said. "Now we have the opportunity to help our artists reach their fans wherever they happen to be, and to make our music ubiquitously available. There are already a lot of options – some consumers are willing to pay a premium to conveniently download the hits on their cell phone. Others want to listen to free music and watch free videos, and are prepared to watch advertising in return."

These are the kinds of issues and opportunities that Weiner and his colleagues deal with every day, and these were the same topics they addressed when they began to develop the music video network. "We wanted to know what we could offer to fans, and how we could create new and compelling ways of experiencing music, while at the same time building our bottom line."

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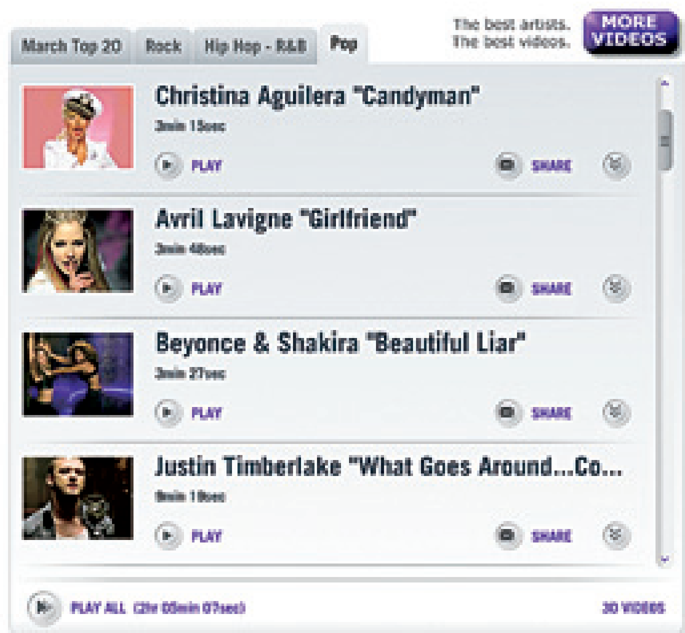

1 The music video network – featuring a broad range of Sony BMG hits and stars.

What Really Matters

"The online video network meets a real demand in the marketplace, and it's an important step in the right direction," commented Weiner. "But from wax cylinders to LPs, CDs, downloads and beyond, the technology that delivers music is constantly changing and evolving. We're always looking for new and better ways to help our artists connect with their fans."

Does anything stay the same in this rapidly changing business?

"It's the things on the periphery like technology that change all the time," says Weiner. "But the one thing that never changes is the real center of our business – artists and their music. That was true more than 100 years ago when our first labels were founded. And it's going to be true a hundred years from now."

Highlights // BMG

"The value of music has never been greater. We must ensure its creators are rewarded accordingly."

THOMAS RABE
CFO and Head of BMG

ROLF SCHMIDT-HOLTZ
CEO of Sony BMG

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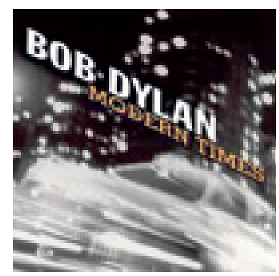

1 Bob Dylan's "Modern Times"
One of the most important artists in the world today, Bob Dylan has spent decades expanding the boundaries of popular music. Dylan's 2006 release "Modern Times" thrust the legend back onto the music charts and scored him a #1 debut on the Billboard Top Albums Chart, his first in 30 years. "Modern Times" won rave reviews from fans and critics alike, with many calling the album one of his best. In a true sign of the times, Dylan was also featured in a high-profile iTunes commercial. "Modern Times" marks the 44th album of Dylan's five-decade career, during which he has sold nearly 100 million albums.

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2 The Dixie Chicks Do It Their Way
The Dixie Chicks made history on February 11, 2007 as the first female group to take home the top three "Grammy Awards" for "Song, Record and Album of the Year" for their Open Wide/Columbia Records release "Taking the Long Way." The album also won "Best Country Album," making it the first ever to win in both the "Album of the Year" and "Best Country Album" categories. Over their sensational career, the Dixie Chicks have amassed 14 Grammy Awards, sold more than $100 million worth of concert tickets and achieved 42 gold, platinum and multi-platinum certifications, including two "RIAA Diamond Awards" for over 10 million records sold.

3 Justin Superstar
In the pop business, superlatives tend to be the rule rather than the exception. But in 2006, this 26-year-old, who began his international career in the mid-1990s as the lead singer of the boy band 'N Sync, was without a doubt the world's biggest male pop star. His album "FutureSex/LoveSounds" became a #1 hit on international charts with sales exceeding five million units. The album turned Justin Timberlake into a global superstar. In addition to his two 2007 "Grammy Awards", Justin won the "Brit Award" for "International Solo Male Artist." How can he possibly top all this? Perhaps with a new hit in 2007, like „What Goes Around...".

4 How to Save a Life? The Fray Goes Platinum
In 2002, Isaac Slade (vocals, piano) and his friend Joe King (vocals, guitar) formed a band they named "The Fray." The Denver-based quartet wrote their own songs and performed to sold-out crowds at rock venues around town. Before long, local radio stations recognized a whole new sound, and "The Fray's" first single, "Over my Head (Cable Car)," became a hit. "The Fray's" music later served as the soundtrack to popular TV series like "Scrubs" and "Grey's Anatomy," and in September 2006 their debut album "How to Save a Life" went platinum. And that's just the beginning.

arvato
BERTELSMANN

A Clear View of the Best Content

As heirs to the DVD, HD-DVD and Blu-ray Disc offer unprecedented image quality and new interactive options. At Sonopress in Gütersloh, a team of experts ensures the user-friendliness of the new video standard. The top priority is to bring navigation and programming in line with people's needs and requirements.

Dieter Schlautmann and team members by a machine for HD-DVD production at Sonopress in Gütersloh.

Clearing the Fog

HD-DVD and Blu-ray Disc offer greater quality and virtually unlimited interactive possibilities. The Sonopress New Media Development team in Gütersloh makes sure that the broad spectrum of new video standards is actually used.

Diversity and difference are the spice of life – where things are uniform and unchanging, people eventually stop noticing anything at all, and everything becomes one thing above all: boring. Hundreds of millions of people watch TV every day, watch videos and DVDs on their living-room screens. And most of them don't even realize that they're peering through a fog. An impenetrable veil.

And so it remains until experts come along to enlighten us. One such expert is Dieter Schlautmann, Director New Media Development at Sonopress, an Arvato subsidiary in Gütersloh. In this case, he starts by acting as an optometrist. Schlautmann presses a button on the remote, and a High Definition DVD (HD-DVD) spins into action. Shortly thereafter, something starts up in the viewer as well. The high-resolution images generated on the flat screen by the silver, CD-size disc, are incredible: incredibly sharp, fogless, so real that it would come as no surprise if the jet lifting off the runway in the movie came thundering right into the room. What kind of jet is it? And where's the runway?

Dieter Schlautmann presses another button – and the information pops up on screen: It's a "Citation," and the runway in question is at New York's La Guardia Airport. You could even check the airport's flight schedule now, or book a flight for yourself by clicking a few buttons: all HD-DVD players and most Blu-ray players are Internet-enabled. In other words, all the content of the World Wide Web may be linked into the brilliant new disc, if so desired. "It's something you just have to see for yourself, don't you think?" says Schlautmann. He's right.

In the end, high quality is a highly subjective definition. And "High Definition" (HD), the worldwide

The successor to DVDs is a giant among optical storage media. A HD-DVD/Blu-ray Disc holds up to 50 gigabytes of data.

Technology scout Dieter Schlautmann is always up to date – in theory and practice.

standard for high-resolution video, is the common definitive at this point. Because it approximates the quality of 35 mm films, it actually does bring the big-screen experience to living rooms. Even regular HD television (HDTV) does this, by providing resolution five times higher than Europe's PAL system, the best "normal" standard available today. But the disc in Dieter Schlautmann's hands can do even more: HD-DVDs or Blu-ray Discs are giants among optical digital storage media. On the outside, they look just like a regular DVD. However, they can contain up to 8 hours of playing time in High Definition quality, which translates to about 45 hours of standard-resolution film – or 30 gigabytes of memory. "In practice, this means: the kind of picture we've been longing for all along," says Dieter Schlautmann. The disc even has plenty of space left over to accommodate top-quality audio files – and/or software to enable an integration of HD-DVD/Blu-ray with Web content. "Not only is the content more visually brilliant than ever before, it is unlimited by anything except the user's imagination," Dieter Schlautmann tells us.

The HD disc transcends all limitations – top content is further enhanced with interactive possibilities.

Conventional DVDs were capable of holding movies, bonus material, and some optical special features – and that was it. Anyone who wanted to learn more about a film's content – what airport, what jet, or an actor's latest biographical information – had to switch systems and consult the Internet. Dieter Schlautmann and his team at Sonopress link the two worlds. "If, say, someone loves the interior decoration shown in a movie, they can click directly to a virtual furniture catalog or check prices in an online shop. Any information on the Web may be linked to any of the information on the disc. It sounds so easy – and is, for users. But not until Dieter Schlautmann and his Sonopress team have done their work. How do they do it? How do you compress the whole wide world onto a disc?

The vast range of possibilities needs to be tapped – users are our yardstick.

This presents the Sonopress team with a special challenge: "The new medium gives us vast diversity – and our job is to present it such that it best reflects the people for whom our products will ultimately be of use." First and foremost, this requires Dieter Schlautmann and his colleagues to cope with and manage enormous complexity, for High Definition technology is an example of "global teamwork – it is a collaborative effort between consortiums, major corporations, studios, programmers, experts in user prompting, and a great many standards." That is, why people from the Sonopress New Media Development department are found wherever content and standards for the HD-DVD/Blu-ray Disc are made – in Hollywood and Japan, in London and New York.

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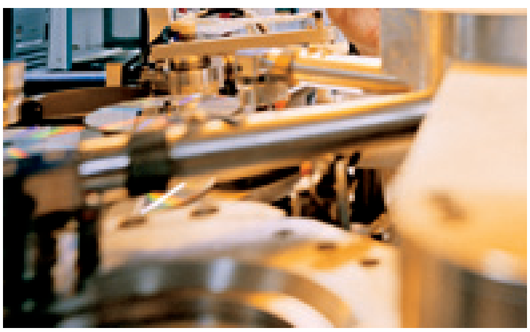

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1 The production machines at Sonopress in Gütersloh work around the clock.

2 Success through team-work.

The threads converge in Gütersloh, where the high-resolution discs are "authored" and "premastered." This refers to the implementation of the many elements – features and interactive options – that make the content accessible to begin with. Software, one might think, but that would be understating it. The task here is to enhance and expand the content, to make it accessible for users. On behalf of its customers, Sonopress then begins with the ideal implementation onto the medium – content to market, in other words. For Schlautmann, the new diversity afforded by the technology means one thing above all: "Creating clarity and opening up options for the people who use them."

Is high-resolution in 3-D the next big step? Why not?

"Count us in," says Dieter Schlautmann. To tap the possibilities, Dieter Schlautmann and his colleagues approach the question of whether the navigation and programming of an HD-DVD/Blu-ray Disc production comes up to the requirements of the people who work with and use them, from many different angles: "Test users give us the kind of feedback that technicians often can no longer give us because they are too deep into the system," explains Schlautmann. The results of this are then transmitted – on secure data lines – to the Sonopress production plants in Gütersloh, Germany and Weaverville, North Carolina: This is where the machines for manufacturing HD-DVDs and Blu-ray Discs stand – and the point from which the world's screens will eventually become sharper, clearer, and more vibrant and entertaining. So our question for Dieter Schlautmann is where the next great challenge for technology could possibly lie: "Oh," he laughs. "We won't run out of ideas. Today, High Definition lets us see things clearer than ever before. But perhaps tomorrow we'll want to see everything in 3-D?" Whatever happens, Dieter Schlautmann and his team at Sonopress will be part of it. "We see ourselves as people who make it possible for other people to access great content. Regardless of the technology being used to do so," he says. Come what may, the Sonopress team will keep clearing the fog for a sharp view of the best possible content.

Highlights // Arvato

"We foster creativity and entrepreneurship. Because we realize that today's ideas are tomorrow's businesses."

HARTMUT OSTROWSKI
Chief Executive Officer, Arvato AG

1 Arvato Services: Top-of-the-Line Book Logistics
For booksellers, the year 2007 will bring some tangible improvements. One essential contributor is a new commissioning technology used by the Arvato subsidiary Vereinigte Verlagsauslieferung (VVA) in Gütersloh. The first stage of the new media logistics system went live in 2006. It is capable of pre-sorting books by topic, which further improves the quality of dispatch services and frees up booksellers for important tasks such as talking to their customers about books. The new logistics center is part of a large-scale extension program being realized by VVA. The logistics provider currently ships media products from more than 200 publishing companies to retailers, and offers a comprehensive range of business services.

2 Arvato Print: Top Scorer at the FIFA World Cup 2006
Medienfabrik Gütersloh, the Arvato subsidiary responsible for many of the printed media and print products that accompanied the FIFA World Cup 2006, had a gratifying year: "Countdown" magazine was published in a print run of 250,000 copies, while the "Official FIFA World Cup Preview" had circulation of half a million. The official tournament guide even made it onto the "Focus" and "Stern" bestseller lists. 2006 was an exceedingly positive business year for Medienfabrik, and continues to bring the best of prospects: In Corporate Publishing, the FIFA World Cup Engagement resulted in a lasting strengthening of the business. All the hard work and being on the ball paid off handsomely.

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3 Arvato IT Services: Gnab – A Network for Innovative Downloads

In 2006, Arvato Mobile successfully launched the Internet download platform Gnab. Gnab innovatively combines a central download platform with a decentralized peer-to-peer network. Vendors including in2movies, Terra and Medion use Gnab technology to offer their customers secure, high-speed and high-quality movie and music downloads. Consumers have access to quality content from the Internet, while artists receive remuneration for their work. “This strengthens Arvato Mobile’s position as Europe’s leading vendor of digital services,” comments Bernhard Ribbrock, Managing Director of Arvato Mobile: “Gnab is an innovative milestone on the way to a new era of digital downloads.”

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4 Inmediaone Acquires the Faksimile Verlag Luzern Imprint

A facsimile is the perfect image of a unique original. It is by no means a simple copy, but a faithful reproduction involving the highest art and craft of bookmaking. On July 1, 2006, the Arvato subsidiary Inmediaone extended its portfolio by acquiring 100 percent of shares in the Faksimile Verlag AG in Lucerne. The Swiss imprint is one of the world’s leading manufacturers of true-to-original facsimile editions. One example for the consummate craftsmanship of Arvato’s new subsidiary is its facsimile of the 15th-century “Belles Heures du Duc de Berry.” The original is found at the Metropolitan Museum of Art, The Cloisters, New York.

Direct Group Takes New Paths

In France, the club business, book retail and the Internet are closely interwoven for the benefit of customers, who get comprehensive, one-stop service.

DirectGroup
Bertelsmann

The whole is more than the sum of its parts: Catherine Flammand and her colleagues Juan de Corbion, Marc Guillard and Didier Lory work on creating the best possible links between Direct Group's various distribution strategies.

The Formula is: “Integration”

How does one achieve growth in mature markets? Direct Group in France has a compelling answer to this question: by uniquely combining club business, book retail and the Internet.

The French love books; they are passionate readers. That’s good news for Direct Group France. And even though competition in the French book market is fierce, Direct Group is showing significant growth. It serves as a model for other countries. And its success is the achievement of its employees.

Catherine Flammand, Didier Lory, Marc Guillard and Juan de Corbion are four of them. An experienced team based in Paris, within sight of the Eiffel Tower, they have an important assignment: to strengthen and extend the business relationship to their many millions of French customers. Their commitment to customer service is unwavering even when faced with the challenge of finding an out-of-print book.

The team is helping to shape a book and media company that has no equal in France. “The club business, the online business and the traditional book retailers located throughout the country – we bring them all together,” says Jörg Hagen, Managing Director of Direct Group France. His formula: “Integration. We leverage the strengths of all three business lines to create special advantages for our customers.” Integration – in its original Greek form, the word means as much as unbroken or whole. Existing parts are combined, without destroying their individual properties, to create a new whole.

Compelling Offers

Direct Group’s compelling offers drive its considerable appeal for readers, authors and publishers. They have made the company France’s #2 bookseller. France Loisirs, the club business with 4.1 million customers and 207 shops, was established in

FRANCE LOISIRS

With 4.1 million members and 207 shops across the country, France Loisirs remains a cultural institution dear to the French.

In March 2006, Forum Alsatia, a major bookshop chain in the east of the country, added its 23 shops and its expertise to the Direct Group France retail network.

1970. It is a cultural institution throughout France with one out of every five households as a member. Additionally, Direct Group acquired the book retail chains Librairies Privat in 2005 and Alsatia in 2006. Together, they represent 73 bookstores and media department stores. Whether in Bordeaux, Reims, Lyon, Grenoble or St. Etienne – often, they are the top local book vendors. More than 1.6 million people shopped in stores in 2006. And through online stores, customers are searching for and finding the books they want to purchase.

These are the three pillars the French business builds on. Now, each of these pillars is being connected with the others, to achieve more: in terms of book selection, exclusive offers, service and an even greater closeness to customers.

The team in Paris is deeply involved in this process. Catherine Flammand supervises the IT department. Marc Guillard manages the club businesses. Didier Lory is in charge of book retail, and Juan de Corbion is responsible for the group's Internet presence. They all contribute their particular skills, and they know that the book business demands a great deal of sensitivity, and passion. They do everything to identify customer preferences and select the right offers to achieve better quality and greater growth.

Culture Specialists

"We are specialists for culture," says Juan de Corbion. And specialists when it comes to customers' preferences and interests. The club offers exclusive specials and discounts; it stands for a knowledgeable selection of books and for success in publishing: Five of France's ten best-selling titles of the year 2006 were club premieres. The book club knows its customers; it knows what they order and therefore what they like. It is this close relationship from which the bookstores can now benefit after knowing very little about their buyers in the past. "Only a seller who knows his customers well will be successful," declares Marc Guillard.

The acquired bookselling chains strengthen the company's presence throughout the country, becoming places where the world of books is presented in a unique setting. For example in St. Etienne, the local Alsatia bookstore, distinctive and contemporary, is housed in a venerable former covered market. Places like this make people want to read while also appealing to new groups of customers.

The 32 bookshops in the Privat network have traditionally set the pace in the book market.

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The team realizes how important the Internet is in this process. More and more French people are shopping on the Web – growth rates are at 25 percent a year. Direct Group doesn't just see the Web as a distribution channel for current titles; it also offers a special service through its Internet bookseller "Chapitre.com," which stocks roughly 20 million out-of-print and used titles. The team calls this "L'Introuvable" which translates roughly to: "offering the unfindable."

One-stop Service

All this can only work with a well thought-out, efficient infrastructure. Of course the team of four and the company make the most of the synergies that arise from a close relationship between clubs, book retail and the Internet. Customers get one-stop service – fast, convenient, inexpensive, and tailored to their preferences. These good relationships make for good business. That is the foundation of the company's success in France, Direct Group´s second-largest business unit. It is a success for the entire Direct Group, which again in 2006 considerably increased its revenues and profit.

"What we're doing in France is a perfect model for us," says Direct Group CEO Ewald Walgenbach. Direct Group is quickly implementing the strategy in Portugal now, and Spain will follow within the year. "By doing this, we are clearly demonstrating how we can grow in mature markets."

1 The Forum Espace Culture bookstore in St. Etienne lies in the heart of downtown.

2 The French love books. 73 bookstores and 207 club shops provide plenty of space and opportunity to browse.

#4 in the French online book market, "Chapitre.com" offers a complete range of 20 million titles.

Highlights // Direct Group

"We have one overriding goal: satisfied members and customers. That is what we work for worldwide as we continually develop new offerings – in our clubs, bookstores, and on the Internet."

EWALD WALGENBACH
Chief Executive Officer, Direct Group

1 BMG Columbia House: Making the Most of Internet Opportunities

BMG Columbia House, Direct Group's successful DVD and music Club subsidiary in the U.S., has effectively leveraged online opportunities to benefit its BMG Music Service and Columbia House DVD club businesses. Millions of "e-primary" customers now regularly interact with the clubs solely through the Web sites. More than one in three music club members benefit by receiving information and offers tailored to their interests through this online channel. The company also benefits from a more cost-effective means of reaching their members. The results: improved customer response rates and sales. BMG Columbia House's online sales account for more than a third of the company's total revenues.

2 Direct Group Acquires the Portuguese Bookselling Chain, Bertrand

Direct Group has a particularly strong presence on the Iberian Peninsula, and in 2006 it was strengthened further. By acquirung Portugal's biggest book retail chain, Bertrand, with 47 branches in 24 cities, Direct Group became the country's leading bookseller by a wide margin. The club business and the book retail chain will work closely together from now on. Direct Group Portugal has also become one of the country's foremost book publishers.

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3 The German Club: Literary Highlights on the "Blue Sofa"
Der Club Bertelsmann's "Blue Sofa" is an established and well-received forum for authors. It is recognized as a literary institution at the book fairs in Frankfurt and Leipzig, as well as in Berlin where bookmakers and book buyers get together. In 2006, the club was able to welcome Nobel Prize for Literature laureate Günter Grass and former German chancellor Gerhard Schröder as guests. Celebrities on the "Blue Sofa" are yet another indication of the new success enjoyed by the club, which has posted a profit again in 2006.

4 "Tu Circulo" – A New Children's Club in Spain.
Reading is the key to education and personal development. Direct Group's book clubs help to establish the creative medium of books among children and teens early on. The Spanish club "Circulo de Lectores" established a children's club last year. It is a resounding success: In less than six months, "Tu Circulo" was able to win over 175,000 children as members. As a result, "Tu Circulo" is now the third-largest children's community in Spain.

5 Ukraine and Russia: A Boom in Club Reading
The Ukraine and Russia are traditionally good markets for books. Direct Group is coming to play an increasingly important role in these profitable and rapidly growing markets: membership of the clubs in the Ukraine and Russia has more than tripled in just two years – to two million members. In the Ukraine, the club is also promoting local literature by publishing an increasing number of books in Ukrainian. Direct Group also operates a growing chain-store business in the region and recently expanded the Ukraine chain network to twelve shops.

Group Management Report

Bertelsmann significantly improved its profitability in a positive economic environment in fiscal 2006. Revenues increased by 7.9 percent to €19.3 billion. The rise in revenues resulted both from organic growth and from acquisitions, mainly transacted in 2005. Operating EBIT improved noticeably from €1,610 million in 2005 to €1,867 million. Operating return on sales increased from 9.0 percent to 9.7 percent. Net income amounted to €2,424 million (2005: €1,041 million), more than doubling thanks in part to gains from disposals. The buyback of a 25.1 percent holding in Bertelsmann owned by Groupe Bruxelles Lambert (GBL) was successfully concluded.

Business and Economic Conditions

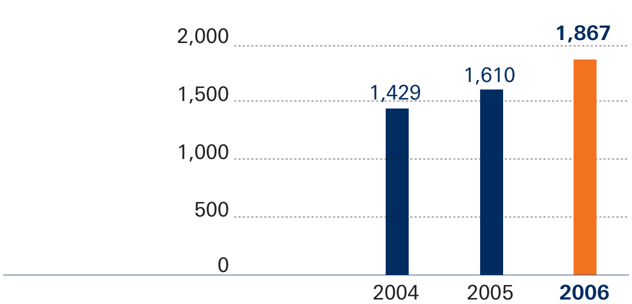
Description of the Business & Organizational Structure

Bertelsmann is active on the domestic and international level in its core businesses of creating, bundling and distributing media content, and in the production and services businesses.

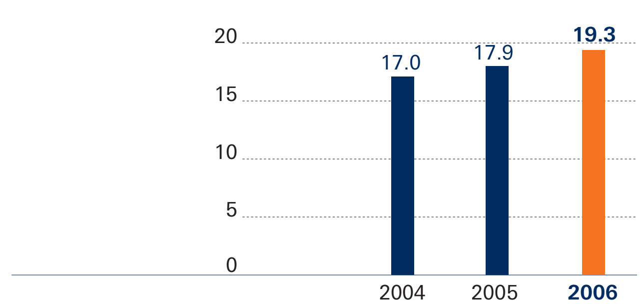
Bertelsmann AG functions as an operative management holding company and controls the group's business policy and strategic management. Bertelsmann AG is an unlisted stock corporation under German law with a two-tier system of management and governance. The Executive Board is responsible for the entrepreneurial management of the group. The group is managed and controlled on the basis of its articles of incorporation and the decisions of the Executive Board, Supervisory Board and the Annual General Meeting. This process incorporates the group's strategic guidelines, corporate objectives and corporate culture. Internal financial management and reporting follow the company's decentralized structure – the RTL Group, Random House, Gruner + Jahr, BMG, Arvato and Direct Group divisions.

RTL Group has operations in the television and radio sector as well as in TV production. With 38 TV channels and 29 radio stations in ten countries, RTL Group is Europe's leading entertainment group. Its television business includes the family of channels clustered around RTL Television in Germany, M6 in France and the RTL channels in the Benelux region. Apart from this, RTL Group's production arm Fremantle Media makes it one of the world's largest independent producers of TV content. RTL Group in Luxembourg is a listed stock corporation.

Operating EBIT
in € millions



Revenues
in € billions



New York-based Random House, an international leading trade book publishing group, has a portfolio of more than a hundred editorially independent book publishing imprints, including Knopf and Doubleday in the U.S., Ebury in the U.K., and Siedler and Goldmann in Germany. Random House publishes hardcover and paperback fiction and nonfiction books for adults and children in 17 countries, in the English, German, Spanish, Japanese and Korean languages.

The printing and publishing company Gruner + Jahr, headquartered in Hamburg, is Europe's biggest magazine publisher, with approximately 300 magazines and newspapers in over 20 countries. Its most significant international holding company is Prisma Presse, France's #2 magazine publisher. Gruner + Jahr also has publishing operations in China, Italy, The Netherlands, Austria, Poland, Russia and Spain. Gruner + Jahr has bundled its gravure activities into the Prinovis joint venture with Arvato (37.45 percent each) and Axel Springer AG (25.1 percent).

The BMG division consists of Bertelsmann's 50 percent share in the Sony BMG Music Entertainment joint venture and BMG Music Publishing. An agreement to sell the music publishing business was signed with Universal Music Group (UMG) in September 2006. Sony BMG is an entertainment company with an emphasis on music that scouts and promotes artists at the national and international level. The company uses a wide range of products and distribution channels to create value based on these artists' work. The joint venture has a presence in 44 countries and includes such major labels as Arista, Columbia, Epic and Jive. Sony BMG is headquartered in New York and is owned in equal parts by Bertelsmann AG and the Sony Corporation of America.

The international media services provider Arvato does business in 37 countries worldwide with its Arvato Direct Services, Arvato Logistics Services, Arvato Print, Arvato Storage Media and Arvato Systems units. Arvato is one of Europe's foremost media and communication service providers. Its operations include gravure and offset printing plants, call and service centers, customer loyalty programs, logistics services, supply chain management, optical storage media production, IT services, address and database management, mobile/wireless services, and knowledge management. Arvato has its headquarters in Gütersloh.

Direct Group has a business presence in 24 countries with its book, music, and DVD clubs and bookstores, and unites most of Bertelsmann's worldwide direct-to-customer businesses. Direct Group is mainly represented by Bookspan in the U.S., by France Loisirs in France, and by Der Club Bertelsmann in Germany. Its BMG Columbia House unit operates music and DVD clubs in the U.S. and Canada. Direct Group is based in Gütersloh.

Strategy

Bertelsmann commands leading market positions in attractive markets, which it intends to maintain and enhance further. In addition, Bertelsmann has a balanced portfolio of different revenue categories. Revenues are generated in roughly equal parts by direct-to-customer businesses, media content, advertising and media services (including production revenues). At the same time, Bertelsmann's different corporate divisions provide for a diversification of commercial and economic risks. Businesses that tend to follow a steady market growth pattern are complemented by businesses that are more subject to cyclical influences. Geographically, Bertelsmann's core markets are located in Western Europe and the U.S., with over 90 percent of total revenues generated here in 2006. Business in the emerging markets of Eastern Europe and Asia will continue to become increasingly important.

The focus of investments will remain in the geographic core markets of Western Europe and the U.S. In this context, Bertelsmann relies both on organic and on acquisition-driven revenue growth. Operating return on sales is to be increased to 10 percent in the medium term. Wherever possible, Bertelsmann strives for 100 percent ownership of its businesses.

The viability of the business portfolio was reviewed in the group-wide "Growth Opportunities and Development Potential in Bertelsmann's Businesses" project, jointly conducted with the Boston Consulting Group (BCG) and completed in the first half of 2006. It confirmed that Bertelsmann has a business portfolio with mostly strong market positions in attractive markets, long-term future prospects and enduring growth potential. 75 percent of the group's revenues are generated by businesses which are market leaders.

The Executive Board centers its work on identifying potential new growth areas and optimizing, safeguarding and further developing the core businesses. To systematically develop new business approaches related to its core businesses, Bertelsmann is dealing intensively with the technology challenges in media markets. In the years ahead, the advancing digitization of content and distribution channels will be formative for developments in the global media industry.

One of Bertelsmann's primary goals is to increase the company's value in the sense of sustained and increasing profitability. The central performance indicator for assessing the profitability of operations and return on invested capital is Bertelsmann Value Added (BVA).

Controlling Systems

Bertelsmann controls its divisions based on BVA and Operating EBIT. BVA serves to assess the profitability of operations and return on invested capital. This focus on corporate value is evident both in the management of its business operations and in the strategic management of its investments and portfolios. It is integrated into all entrepreneurial activities by linking to the management compensation system. BVA is the difference between Net Operating Profit After Tax (NOPAT), defined as Operating EBIT adjusted for a uniform tax of 33 percent, and cost of capital. Cost of capital is the product of weighted average cost of capital (a uniform eight percent after taxes) and invested capital (operating assets less non-interest-bearing operating liabilities). In 2006, BVA improved from € 28 million to €101 million.

Operating EBIT is another relevant financial figure and is defined as an operating result that is replicable under normal economic circumstances. It is calculated before financial result and taxes, and adjusted for special items not related to operations. This procedure yields a normalized ratio that improves predictability and comparability. Operating EBIT amounted to €1,867 million in 2006. Other ratios, based on Operating EBIT, such as the cash conversion rate and return on sales, are also used.

Apart from this, Bertelsmann's internal financial targets are part of its control system (see also the section on Assets and Financial Analysis).

Significant Events of the Fiscal Year

The buyback of GBL's stake in Bertelsmann was a pivotal event in 2006. The agreement reached on May 24, 2006 was followed on July 4 by the share buyback itself for €4.5 billion. The repurchase was accomplished based on a financing concept consisting of the sale of BMG Music Publishing, a restrained investment policy through the end of 2007, a moderate dividend policy and increased operating cash flow. The transaction was initially financed by a bridge loan, which in September was partially taken out by a capital market financing and further repaid in December with the cash received from the sale of BMG Music Publishing. In September 2006, Bertelsmann and UMG (Universal Music Group) agreed to the sale of BMG Music Publishing for €1.63 billion, which was received on December 15, 2006. For accounting purposes, the company was deconsolidated effective December 31, 2006. At the time of printing, antitrust clearance had not yet been received by the EU Commission, so the transfer has not yet been completed. The sale has already received U.S. antitrust clearance.

Further, in September 2006 Bertelsmann and UMG agreed to settle a lawsuit concerning the former music file-sharing platform, Napster.

Overall Economic Developments

The global economic upturn weakened slightly during the second half of 2006, following strong growth in the first half. In light of rising economy-wide capacity utilization rates and increasing inflation risks, monetary policy was tightened worldwide.

Economic development in the U.S., which had improved significantly in early 2006, slowed again slightly over the course of the year. The Kiel Institute for the World Economy reports that real gross domestic product (GDP) rose by 3.3 percent in the U.S.

Economic growth in the euro region picked up considerably during the first half of the year. This upswing stabilized further in the second half, though the rapid speed of the spring was not maintained. Essential stimuli came from domestic demand. Exports also increased more rapidly than imports. According to the OECD, the euro region saw a 2.4 percent increase in real GDP in 2006.

The upswing in the German economy intensified considerably in 2006, fueled by exports that continued to increase strongly and growing domestic demand; private consumption also expanded significantly. In Germany, the Federal Statistics Office reports that real GDP grew by 2.7 percent.

Developments in Relevant Markets

In all, media markets in Europe showed a more positive development than in 2005. Nielsen Media Research reports that gross advertising spend on established media (TV, magazine and radio advertising) increased by between 3.1 percent and 9.2 percent in Germany. According to the German Online Marketers Association, the German market in established forms of online advertising registered a roughly 146 percent gross increase over the previous year, which makes this the fourth-largest advertising medium in Germany. The magazine advertising market in France remained stable. The book markets in the U.S. and Germany remained unchanged compared with the previous year. Global music markets continued to shrink, as the enduring decline in CD sales was only partly offset by growing revenues from digital music formats. The trend towards business process outsourcing continued to play an important role in the services sector in 2006. Printing markets in Europe and the U.S. were still characterized by intense competition.

Regulatory Setting

Bertelsmann has television and radio operations in several European countries. In this context, Bertelsmann is subject to broadcasting laws that need to be taken into account in future business development. Bertelsmann mostly occupies leading market positions in its lines of business worldwide. This may result in restrictions on growth through acquisition in some regions and lines of business, for antitrust reasons. Because its profit participation certificates and bonds are publicly listed, Bertelsmann complies fully with all applicable capital market regulations. Bertelsmann is not subject to the “Mitbestimmungsgesetz” (Germany’s Employee Co-Determination Act), as the Act does not apply to media companies.

Results Analysis

Revenues

Consolidated revenues increased in 2006 by 7.9 percent from €17.9 billion to €19.3 billion, with 2.9 percent of this increase representing improved organic growth compared with the previous year (2005: 2.3 percent). Portfolio and other effects boosted consolidated revenues by an overall 5.0 percent (2005: 2.5 percent). Exchange rate movements had no influence on sales (2005: 0.3 percent) and there was only a minor shift in the regional breakdown of revenues compared with 2005. Whereas sales in Germany increased slightly to 30.6 percent compared with 29.7 percent in 2005, the other European countries took a 44.1 percent share of revenues (2005: 43.8 percent). At the same time, the proportion of U.S. revenues to total turnover declined from 20.5 percent to 19.7 percent. Other countries contributed a 5.6 percent share (2005: 6.0 percent). Bertelsmann AG thus registered a slight decline in the proportion of foreign revenues to total revenues from 70.3 percent to 69.4 percent. As in the previous year, the revenue share of the four business categories, content, advertising, direct-to-customer and media services including production revenues, remained nearly steady.

Operating EBIT and Operating EBITDA

Bertelsmann's Operating EBIT rose by 16.0 percent to €1,867 million in 2006 compared with €1,610 million in 2005, with return on sales reaching 9.7 percent (2005: 9.0 percent). The largest increase in profits was achieved by RTL Group, with Direct Group doubling its results compared with the previous year. The Gruner + Jahr, Random House and Arvato divisions exceeded the high level of profitability they achieved in 2005. BMG's profitability was again negatively affected by the market downturn in recording business. Group operating expenses mainly changed in proportion to revenues.

Bertelsmann improved Operating EBITDA by 12.0 percent to €2,548 million (2005: €2,274 million).

Net Income

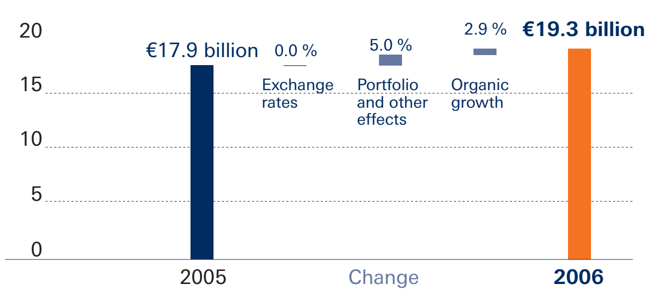
Based on Operating EBIT, and after adjusting for special items totaling €1,161 million, EBIT reached €3,028 million (2005: €1,671 million). Net financial expense increased compared with the previous year from €386 million to €427 million. Interest expense rose due to increased financial debt as a result of repurchasing the GBL stake. Net financial expense also includes distributions of €77 million (2005: €76 million) on Bertelsmann AG's profit participation certificates. Income tax expense decreased to €177 million compared with €244 million in 2005. As in the previous year, a number of one-time tax effects led to a lower effective tax rate. This included, amongst other things, the almost tax-free income on the sale of BMG Music Publishing as well as a tax asset recognized at RTL Group level.

Revenues by Division*

in € millions			2006			2005
	Germany	International	Total	Germany	International	Total
RTL Group	2,093	3,547	**5,640**	1,975	3,137	5,112
Random House	233	1,714	**1,947**	202	1,626	1,828
Gruner + Jahr	1,328	1,533	**2,861**	956	1,668	2,624
BMG	234	1,783	**2,017**	179	1,949	2,128
Arvato	2,084	2,698	**4,782**	1,803	2,562	4,365
Direct Group	307	2,358	**2,665**	304	2,080	2,384
Total revenues by division	**6,279**	**13,633**	**19,912**	**5,419**	**13,022**	**18,441**
Corporate/Consolidation	(369)	(246)	**(615)**	(106)	(445)	(551)
Consolidated revenues	**5,910**	**13,387**	**19,297**	**5,313**	**12,577**	**17,890**

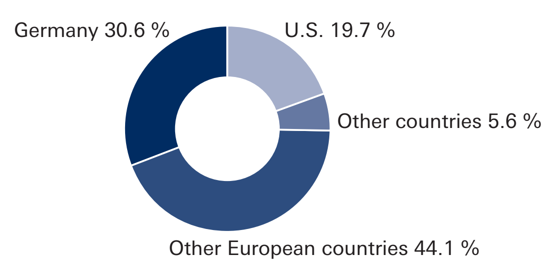
* Higher revenues in Germany at Gruner + Jahr, Arvato and BMG are mainly attributable to consolidation effects.

Revenue Breakdown



Consolidated Revenues by Region

in percent



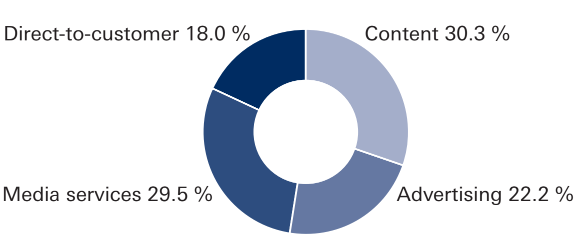
Results Breakdown

in € millions	2006	2005
Operating EBIT by division		
RTL Group	**835**	756
Random House	**182**	166
Gruner + Jahr	**277**	250
BMG	**173**	177
Arvato	**367**	341
Direct Group	**110**	53
Total Operating EBIT by division	**1,944**	**1,743**
Corporate/Consolidation	**(77)**	(133)
Group Operating EBIT	**1,867**	**1,610**
Special items	**1,161**	61
EBIT (earnings before interest and taxes)	**3,028**	**1,671**
Financial result	**(427)**	(386)
Income taxes	**(177)**	(244)
Net income	**2,424**	**1,041**
of which: Share of profit of Bertelsmann shareholders	**2,101**	880
of which: Minority interest	**323**	161

After financial result and income taxes, group net income for the year more than doubled to €2,424 million (2005: €1,041 million). Due to the sale of TPS, the digital platform of which RTL Group was a shareholder via M6, the share of minority shareholders in group net income increased to €323 million (2005: €161 million). Group net income attributable to Bertelsmann AG's shareholders amounted to €2,101 million (2005: €880 million). It is intended to distribute a dividend of €120 million for 2006.

Revenues by Category

in percent*



* Based on total from divisions not including Corporate/Consolidation

Special Items

At €1,161 million, special items had a much more significant effect on EBIT in 2006 than in 2005, when they amounted to €61 million. Special items mainly include gains on disposals of €1,410 million. After considering related costs, the gain on sale of BMG Music Publishing was €1,174 million. Disposal gains also include €201 million from the sale of TPS. Profits on disposals were partly offset by restructuring and integration expenses of €68 million (2005: €185 million). These expenses were made up of €54 million for BMG and €14 million for Direct Group. Furthermore, special items included a €48 million expense for the out-of-court settlement of a legal suit which UMG filed against Bertelsmann in the U.S. in the spring of

2003 due to Bertelsmann's financing of Napster, the music file-sharing platform. Following the settlement, Bertelsmann stated that it would also be willing to settle out-of-court on the same basis with third parties who have also filed suit against Bertelsmann in the U.S. due to its financing of Napster. Hence, special items also include a provision of €101 million for possible future settlements with such third parties.

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. The group's financing is based on the requirements of a "BBB+/Baa1" rating. Rating and transparency contribute to the financial security and independence of Bertelsmann.

The Bertelsmann group is centrally financed by Bertelsmann AG and its financing companies, Bertelsmann U.S. Finance, Inc. and Bertelsmann Capital Corporation N.V.. Bertelsmann AG assumes the obligation of providing group companies with sufficient liquidity. At the same time, granting of guarantees and letters of comfort on behalf of group companies is managed by Bertelsmann AG. The group acts as a single financial unit on the market and thus optimizes its fund raising and investment opportunities.

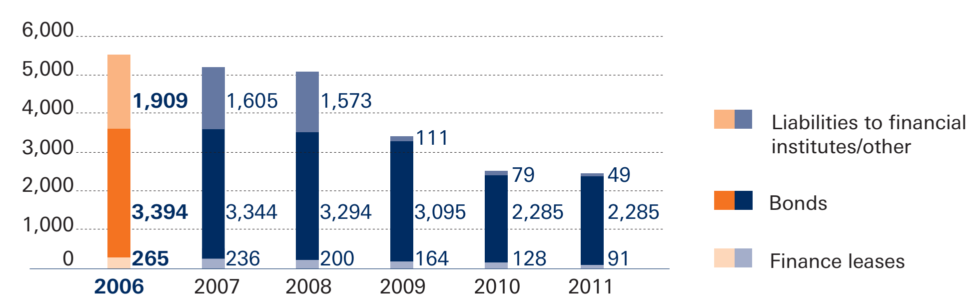
Bertelsmann has long practised a system of controlling based on quantified financial targets using the group's economic debt and, decreasingly, its capital structure. One of the key financial targets is a leverage factor of 2.3 or below. The leverage factor is the ratio of economic debt to Operating EBITDA. In calculating the leverage factor, small modifications are made to the balance sheet figures to better reflect the group's actual financial strength from an economic viewpoint. Economic debt amounted to €6,760 million in 2006 (2005: €3,931 million). Economic debt includes net financial debt as well as pension provisions and profit participation capital. The increase in economic debt results on balance from financing the buyback of GBL's stake and the sale of BMG Music Publishing. The leverage factor at

Financial Targets

	Target	2006	2005
Leverage factor: Economic debt/Operating EBITDA [1]	< 2.3	**2.8**	2.2
Operating leases factor[1]	< 0.7	**0.5**	0.8
Coverage ratio: Operating EBITDA/Financial result [1]	> 4.0	**5.7**	5.3
Equity ratio: Equity to total assets (in percent)	> 25.0	**28.6**	40.0

[1] After modifications

Maturity Structure of Financial Debt
in € millions



December 31, 2006 was 2.8 (December 31, 2005: 2.2) and thus exceeded the target leverage factor of 2.3. Bertelsmann expects to approach the target of 2.3 by the end of 2007.

In order to control operating leases, the present value of rental and leasing obligations should not exceed 0.7 times Operating EBITDA. This factor was 0.5 (2005: 0.8) at December 31, 2006. External analysts often treat operating leases as part of economic debt.

A further significant financial target is the coverage ratio (interest coverage) of more than 4. In 2006 the coverage ratio was 5.7 (2005: 5.3). It is calculated by comparing Operating EBITDA with financial result. The equity ratio decreased from 40.0 percent to 28.6 percent compared with the previous year due to the buyback of the GBL stake, but remained above the target of 25.0 percent.

Financing Activities

Bertelsmann's financing activities in 2006 centered on the buyback of the GBL stake in Bertelsmann AG. Initially, the buyback was financed via a bridge loan in two tranches of €2.0 billion and €2.5 billion. The first tranche, with a term of one year, and a further one-year extension option, was completely repaid with funds received from the issue of two benchmark bonds in September and part of the sales price for BMG Music Publishing. The second tranche of €2.5 billion, with a term of three years, was syndicated to a group of core banks in August 2006, €1.43 billion of which was drawn down at December 31, 2006.

The two bonds with a volume of €1.5 billion were issued in September following a roadshow. The coupon of the six-year bond, with a volume of €500 million, is 4.375 percent and of the ten-year bond, with a volume of €1.0 billion, is 4.750 percent.

In 2006, Bertelsmann early repaid a €50 million promissory note issued by Bertelsmann Capital Corporation. Bonds, private placements and promissory notes totalling €3,480 million (2005: €2,025 million) were outstanding at December 31, 2006. The total volume of bonds admitted for public trading was €3.0 billion.

Rating

Bertelsmann submits to the requirements for obtaining a rating in order to expand the group's financing opportunities. Since June 2002, Bertelsmann has been assigned a "Baa1" by Moody's and "BBB+" by Standard & Poor's (S&P) and thus has an investment grade issuer's rating. In connection with the share buyback, Moody's and S&P confirmed their rating, both with a negative outlook. Bertelsmann's short-term credit quality has been assessed by Moody's at P-2 and by S&P at A-2.

Bonds, Promissory Notes, U.S. Private Placements

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
4.375 % 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
4.375 % Bertelsmann AG 06/12	Bond	4.47	EUR 500
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
4.75 % Bertelsmann AG 06/16	Bond	4.89	EUR 1,000

Cash Flow Statement (Summary)

in € millions	2006	2005
Cash flow from operating activities	**1,673**	1,791
Cash flow from investing activities	**498**	(2,489)
Cash flow from financing activities	**(2,198)**	(428)
Change in cash and cash equivalents	**(27)**	**(1,126)**
Currency effects and other changes in cash and cash equivalents	**(23)**	70
Cash and cash equivalents at the beginning of the year	**1,036**	2,092
Cash and cash equivalents at the end of the year	**986**	**1,036**

Credit Lines

Based on various contractual agreements, the Bertelsmann group can draw down floating-rate and fixed-interest credit lines. A syndicated loan has been available since October 2004. This can be used by Bertelsmann AG and its foreign financing companies to draw down the equivalent of €1.2 billion of revolving funds in euros, U.S. dollars and pounds sterling. Bertelsmann group also has bilateral credit agreements with major international banks. These credit lines ensure that Bertelsmann has a financial reserve of some €1.6 billion which can be freely used for its business activities. Bertelsmann had drawn down €55 million of its credit lines at December 31, 2006 (December 31, 2005: no amounts drawn down).

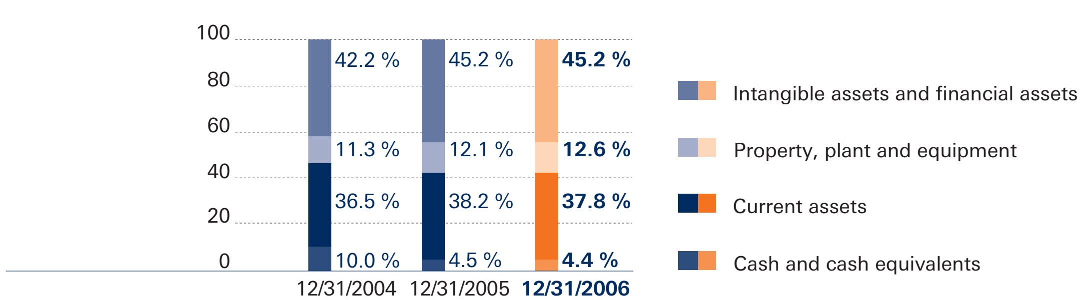
Consolidated Cash Flow Statement

EBIT is the starting point for the cash flow statement. This facilitates derivation of Bertelsmann's cash conversion rate, a key figure used to evaluate operating cash flows generated. It is calculated based on the ratio of operating free cash flow to Operating EBIT. Operating free cash flow is calculated by adjusting Operating EBIT for depreciation, amortisation and operative investments. Bertelsmann aims at achieving a cash conversion rate of 100 percent. Due to the rise in current assets during the fourth quarter, the cash conversion rate declined to 84 percent, after 91 percent in 2005. Business performance during the first two months of 2007 has already released funds from this temporary increase at the end of 2006.

Cash flow from operating activities amounted to €1,673 million in 2006 (2005: €1,791 million). Positive cash flows from investing activities were €498 million (2005: cash outflows of €2,489 million) as a result of lower investing activities during 2006 and the disposal of BMG Music Publishing. This amount includes proceeds from disposals of consolidated investments of €1,648 million (2005: €353 million) particularly for BMG Music Publishing, partly offset by purchase price payments for acquisitions of participations (net of acquired cash and cash equivalents) of €405 million (2005: €1,734 million). In 2005, Bertelsmann began to outsource funds to cover pension obligations in Germany via a Contractual Trust Arrangement (CTA). For this purpose, Bertelsmann Pension Trust e.V. was provided cash of

Balance Sheet Structure Assets

in percent



€360 million in 2005 and €200 million in 2006. Cash outflows from financing activities were €2,198 million in 2006 (2005: €428 million), mainly due to the buyback of the GBL stake. Dividends to Bertelsmann AG's shareholders and minority interest in consolidated subsidiaries amounted to €385 million (2005: €414 million). Bertelsmann had group cash and cash equivalents of €1.0 billion at December 31, 2006 (2005: €1.0 billion).

Off-Balance-Sheet Liabilities

The volume of off-balance-sheet liabilities slightly decreased compared with the end of 2005. These include contingent liabilities and other financial commitments, almost all of which arise from operating activities.

Investments

Compared with the substantial investments made in 2005, acquisitions were relatively minor in 2006. €1,092 million was expended in 2006 for investments in property, plant and equipment, intangible assets and financial assets including purchase price payments (2005: €2,565 million). Of this amount, €502 million (2005: €568 million) related to property, plant and equipment, of which the majority was used at Arvato, and €154 million (2005: €204 million) was expended for intangible assets, mainly relating to RTL Group. €31 million (2005: €59 million) was spent on investments in financial assets in 2006. Purchase price payments for consolidated investments (minus cash and cash equivalents) reduced sharply to €405 million (2005: €1,734 million) and related to increasing the holding in the rotogravure company Maul-Belser from 75 to 100 percent and many smaller acquisitions in all business divisions.

Investments

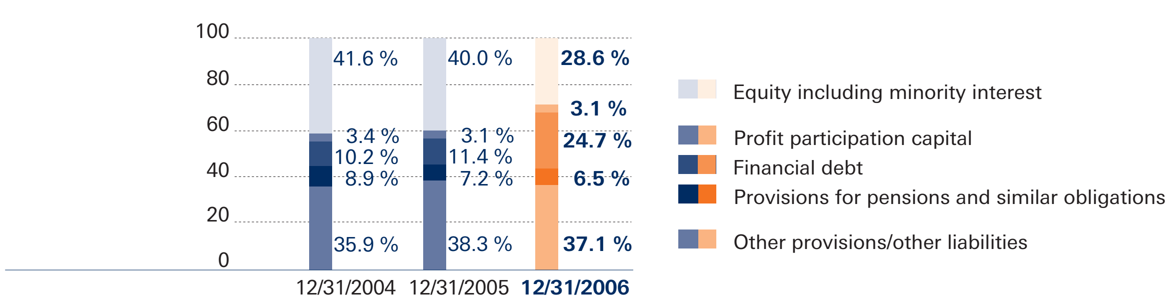
in € millions	2006	2005
RTL Group	**204**	768
Random House	**85**	47
Gruner + Jahr	**200**	384
BMG	**50**	59
Arvato	**422**	494
Direct Group	**110**	228
Corporate/Others	**21**	585
Total	**1,092**	**2,565**

Balance Sheet

Total assets decreased slightly, by €0.4 billion to €22.5 billion, compared with the end of the previous year. Changes in the structure of the balance sheet are largely attributable to the buyback of the GBL stake. As a result of this buyback, shareholders' equity at the end of 2006 dropped from €9,170 million to €6,429 million. The equity ratio was thus 28.6 percent (2005: 40.0 percent). Shareholders' equity attributable to shareholders of Bertelsmann AG declined by €3.0 billion to €5.3 billion compared with the previous year. Financial funds of €200 million were transferred to Bertelsmann Pension Trust e.V. in 2006. Pension provisions decreased from €1,647 million to €1,472 million. Economic debt increased to €6,760 million compared with €3,931 million at the end of 2005. The balance sheet includes the financial effects of including put options of minority shareholders. The already minor effects of existing put options will continue to decrease over the next few years.

Balance Sheet Structure Liabilities

in percent



Profit Participation Capital

The par value of profit participation capital remained unchanged at €516 million at December 31, 2006. Including the premium, the total volume of profit participation capital at December 31, 2006 was €706 million (December 31, 2005: €706 million). Profit participation certificates 2001 (ISIN DE0005229942) account for 97 percent of the nominal profit participation capital and profit participation capital 1992 (ISIN DE0005229900) accounts for the remaining 3 percent.

PPCs 2001 are approved for official trading on the Frankfurt and Düsseldorf stock exchanges, with the price representing a percentage of their nominal value. In 2006 the highest price in Frankfurt was 256.50 percent and the lowest price 223.75 percent. Under the terms and conditions governing 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 2006. Thus, a 15 percent payout on the par value of PPCs 2001 will again be made for 2006.

Due to their low volume, the 1992 profit participation certificates are traded only to a limited extent in Frankfurt. During 2006, the price in Frankfurt peaked at 162.20 percent and the lowest price was 136.99 percent. Payouts on PPCs 1992 depend on the group's return on total assets, which is no longer used as a performance measure. As the return on total assets for 2006 was 11.69 percent (2005: 5.97 percent), the payout on PPCs 1992 will be 12.69 percent (2005: 6.97 percent) of par value.

The payouts for both profit participation certificates will probably be made on May 15, 2006 and will amount to some €77 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, recorded sharply improved revenues and operating profit in 2006. Return on sales reached 14.8 percent (2005: 14.8 percent).

Revenues rose by 10.3 percent to €5.6 billion (2005: €5.1 billion), thanks above all to higher advertising income and significant growth in the TV production business. As a result of improved performance in almost all core activities, Operating EBIT increased by 10.4 percent to €835 million (2005: €756 million). Following reclassifications, the number of employees at the end of the year was 11,307 (end of 2005: 8,970, adjusted for comparability: 11,113).

Strategic moves in 2006 were the introduction of digital channels and expansion of diversification activities. The share of non-advertising-related business in total revenues increased to 39.0 percent (2005: 38.0 percent), such as due to mobile offerings by M6 Mobile in France, which already has over 767,000 customers. As part of the move to digitalization, RTL Group is working on many new business models to supplement its core activities in free TV, including video-on-demand, online communities, IPTV and mobile TV.

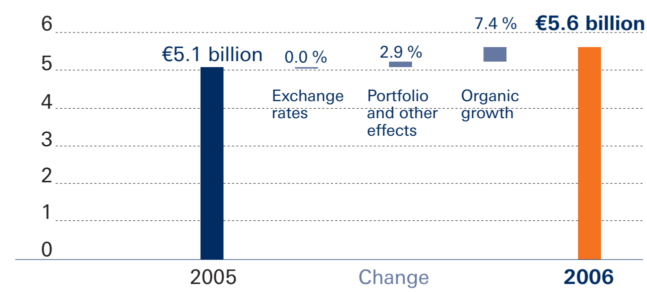
RTL Group is responding to the increasing fragmentation of TV markets with new programs aimed at narrowly-defined target groups. For example, Europe's largest entertainment group launched three digital channels in Germany to strengthen the RTL television product family, as well as another two in Great Britain, which have joined Five to make up a product family.

Growth in viewer market share was influenced by the two major sporting events of 2006, the football world championships in Germany and the Olympic winter games in Turin, which were transmitted by state TV stations in most countries. Nevertheless, RTL Group's channels mainly managed to either maintain or even increase their ratings.

The German TV channels improved their results of operations and advertising market position while maintaining an almost stable viewer market share. Vox was the only established private TV station to add viewer market share. In France, investment in programs and a successful positioning of the M6 channel family paid off with an increase in viewer share and continuing high earnings levels. In The Netherlands, viewer market share remained at a high level despite a new competitor, with profitability sharply higher. RTL Televizija in Croatia, launched in 2004, already achieved break-even in the second full year of its operations. A sharp decline in the TV advertising market and a high level of competitive intensity in Great Britain led to a drop in advertising income and viewer market share. Fremantle Media, the TV production subsidiary, increased its revenues and profits thanks to a number of internationally successful programs, particularly in the U.S.

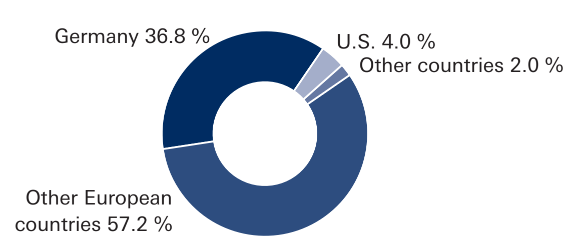
One of RTL Group's most significant transactions in 2006 was the reorganization by M6, Vivendi and TF1 of the French Pay-TV activities at Canal+ and TPS.

Revenue Breakdown



Revenues by Region

in percent*



* Without intercompany revenues

Random House

Random House, an international leading trade book publishing group, improved its revenues and profit in a global book marketplace that continues to grow slowly. Return on sales amounted to 9.3 percent (2005: 9.1 percent).

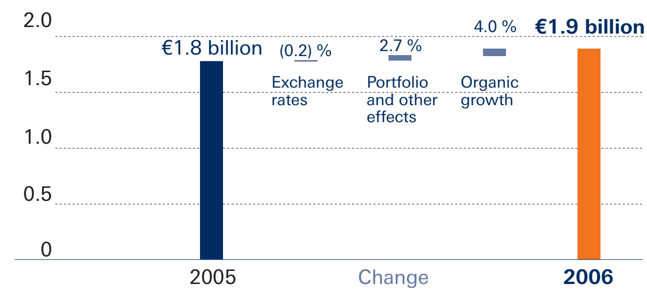
Revenues were up by 6.5 percent to €1.9 billion (2005: €1.8 billion) thanks to a huge number of bestsellers and several corporate acquisitions. Operating EBIT rose to €182 million (2005: €166 million), a 9.6 percent increase. The profit increase reflects an improved performance in North America and Germany, along with Random House UK's continued high profitability. The number of employees rose to 5,804 at year-end (end of 2005: 5,468).

The 2006 fiscal year saw numerous Random House literary and publishing successes worldwide. In the U.S. the company had an industry-leading 201 "New York Times" national bestsellers, 37 of them #1 titles – the highest total in the company's history. They include "The Audacity of Hope" by Barack Obama, "The Innocent Man" by John Grisham, "The Husband" by Dean Koontz, and "The Devil Wears Prada" by Lauren Weisberger.

In the U.K., the Random House Group commanded more than one-quarter of all positions on the "Sunday Times of London" national bestseller lists in 2006, including 56 #1 bestsellers. Dan Brown's "The Da Vinci Code" paperback movie tie-in editions had more than seven million copies in print in North America, the U.K. and Australasia, continuing the novel's spectacular success. In Spain, Random House Mondadori broke bestseller records with "La Catedral del Mar" by Ildefonso Falcones, which sold more than one million copies in nine months.

Verlagsgruppe Random House successfully launched "Pantheon" as Germany's first-ever trade-paperback-only imprint. Newly formed imprints in India and South Africa focused on developing authors.

Revenue Breakdown

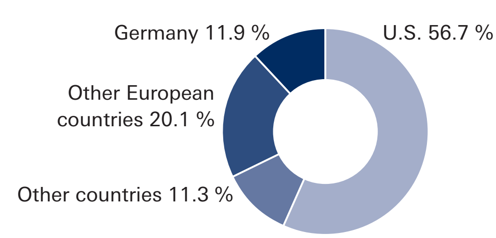


Major portfolio changes during 2006 included the acquisition of a majority share in the prominent nonfiction publisher BBC Books, which became an imprint of the Random House Group U.K. The expansion of self-help and religious publishing programs was accomplished through the acquisition of the Christian publishing companies Gerth Medien in Germany and Multnomah Publishers in the U.S. In South Korea Random House bought back all outside ownership shares of its Korean book publishing company, which was subsequently renamed Random House Korea.

Random House authors were the recipients of many prestigious international literary prizes and awards in 2006, including the Nobel Prize for Literature for the Turkish writer Orhan Pamuk, whose books are published by Random House in the U.S., Canada, Spain and Latin America.

Revenues by Region

in percent*



* Without intercompany revenues

Gruner + Jahr

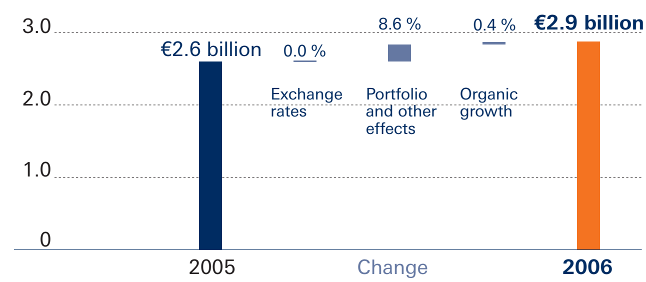
Europe's biggest magazine publisher Gruner + Jahr improved revenues and operating profit in 2006. Return on sales reached 9.7 percent (2005: 9.5 percent).

Revenues increased by 9.0 percent to €2.9 billion (2005: €2.6 billion). With largely stable core activities in Germany and abroad, the increase was due above all to the inclusion for the whole year of Prinovis, the gravure company, a joint venture with Arvato and Axel Springer AG, together with the majority interest in Motor Presse. Newly-launched titles also made a positive contribution. At €277 million, Operating EBIT was 10.8 percent higher than the previous year's €250 million, despite an increase in editorial expenditure. This increase resulted from improved earnings from the core business in Germany and France, with more investments in new titles and the opening of the Prinovis printing works in Liverpool, as well as from portfolio effects and special items. The number of employees increased to 14,529 by the end of 2006 (December 31, 2005: 13,887).

Gruner + Jahr was above all strategically influenced in 2006 by the "Expand your Brand" initiative, which is aimed at marketing new products and expanding into new services based on the G+J's strong magazine brands. Gruner + Jahr is focusing on multimedia activities such as internet communities and platforms, together with an expansion of business activities including merchandising and events connected to magazine brands. In addition, Gruner + Jahr uses its significant marketing abilities increasingly for multimedia offers such as digital TV or mobile content.

Germany and France, the core markets, remained stable despite strong competitive pressure. In Germany, Gruner + Jahr introduced two new titles, "Emotion" and "Dogs." Of the titles launched since 2004, "Neon" and "View" stand out and the core titles ("Stern," "Brigitte" and "Gala"), performed well. "Financial Times Deutschland" could sharply increase its advertising business. In France, the weekly women's magazine "Jasmin" was launched in a difficult market environment. The biweekly TV titles "TV Grandes Chaines" and "Télé 2 Semaines" increased their results sharply and further improved Prisma Presse's strong market position.

Revenue Breakdown



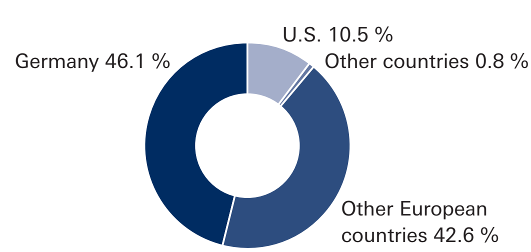
In Austria the publishing group News increased its profitability and extended market leadership and, despite the discontinuation of "Gala," Gruner + Jahr also progressed satisfactorily overall in Spain.

Gruner + Jahr was increasingly and actively involved in growth markets during 2006, such as with its investment in Boda, the Chinese company, which raised Gruner + Jahr to the second largest magazine publisher in China, and the formation of a magazine joint venture with Sanoma International in Serbia, Croatia and Slovenia. "Geo" issues were launched in a number of countries in South-East Europe, thus continuing the internationalization of this title.

In the gravure business Prinovis expanded with the opening of a state-of-the-art printing works in Liverpool (see also Arvato). Overall, the printing area remained subject to significant competitive and price pressures.

Revenues by Region

in percent*



* Without intercompany revenues

BMG

The BMG division, comprised of Bertelsmann's 50-percent holding in the Sony BMG Music Entertainment joint venture and the BMG Music Publishing subsidiary, registered declining revenues and operating profits in fiscal 2006, in a still-shrinking music market. Return on sales amounted to 8.6 percent (2005: 8.3 percent). Following the sale of BMG Music Publishing to Universal Music, signed in September, and the deconsolidation of the publishing operations with effect from December 31, 2006, the division will essentially be made up of Sony BMG in future.

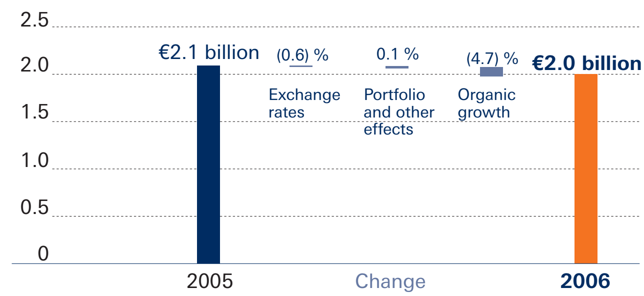
BMG's revenues were down by 5.2 percent to €2.0 billion (2005: €2.1 billion) and Operating EBIT declined by 2.3 percent to €173 million (2005: €177 million). The diminished result in 2006 may be attributed solely to the recorded music business. This should be seen against the background of a further decline of the worldwide music market by roughly seven percent, largely caused by shrinking CD sales, also experienced by Sony BMG despite its slightly increased market share. Meanwhile, the company was able to raise the revenue contribution from digital formats from seven to twelve percent: Sony BMG improved its sales of downloads and subscriptions on online and wireless platforms, and also began marketing music video content.

The margin loss at Sony BMG was offset by higher operating profits at BMG Music Publishing and, due to the intended disposal of the company, the elimination of amortization of music rights. BMG Music Publishing's positive performance and steep cost cuts in the recorded music business only partially compensated for losses sustained by lower product sales.

At the end of the year, 3,009 employees were apportioned to the BMG division (December 31, 2005: 3,736); the decline mainly reflects the divestment of BMG Music Publishing. The current number of employees corresponds to Bertelsmann's share of Sony BMG.

Rolf Schmidt-Holtz, an experienced Bertelsmann manager, replaced Andrew Lack from the Sony stable as head of Sony BMG at the start of 2006. As a result, the scope of the restructuring was expanded to include integration of the Country labels in Nashville, reorganization of the Sony Music U.S. Label Group, merging of the U.S. sales organization for physical and digital formats, and bundling of the U.S. catalog business.

Revenue Breakdown



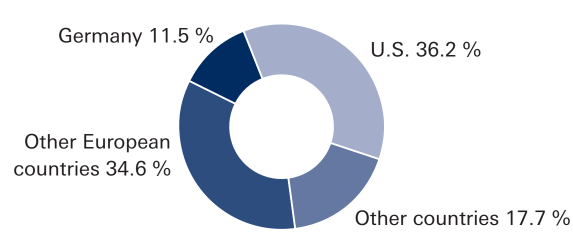
Sony BMG released four of the year's Top 10 albums in the U.S., including "FutureSex/LoveSounds" by Justin Timberlake, "B'Day" by Beyoncé, and "Taking the Long Way" by the Dixie Chicks. Sixteen new albums rose to #1 in the U.S. album charts, putting Sony BMG ahead of all other record companies.

Bertelsmann and Universal Music Group agreed the sale of BMG Music Publishing for €1.6 billion in September 2006, but BMG Music Publishing will remain with Bertelsmann until final antitrust clearance has been received. The purchase price had been received by the end of 2006.

Other major business developments included the European Court of First Instance's repeal, on July 13, 2006, of the EU Commission's approval of BMG and Sony Music's merger of their recorded music operations into Sony BMG Music Entertainment (see Risk Report on p. 86).

Revenues by Region

in percent*



* Without intercompany revenues

Arvato

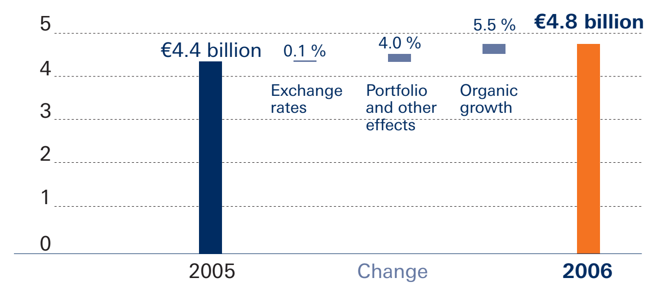
The international media and communications services provider, Arvato, recorded a notable increase in revenues. Operating profit also rose. Return on sales reached 7.7 percent (2005: 7.8 percent).

Revenues increased by 9.6 percent to €4.8 billion in 2006 (2005: €4.4 billion). The rise was mainly due to organic growth but also to product mix effects, such as the full consolidation for the entire year of Prinovis, the gravure company, a joint venture between G+J and Axel Springer AG and Infoscore Group. Operating EBIT rose by 7.6 percent to €367 million in 2006 (2005: €341 million) and thus not quite as strongly as revenues. This was due to start-up and integration costs as well as tougher competition and continuing price pressures, particularly in the printing and logistics areas. The strong growth at Arvato is also reflected in an increase in the number of employees in 2006 to 46,584 (December 31, 2005: 42,706).

The service activities bundled in Arvato Services continued to grow dynamically in 2006. They profited above all from strong demand in the service center area as well as an extremely good performance on the French market and in the German customer care activities. Activities relating to outsourcing business processes were steadily expanded in core markets. In East Riding, Great Britain, the pilot project to transfer civil service activities to Arvato Services was successful.

Arvato Print held up well in a difficult market. Significant price pressure and overcapacity had a negative effect on earnings at printers in the U.S. and Italy as well as at Prinovis. On the other hand Mohn Media Group, involved in offset printing, improved its results in 2006. State-of-the-art rotogravure printing presses started operations in Treviglio, Italy and in Liverpool, Great Britain (Prinovis). Group-wide projects linked to the FIFA World Cup 2006 and led by Arvato Print recorded a profit and set an example for further activities in the event publishing segment.

Revenue Breakdown

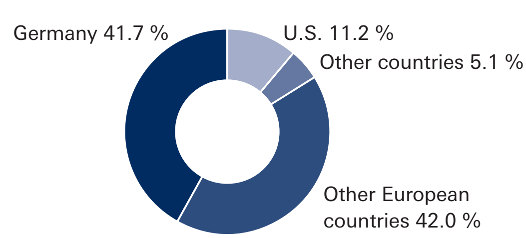


The storage media group Arvato Storage Media managed to gain market share in the CD and DVD segments, despite strong competitive pressure in 2006. This business segment started full scale production of HD-DVDs and Blu-ray Discs, a new generation of optical storage media. A new distribution and service center for the U.S. entertainment sector was opened in cooperation with Arvato Print at Louisville, U.S.

Arvato Systems, the IT service provider, steadily expanded its range of products and services, particularly for media industry entities, and again extended its external customer base. The same applies to the Arvato Mobile business sector. The "White label" download platform Gnab started customer applications in Germany, Austria, Switzerland and Spain.

Revenues by Region

in percent*



* Without intercompany revenues

Direct Group

Direct Group, with its book, DVD and music clubs and book shops, showed strong increases in revenues and operating profit in 2006 and thus underlined its return to growth and profitability. Return on sales reached 4.1 percent (2005: 2.2 percent).

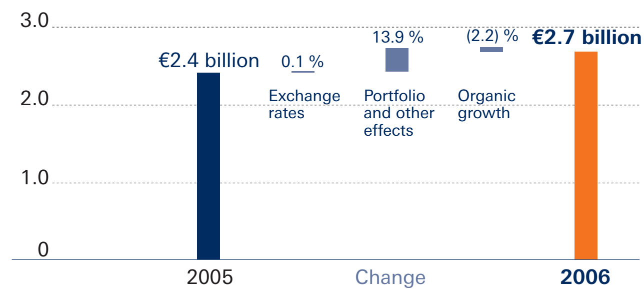
Revenues rose by 11.8 percent to €2.7 billion (2005: €2.4 billion) primarily due to the acquisition of the book shop chains Forum Alsatia, France and Bertrand, Portugal in 2006 as well as the first-time consolidation for the full year of the acquisitions of Columbia House, U.S. and Librairies Privat, France in 2005. Sales were slightly down on a same store basis. Higher revenues were recorded in particular due to the continuing strong growth of club business in Eastern Europe. Direct Group's 2006 Operating EBIT doubled to €110 million (2005: €53 million). This overproportional growth was generated by many clubs as well as by continued strict cost management. The number of employees increased to 14,996 by the end of the year (December 31, 2005: 13,717) above all due to acquisitions.

Club activities in Germany achieved a turnaround in 2006. The restructuring and new strategic program direction accomplished their objectives. Der Club Bertelsmann again recorded a clear profit for the first time for some years. BCA, the British club, also achieved a turnaround following extensive cost reduction measures and optimization of its service and product range and reached the profit zone. In the U.S., the music and DVD club BMG Columbia House was integrated successfully and faster than planned.

Direct Group's Internet business again grew strongly. Global online revenues from this sector topped €500 million. The online clubs Zooba.com and Yourmusic.com in the U.S. showed promising growth rates in 2006.

In Europe, Direct Group continued its strategy of closer integration of its club business with its book store business. In France and in Portugal book store chains acquired were integrated and in Spain expansion of the Company's own chain of book stores commenced.

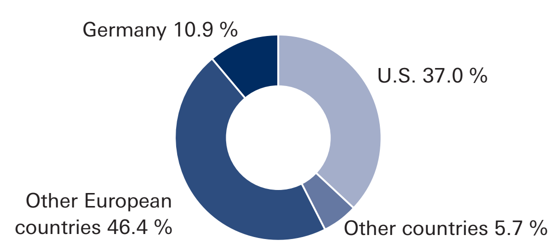
Revenue Breakdown



At the same time, Direct Group has been concentrating on steadily improving its product range and services, optimizing new customer advertising and achieving slimmer cost structures in order to further increase the attractiveness and profitability of its clubs. Promising new offerings include the children's club "Tu Circulo" in Spain which attracted more than 175,000 members within a few months, and a schoolchild tutoring program in China, which Direct Group launched with a South Korean partner. The tutoring business is based on online care as well as lessons held in specially-established pupil learning centers.

Revenues by Region

in percent*



* Without intercompany revenues

Corporate

"Corporate", which includes Bertelsmann group's Corporate Center and Corporate Investments, improved its results for 2006 to a loss of €77 million following a €115 million loss in 2005. Lower costs in 2006 are above all due to the special expense for legal costs included in 2005. This division had 903 employees at the end of the year (December 31, 2005: 932).

The Corporate Center's objective is to support the group's Executive Board in controlling the group, and corporate divisions in managing operating activities. This is done with the help of teams specializing in controlling and strategy, mergers & acquisitions, group development, technology, finance, financial statements, taxes, audit, personnel, legal, communications and ethics & compliance. Corporate Investments include, amongst others, venture-capital activities and Bertelsmann's minority investment in Lycos Europe.

The work of the Corporate Center in 2006 was significantly affected by preparation, implementation and financing of the buyback of the 25.1 percent stake in Bertelsman AG held by Groupe Bruxelles Lambert (GBL). This also involved the issue of two benchmark euro-bonds and the sale of BMG Music Publishing, the music publisher, with the help of which the buyback of the Bertelsmann shares was partly refinanced. Furthermore, the Corporate Center coordinated the analysis of Bertelsmann's major business activities by Boston Consulting Group (BCG), which was completed during 2006.

Management of a newly-formed venture capital fund with a start-up capital of €50 million and named Bertelsmann Digital Media Investments (BDMI) was assigned to the Corporate Investments area. BDMI is intended to provide access to new technologies and business opportunities in digital media. Investments are made in close cooperation with Bertelsmann's divisions.

A representative office, reporting directly to the chairman of the Executive Board, was opened in Beijing at the end of the year. Its task is to represent Bertelsmann's interests in Asia as well as support the divisions in forming new businesses and making acquisitions.

In the fall of 2006, Corporate Center organized a broadly-based employee questionnaire carried out internationally for the second time since 2002, with responses showing a high degree of staff satisfaction and identification with the company.

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 provided by some departments at the Corporate Center (see page 83). The AG's major sources of income are dividend payouts from subsidiaries and proceeds from services provided to subsidiaries. Shareholders' equity at Bertelsmann AG amounted to €6.3 billion at December 31, 2006 (2005: €10.4 billion). The main reason for this decrease was the buyback of the GBL stake. Bertelsmann AG's total assets were €13.9 billion (2005: €13.1 billion) and net income for 2006 amounted to €752 million (2005: €1,358 million), with profit available for distribution in the balance sheet at December 31, 2006 of €765 million (2005: €1,150 million).

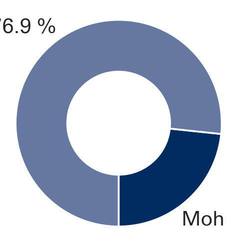
Shareholder Structure

Since the buyback of GBL's stake in Bertelsmann was completed, the Bertelsmann Stiftung foundation owns 76.9 percent of the shares in Bertelsmann AG, and 23.1 percent are indirectly held by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) exercises 100 percent of the voting rights at Bertelsmann AG's Annual General Meeting.

Employees

As in the past few years, Bertelsmann registered a net increase in employees in 2006. At year-end, the Bertelsmann group had 97,132 employees worldwide (2005: 91,559[1)]). The increase of 5,573 employees may be attributed to organic growth as well as acquisitions and other factors. At the end of 2006, the company had 1,239 trainees in Germany (2005: 1,074).

Ownership Structure – Shares
in percent



Bertelsmann sees its corporate culture, which builds on four essential principles – partnership, entrepreneurship, creativity and citizenship – as the foundation of its business success. The company's mandate and central values are codified in Bertelsmann Essentials, which were first drawn up in 1998 and were revised jointly by management, employee representatives and shareholders in 2005. Upholding a corporate culture of partnership is the overriding goal of personnel relations at Bertelsmann. The following topics were the focus of its work in 2006:

Bertelsmann University, which serves as a group-wide platform for strategic development in the business divisions and individual development of executives, again hosted state-of-the-art forums on topics in marketing and technology. These forums gave experts from the group's various divisions an opportunity to share their thoughts and experiences on best practice. Internationalization of the regional management development programs was also advanced.

Bertelsmann further expanded its preventive health offerings. 2006 saw a step-by-step introduction of health check-ups for full-time employees above the age of 45 in Germany.

Bertelsmann AG is a trailblazer in employee profit-sharing, having first introduced a profit participation scheme at Bertelsmann in Germany in 1970 as a way to let employees participate in the success they had jointly achieved. In spring 2006, 13,500 employees at Bertelsmann's German companies received participation in the amount of €7.2 million from the profits for 2005. RTL Group, Gruner + Jahr and numerous Bertelsmann companies outside Germany have their own profit-participation models. Since 1977, Bertelsmann has performed detailed employee surveys to regularly review the extent to which its corporate culture is actually implemented in day-to-day work and

[1)] The number of employees for 2005 has been adjusted to reflect the changed measuring methodology.

in people's treatment of one another. Such surveys are carried out every four years at group level and first went international in 2002. In September 2006, more than 75,000 Bertelsmann employees worldwide were called on to voice their opinions and their experiences. Participation soared to a new record at 84.5 percent. The results indicate that satisfaction is higher in nearly all areas surveyed than in the previous group employee survey in 2002. Following the survey, the results were intensively evaluated by the departments affected. Discussions of the findings are also being held by various committees of employees, executives and shareholders in order to derive appropriate measures at all levels of the company.

Corporate Responsibility

As one of the four Bertelsmann Essentials, corporate citizenship has been deeply anchored in Bertelsmann's corporate culture for decades. Bertelsmann began publishing a Sozialbericht (social report) in 1974, which regularly renders an account of its social engagement beyond economic performance indices. The group published its second international corporate responsibility report in 2006, which was available in four languages for the first time (the report can be downloaded at www.bertelsmann.de). A separate Internet portal will be set up in 2007 to document the company's corporate citizenship efforts.

Extensive involvements in various areas again complemented HR-related activities in 2006, with continued emphasis on projects to promote creativity, culture and education. As an international media company, Bertelsmann feels a special duty to promote cultural and media skills. For instance, several Bertelsmann companies hosted readings, book parties, author evenings and discussion panels on and around World Book Day.

Research and Development

Innovative, market-driven products and services safeguard Bertelsmann's competitiveness and form the basis for further growth. Accordingly, ongoing research and development (R&D) plays an important role at Bertelsmann. The group's various corporate divisions and profit centers pursue R&D in the areas that are relevant for them. R&D in the traditional sense is of secondary importance at Bertelsmann; instead, R&D at Bertelsmann is most akin to publishing investments, analyses of target demographics and new markets, and investments in artists & repertoire. For RTL Group, it is strategically important to identify new trends in programming early on, and to develop promising formats. The publishers and editors at Random House are continually working to develop and build new formats, titles and authors. Gruner + Jahr researches precise reader or user profiles of its publications and develops new titles. At BMG, R&D includes scouting and developing artists & repertoire. For Arvato, R&D means testing new business models in the marketplace, and for Direct Group, research and development means exploring and building new fields of growth. Given the innumerable innovations throughout the group, research and development costs are hardly differentiable, which is why they are not quantified separately.

Additional Information

Decisions made by the Annual General Meeting and Changes on the Supervisory Board

In fiscal 2006, there were changes to the composition of the Bertelsmann AG Supervisory Board, which are listed in detail in the Report of the Supervisory Board on page 92. Apart from various changes to the Bertelsmann AG Supervisory Board, the resolution on profit distribution was a significant result of the regular Annual General Meeting on May 22, 2006.

At an extraordinary Annual General Meeting on June 28, 2006, the Executive Board was authorized to repurchase and redeem treasury shares in compliance with the rules on capital reduction. The share recall and capital reduction were entered in the commercial register on August 30, 2006.

At an extraordinary Annual General Meeting on July 6, 2006, it was decided to increase Bertelsmann AG's reduced subscribed capital out of the company's own reserves. This capital increase was entered in the commercial register on October 11, 2006, since which date the company's subscribed capital is once again €1.0 billion, as before the buyback of GBL's shares.

Significant Events After the Balance Sheet Date

At a meeting on January 19, 2007, Bertelsmann AG's Supervisory Board appointed Hartmut Ostrowski to be Chairman & CEO of Bertelsmann AG effective January 1, 2008. On that date, Rolf Buch – until then Chief Executive Officer Arvato Direct Services – will succeed him as CEO of the Arvato division and member of the Bertelsmann AG Executive Board. Bertelsmann's Chairman & CEO Gunter Thielen will join the Supervisory Board with effect from January 1, 2008, and take its chair. The Supervisory Board Chairman Dieter Vogel will step down, but will remain a shareholder of Bertelsmann Verwaltungsgesellschaft (BVG).

Following the July 13, 2006 judgment by the Court of First Instance, the EU Commission was required to reappraise the establishment of the Sony BMG joint venture. On January 31, 2007, Bertelsmann and Sony formally updated their merger notification, thereby enabling the Commission to recommence its investigation. The Commission's decision is expected by mid-2007. The shareholders are confident that this second review will again result in clearance.

On February 2, 2007, RTL Group decided to sell its entire stake in Portugal's Grupo Media Capital media group to the Spanish Grupo Prisa.

In November 2005, RTL Group sold its remaining 25 percent stake in the sports rights marketing agency Sportfive to the French company Lagardère. Sportfive was deconsolidated in February 2007.

In light of the favorable capital market situation, Bertelsmann launched a €650 million 2-year Floating Rate Note on February 22, 2007. Bertelsmann used the proceeds from the issue to partly pay back the bridge loan it took out to finance the share buyback from GBL.

Risk Report

Risk Early Warning System

The objective of the early warning system is to identify, in good time, risks that could jeopardize the continued existence of Bertelsmann, and adopt appropriate risk handling measures. To identify risks early on, Bertelsmann has an integrated risk management system that has become established as a fixed part of the management structure. It is subject to continual evolution and is integrated into the regular reporting process. The system extends to all corporate divisions and profit centers in the group. Its effectiveness was reviewed as part of the year-end audit. The group auditor noted that the Executive Board has suitably implemented the measures required by § 91 (2) AktG (German Corporation Act), notably concerning the establishment of a monitoring system, and that the monitoring system is essentially suitable for the early identification of developments that could jeopardize the continued existence of the group.

Risk Management Process

The risk management process complies with accepted national and international norms and is broken down into several substeps: identification, quantification, control and monitoring. A major element of risk identification is the risk inventory which lists significant strategic and operational risks year by year, from the profit center level upwards, and then aggregates them step by step at division level and at group level. This bottom-up procedure ensures that risks are recognized at the place of their impact. Identified risks are offset against measures taken to control them to arrive at net risk. Risk monitoring is practiced on an ongoing basis by the management.

Significant Risks

The risk reporting process identified the following significant risks for the Bertelsmann group and for Bertelsmann AG:

Bertelsmann is exposed to a number of financial risks as a result of its international activities. In particular, these include interest rate and currency risks. These risks are largely controlled centrally by Corporate Treasury based on guidelines established by the Executive Board. 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 risks. Some firm commitments made in foreign currency are only partly hedged at the time the commitment is made, with the hedged amount increasing over time. A number of subsidiaries are based outside the euro zone. Bertelsmann hedges any currency translation risks arising from this based on the ratio between economic financial debt and Operating EBITDA, with a long-term view to the maximum leverage factor defined for the group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. Interest-rate derivatives are used centrally to provide balanced management of the 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, and second by using interest-rate derivatives (Further details are set out on p. 100 in the notes to the consolidated financial statements).

Revenues generated by RTL Group's TV channels are highly dependent on advertising sales. To counteract the risk of a deteriorating TV advertising market, RTL Group aggressively works to retain and extend its viewer market shares, as advertising customers essentially buy audience share and reach. At the same time, RTL Group aims to reduce its dependency on advertising sales by diversifying its revenue base. International sports and movie rights are generally bought in U.S. dollars, so significant exchange rate movements can have direct implications for RTL Group's profitability. To limit the currency risk, RTL Group hedges such risks, depending on the contract term.

Random House operates in mature, highly competitive book markets throughout the world. The nature of these markets exposes Random House to pressures on its margins and market share and increases its vulnerability to changes in economic growth and to fluctuations in consumer tastes. More specifically in the United States, the concentration of accounts receivables in a small number of large customers increases bad debt risk. In response to these challenges, Random House is diversifying its business, managing its profit margins, and limiting customer exposure through credit limits and, where possible, credit insurance.

At Gruner + Jahr, market or competitive reasons are the factors most likely to cause a decline in revenues and profits. At the present time, the risk of declining circulation revenues is seen as higher than the risk of declining advertising sales. In addition to cyclical influences and factors affecting buying power, the reasons lie in changing reader and consumer behavior and the emergence of new, mainly user-generated media offerings in the Web 2.0 environment. Measures have been planned or already initiated to counter the risks identified.

Music market conditions continue to shift downward with steep declines in the physical markets in most territories. This decline is only partially offset by increases in electronic/digital sales while consumers are deferring spending to varying forms of entertainment. It is uncertain how these trends will impact Sony BMG's revenues and profits. Sony BMG is responding to changing consumer demands by producing high-quality entertainment, developing new physical and electronic product offerings and continuing to expand other revenue streams.

For years, the Arvato division has pursued a growth strategy based on three pillars: recruiting new customers, tapping new regional markets, and extending its portfolio of products and services. Ideally, the desired growth would be in equal parts organic and through acquisitions. Arvato seeks to counter risks arising from the loss of a major customer or the integration of new businesses and acquisitions by maintaining a heterogeneous and flexible organization. This also makes it possible to do business successfully in a fast-paced market environment with intense competitive pressure, and to cushion cyclical risks.

Direct Group's greatest challenge continues to be new customer recruitment and retaining existing customers. It counters this risk mainly by tapping new markets and optimizing its marketing costs. Changing consumer spending on media products and a continued increase in competition in markets that are growing only moderately increase the pressure on margins. This is counteracted by making continual adjustments to infrastructure and building new business models.

As an international group, Bertelsmann is also subject to a number of 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:

In the spring of 2003, a class of music publishers and the record labels EMI and Universal Music (UMG) filed a lawsuit against Bertelsmann AG before a New York Federal District Court. The plaintiffs allege that Bertelsmann, by granting loans to the music file-sharing platform Napster (which has since gone bankrupt), enabled Napster to survive longer than it would have 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.

The pre-trial discovery was largely concluded by the end of April 2006. It yielded absolutely no evidence for the plaintiff's actual or legal claims. As a result, nothing has changed about Bertelsmann's view that the allegations and legal theories brought forth by the plaintiffs are untenable and completely without factual or legal foundation. Beyond a provision for possible future settlements with third parties (see section on special items, p. 71) Bertelsmann has made provisions for expected legal fees. In July 2006, Bertelsmann submitted a "motion for summary judgment" with the aim of having the complaints summarily dismissed. The court's decision is expected in mid-2007. In September 2006, Bertelsmann signed an out-of-court settlement with UMG and agreed to pay UMG $60 million (including attorneys' fees). As a result, all purported UMG-claims vs. Bertelsmann have been released and settled, UMG has withdrawn its complaint, and its publishing arm has opted out of the music publishers' class action. Following this settlement, Bertelsmann let it be known that the group would be willing to settle out of court with other third parties who have taken Bertelsmann to court in the U.S. for financing the music file-sharing platform Napster, or who maintain such claims.

Risks also arise from the European Court of First Instance's July 13, 2006 decision to annul the EU Commission's merger clearance for Sony BMG a as joint venture between Sony Corporation and Bertelsmann. Sony and Bertelsmann have appealed this decision to the European Court of Justice. In parallel they updated their notification for approval of the joint venture. Upon renewed investigation, the European Commission may adopt a new unconditional clearance decision. Alternatively, it could make its clearance conditional upon the parties complying with certain commitments they may offer to address competition concerns, or the Commission could require the parties to take appropriate action to restore conditions of effective competition.

Overall Risk Situation

No substantial risks were identified for Bertelsmann AG in fiscal 2006. Nor are there, from today's perspective, any substantial risks that could threaten the continued existence of the group.

Opportunities

The "Growth Opportunities and Development Potential" project initiated in 2005 by the Executive Board was concluded in the first half of 2006. It involved a detailed analysis of future opportunities and challenges that might arise from changing consumer behavior, technological progress and changing forms of advertising. The project, carried out in conjunction with the Boston Consulting Group, confirmed that Bertelsmann's business portfolio reflects a preponderance of strong market positions, long-term future prospects and sustainable growth potential. Bertelsmann continually looks into technological opportunities and challenges in the media markets, assisted by its newly-created venture capital fund BDMI. Also, Bertelsmann systematically seizes opportunities by becoming involved and investing in emerging markets. Bertelsmann sees particular potential for future growth in Asian and Eastern European markets. In 2006, Bertelsmann opened an office in China, and Gruner + Jahr acquired a majority stake in Boda, a Chinese magazine publisher. Arvato further extended its service operations in Eastern European countries, and Direct Group continued the expansion of its Club businesses in the Ukraine and Russia. In the years ahead, Bertelsmann plans to further enhance its position through strategic investments, especially in Asia. Collaborations between the divisions are, and continue to be, an important instrument in securing Bertelsmann's long-term success. As it has done successfully in the past, Bertelsmann will continue to pursue cross-divisional cooperation. One recent example was the acquisition of extensive print rights for the FIFA World Cup 2006 across several divisions.

Outlook

The German Council of Advisors on Economic Development expects that global economic growth will weaken somewhat in 2007, due to developments in the U.S. Beyond 2007, the global economic upswing is expected to pick up speed again. High energy prices will continue to pose a fundamental risk in 2007 and 2008.

The Council of Advisors imagine that economic growth in the U.S. will weaken in light of declining real estate prices, higher interest rates and slowing growth in private consumption. In the euro zone, the economic upswing will continue in the year ahead, although it is likely to slow down over the course of the year. The stimuli from foreign trade will decline somewhat and the expansion of domestic demand will weaken slightly as a result of a tighter monetary policy and a slightly dampening fiscal policy. A similar development is indicated for the German economy. The rate of growth will probably be lower than in 2006, due to a dip in purchasing power caused by the VAT increase. At the same time, exports will grow at a slightly slower rate in 2007 than in 2006, due to the strong euro and the weaker global economy.

For 2007, in light of the limited development expected for the global economy, restrained growth is forecast for the advertising markets that are relevant for Bertelsmann. Compared with the traditional media markets, online advertising markets will probably again register the steepest growth rates in 2007. Moderate growth is anticipated in Germany's TV advertising markets. The elimination of the ban on retail advertising on TV in France as of 2007 promises to result in a growth surge in the French TV advertising market. Advertising budgets will likely be shifted from other media (e.g. radio, magazines) to the TV advertising markets. Expectations for the book and/or newspaper markets in Bertelsmann's core markets tend to be restrained. The worldwide music markets will continue to weaken in 2007. While significant increases are anticipated in music downloads, revenues from sales of CDs and other physical sound-storage media will decline further.

Provided the economic expectations materialize, Bertelsmann expects revenues and profits to increase in 2007 and 2008. Apart from expected organic growth, the group will systematically seize opportunities for acquisition, taking into consideration the restrained investment policy prescribed for 2007. The project jointly carried out with BCG concluded that the group can realistically expect medium-term revenue growth of between five and eight percent, a combination of organic growth and growth by acquisition. One of the focuses of the Executive Board's work in 2007 will again be to identify potential new growth businesses, along with optimizing, safeguarding and further developing the core businesses.

RTL Group anticipates a slight rise in revenues and profits for 2007, taking into account the above-mentioned forecasts for TV advertising markets and despite the elimination of profit contributions from TPS and Sportfive, which were sold in 2006. Nearly all of RTL Group's business divisions expect profits to remain stable. RTL Group also anticipates a slight increase in viewer market shares for 2007. Random House will continue to focus on profitable growth in 2007 and 2008 to further increase its revenues and results. Gruner + Jahr plans to increase its revenues and profits in 2007 and 2008. While revenue increases are expected for the magazine and newspaper business in 2007, revenues in the printing sector will probably remain on par with the previous year. In light of the deconsolidation of BMG Music Publishing and the industry's expectations of a continuing decline in the CD market, BMG foresees a significant drop in revenues and results. Sony BMG seeks to maintain its worldwide market share in 2007 and further increase the business share contributed by digital formats. The restructuring measures announced in 2006 and initiated in early 2007 will bolster profitability this year and in the years to come. The Arvato division again expects to see sustained growth in revenues and results in 2007 and 2008. This growth is to be achieved with new customers, in new markets and through new services. Apart from this, operating improvements throughout the divisions will have a positive effect. Direct Group is seeking to increase its revenues for 2007 and 2008 by several percent, with organic growth contributing essentially to this. This growth is to be fueled across the board by nearly all corporate divisions. The profit situation will develop positively.

Bertelsmann AG expects to meet its financial targets again by the end of 2007. Accordingly, the leverage factor would approach the target figure of 2.3 again. From 2008, Bertelsmann's expected added annual financial capacity would once again be a good €1.0 billion. The medium-term target return on sales is approximately 10 percent.

The forecasts are based on Bertelsmann's present business strategy as outlined in the section on "Business and Economic Conditions." In general, the forecasts reflect a consideration of risks and opportunities and are based on operational planning and the medium-term outlook for the corporate divisions. All statements regarding possible future developments should be seen as estimates made based on information currently available. If the underlying suppositions do not materialize and/or further risks arise, actual results may deviate from expected results. Therefore, no guarantee is made for the information provided.

Corporate Governance at Bertelsmann

Striving for modern, responsible Corporate Governance has always been part of Bertelsmann's identity and an important element in its corporate culture. Referring to the recognized 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 coordinated 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 Annual General Meeting and vote there. Among other responsibilities, the Annual 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 on the Supervisory Board. The breadth and range of responsibilities and tasks delegated to these committees is continuously reviewed through various evaluation processes. The size and composition of the Supervisory Board, with the professional competence of its members, are an essential foundation to its effectiveness and independence. An extensive evaluation of the Supervisory Board's work conducted by Bertelsmann in the previous business year confirmed the high efficiency.

Since the buyback of GBL's stake in Bertelsmann, the Bertelsmann Verwaltungsgesellschaft (BVG) controls 100 percent of the voting rights at the Bertelsmann AG Annual General Meeting. The BVG's mandate is to uphold the interests of the Bertelsmann Stiftung foundation and the Mohn family as Bertelsmann AG shareholders, and to safeguard the continuity of the company's management and Bertelsmann's distinctive corporate culture. The shareholders of BVG consist of three representatives of the Mohn family and three other shareholders who are elected by the BVG Shareholders' Meeting.

Bertelsmann AG is an unlisted company. Nonetheless, the company closely follows the standards and recommendations of the June 12, 2006 version of the German Corporate Governance Code, which primarily addresses listed companies. Exceptions are made primarily in respect to those code guidelines which, in the opinion of Bertelsmann AG, apply to publicly held enterprises with large numbers of shareholders. Individual compensation and incentives paid to the members of the Bertelsmann AG Executive Board and Supervisory Board are not made public, but is disclosed to the shareholders of Bertelsmann AG. 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

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

During fiscal year 2006, the Supervisory Board fulfilled the duties incumbent upon it by law, the articles of association and bylaws. 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.

To fulfill its mandate as effectively as possible, the Supervisory Board has established three committees: the Personnel Committee, the Strategy and Investment Committee, and the Audit and Finance Committee. These committees work up the topics to be dealt with by the Supervisory Board. In isolated cases, the Supervisory Board's decision-making powers were transferred to the committees to the extent that this is permitted by law. Apart from these committees, there is a Working Group of Employee Representatives on the Supervisory Board. This structure has proven to be an excellent aid in the Supervisory Board's practical work.

During fiscal year 2006, the Supervisory Board convened for four regular meetings and one unscheduled meeting in the shape of a conference call. The Strategy and Investment Committee met six times including conference calls. The Personnel Committee met four times, the Audit and Finance Committee six times, including conference calls. The Working Group of Employee 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.

Bertelsmann AG's consolidated financial statements and group management report for the fiscal year from January 1 through December 31, 2006 were audited by 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 the auditor 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: On May 22, 2006 the Bertelsmann AG Annual General Meeting elected Dr. Wulf H. Bernotat, Chief Executive Officer (CEO) of E.ON AG, to the Supervisory Board. At the same time, Christian van Thillo, CEO of the Flemish media group De Persgroep NV, left the Supervisory Board, his term of office having expired. Following the completion of the share buyback from Groupe Bruxelles Lambert, André Desmarais, President and Co-Chief Executive Officer of the Power Corporation of Canada, Montréal, and Gilles Samyn, Managing Director of Frère-Bourgois, left the Board with effect from July 4, 2006. On November 15, 2006 the Bertelsmann AG Annual General Meeting elected Christoph Mohn, CEO of Lycos Europe N.V., to the Supervisory Board. At year-end 2006, one seat on the Bertelsmann AG Supervisory Board was vacant.

The Supervisory Board thanks Messrs. van Thillo, Samyn and Desmarais for a mutually trusting collaboration and their active contributions to the company's development, also on behalf of the shareholders.

The following changes were made to the Bertelsmann AG Executive Board during the year under review: Dr. Thomas Rabe, formerly Chief Financial Officer (CFO) of RTL Group, was appointed to the Bertelsmann AG Executive Board as the group's CFO, with effect from January 1, 2006. The former CFO Dr. Siegfried Luther had left the Bertelsmann AG Executive Board at December 31, 2005, when his contract expired. On February 10, 2006, Rolf Schmidt-Holtz was appointed CEO of Sony BMG Music Entertainment and left the Bertelsmann AG Executive Board as a consequence. The Supervisory Board thanks Dr. Luther and Mr. Schmidt-Holtz for their many years of trustful service to the group.

In 2006, Bertelsmann's core markets showed a largely positive or stable performance. One notable exception were the music markets, which continued their negative trend worldwide. The rather favorable overall development of the economy resulted in organic growth and an increased return on sales vs. the previous year.

The Supervisory Board was closely involved in the decision to buy back Groupe Bruxelles Lambert's stake in Bertelsmann AG, and in drawing up the underlying financing concept, which included paying down part of the financial debt by selling BMG Music Publishing. Major investments approved by the Supervisory Board involved the acquisition of programming rights for RTL Group's TV channels and the launch of two digital channels in the U.K. Both measures strengthen the competitive position of RTL Group, Bertelsmann's most significant source of income.

During the year under review, the Supervisory Board received comprehensive information about the results of the group-wide strategy project "Growth Opportunities and Development Potential of Bertelsmann's Businesses" and discussed the future strategy of major businesses in the group portfolio with regard to market appeal and competitive position.

The Executive Board and Supervisory Board regularly discussed the development of the group's financial situation, to ensure a rapid pay-down of the increased financial debt back to a level within the company's own financing targets.

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 16, 2007

Prof. Dr. Dieter H. Vogel

Consolidated Income Statement

in € millions	Notes	2006	2005
Revenues	1	**19,297**	**17,890**
Other operating income	2	**670**	591
Change in inventories		**123**	30
Own costs capitalized		**245**	217
Cost of materials		**(5,987)**	(5,328)
Royalty and license fees		**(1,522)**	(1,500)
Personnel costs	3	**(4,850)**	(4,458)
Amortization of intangible assets and depreciation of property, plant and equipment	4	**(681)**	(656)
Other operating expenses	5	**(5,526)**	(5,267)
Results from investments accounted for using the equity method	6	**86**	76
Results from other participations	6	**12**	15
Special items	7	**1,161**	61
EBIT (earnings before interest and taxes)		**3,028**	**1,671**
Interest income		**143**	170
Interest expenses		**(358)**	(264)
Other financial expenses and income	8	**(212)**	(292)
Financial result		**(427)**	**(386)**
Income taxes	9	**(177)**	(244)
Net income		**2,424**	**1,041**
attributable to:			
Share of profit of Bertelsmann shareholders		**2,101**	880
Minority interest		**323**	161

Reconciliation to Operating EBIT

in € millions	Notes	2006	2005
EBIT		**3,028**	**1,671**
Special items	7		
– Impairment of goodwill, other financial assets and income from release of negative goodwill		**32**	12
– Capital gains/losses		**(1,410)**	(258)
– Other special items		**217**	185
Operating EBIT	28	**1,867**	**1,610**
Operating EBITDA	29	**2,548**	**2,274**

Consolidated Balance Sheet

in € millions	Notes	12/31/2006	12/31/2005
Assets			
Non-current assets			
Goodwill	10	7,655	7,755
Other intangible assets	10, 11	1,279	1,611
Property, plant and equipment	10, 12	2,830	2,785
Investments accounted for using the equity method	10, 13	638	691
Other financial assets	14	584	264
Trade accounts receivable	16	18	93
Other accounts receivable and other non-current assets	16	379	452
Deferred tax assets	9	553	420
		13,936	14,071
Current assets			
Inventories	15	2,191	2,108
Trade accounts receivable	16	3,179	3,205
Other accounts receivable and other current assets	16	1,917	1,963
Other financial assets		15	39
Current income tax receivable		265	219
Cash and cash equivalents	17	986	1,036
		8,553	8,570
Assets held for sale		9	291
		22,498	22,932
Equity and Liabilities			
Equity	18		
Subscribed capital		1,000	1,000
Capital reserve		2,345	2,331
Retained earnings		1,992	4,997
Shareholders' equity		5,337	8,328
Minority interest		1,092	842
		6,429	9,170
Non-current liabilities			
Provisions for pensions and similar obligations	19	1,472	1,647
Other provisions	20	142	105
Deferred tax liabilities	9	231	273
Profit participation capital	21	706	706
Financial debt	22	5,185	2,435
Trade accounts payable	23	119	130
Other liabilities	23	672	576
		8,527	5,872
Current liabilities			
Other provisions	20	567	646
Financial debt	22	383	179
Trade accounts payable	23	3,672	4,022
Other liabilities	23	2,501	2,435
Current income tax payable		418	364
		7,541	7,646
Liabilities included in disposal groups held for sale		1	244
		22,498	22,932

Consolidated Cash Flow Statement

in € millions	2006	2005
EBIT (earnings before interest and taxes)	**3,028**	**1,671**
Taxes paid	**(301)**	(253)
Depreciation and write-ups of non-current assets	**730**	699
Capital gains/losses	**(1,410)**	(258)
Change in provisions for pensions	**(64)**	(22)
Change in other provisions	**8**	52
Other effects	**(128)**	(46)
Change in net working capital	**(190)**	(52)
Cash flow from operating activities	**1,673**	**1,791**
Investments in:		
– intangible assets	**(154)**	(204)
– property, plant and equipment	**(502)**	(568)
– financial assets	**(31)**	(59)
– purchase price for consolidated investments (net of acquired cash)	**(405)**	(1,734)
Proceeds from disposal of investments	**1,648**	353
Proceeds from disposal of other non-current assets	**122**	83
Proceeds from disposal of marketable securities and short-term investments	**20**	–
Funding of Bertelsmann Pension Trust e.V. (CTA)	**(200)**	(360)
Cash flow from investing activities	**498**	**(2,489)**
Proceeds from issues of bonds and promissory notes	**1,488**	495
Redemption of bonds and promissory notes	**(50)**	(185)
Change in financial debt	**1,587**	(120)
Interest paid	**(291)**	(165)
Change in shareholders' equity	**(4,506)**	–
Dividends to Bertelsmann shareholders and minorities	**(385)**	(414)
Additional payments to shareholders (IAS 32)	**(41)**	(39)
Cash flow from financing activities	**(2,198)**	**(428)**
Change in cash and cash equivalents	**(27)**	**(1,126)**
Currency effects and other changes in cash and cash equivalents	**(23)**	70
Cash and cash equivalents at the beginning of the period	**1,036**	2,092
Cash and cash equivalents at the end of the period	**986**	**1,036**

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

Change in Net Financial Debt

in € millions	2006	2005
Net financial debt 1/1	**(1,578)**	**(52)**
Net cash from operating activities	**1,673**	1,791
Net cash from investing activities	**498**	(2,489)
Interests, dividend and changes in equity, additional payments (IAS 32)	**(5,223)**	(618)
Currency effects and other changes in net debt	**48**	(210)
Net financial debt 12/31	**(4,582)**	**(1,578)**

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	Sharehol-ders` equity	Minority interest	Total
Balance at December 31, 2004	**1,000**	**2,331**	**4,474**	**(334)**	**82**	**(43)**	**7,510**	**1,212**	**8,722**
Transactions with equity holders									
Dividends	–	–	(324)	–	–	–	(324)	(90)	**(414)**
Change in other comprehensive income									
Currency translation differences	–	–	–	238	–	–	238	6	**244**
Other changes	–	–	–	(1)	(39)	45	5	39	**44**
Change in reserves									
Net income	–	–	880	–	–	–	880	161	**1,041**
Other changes	–	–	19	–	–	–	19	(486)	**(467)**
Balance at December 31, 2005	**1,000**	**2,331**	**5,049**	**(97)**	**43**	**2**	**8,328**	**842**	**9,170**
Transactions with equity holders									
Dividends	–	–	(287)	–	–	–	**(287)**	(98)	**(385)**
Repurchase of treasury shares	–	–	(4,506)	–	–	–	**(4,506)**	–	**(4,506)**
Change in other comprehensive income									
Currency translation differences	–	–	–	(234)	–	–	**(234)**	(1)	**(235)**
Other changes	–	–	–	(4)	(5)	(20)	**(29)**	(33)	**(62)**
Change in reserves									
Net income	–	–	2,101	–	–	–	**2,101**	323	**2,424**
Reclassification	–	14	(14)	–	–	–	**–**	–	**–**
Other changes	–	–	(36)	–	–	–	**(36)**	59	**23**
Balance at December 31, 2006	**1,000**	**2,345**	**2,307**	**(335)**	**38**	**(18)**	**5,337**	**1,092**	**6,429**

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		thereof: BMG Music Publishing	
in € millions	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Consolidated revenues	**5,611**	5,095	**1,942**	1,823	**2,826**	2,598	**2,015**	2,126	**362**	372
Intercompany revenues	**29**	17	**5**	5	**35**	26	**2**	2	**–**	–
Divisional revenues	**5,640**	**5,112**	**1,947**	**1,828**	**2,861**	**2,624**	**2,017**	**2,128**	**362**	**372**
Operating EBIT	**835**	**756**	**182**	**166**	**277**	**250**	**173**	**177**	**83**	**50**
Special items	**202**	(17)	**(1)**	1	**(20)**	124	**1,119**	(103)	**–**	–
EBIT	**1,037**	**739**	**181**	**167**	**257**	**374**	**1,292**	**74**	**83**	**50**
Return on sales in %[1]	**14.8 %**	14.8 %	**9.3 %**	9.1 %	**9.7 %**	9.5 %	**8.6 %**	8.3 %	**22.9 %**	13.4 %
Scheduled depreciation and amortization	**178**	186	**38**	41	**84**	81	**70**	87		
Investments[2]	**204**	768	**85**	47	**200**	384	**50**	59		
Segment assets	**7,350**	7,387	**1,965**	1,998	**1,897**	1,789	**1,777**	2,864		
Segment liabilities	**2,364**	2,249	**792**	804	**677**	706	**998**	1,540		
Invested capital	**4,986**	**5,138**	**1,173**	**1,194**	**1,220**	**1,083**	**779**	**1,324**		
Results from investments accounted for using the equity method	**72**	63	**–**	–	**13**	12	**1**	3		
Investments accounted for using the equity method	**573**	617	**1**	1	**19**	17	**2**	14		
Employees (closing)	**11,307**	11,113	**5,804**	5,468	**14,529**	13,887	**3,009**	3,736		
Employees (average)	**10,990**	10,780	**5,667**	5,412	**14,127**	12,633	**3,467**	3,882		

[1] Operating EBIT as a percentage of divisional revenues
[2] Less acquired cash and cash equivalents

Secondary Format

	Germany		Other European countries		U.S.		Other countries	
in € millions	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Consolidated revenues	**5,910**	5,313	**8,507**	7,836	**3,804**	3,669	**1,076**	1,072
Invested capital	**4,292**	4,360	**5,645**	6,061	**2,325**	2,459	**647**	565
Investments	**341**	1,192	**514**	1,084	**124**	233	**113**	56

Details of the segment reporting are set out in note 28

Arvato		Direct Group		Total Divisions		Corporate		Consolidation/ Other		Total Group	
2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
4,231	3,868	**2,646**	2,365	**19,271**	17,875	**15**	15	**11**	–	**19,297**	17,890
551	497	**19**	19	**641**	566	**2**	–	**(643)**	(566)	**–**	–
4,782	**4,365**	**2,665**	**2,384**	**19,912**	**18,441**	**17**	**15**	**(632)**	**(566)**	**19,297**	**17,890**
367	**341**	**110**	**53**	**1,944**	**1,743**	**(77)**	**(115)**	**–**	**(18)**	**1,867**	**1,610**
2	90	**(13)**	(63)	**1,289**	32	**(125)**	29	**(3)**	–	**1,161**	61
369	**431**	**97**	**(10)**	**3,233**	**1,775**	**(202)**	**(86)**	**(3)**	**(18)**	**3,028**	**1,671**
7.7 %	7.8 %	**4.1 %**	2.2 %	**9.8 %**	9.5 %	**–**	–	**–**	–	**9.7 %**	9.0 %
233	210	**64**	40	**667**	645	**18**	19	**2**	–	**687**	664
422	494	**110**	228	**1,071**	1,980	**16**	585	**5**	–	**1,092**	2,565
3,148	3,012	**1,453**	1,415	**17,590**	18,465	**2,458**	2,477	**(75)**	(86)	**19,973**	20,856
1,367	1,382	**611**	644	**6,809**	7,325	**243**	150	**12**	(64)	**7,064**	7,411
1,781	**1,630**	**842**	**771**	**10,781**	**11,140**	**2,215**	**2,327**	**(87)**	**(22)**	**12,909**	**13,445**
(1)	–	**1**	1	**86**	79	**–**	(3)	**–**	–	**86**	76
5	5	**9**	8	**609**	662	**20**	29	**9**	–	**638**	691
46,584	42,706	**14,996**	13,717	**96,229**	90,627	**903**	932	**–**	–	**97,132**	91,559
45,338	38,495	**14,319**	12,986	**93,908**	84,188	**910**	913	**–**	–	**94,818**	85,101

Group	
2006	2005
19,297	17,890
12,909	13,445
1,092	2,565

Notes

General Principles

The consolidated financial statements of Bertelsmann AG for the year ended December 31, 2006 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Furthermore, all currently applicable standards and interpretations issued by the International Accounting Standards Board (IASB) are applied. Supplementary requirements, as set out in § 315 a of the German Commercial Code (HGB), are met.

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

Effects of Applying New Accounting Standards

The accounting policies used for preparation of these consolidated financial statements are generally the same as those used for the previous year. In addition, Bertelsmann AG has adopted those new or revised standards and interpretations which are to be applied as from January 1, 2006. This has resulted in no adjustments to the Bertelsmann AG consolidated financial statements, with changes arising solely in disclosures set out in the notes.

The most significant change for the Bertelsmann group relates to the first-time application of the December 2004 revision of IAS 19 Employee benefits. Additional disclosures relating to defined benefit pension plans are included in the notes to these consolidated financial statements. In particular, movements in, and the make-up of, pension obligations and plan assets are detailed.

IAS 19 (revised) also gives preparers an option to record actuarial gains or losses arising from defined benefit pension plans directly in equity. This option was not elected in 2006 and thus the revised standard had no effect on the assets, liabilities, financial position and results of operations of the group.

Effects of Applying Accounting Standards Issued But Not Yet Effective

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have promulgated further new accounting standards and interpretations which do not yet have to be applied in Bertelsmann group's 2006 financial statements. The EU has not yet approved all of the following new accounting standards and interpretations:

- IFRS 7 Financial Instruments: Disclosures and related amendments to IAS 1 Presentation of Financial Statements
- IFRS 8 Operating Segments
- IFRIC 7 Applying the Restatement Approach under IAS 29
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

Future application of IFRS 7, the amendments to IAS 1, and IFRS 8 will lead to expanded disclosures in the notes to the financial statements. First-time application of IFRIC 7 through IFRIC 12 are not expected to have any material effect on Bertelsmann's consolidated financial statements.

Consolidation

Consolidation Methods

All material subsidiaries controlled either directly or indirectly by Bertelsmann AG as defined by IAS 27 have been consolidated. With the following exception, the consolidated methods used for these financial statements remain unchanged from those applied in the preceding year: control is the power or the actual ability (de facto control), directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This did not result in any effect on the consolidated financial statements for this year or the preceding years.

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 at the acquisition date. If the acquisition cost exceeds the fair values of the acquirer's interest in the 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 measured at fair value at the time of acquisition. 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 the 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 1,309 (2005: 1,380) entities included in the group, including Bertelsmann AG. These include 910 (2005: 974) fully-consolidated entities.

201 (2005: 217) joint ventures are proportionately consolidated and a further 198 (2005: 189) associated companies are included at equity. Not included in the consolidation scope are 359 (2005: 396) affiliated companies without significant business operations, because of their negligible importance for the net asset, financial position and results of operations.

A complete list of shareholdings held by the Bertelsmann group will be filed with the commercial register at the Gütersloh district court (section B no. 3100).

Those domestic subsidiaries disclosed in note 33 have elected to be exempted from preparation, audit and publication of financial statements for 2006, as set out in § 264 para. 3 HGB (German Commercial Code) and § 264b no. 4 HGB.

There were the following changes in companies included in the consolidated financial statements compared with the previous year:

Change in Scope of Consolidation

	Domestic	Foreign	Total
Consolidated at December 31, 2005	**351**	**1,029**	**1,380**
Additions	40	87	127
Disposals	(39)	(159)	(198)
Consolidated at December 31, 2006	**352**	**957**	**1,309**

Acquisitions and Disposals

The purchase consideration for acquisitions made in 2006, less cash and cash equivalents acquired and financial debt assumed, was €405 million. Acquisition cost for these purchases as set out in IFRS 3 amounted to €398 million and related primarily to the following transactions:

- Acquisition of a 48 percent stake in Boda, a Chinese publisher
- Acquisition of the remaining holding (25 percent) in Maul-Belser, a German rotogravure printer
- Acquisition of Alsatia, France and Livraria Bertrand, Portugal, bookstore chains (100 percent each)
- Acquisition of 85 percent of the shares in the publishing house Woodlands Books

Gruner+Jahr acquired a 48 percent investment in Boda, a Chinese publisher, in November 2006. Boda has been fully consolidated in these financial statements due to the conditions set out in the bylaws. The purchase price was €49 million, less cash and cash equivalents acquired of €44 million. Goodwill arising on this acquisition amounted to €32 million.

Arvato acquired the remaining 25 percent shareholding in Maul-Belser from KarstadtQuelle AG in January 2006. Maul-Belser is a member of Prinovis printing group, formed in 2005. The acquisition was triggered by a put option held by KarstadtQuelle, minority shareholder. The exercise price was €90 million. In accordance with IAS 32, the shares subject to the put option were already 100 percent included in the Bertelsmann group financial statements in 2005, hence there were no further effects on the assets and liabilities, financial position and results of operations of the group in 2006.

Direct Group acquired Alsatia, France for €28 million (€15 million acquisition cost per IFRS 3) and Livraria Bertrand, Portugal for €26 million (€16 million acquisition cost per IFRS 3), retail bookstore chains, in April 2006 and June 2006 respectively. Goodwill arising from these two transactions totaled €32 million and both groups have been fully consolidated in these financial statements.

Random House acquired 85 percent of the shares in the British publishing house Woodlands Books for €30 million in June 2006. This transaction gave rise to goodwill of €9 million and, in connection with the transaction, rights were acquired for €34 million.

There were also a number of smaller acquisitions, by RTL Group for €36 million, Random House for €36 million, Gruner+Jahr for €42 million, BMG for €28 million, Arvato for €43 million and Direct Group for €2 million.

Sales proceeds from disposals totaled €1,648 million in 2006.

Bertelsmann sold BMG Music Publishing to Universal Music Group, a subsidiary of Vivendi SA, for €1,630 million in September 2006. Cash and cash equivalents of €32 million were included in the deconsolidation effective December 31, 2006. The gain on disposal amounted to €1,174 million.

M6, a division of RTL Group, contributed its 34 percent investment in Television Par Satellite (TPS) to a newly-formed joint venture with TFI and Vivendi Universal in August 2006. M6 holds 5.1 percent of the new entity. The shareholding has been recognized in other investments at a fair value of €324 million. The transaction itself was cash and debt free. However, payment of €70 million was made to repay TPS's net financial debt before the transfer.

A further €12 million resulted from the sale, also by RTL Group, of Yorin FM, the Dutch radio station in February 2006.

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	239	(194)	**45**
Other intangible assets	103	(321)	**(218)**
Property, plant and equipment	32	(15)	**17**
Other non-current assets	14	(149)	**(135)**
Current assets	135	(218)	**(83)**
Cash and cash equivalents	28	(100)	**(72)**
Accounts payable	175	(453)	**(278)**

Since being included, these acquisitions contributed €197 million to consolidated revenue and a negative €2 million to EBIT. Goodwill arising on the acquisitions reflects potential synergies. Other intangible assets determined as part of the purchase price allocation as set out in IFRS 3 relate to Woodlands Books for publishing rights (€34 million), to Boda for advertising, marketing and brand-usage rights (€22 million), to Complete Music Ltd. for music rights (€15 million), and to other acquisitions (€21 million).

Proportionate Consolidation

The 201 (2005: 217) proportionately consolidated joint ventures had the following effect on Bertelsmann group's assets, liabilities, income and expenses:

Effects of Proportionate Consolidation

in € millions	12/31/2006	12/31/2005
Non-current assets	**1,409**	1,557
Current assets	**1,012**	1,362
Liabilities	**1,331**	1,776
Income	**2,318**	2,620
Expenses	**2,287**	2,569

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 into the reporting currency 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	
		2006	2005	**12/31/2006**	12/31/2005
US dollar	USD	**1.2566**	1.2475	**1.3170**	1.1797
Canadian dollar	CAD	**1.4225**	1.5106	**1.5281**	1.3725
British pound	GBP	**0.6822**	0.6847	**0.6715**	0.6853
Japanese yen	JPY	**146.20**	137.10	**156.93**	138.90
Swiss franc	CHF	**1.5751**	1.5475	**1.6069**	1.5551

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 received from unconsolidated investments are recognized in the period in which the distribution is received. Revenues from services rendered are recognized based on their stage of completion.

Goodwill

Goodwill arising from an acquisition accounted for in accordance with IFRS 3 represents the excess of the purchase price over the share of fair values of acquired identifiable assets, liabilities and contingent liabilities acquired. Initial recognition is at acquisition cost, with subsequent recognition at acquisition cost less accumulated impairment losses. Goodwill is not amortized, but is subject to an annual impairment test.

An impairment loss represents the difference between the carrying value and recoverable amount of cash generating units to which the goodwill has been allocated. Any write-down is immediately charged to income as an impairment loss. Impairments of goodwill may not be reversed. The impairment test of goodwill within the Bertelsmann group is carried out as at December 31 of each year.

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. Third-party interest is recognized in accordance with IAS 23, but the amounts involved are insignificant to the Bertelsmann group.

Purchased intangible assets are stated at acquisition cost less amortization. The initial recognition of intangible assets acquired as part of a business combination is at fair value at the time of acquisition in accordance with IFRS 3.

Intangible assets with finite useful lives are amortized systematically on a straight-line basis over their estimated useful lives, impairments are recorded by applying the requirements of impairment tests (IAS 36). Capitalized software is amortized over a 3 to 5 year period, 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. Licenses are amortized over the term of the respective license agreement. As for goodwill, intangible assets with indefinite useful lives are not amortized, but are subject to an annual impairment test and, where applicable, are written down to their recoverable amount.

Property, Plant and Equipment

Items in property, plant and equipment are measured at acquisition or manufacturing cost less systematic depreciation and, where applicable, impairment losses. 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 costs are recorded as expense in the period in which they are 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. Estimated useful lives and depreciation methods are subject to annual review as set out in IAS 16. Uniform useful lives used for the group in 2006 were as follows:

• Buildings	25 to 35 years
• Plant, technical equipment and machinery	5 to 15 years
• Other furniture and other equipment	3 to 12 years

Impairment losses on property, plant and equipment are determined by applying the requirements for impairment tests.

Individually significant components of assets recognized in non-current assets are recorded and depreciated separately (component approach).

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, less costs included for insurance, maintenance and taxes, plus any related profit margin. 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, and transmission capacities. 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.

In addition to finance leases, Bertelsmann 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 inflows 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 value. These cash flows are determined individually based on industry-specific growth rates of 0 percent to 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 periods. 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, all other participations and securities included in non-current and current assets in the Bertelsmann group's consolidated financial statements are classified as available-for-sale, measured at fair value through profit or loss, 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, available-for-sale financial assets are impaired recognized as an expense in the income statement if objective evidence exists that the decline in fair value is other than temporary. If the reasons for recording the write-down no longer exist, the write-down is reversed directly in shareholders' equity. 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. As set out in IAS 39, securities stated at fair value through profit or loss are measured at their fair values at the balance sheet date, with any resulting unrealized gains and losses recorded in the income statement.

To the extent trading and settlement dates differ, settlement date is used on initial recognition of the securities.

Inventories

Inventories at the end of the year are stated at the lower of acquisition or manufacturing cost and net realisable value. 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 the group's manufacturing cost.

Inventories measured at acquisition or manufacturing cost are reviewed for possible write-downs using net realisable value at the end of each year. Net realisable value is the estimated sales price less expected costs to complete and estimated selling expenses. A write down is made if the net realisable value is lower than acquisition or manufacturing cost. The write-down is reversed if the circumstances causing the write-down no longer exist. The new carrying value then represents the lower of acquisition or manufacturing cost and adjusted net realisable value.

Customer-specific Contracts

To the extent they meet the requirements of IAS 11, customer-specific contracts are reported using the percentage of completion method, with revenues and profits from such customer contracts 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 cost (cost-to-cost method). Irrespective of the extent to which a project has been completed, losses resulting from customer-specific contracts are immediately recognized in full in the period in which the loss is identified.

Receivables and Other Assets

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

The other comprehensive income recorded directly in equity 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 recorded directly in equity are also charged or credited directly in 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 the 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 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. Non-interest-bearing long-term liabilities are discounted.

Liabilities in foreign currency are translated into the reporting currency at rates ruling at the end of the year.

To the extent they are financial liabilities as defined in IAS 39 and are not hedged transactions, liabilities are measured at amortized cost. Amortized cost is used for measuring all other liabilities as set out in IAS 39. As set out in IAS 17, obligations arising from finance leases, also included as financial liabilities, are measured at their present value.

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, with the gain or loss arising from 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.

To the extent trading and settlement dates differ, settlement date is used on initial recognition of the derivatives.

Equity Compensation Benefits

Share options are granted to certain 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 binomial option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options vesting, whereby share options forfeited solely 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 held for sale 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 and, following their designation as held for sale, these assets are no longer subject to depreciation or amortization.

Notes to the Income Statement and Balance Sheet

1 Revenues

in € millions	2006	2005
Revenues from selling goods and merchandise	11,237	10,565
Revenues from providing services	6,804	6,371
Revenues from granting use of assets	1,726	1,450
Gross revenues	**19,767**	**18,386**
Discounts	(470)	(496)
Revenues	**19,297**	**17,890**

Revenues from long-term contracts amounted to €22 million (2005: €18 million).

2 Other Operating Income

in € millions	2006	2005
Extra and supplementary income	242	216
Interest and foreign exchange gains	12	32
Prior year income and reimbursements	153	131
Gains from disposals of non-current assets	50	20
Other	213	192
	670	**591**

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	2006	2005
Wages and salaries	3,974	3,663
State social security contributions	632	574
Profit sharing	73	48
Expense for pensions and similar obligations	155	162
Other employee benefits	16	11
	4,850	**4,458**

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	2006	2005
Amortization/depreciation of		
– intangible assets	279	261
– property, plant and equipment	402	395
	681	656

5 Other Operating Expenses

in € millions	2006	2005
Administrative expenses	1,529	1,478
Consulting and audit fees	248	265
Interest and foreign exchange losses	15	38
Advertising costs	1,152	1,091
Selling expenses	952	890
Allowances on current assets	459	433
Operating taxes	127	119
Losses on disposals of non-current assets	24	23
Sundry operating expenses	1,020	930
	5,526	5,267

Consulting and audit fees include fees of €4 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	2006	2005
Income from investments accounted for using the equity method	95	82
Expenses from investments accounted for using the equity method	(9)	(6)
Results from investments accounted for using the equity method	86	76
Income from other participations	12	23
Impairments of financial assets	–	(8)
Results from other participations	12	15

Income from investments accounted for using the equity method mainly arises from Antena 3 at €49 million (2005: €39 million). The expenses 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	2006	2005
Impairment of goodwill, other financial assets and income from release of negative goodwill		
Gruner + Jahr, Greece	**(14)**	–
Gruner + Jahr, Adria	**(7)**	–
Income from release of negative goodwill	**1**	6
Other	**(12)**	(18)
Capital gains/losses		
BMG Music Publishing	**1,174**	–
TPS, RTL Group	**201**	–
U.S. publishers, Gruner + Jahr	**–**	91
Shopping.com, Direct Group	**–**	15
Merger gain Prinovis, Gruner + Jahr/Arvato	**–**	72
Merger gain Infoscore, Arvato	**–**	52
Other	**35**	28
Other special items		
Expenses for settlement of music publisher lawsuit	**(149)**	–
Restructuring/integration BMG	**(54)**	(105)
Restructuring/integration Direct Group	**(14)**	(64)
Restructuring/integration RTL Group	**–**	(16)
	1,161	**61**

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 infrequency of occurrence, have an effect on the assessment of the results of operations of the related operating segment and of the group. Special items totaled €1,161 million in 2006. Gains on disposals amounted to €1,410 million, of which €1,174 million related to the sale of BMG Music Publishing to Universal Music Group. A further €201 million arose in connection with transferring TPS into a joint venture with TF1 and Vivendi Universal.

Capital gains were partly offset by the following negative special items:

- expense of €48 million for the out-of-court settlement of a lawsuit filed by Universal Music Group in the spring of 2003 relating to the financing by Bertelsmann of Napster, the music file-sharing platform;
- a provision of €101 million for possible future settlements with third parties who also filed suit against Bertelsmann due to financing Napster, and
- restructuring and integration costs in the BMG and Direct Group segments.

Furthermore, impairment losses for Gruner + Jahr Greece and Gruner + Jahr Adria publishers acquired in 2005 and 2006 are included in special items.

8 Other Financial Expenses and Income

in € millions	2006	2005
Defined benefit plans (pensions and other)	**(116)**	(107)
Dividend entitlement on profit participation certificates	**(77)**	(76)
Minority interest in partnerships	**(48)**	(85)
Other	**29**	(24)
	(212)	**(292)**

9 Income Taxes

Income taxes, divided into current and deferred income taxes, are as follows:

in € millions	2006	2005
Net income before income taxes	**2,601**	1,285
Current income taxes	**(324)**	(375)
Deferred income taxes	**147**	131
Total income taxes	**(177)**	(244)
Net income after income taxes	**2,424**	**1,041**

Tax loss carryforwards of €857 million (2005: €1,446 million) were utilized, reducing current tax expenses by €301 million (2005: €435 million). Of the tax loss carryforwards utilized, €8 million related to domestic corporation tax, €61 million to domestic trade tax and €788 million to foreign income tax.

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

Deferred Taxes

in € millions	12/31/2006 Assets	12/31/2006 Liabilities	12/31/2005 Assets	12/31/2005 Liabilities
Intangible assets	684	322	791	393
Property, plant and equipment	46	187	40	181
Investments	7	53	6	48
Inventories	68	4	60	5
Accounts receivable	208	39	236	52
Prepayments and other assets	84	64	133	72
Provisions	258	51	284	49
Financial debt	35	8	36	–
Accounts payable	21	2	27	2
Prepayments and other liabilities	89	43	123	53
Loss carryforwards/tax credits	2,702	–	2,748	–
Valuation allowance	(3,107)	–	(3,482)	–
Total	**1,095**	**773**	**1,002**	**855**
Netting	(542)	(542)	(582)	(582)
Carrying amount	**553**	**231**	**420**	**273**

Deferred tax assets and liabilities decreased as a result of the sale of BMG Music Publishing. In particular, deferred tax liabilities relating to intangible assets reduced by €90 million. The decline in deferred tax assets relating to intangible assets is mainly due to the reversal of a temporary difference arising from an intercompany transaction within the group. This reversal also reduced the valuation allowance, with no effect on income.

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

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:

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.

Maturity

in € millions	12/31/2006	12/31/2005
Tax loss carryforwards and temporary differences		
To be carried forward for more than 5 years	9,218	10,093
To be carried forward for up to 5 years	87	105
Tax credits		
To be carried forward for more than 5 years	26	27

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

Reconciliation of Expected Tax Expense

in € millions	2006	2005
Net income before income tax	**2,601**	1,285
Income tax rate applicable to Bertelsmann AG	**38.40 %**	38.40 %
Expected tax expense	**(999)**	**(494)**
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment for differing national tax rates	**47**	64
Changes in tax regulations or tax status	**2**	–
Amortization of goodwill not recognized for tax purposes	**(9)**	(6)
Tax-free disposal and merger gains	**288**	34
Changes to tax-related factors in previous year	**(47)**	(15)
Corporation tax income from the former tax credit method	**112**	–
Valuation allowance on deferred tax assets, current year	**487**	214
Permanent differences	**(66)**	(46)
Other	**8**	5
Total	**822**	250
Actual tax expense	**(177)**	**(244)**

The reduction in valuation allowance is mainly due to two matters. Tax loss carryforwards could be used as a result of the sale of BMG Music Publishing, and a deferred tax asset arising from an intercompany transaction within the RTL group in 2005, for the whole amount of which a valuation allowance had been recorded in the previous year, could be fully recognized in 2006 as a result of new facts arising concerning recoverability.

The planned tax reform in Germany is intended to lead to a reduction in tax rates, which would change the measurement of deferred tax assets and liabilities.

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

Due to a change in the tax law, the corporation tax credit arising from the former tax credit method was recognized at its present value at December 31, 2006. The amounts recoverable will be received in ten equal annual installments in the period from 2008 through 2017. The recognition of this receivable led to a one-time income of €102 million recorded in the income statement. In addition, €10 million tax income on the dividend distribution in 2006 was recorded.

Effective Tax Rate

	2006	2005
Corporation tax including solidarity surcharge	**26.38 %**	26.38 %
Trade tax	**12.02 %**	12.02 %
Effective income tax rate	**38.40 %**	**38.40 %**

10 Selected Non-current Assets

in € millions	Goodwill	Other intangible assets	Property, plant and equipment	Investments accounted for using the equity method	**Total**
Acquisition/production cost					
Balance at January 1, 2006	**7,769**	**4,249**	**6,966**	**1,005**	**19,989**
Currency translation differences	(116)	(168)	(150)	(2)	**(436)**
Acquisitions/disposals of entities	41	(464)	27	(1)	**(397)**
Additions	–	267	541	86	**894**
Disposals	–	(150)	(253)	(73)	**(476)**
Reclassifications and other changes	(22)	(37)	(3)	(65)	**(127)**
Balance at December 31, 2006	**7,672**	**3,697**	**7,128**	**950**	**19,447**
Depreciation/amortization					
Balance at January 1, 2006	**14**	**2,638**	**4,181**	**314**	**7,147**
Currency translation differences	–	(94)	(98)	–	**(192)**
Acquisitions/disposals of entities	(4)	(246)	10	(2)	**(242)**
Regular charge for the year	–	278	409	–	**687**
Impairment losses	23	11	5	–	**39**
Disposals	–	(120)	(214)	–	**(334)**
Reversals of impairment losses	–	(3)	(1)	–	**(4)**
Reclassifications and other changes	(16)	(46)	6	–	**(56)**
Balance at December 31, 2006	**17**	**2,418**	**4,298**	**312**	**7,045**
Book value at December 31, 2006	**7,655**	**1,279**	**2,830**	**638**	**12,402**
Book value at December 31, 2005	7,755	1,611	2,785	691	**12,842**

The decrease in other intangible assets results primarily from the sale of BMG Music Publishing. Goodwill of €133 million was deconsolidated as a result of this disposal. In addition, a €30 million reduction of goodwill relating to BMG Columbia House is included in acquisitions/disposals, as deferred tax assets relating to this entity, which was acquired in 2005, have now been recognized.

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, 2006	**2,798**	**1,440**	**11**	**4,249**
Currency translation differences	(130)	(38)	–	**(168)**
Acquisitions/disposals of entities	(533)	68	1	**(464)**
Additions	59	178	30	**267**
Disposals	(66)	(77)	(7)	**(150)**
Reclassifications and other changes	(66)	37	(8)	**(37)**
Balance at December 31, 2006	**2,062**	**1,608**	**27**	**3,697**
Depreciation/amortization				
Balance at January 1, 2006	**1,887**	**751**	**–**	**2,638**
Currency translation differences	(66)	(28)	–	**(94)**
Acquisitions/disposals of entities	(237)	(9)	–	**(246)**
Regular charge for the year	136	142	–	**278**
Impairment losses	4	6	1	**11**
Disposals	(65)	(55)	–	**(120)**
Reversals of impairment losses	(1)	(2)	–	**(3)**
Reclassifications and other changes	(75)	29	–	**(46)**
Balance at December 31, 2006	**1,583**	**834**	**1**	**2,418**
Book value at December 31, 2006	**479**	**774**	**26**	**1,279**
Book value at December 31, 2005	911	689	11	**1,611**

Music, film and publishing rights have decreased following the disposal of BMG Music Publishing. Other rights and licenses include €234 million of assets with indefinite lives and which are therefore not being amortized. These intangible assets are primarily brands and mastheads.

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, 2006	**2,003**	**3,323**	**1,570**	**70**	**6,966**
Currency translation differences	(25)	(85)	(36)	(4)	**(150)**
Acquisitions/disposals of entities	31	7	(10)	(1)	**27**
Additions	29	131	117	264	**541**
Disposals	(51)	(93)	(106)	(3)	**(253)**
Reclassifications and other changes	77	194	(108)	(166)	**(3)**
Balance at December 31, 2006	**2,064**	**3,477**	**1,427**	**160**	**7,128**
Depreciation/amortization					
Balance at January 1, 2006	**790**	**2,409**	**982**	**–**	**4,181**
Currency translation differences	(11)	(66)	(21)	–	**(98)**
Acquisitions/disposals of entities	15	4	(9)	–	**10**
Regular charge for the year	69	209	131	–	**409**
Impairment losses	1	1	3	–	**5**
Disposals	(29)	(88)	(97)	–	**(214)**
Reversals of impairment losses	–	(1)	–	–	**(1)**
Reclassifications and other changes	8	2	(4)	–	**6**
Balance at December 31, 2006	**843**	**2,470**	**985**	**–**	**4,298**
Book value at December 31, 2006	**1,221**	**1,007**	**442**	**160**	**2,830**
Book value at December 31, 2005	1,213	914	588	70	**2,785**

13 Investments Accounted for Using the Equity Method

in € millions	12/31/2006	12/31/2005
Proportionate equity	**222**	258
Goodwill	**416**	433
	638	**691**

Total assets of investments accounted for using the equity method were €2,400 million at December 31, 2006 (2005: €2,832 million). Total liabilities at December 31, 2006 were €1,533 million (2005: €1,927 million). Revenues for 2006 were €2,397 million (2005: €2,624 million). Net income for 2006 was €581 million (2005: €304 million).

These disclosures are total key figures for the significant investments accounted for using the equity method. The amounts are stated at 100 percent.

The following investments accounted for using the equity method are listed on stock exchanges. The market values of these investments at December 31, 2006 were as follows:

Market Values of Investments Accounted for Using the Equity Method

in € millions	12/31/2006	12/31/2005
Lycos Europe	52	63
Buch.de	12	11
Antena 3	699	770
Grupo Media Capital	233	199
	996	1,043

14 Other Financial Assets

	At cost		At fair value		Total	
in € millions	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Current						
Loans	10	38	–	–	10	38
Investments available-for-sale	–	1	–	–	–	1
Securities available-for-sale	5	–	–	–	5	–
	15	39	–	–	15	39
Non-current						
Loans	57	109	–	–	57	109
Investments in affiliates	16	19	–	–	16	19
Investments available-for-sale	78	68	3	5	81	73
Securities available-for-sale	16	60	11	3	27	63
Securities at fair value through profit or loss	–	–	403	–	403	–
	167	256	417	8	584	264
	182	295	417	8	599	303

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. Securities at fair value through profit or loss are measured at their fair value as set out in IAS 39. €324 million relate to M6's investment in Canal+, in which Vivendi Universal and TFI are also shareholders.

A gain of €32 million was recorded on securities at fair value through profit or loss.

15 Inventories

in € millions	12/31/2006	12/31/2005
Film rights	1,390	1,352
Raw materials and supplies	159	161
Work in process	119	119
Finished goods and merchandise	519	474
Advance payments	4	2
	2,191	2,108

Inventory write-downs in 2006 totaled €147 million (2005: €160 million).

16 Receivables and Other Assets

in € millions	12/31/2006	12/31/2005
Non-current		
Trade accounts receivable	**18**	**93**
Other accounts receivable and other current assets	**379**	**452**
Current		
Trade accounts receivable	**3,170**	3,099
Accounts receivable from royalties and licenses	**9**	106
Trade accounts receivable	**3,179**	**3,205**
Accounts receivable from participations	**26**	24
Advance payments for royalties and licenses	**696**	827
Tax receivables	**164**	173
Available-for-sale securities	**7**	35
Derivative financial instruments	**151**	84
Prepaid expenses	**159**	184
Other receivables	**714**	636
Other accounts receivable and other current assets	**1,917**	**1,963**

The decrease of non-current trade accounts receivable includes €83 million resulting from the deconsolidation of BMG Music Publishing. Other non-current accounts receivable and other assets of €379 million are mainly made up of €320 million advance payments for fees and royalties. Advance payments for fees and royalties are written off if no future related income is expected. This expectation is based on management estimates of future sales volumes and price changes, using historic data.

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 cost		At fair value		Total	
in € millions	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
	6	21	**1**	14	**7**	35

17 Cash and Cash Equivalents

in € millions	12/31/2006	12/31/2005
Cash	**677**	798
Other securities	**309**	238
	986	**1,036**

18 Shareholders' Equity

Subscribed Capital

Number of shares	
Ordinary shares	83,760
Total shares	**83,760**

Bertelsmann AG's subscribed capital remains unchanged at €1,000 million, divided into 83,760 nor-par-value bearer shares (ordinary shares).

Based on a resolution of the Executive Board on July 4, 2006, 28,069 shares held by GBL-Verwaltung S.A.R.L were withdrawn in 2006. The buyback price was €4,500 million, with the withdrawn shares representing subscribed capital of €251 million. The withdrawal was entered in the commercial register on August 30, 2006.

On July 6, 2006, the shareholders' Annual General Meeting resolved to increase the subscribed capital of Bertelsmann AG, which had been reduced to €749 million following the buyback, to €1,000 million from reserves. The increase was made without issuing new shares by using €237 million from capital reserve and €14 million from retained earnings. The capital increase was entered in the commercial register on October 11, 2006.

Indirect holdings in the subscribed capital are now as follows: 76.9 percent Bertelsmann Stiftung, 23.1 percent Mohn family. 100 percent of the voting rights are held by Bertelsmann Verwaltungsgesellschaft (BVG).

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 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	Taxes	Post-tax amount	Cash flow hedges Pre-tax amount	Taxes	Post-tax amount	Currency	Total
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)	–	–	–	–	**(22)**
Change in scope of consolidation	(33)	–	(33)	–	–	–	(1)	**(34)**
December 31, 2005	**43**	**–**	**43**	**1**	**1**	**2**	**(97)**	**(52)**
Change in fair value	(4)	–	(4)	(25)	6	(19)	(234)	**(257)**
Disposals affecting income	(1)	–	(1)	–	–	–	–	**(1)**
Change in scope of consolidation	–	–	–	(1)	–	(1)	(4)	**(5)**
December 31, 2006	**38**	**–**	**38**	**(25)**	**7**	**(18)**	**(335)**	**(315)**

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 Métropole 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 and 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	2006	Average exercise price in € per share	2005
Options outstanding at the beginning of the year	**86**	**173**	**86**	**217**
Options exercised/expired during the year	85	**(25)**	85	**(44)**
Options outstanding at the end of the year	**87**	**148**	**86**	**173**

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) 2006	Number of options (in thousands) 2005
August 2010	120.00	**6**	6
December 2010	85.24	**141**	166
May 2011	85.24	**1**	1
		148	**173**

RTL Group's closing share price on the Brussels stock exchange was €84.70 at December 29, 2006.

Métropole Télévision (M6) Employee Stock Option Plan

M6 has established an employee share option plan for directors and certain employees within the group. M6 has also established plans under which directors and some key managers are granted free shares. 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' Annual 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 initially granted (in thousands)	Remaining options (in thousands)	Vesting conditions	Contractual life of options
Stock option plans				
January 2000	175.0	17.5	4 years of service	7 years
June 2000	338.1	189.5	4 years of service	7 years
June 2001	551.8	345.3	4 years of service	7 years
June 2002	710.5	516.5	4 years of service	7 years
July 2003	713.5	588.5	4 years of service	7 years
November 2003	20.0	20.0	4 years of service	7 years
April 2004	861.5	721.5	4 years of service	7 years
June 2005	635.5	587.0	4 years of service	7 years
June 2006	736.7	728.7	4 years of service	7 years
Free share plans				
June 2005	106.7	93.8	2 years of service + performance conditions	
June 2006	480.4	452.8	2 years of service	
Total	**5,329.7**	**4,261.1**		

Options expire after seven years.

Except for the plan to distribute free shares to management, the price to be paid to exercise the remaining options is 95 percent of the average price of shares in Métropole Télévision on the Paris Stock Exchange over the 20 trading days preceding the grant date.

Movements in the number of stock options are as follows:

Options (M6)

in thousands	Average exercise price in € per share	2006	Average exercise price in € per share	2005
Options outstanding at the beginning of the year	**27**	**3,421**	**26**	**3,513**
Options granted during the year	25	**737**	20	**636**
Options exercised during the year	19	**(194)**	16	**(572)**
Options expired during the year	35	**(249)**	29	**(156)**
Options outstanding at the end of the year	**26**	**3,715**	**27**	**3,421**

544 thousand of free shares are still exercisable at the end of the year against 104 thousand at the beginning of the year. 480 thousand of free shares were granted during the year and 40 thousand of them were forfeited.

Stock options outstanding at the end of the year have the following terms:

Conditions for Stock Options (M6)

Expiry date	Exercise price in €	Number of options (in thousands) 2006	Number of options (in thousands) 2005
Stock option plans			
2006	18.76	–	194
2007	57.40	206	239
2008	30.80	345	377
2009	28.06	517	558
2010	22.32	609	645
2011	24.97	722	773
2012	19.94	587	635
2013	24.60	729	–
		3,715	3,421
Free share plans			
2005	–	93	104
2006	–	453	–
		546	104
Options outstanding at end of the year		**4,261**	**3,525**
Of which exercisable		1,069	810

The market price of M6 on the Paris Stock Exchange was €27.06 at December 29, 2006.

The fair value of services received in return for stock options granted is measured by reference to the fair value of the stock options granted. The estimate of fair value of the service received is measured based on a binomial model. Free shares are valued at the share price at the date they are granted less the discounted dividends that employees can not receive during vesting period.

Fair Values of Stock Options (M6)

	Stock option plans					Free share plans		Total
Grant date	**7/25/2003**	**11/14/2003**	**4/28/2004**	**6/2/2005**	**6/6/2006**	**6/2/2005**	**6/6/2006**	
Share price	€23.66	€25.07	€24.97	€20.17	€24.63	€20.17	€24.63	
Strike price	€22.48	€23.82	€24.97	€19.94	€24.60	–	–	
Volatility	52.30 %	52.30 %	52.30 %	41.80 %	43.10 %	–	–	
Risk-free interest rate	3.05 %	3.54 %	3.32 %	3.24 %	4.02 %	3.24 %	4.02 %	
Expected return	4.58 %	4.32 %	4.34 %	5.24 %	3.81 %	5.24 %	3.81 %	
Liquidity discount	15 %	15 %	15 %	15 %	15 %	0 %	0 %	
Option life	6 years	6 years	6 years	6 years	6 years	2 years	2 years	
Employee expense in € millions								
2006	1.7	0.0	1.9	0.9	0.8	0.8	3.0	**9.1**
2005	1.3	0.0	1.6	0.4	–	0.7	–	**4.0**

Minority Interest

Minority interest in the equity of consolidated subsidiaries consists primarily of minority interest in the RTL Group.

19 Provisions for Pensions and Similar Obligations

in € millions	12/31/2006	12/31/2005
Defined benefit plans	1,325	1,482
Obligations similar to pensions	147	165
	1,472	1,647

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 2006 amounted to €26 million (2005: €22 million).

All other pension plans are defined benefit schemes. Some are financed via an external investment fund (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' period of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, which, in contrast to the entry-age-normal 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

	12/31/2006 Germany	12/31/2006 Foreign	12/31/2005 Germany	12/31/2005 Foreign
Discount rate	4.6 %	2.7-5.8 %	4.0 %	2.0-5.75 %
Expected return on plan assets	4.6-6.4 %	2.5-8.25 %	4.0 %	2.5-8.25 %
Rate of salary increase	2.5 %	0.5-5.0 %	2.5 %	1.5-5.0 %
Rate of pension increase	1.9 %	1.0-2.9 %	1.7 %	1.0-2.7 %
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.

Changes in defined benefit obligations and plan assets were as follows:

in € millions	2006	2005
Defined benefit obligations at January 1	**3,053**	**2,539**
Current service cost	71	61
New past service cost	–	(2)
Interest cost	133	133
Actuarial (gains) and losses	(89)	272
Curtailments and settlements	(22)	(13)
Contributions to plan assets by employees	5	4
Benefits directly paid by employer	(89)	(78)
Benefits paid out of plan assets	(35)	(31)
Other changes	3	14
Change of consolidation scope	1	97
Currency translation differences	(36)	57
Defined benefit obligations at December 31	**2,995**	**3,053**
Fair value of plan assets at January 1	**969**	**452**
Expected return on plan assets	57	38
Actuarial gains and (losses)	9	31
Settlements	(14)	(10)
Contributions by employees	239	444
Contributions by employer	5	4
Benefits paid out of plan assets	(35)	(31)
Other changes	2	(4)
Change of consolidation scope	(1)	19
Currency translation differences	(14)	26
Fair value of plan assets at December 31	**1,217**	**969**
Funded status	**1,778**	**2,084**

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

Net Pension Obligation Recognized

in € millions	12/31/2006	12/31/2005
Defined benefit obligation of unfunded plans	1,270	1,641
Defined benefit obligation of funded plans	1,725	1,412
Total defined benefit obligation	**2,995**	**3,053**
Fair value of plan assets	(1,217)	(969)
Actuarial gains and (losses) not yet recognized	(477)	(624)
Past service cost not yet recognized	–	(1)
Unrecognized assets due to the limit in IAS 19.58 (b)	1	–
Net liability recognized on the balance sheet	**1,302**	**1,459**
thereof provisions for pensions	1,325	1,482
thereof other assets	23	23

Under the terms of a Contractual Trust Arrangement (CTA), €200 million was transferred to the Bertelsmann Pension Trust e.V. in Germany in 2006 (2005: €360 million) to partly fund pension obligations of Bertelsmann AG. This results in a shift within defined benefit obligations to funded plans.

The net liability is divided by geographic region as follows:

Breakdown of Net Pension Liability by Region

in € millions	12/31/2006	12/31/2005
Germany	**1,110**	1,233
U.S.	**119**	137
Other Europe	**67**	81
Other countries	**6**	8
Net liability recognized on the balance sheet	**1,302**	**1,459**

Expenses related to defined benefit plans were €181 million (2005: €163 million). This amount is divided between €65 million (2005: €56 million) of personnel costs and €116 million (2005: €107 million) of 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	2006	2005
Current service cost	**71**	61
Interest cost	**133**	133
Expected return on plan assets	**(57)**	(38)
Amortization of actuarial (gains)/losses	**40**	12
Amortization of past service cost	**1**	(3)
Effect of curtailments or settlements	**(7)**	(2)
Net periodic pension plan expenses/(income) of the Income Statement	**181**	**163**

Actual return on plan assets for the year amounted to €66 million (2005: €68 million).

The portfolio structure of the plan assets is made up as follows:

	12/31/2006	12/31/2005
Equity instruments	**497**	303
Debt instruments	**588**	245
Property	**1**	–
Cash and cash equivalents	**65**	384
Other	**66**	37
Fair value of plan assets	**1,217**	**969**

The transfer to Bertelsmann AG's CTA of €360 million had not been invested by the end of 2005.

Employer's contributions to plan assets will probably amount to €234 million in 2007.

Change in Net Pension Liability

in € millions	2006	2005
Net liability at the beginning of the year	**1,459**	1,705
Pension expense	**181**	163
Pension payments	**(89)**	(78)
Contributions to plan assets	**(239)**	(444)
Other effects	**1**	16
Change of consolidation scope	**3**	78
Currency differences	**(14)**	19
Net liability at the end of the year	**1,302**	**1,459**

That part of newly-arising actuarial gains and losses relating to experience-related adjustments is set out in the following table:

in € millions	2006	2005
Experience adjustments occurred		
(Gains)/losses on defined benefit obligation	**(4)**	6
Gains/(losses) on plan assets	**9**	31

Changes in defined benefit obligations and plan assets over the past five years were as follows:

	2006	2005	2004	2003	2002
Defined benefit obligations	**2,995**	3,053	2,539	2,166	2,127
Plan assets	**1,217**	969	452	361	298
Funded status	**1,778**	**2,084**	**2,087**	**1,805**	**1,829**

The U.S. subsidiaries' liabilities for their employees' health care costs once they have retired constitute defined benefit obligations and account for €80 million (2005: €93 million) of the provisions. They have also been calculated using international standards as described above. As in 2005, scaled increases by year of between 9 and 9.4 percent have been assumed for health care costs. An increase or decrease of one percentage point in the assumptions for cost increases compared with the assumptions actually used would have the following effects on expenses and on the obligation:

in € millions	12/31/2006	12/31/2005
Effect of 1 % point increase on pension cost	**5**	3
Effect of 1 % point increase on defined benefit obligation	**1**	1
Effect of 1 % point decrease on pension cost	**(4)**	(3)
Effect of 1 % point decrease on defined benefit obligation	**(1)**	(1)

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. Such severance payments become due when an employee leaves the company and are based on legal obligations, mainly in Italy and Austria. Provisions for employees' long-service 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.

Bertelsmann AG introduced a value-account model in 2006. As part of this model, employees waive part of their gross salary, which is then credited to value accounts held by a trustee. The aim of this assignment of remuneration is to enable staff to take early retirement, whereby the period of early retirement is linked to the amount of credit in the value account. The credit to the value account meets the definition of plan assets as set out in IAS 19.7 and the company's obligation at any time amounts to the fair value of the value accounts. The value-account model has no effect on the balance sheet or income statement. These outsourced assets at December 31, 2006 totaled €1 million.

20 Other Provisions

in € millions	12/31/2005	Change of consolidation scope	Other effects	Usage	Additions	Releases	**12/31/2006**
Provisions for taxes	18	–	–	(4)	11	(5)	**20**
Restructuring provisions	102	–	(5)	(50)	9	(4)	**52**
Other	631	6	(96)	(123)	314	(95)	**637**
	751	**6**	**(101)**	**(177)**	**334**	**(104)**	**709**

Provisions for taxes of €20 million are for risks relating to open tax proceedings.

Restructuring provisions include termination benefits and other costs in accordance with IAS 37, arising from selling or terminating business activities. Provisions for various restructuring programs within the Bertelsmann group amount to €52 million (2005: €102 million).

€72 million have been reclassified from other provisions to other liabilities. Other provisions include provisions for probable losses, commitments and law suits. Legal risks result particularly from law suits in the U.S. The results of currently outstanding legal cases cannot be predicted with certainty and cannot be fully influenced.

Possible legal risks arise from the following legal dispute: Various music publishers filed claims against Bertelsmann in a U.S. court in 2003. The plaintiffs based their purported claims on the allegation that, by granting loans to Napster, which has meanwhile filed for bankruptcy, Bertelsmann enabled Napster to continue in business at a point in time in which Napster would not otherwise have been able to survive, and hence contributed to copyright infringements by Napster and its users. In 2005, the court in San Francisco confirmed Bertelsmann's interpretation of the law that the mere listing of names of music titles on Napster's former server did not constitute a copyright violation. The pre-trial discovery, substantially completed by the end of April 2006, also found no evidence whatsoever for the factual or legal claims raised by the plaintiffs. As a result, in July 2006 Bertelsmann applied for a complete rejection of the lawsuit. In September 2006, Bertelsmann signed an out-of-court settlement with the Universal Music Group and agreed to pay them $60 million (including attorneys' fees). Universal Music Group then withdrew its claim, thus the most active of the three plaintiff groups was eliminated. Bertelsmann has recognized a provision of €101 million in its 2006 consolidated financial statements for possible settlements with the other plaintiffs. Due to the amount of the provision, it has been included in special items in the income statement.

21 Profit Participation Capital

in € millions	12/31/2006	12/31/2005
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, 2006 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 the Bertelsmann group's interest-bearing liabilities to banks and capital markets at the balance sheet date. Carrying values are as follows:

	Current		Non-current			
	12/31/2006	12/31/2005	Remaining term in years		12/31/2006	12/31/2005
in € millions			1–5	> 5		
Bonds	**–**	–	1,009	2,285	**3,294**	1,873
Promissory notes	**50**	–	50	–	**50**	151
Bridge loan	**–**	–	1,430	–	**1,430**	–
Liabilities to banks	**233**	135	57	8	**65**	57
Leasing liabilities	**29**	31	145	91	**236**	241
Other financial debt	**71**	13	69	41	**110**	113
	383	**179**	**2,760**	**2,425**	**5,185**	**2,435**

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 have equal creditor ranking.

In June 2006 a bridge loan of €4,500 million was agreed with an international banking consortium to finance the buyback of the shares in Bertelsmann AG held by Groupe Bruxelles Lambert (GBL). Interest on any amounts drawn down has been agreed based on EURIBOR (European Interbank Offered Rate). The bridge loan is made up of two tranches, dating from July, 2006. The first tranche, with a €2,000 million volume and a one-year term, was completely repaid in December 2006. The second tranche, for €2,500 million and with a term of three years, was syndicated to a group of core banks in August, 2006. The amount drawn down was reduced to €1,430 million at December 31, 2006.

Furthermore, Bertelsmann has access to syndicated and bilateral credit agreements enterd into by Bertelsmann AG and Bertelsmann U.S. Finance Inc. with major international banks. These revolving credit lines can be drawn down at floating rates based on EURIBOR or LIBOR. Funds available from these credit lines total €1,581 million (2005: €1,655 million) and can be freely used for the group's normal business activities.

The remaining terms and amounts drawn down under these agreements at December 31, 2006 are set out in the table below:

Remaining Term

in € millions	Credit line 12/31/2006	Drawn down 12/31/2006	Available credit line 12/31/2006	Available credit line 12/31/2005
< 1 year	326	37	289	345
1 to 2 years	–	–	–	–
2 to 3 years	110	18	92	–
3 to 4 years	–	–	–	110
4 to 5 years	–	–	–	–
> 5 years	1,200	–	1,200	1,200
	1,636	55	1,581	1,655

Bonds, private placements and promissory notes totaling €3,480 million (2005: €2,025 million) were outstanding at December 31, 2006.

In July, 2006 Bertelsmann repaid a promissory note for €50 million early, following cancellation by Bertelsmann Capital Corporation. Bertelsmann AG issued two benchmark bonds with terms of 6 and 10 years in September 2006. The six-year bond, with a volume of €500 million, has a coupon of 4.375 percent. Interest on the ten-year bond, with a nominal volume of €1,000 million, is 4.75 percent.

The differences between book values set out in the following table and nominal values 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 €21 million at December 31, 2006 (2005: €10 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 12/31/2006	Book value 12/31/2005
4.70 % Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 02/07	12/27/2007	4.91	50	51
4.40 % Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 03/08	02/07/2008	4.56	50	50
4.48 % Bertelsmann Capital Corp N.V. (EUR 50 million promissory note) 99/09	05/07/2009	4.49	–	50
4.375 % Bertelsmann U.S. Finance, Inc. (EUR 200 million bond) 99/09	05/12/2009	4.53	199	199
4.69 % Bertelsmann U.S. Finance, Inc. (USD 100 million U.S. private placement) 03/10	04/17/2010	4.83	76	84
4.625 % Bertelsmann U.S. Finance, Inc. (EUR 750 million bond) 03/10	06/03/2010	4.70	734	757
4.375 % Bertelsmann AG (EUR 500 million bond) 06/12	09/26/2012	4.47	498	–
5.23 % Bertelsmann U.S. Finance, Inc. (USD 200 million U.S. private placement) 03/13	04/17/2013	5.38	151	169
5.33 % Bertelsmann U.S. Finance, Inc. (USD 200 million U.S. private placement) 03/15	04/17/2015	5.46	151	169
3.625 % Bertelsmann AG (EUR 500 million bond) 05/15	10/06/2015	3.74	496	495
4.75 % Bertelsmann AG (EUR 1,000 million bond) 06/16	09/26/2016	4.89	989	–
			3,394	2,024

Documentation of the 2005 Bertelsmann U.S. Finance Inc. bonds and Bertelsmann AG bonds is based on framework documentation in the form of a debt-issuance program with a maximum issue volume of €3,000 million, last updated in October 2004.

The 2006 Bertelsmann AG bonds, the USD private placements and the promissory notes were agreed based on separate documentation with institutional investors. The bonds have a rating of BBB+ (Standard & Poor's) and Baa1 (Moody's). 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 hedge relationships 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

	Book value at 12/31/2006			Book value at 12/31/2005		
in € millions	Fixed interest	Floating rate	Total	Fixed interest	Floating rate	Total
Bonds	2,768	526	3,294	1,331	542	1,873
Promissory notes	–	100	100	50	101	151
	2,768	626	3,394	1,381	643	2,024

Finance lease obligations have the following maturities:

Minimum Lease Payments for Finance Leases

	12/31/2006			12/31/2005		
in € millions	Nominal value of lease payments	Discount amounts	Present value	Nominal value of lease payments	Discount amounts	Present value
Up to 1 year	36	7	29	38	7	31
1 to 5 years	192	47	145	205	55	150
Over 5 years	114	23	91	114	23	91
	342	77	265	357	85	272

23 Liabilities

in € millions	12/31/2006	12/31/2005
Non-current		
Trade accounts payable	**119**	**130**
Other liabilities	**672**	**576**
Current		
Trade accounts payable	**3,672**	**4,022**
Liabilities to participations	**28**	25
Tax liabilities	**262**	262
Derivative financial instruments	**46**	22
Social security contributions	**88**	113
Personnel-related liabilities	**571**	567
Payments in advance	**54**	62
Deferred income	**330**	313
Other	**1,122**	1,071
Other liabilities	**2,501**	**2,435**

Non-current other liabilities amount to €672 million (2005: €576 million) and include liabilities from put options of €222 million (2005: €225 million) and minority interest in partnerships of €220 million (2005: €194 million).

The decrease in current trade accounts payable is primarily due to the deconsolidation of BMG Music Publishing. Other liabilities include supplier obligations, credit balances in accounts receivable and liabilities to minority shareholders. The caption also includes liabilities from put options of €22 million (2005: €135 million).

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	12/31/2006	12/31/2005
Guarantees	**111**	159
Warranties	**–**	–
	111	**159**

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

25 Other Financial Commitments

in € millions	12/31/2006	12/31/2005
Rental and leasing commitments	**1,551**	1,949
Other commitments	**3,673**	3,931
	5,224	**5,880**

Of the other commitments, €2,935 million (2005: €2,942 million) relate 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 €371 million (2005: €392 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	12/31/2006	12/31/2005
Nominal amount		
Up to 1 year	**286**	360
1 to 5 years	**751**	1,062
Over 5 years	**514**	527
	1,551	**1,949**
Present value	**1,235**	1,583

These commitments essentially relate to long-term real estate tenancy agreements. The decrease is above all due to a reclassification of a service contract at RTL Group and termination of a rental agreement in New York. The commitments are partly offset by subleases with a nominal value of €97 million. Present values were computed taking country-specific interest rates into account. They show the net payout currently needed to cover the commitment concerned.

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 based on the group's planned net financial debt and expected interest rate movements. Financing measures taken during 2006 have led to an increase in the proportion of floating rate debt compared with the previous year. The change is mainly due to the draw down of a bridge loan bearing interest based on EURIBOR. On the other hand, Bertelsmann issued two fixed interest benchmark bonds with terms of 6 and 10 years respectively.

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

Default Risk

The group is exposed to default risks amounting to invested cash and cash equivalents and the positive fair value of derivatives in its portfolio. 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 degree changes in fair values or cash flows of the hedged item are effectively offset by changes of the hedging instruments.

Financial Derivatives

Bertelsmann uses normal market financial derivatives, normally 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 the Executive Board. Nominal volumes are the total of all underlying buying and selling amounts.

The majority of the financial derivatives serve as hedges against foreign currency and interest rate risks arising from existing financial debt (51 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 €1,248 million (27 percent). Additionally, subsidiaries use financial derivatives to hedge against current and future foreign currency risks arising from operating receivables or payables (22 percent). No financial derivatives are used for speculative purposes.

Nominal Amounts of Financial Derivatives

in € millions	Nominal amounts at 12/31/2006 < 1 year	1–5 years	> 5 years	Total	Nominal amounts at 12/31/2005 < 1 year	1–5 years	> 5 years	Total
Currency derivatives								
Forward contracts and currency swaps	2,001	1,248	3	**3,252**	2,165	1,228	–	3,393
Currency options	–	3	–	**3**	–	2	–	2
Interest rate derivatives								
Interest rate swaps	568	819	51	**1,438**	13	812	26	851
	2,569	**2,070**	**54**	**4,693**	**2,178**	**2,042**	**26**	**4,246**

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 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 12/31/2006	12/31/2005	Fair value 12/31/2006	12/31/2005
Currency derivatives				
Forward contracts and currency swaps	**3,252**	3,393	**94**	53
Currency options	**3**	2	**–**	–
Interest rate derivatives				
Interest rate swaps	**1,438**	851	**11**	9
	4,693	**4,246**	**105**	**62**

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 €471 million and amounted to €466 million at December 31, 2006 (2005: €417 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 therefore the receivables are recognized only to the extent of its continuing involvement. The carrying amount of these risks at December 31, 2006 is recorded as a provision and amounts to €18 million (2005: €18 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.

Payment to the CTA is an outflow of cash, included in cash flow from investing activities in the cash flow statement.

The change in pension provisions is made up of the balance of personnel expenses for service cost and pension payments (see note 19).

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 sheet. Investing activities include investments for non-current assets, purchase price payments for investments acquired as well as proceeds from disposal of non-current assets and participations. Purchase price payments for investments acquired include payments relating to the acquisitions and disposals described in the relevant section of these notes. Significant proceeds from disposals of non-current assets are also described in more detail in the same section. Financing activities include changes in shareholders' equity providing or using cash, changes in financial debt and net interest paid or received.

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 effect 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 mainly include capital gains from disposal of investments as well as restructuring and integration costs. Depreciation per segment includes depreciation of property, plant and equipment and amortization of intangible assets as set out in the statement of selected non-current assets.

Investments consist of payments for ongoing capital expenditure 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 financial assets. 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 impairment 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. The number of employees for the prior year has been changed to reflect the new method of recording these numbers.

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	2006	2005
Operating EBIT	**1,867**	**1,610**
Special items	**1,161**	61
EBIT	**3,028**	**1,671**
Financial result	**(427)**	(386)
Income taxes	**(177)**	(244)
Net income	**2,424**	**1,041**

	12/31/2006	12/31/2005
Segment assets	**19,973**	**20,856**
Other assets (not allocated)	**986**	620
Cash and cash equivalents	**986**	1,036
Deferred tax assets	**553**	420
Total assets	**22,498**	**22,932**
Segment liabilities	**7,064**	**7,411**
Equity	**6,429**	9,170
Profit participation capital	**706**	706
Provisions for pensions and similar obligations	**1,472**	1,647
Financial debt	**5,568**	2,614
Other liabilities (not allocated)	**1,028**	1,111
Deferred tax liabilities	**231**	273
Total liabilities	**22,498**	**22,932**

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	2006	2005
Operating EBIT	**1,867**	1,610
Impairment of goodwill and income from release of negative goodwill	**23**	12
Amortization of intangible assets	**289**	280
Depreciation of property, plant and equipment	**414**	411
Impairments of other financial assets	**9**	8
Reversal of impairment losses of property, plant and equipment and intangible assets	**(4)**	(12)
Impairments/Reversal of impairment losses in special items	**(50)**	(35)
Operating EBITDA	**2,548**	**2,274**

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 (Frère family up to July 4, 2006), 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, Bertelsmann Beteiligungs GmbH, Reinhard Mohn Verwaltungsgesellschaft mbH and Mohn Beteiligungs GmbH have informed Bertelsmann AG that they each own more than one-quarter of its share capital. For the determination of the ownership, indirect as well as direct shares have been considered.

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

in € millions	2006	2005
Income statement		
Revenues	152	159
Other operating income	26	26
Cost of materials	18	10
Personnel costs	36	44
Other operating expenses	6	7
Financial result	–	(1)
Balance sheet	12/31/2006	12/31/2005
Other financial assets of related parties	36	91
Accounts receivable from related parties	73	60
Provision for pensions to related parties	14	13
Liabilities to related parties	40	37

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 2006 amounted to €1,387,000 plus value added tax. The remuneration of members of the Executive Board for 2006 totaled €30,337,173, of which €18,077,806 related to Bertelsmann AG. In previous years, a loan of USD 5 million was granted to one member of the Executive Board. The loan currently bears interest at 3.83 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 €4,326,233 in 2006. The provision for pensions payable to former members of the Executive Board by Bertelsmann AG amounted to €47,442,793. The members of the Executive Board and Supervisory Board are listed on page 148 et seq.

31 Events After the Balance Sheet Date

At a meeting of Bertelsmann AG's supervisory board on January 19, 2007, Hartmut Ostrowski, chairman of the Executive Board of Arvato AG, was appointed chairman of the Executive Board of Bertelsmann AG effective January 1, 2008. Rolf Buch, chairman of the Executive Board of Arvato Direct Services, has been appointed his successor as head of Arvato as well as member of the Executive Board of Bertelsmann AG. Gunter Thielen, chairman of the Executive Board of Bertelsmann AG, will move to chair the Supervisory Board effective January 1, 2008. Dieter Vogel, currently chairman of the Supervisory Board, will resign but remain a shareholder of BVG.

The decision of first instance by the European Court on July 13, 2006 requires a reassessment by the EU Commission of the merger of the Sony BMG joint venture. Bertelsmann and Sony submitted an updated application to form the Sony BMG joint venture to the EU Commission on January 31, 2007, so that the Commission could commence its reassessment. A decision is expected from the Commission by mid-2007. Bertelsmann and Sony are confident that approval can be expected following this new review.

On February 2, 2007, RTL Group decided to sell its entire holding in Grupo Media Capital, the Portuguese media group, to the Spanish Grupo Prisa.

RTL Group sold its remaining 25 percent holding in Sportfive, the marketer of sports rights, to Lagardère, a French company, in November 2006. Sportfive was deconsolidated in February 2007.

Due to beneficial market conditions, Bertelsmann placed a two-year, €650 million floating rate note on the capital market, using the proceeds to partly repay the bridge loan to finance the GBL holding buyback.

32 Major Subsidiaries and Participations at December 31, 2006

RTL Group

Television			
GZSZ Vermarktungsgesellschaft GmbH, Cologne	Germany	89.53	v
IP Deutschland GmbH, Cologne	Germany	89.53	v
IP New Media GmbH, Cologne	Germany	89.53	v
N-TV Nachrichtenfernsehen GmbH & Co. KG, Berlin	Germany	89.53	v
RTL 2 Fernsehen GmbH & Co. KG, Munich	Germany	32.14	e
RTL Disney Fernsehen GmbH & Co. KG, Cologne	Germany	44.77	q
RTL New Media GmbH, Cologne	Germany	89.53	v
RTL Shop GmbH, Cologne	Germany	89.53	v
RTL Television GmbH, Cologne	Germany	89.53	v
Traumpartner TV GmbH, Cologne	Germany	89.53	v
Vox Film- und Fernseh GmbH & Co. KG, Cologne	Germany	89.26	v
Westdeutsche Universum-Film GmbH, Cologne	Germany	89.53	v
Antena 3 de Televisión S.A., Madrid	Spain	17.09	e
Bayard d'Antin S.A., Paris	France	89.53	v
Broadcasting Center Europe S.A., Luxembourg	Luxembourg	89.53	v
Channel 5 Broadcasting Ltd., London	U.K.	89.53	q
CLT-UFA S.A., Luxembourg	Luxembourg	89.53	v
Grupo Media Capital SGPS SA, Oeiras	Portugal	29.64	e
IP Belgium S.A., Brussels	Belgium	59.09	v
IP France S.A., Paris	France	89.53	v
IP Luxembourg S.A.R.L., Luxembourg	Luxembourg	89.53	v
M6 Editions S.A., Neuilly sur Seine	France	43.87	v
M6 Films S.A., Neuilly sur Seine	France	43.87	v
Mistergooddeal SA, Ivry sur Seine	France	41.68	v
M-RTL Rt (RTL Klub), Budapest	Hungary	43.82	e
OOO Ren TV, Moscow	Russia	26.95	e
Paris Première S.A., Paris	France	43.87	v
RTL 9 S.A., Luxembourg	Luxembourg	31.33	e
RTL Croatia d.o.o., Zagreb	Croatia	58.64	v
RTL Nederland B.V., Hilversum	Netherlands	89.53	v
Télévision Indépendante (TVI) S.A., Brussels	Belgium	59.08	v
Content			
CLT-Ufa Multi Media GmbH, Hamburg	Germany	89.53	v
Grundy Light Entertainment GmbH, Hürth	Germany	89.82	v
Grundy-UFA TV-Produktions GmbH, Berlin	Germany	89.53	v
Teamworx Television & Film GmbH, Berlin	Germany	89.53	v
Trebitsch Produktion Holding GmbH, Hamburg	Germany	89.53	v
UFA Entertainment GmbH, Berlin	Germany	89.53	v
UFA Fernsehproduktion GmbH, Berlin	Germany	89.53	v
UFA Film- und Fernseh GmbH, Cologne	Germany	89.53	v
Be Happy Productions SAS, Neuilly sur Seine	France	89.82	v
Belga Films SA, Brussels	Belgium	59.09	v
Blu A/S, Copenhagen	Denmark	67.37	v
Blue Circle BV, Hilversum	Netherlands	89.82	v
Fremantle Media Australia Pty Ltd., St. Leonard	Australia	89.82	v
Fremantle Media Ltd., London	U.K.	89.82	v
Fremantle Media North America, Inc., Wilmington	U.S.	89.82	v
Fremantle Productions Asia Ltd., Hong Kong	China	89.82	v
Grundy Productions Ltd., London	U.K.	89.82	v
Talkback Productions Ltd., London	U.K.	89.82	v
Radio			
Antenne Mecklenburg-Vorpommern GmbH & Co. KG, Plate	Germany	22.78	e
AVE Gesellschaft für Hörfunkbeteiligungen mbH, Berlin	Germany	89.53	v
BB Radio Landeswelle Brandenburg GmbH & Co. KG, Berlin	Germany	35.81	e
HITRADIO RTL Sachsen GmbH, Dresden	Germany	49.69	e
Neue Spreeradio Hörfunkgesellschaft mbH, Berlin	Germany	30.40	e
RTL Radio Deutschland GmbH, Berlin	Germany	89.53	v
Contact S.A., Brussels	Belgium	44.68	e
Ediradio S.A., Paris	France	89.53	v

Random House

Random House North America			
G24 NA LLC, Wilmington	U.S.	100.00	v
McClelland & Stewart Ltd., Toronto	Canada	25.00	e
Random House Direct, Inc., New Jersey	U.S.	100.00	v
Random House Films LLC, Delaware	U.S.	100.00	v
Random House, Inc., New York	U.S.	100.00	v
Random House of Canada Ltd., Toronto	Canada	100.00	v
Verlagsgruppe Random House			
Gerth Medien GmbH, Asslar	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
Woodlands Books Ltd., London	U.K.	85.00	v
Random House Mondadori			
Editorial Sudamericana, S.A., Buenos Aires	Argentina	50.00	q
Editorial Sudamericana Uruguaya, S.A., Montevideo	Uruguay	49.95	q
Random House Mondadori S.A., Barcelona	Spain	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 Mondadori S.A. de C.V., Mexico City	Mexico	50.00	q
Random House Mondadori S.A., Santiago de Chile	Chile	50.00	q
Random House Asia			
Random House Korea, Inc., Seoul	Korea	100.00	v
Random House Kodansha Co., Ltd., Tokyo	Japan	56.70	q

Gruner + Jahr

G+J Germany			
Berliner Presse Vertrieb GmbH, Berlin	Germany	74.90	v
Börse Online Verlag GmbH & Co. KG, Munich	Germany	74.90	v
DPV Deutscher Pressevertrieb GmbH, Hamburg	Germany	74.90	v
DPV Network GmbH, Hamburg	Germany	74.90	v
DPV Worldwide 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
Hamburger Journalistenschule Gruner + Jahr – Die Zeit GmbH, Hamburg	Germany	71.16	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	42.32	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	21.16	q
Scholten Verlag GmbH, Stuttgart	Germany	42.32	v
Sport+Freizeit Verlag GmbH & Co. KG, Stuttgart	Germany	42.32	v
Stern.de GmbH, Hamburg	Germany	74.90	v
View Magazin GmbH, Hamburg	Germany	74.90	v
W.E. Saarbach GmbH, Cologne	Germany	74.90	v

G+J France			
AG+J S.N.C., Paris	France	56.18	v
Biens dans ma vie, Paris	France	74.90	v
First Invest SA, Paris	France	74.90	v
Motor Presse France, SAS, Issy-les-Moulineaux	France	42.32	v
NG France 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	42.32	v
Vivia S.N.C., Paris	France	74.90	v
VSD S.N.C., Paris	France	74.90	v
G+J International			
Adria Media Ljubljana d o.o., Ljubljana	Slovenia	28.09	q
Adria Media Serbia d o.o., Belgrade	Serbia	33.71	q
Adria Media Zagreb d o.o., Zagreb	Croatia	28.09	q
Beijing Boda New Continent Advertising Company LCC., Beijing	China	35.95	v
Daphne Communications S.A., Athens	Greece	36.48	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 Publishing C.V. National Geografic Nederland, Amsterdam	Netherlands	74.90	v
Gruner + Jahr (Beijing) Advertising, Beijing	China	74.90	v
Gruner + Jahr / Mondadori S.p.A., Milan	Italy	37.45	q
Gruner + Jahr Polska Sp. z o.o. & Co. Spolka Komandytowa, Warsaw	Poland	74.90	v
Gruner + Jahr ZAO, Moscow	Russia	74.90	v
G y J Espana 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., Madrid	Spain	74.90	v
Maxiediciones S.L., Madrid	Spain	42.32	v
Media Star-MPC Advertising Co. Ltd., Beijing	China	25.39	q
Motor Press Argentina, S.A., Buenos Aires	Argentina	35.74	v
Motor Press Brasil Editora Ltda., Sao Paulo	Brazil	19.36	v
Motor Presse Budapest Lapkiadó Kft., Budapest	Hungary	42.32	v
Motor Presse Polska Sp.zo.o., Wroclaw	Poland	42.32	v
Motor Press Ibérica, S.A., Madrid	Spain	42.32	v
Motor Press Lisboa S.A., Cruz Quebrada	Portugal	32.04	v
MPC (Beijjing) Co. Ltd., Beijing	China	25.39	q
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			
Döbelner Verlags GmbH & Co. KG, Döbeln	Germany	44.94	v
Dresdner Druck- und Verlagshaus GmbH & Co. KG, Dresden	Germany	44.94	v
Dresdner Magazin Verlag GmbH, Dresden	Germany	44.94	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
Sachsen Post GmbH, Dresden	Germany	22.92	v
Saxo-Phon GmbH, Dresden	Germany	44.94	v
WVD Mediengruppe GmbH, Chemnitz	Germany	22.47	v
Printing			
Prinovis Ahrensburg GmbH & Co. KG, Ahrensburg	Germany	28.05	v
Prinovis Dresden GmbH & Co. KG, Dresden	Germany	28.05	v
Prinovis Itzehoe GmbH & Co. KG, Itzehoe	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 Services			
Druck- und Verlagshaus Gruner + Jahr AG, Hamburg	Germany	74.90	v
G+J New Media Ventures GmbH, Hamburg	Germany	74.90	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 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 BMG Music Entertainment Nashville, 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

Arvato

Printing			
Deutscher Supplement Verlag GmbH, Nuremberg	Germany	100.00	v
Fernwärme GmbH, Gütersloh	Germany	51.00	v
GGP Media GmbH, Pößneck	Germany	100.00	v
MBS Nürnberg GmbH, Nuremberg	Germany	37.45	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	37.45	v
Prinovis Dresden GmbH & Co. KG, Dresden	Germany	37.45	v
Prinovis Itzehoe GmbH & Co. KG, Itzehoe	Germany	37.45	v
Prinovis Itzehoe Service GmbH, Itzehoe	Germany	37.45	v
Prinovis Itzehoe Weiterverarbeitung und Logistik GmbH, Itzehoe	Germany	37.45	v
Prinovis Klebebindung GmbH, Nuremberg	Germany	37.45	v
Prinovis Ltd. & Co. KG, Hamburg	Germany	37.45	v
Prinovis Nürnberg GmbH & Co. KG, Nuremberg	Germany	37.45	v
Pro Bind Professional Binding GmbH, Gütersloh	Germany	100.00	v
TV Information Services GmbH, Nuremberg	Germany	100.00	v

Vogel Druck und Medienservice GmbH & Co. KG, Höchberg	Germany	100.00	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
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.	37.45	v
Printer Colombiana, S.A., Santa Fé de Bogotá	Colombia	50.00	v
Printer Industria Gráfica Newco S.L., 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
Abacus Deutschland GmbH & Co. KG, 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
Auskunftei Kämpfer GmbH, Nuremberg	Germany	63.00	v
AZ Direct GmbH, Gütersloh	Germany	63.00	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
INFORMA Unternehmensberatungs GmbH, Pforzheim	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	34.84	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
Arvato Communication Services France SAS, Malakoff	France	100.00	v
Arvato Customer Services N.V., Kontich	Belgium	80.00	v
Arvato Government Services (ERYC) Ltd., Liverpool	U.K.	100.00	v
Arvato Government Services Ltd., East Riding	U.K.	80.10	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 Estonia OÜ, Tallinn	Estonia	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, Polsen	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
BFS Finance Ltd., Dublin	Ireland	100.00	v
CEACOM SARL, Le Havre	France	100.00	v
Creditexpress Magyarorszag Penzügyi Szolgaltato Kft., Budapest	Hungary	32.13	q
DM Michelotti AG, Rotkreuz	Switzerland	63.00	v
Duacom SARL, Douai	France	100.00	v
Eurodirect Marketing Lettershop SAS, Geispolsheim	France	100.00	v
Eurodirect – Société Européenne de Routage S.A., Geispolsheim	France	100.00	v
Euromedia Group k.s., Prague	Czech Republic*	100.00	v
Europost SAS, Saulcy sur Meurthe	France	100.00	v
Faksimile Verlag AG, Lucerne	Switzerland	100.00	v
Gauntlet Entertainment Ltd., Orpington	U.K.	100.00	v
Infoscore 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	Morocco	59.49	v
Phone Group, S.A., Casablanca	Morocco	60.00	v
Phone Online S.A.R.L., Casablanca	Morocco	59.89	v
Phone Serviplus, S.A., Casablanca	Morocco	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
SME Distribution (France) S.A.S., Bussy	France	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 (Pty.) Ltd., Port Elizabeth	South Africa	100.00	v
Verlag Automobil Wirtschaft GmbH do Brasil Ltda., Sao Paulo	Brazil	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
Empolis GmbH, Gütersloh	Germany	100.00	v
Moconta Betriebs GmbH & Co. KG, Gütersloh	Germany	50.00	q
"S 4 M" Solutions for Media GmbH, Cologne	Germany	80.16	v
Arvato Mobile Solucoes para Telefonia Móvel, Ltda., Sao Paulo	Brazil	100.00	v
Arvato Mobile UK Ltd., London	U.K.	100.00	v
Arvato Systems 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.	100.00	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 Produktionsgesellschaft für Ton- und Informationsträger mbH, Gütersloh	Germany	100.00	v
Topac Multimedia Print GmbH, Gütersloh	Germany	100.00	v
Arvato de Mexico, S.A. de C.V, Mexico City	Mexico	100.00	v
Arvato do Brasil Indústria e Servicos Gráficos Logística e Distribuidora Ltda., Sao 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	100.00	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, Sao 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

German-speaking countries			
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 Medien (Schweiz) AG, Zug	Switzerland	100.00	v
Buchgemeinschaft Donauland Kremayr & Scheriau, Vienna	Austria	75.00	v
Iberian Peninsula/South America			
Bertrand Editora Ltda., Lisbon	Portugal	100.00	v
Circulo de Lectores de Venezuela, S.A., Caracas	Venezuela	50.00	v
Circulo de Lectores, S.A., Barcelona	Spain	100.00	v
Circulo de Lectores S.A., Bogota	Colombia	50.00	v
Circulo de Leitores, S.A., Lisbon	Portugal	100.00	v
Circulo de Lectores S.A., Quito	Ecuador	50.00	v
Distribuidora de Livros Bertrand Lda., Lisbon	Portugal	100.00	v
Intermedio Editores Ltda., Bogota	Colombia	49.99	v
Lexicultural – Actividades Editoriais, Limitada, Buraca (Lisbon)	Portugal	100.00	v
Librerias Bertrand, S.L., Barcelona	Spain	100.00	v
Livraria Bertrand Sociedade de Comercio Livreiro S.A., Lisbon	Portugal	100.00	v
French and Flemish-speaking countries			
Alsatia S.A., Mulhouse	France	99.87	v
ECI voor Boeken en Platen B.V., Vianen	Netherlands	100.00	v
Euroboek N.V., Antwerp	Belgium	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
Livres et Compagnie S.A.S., Paris	France	100.00	v
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
Italy/Eastern Europe			
Bertelsmann Media Moskau AO, Moscow	Russia	100.00	v
Bertelsmann Media – Swiat Ksiazki, Warsaw	Poland	100.00	v
Book Club "Family Leisure Club" Ltd., Belgorod	Russia	100.00	v
Book Club "Family Leisure Club" Ltd., Charkow	Ukraine	100.00	v
Euromedia Group k.s., Prague	Czech Republic	100.00	v
Ikar a.s., Bratislava	Slovakia	100.00	v
Mondolibri S.p.A., Milan	Italy	50.00	q
Asia			
Beijing 21st Century Book Chain Co., Ltd., Beijing	China	40.00	q
Bertelsmann Asia Publishing, Hong Kong	China	100.00	v
Bertelsmann Consulting (Shanghai) Co. Ltd., Shanghai	China	100.00	v
Daekyo Bertelsmann Co., Ltd., Seoul	Korea	25.00	e
Daekyo Bertelsmann Educational Services Limited, Hong Kong	China	50.00	q
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 countries			
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 Columbia House, Inc., Dauphin County	U.S.	100.00	v
Columbia House Company Canada, Scarborough	Canada	100.00	v
Others			
Bertelsmann Multimedia GmbH, 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, 2006
Ownership of Group companies in percentage.

Consolidation method is defined as follows:
v = fully consolidated
q = proportionally consolidated
e = associated companies recognized at equity
* = operating unit

33 Exemption for Domestic Companies from Preparation, 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, 2006:

Abacus Deutschland Verwaltungs GmbH	Dortmund
ADLER Immobilienverwaltungs GmbH	Gütersloh
Arvato AG	Gütersloh
Arvato Direct Services Cottbus GmbH	Cottbus, Brandenburg, Stralsund
Arvato Direct Services Dortmund GmbH	Dortmund
Arvato Direct Services eiweiler GmbH	Mannheim
Arvato Direct Services GmbH	Gütersloh
Arvato Direct Services Gütersloh GmbH	Gütersloh, Springe
Arvato Direct Services München GmbH	Munich
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 Solutions GmbH	Gütersloh
Arvato Storage Media GmbH	Gütersloh
Arvato Systems GmbH	Gütersloh
Arvato Systems Technologies GmbH	Rostock
ASM Holding GmbH	Gütersloh
Auskunftei Kämpfer GmbH	Nuremberg
AZ Direct GmbH	Gütersloh, 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	Gütersloh, 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	Gütersloh, Munich
Cross Marketing Arvato Services GmbH	Munich
Deutscher Supplement Verlag GmbH	Nuremberg
DirectGroup Bertelsmann GmbH	Gütersloh
Dreiklang-Dreimasken, Bühnen- und Musikverlag Gesellschaft mit beschränkter Haftung *	Munich
Empolis GmbH	Gütersloh
E-Score GmbH	Baden-Baden
GGP Media GmbH	Pößneck
Hotel & Gastronomie Gütersloh GmbH	Gütersloh
IFS Beteiligungs GmbH	Baden-Baden
INFORMA Unternehmensberatungs GmbH	Pforzheim
Infoscore Business Data GmbH	Baden-Baden
Infoscore Business Support GmbH	Baden-Baden
Infoscore Consumer Data 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
Isar-Inkasso-GmbH	Munich
JKL Beteiligungs GmbH	Gütersloh
Lambourne Productions GmbH	Herne
Maul + Co - Chr. Belser GmbH	Nuremberg
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
Nürnberger Inkasso GmbH	Nuremberg
ProBind Professional Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Reinhard Mohn GmbH	Gütersloh
RM Buch und Medien Vertrieb GmbH	Gütersloh, Berlin, Rheda-Wiedenbrück
RM Customer Direct GmbH	Nordhorn
RM Erste Beteiligungsverwaltungs GmbH	Gütersloh
RM Filial-Vertrieb GmbH	Rheda-Wiedenbrück
RM Kunden-Service GmbH	Gütersloh, 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
TV Information Services GmbH	Nuremberg
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh, Munich
Verlagsgruppe Random House GmbH - Random House Audio	Cologne
Verlegerdienst München GmbH	Gilching
Wahl Media GmbH	Munich
Wissen Media Group 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, 2006:

Abacus Deutschland GmbH & Co. KG	Dortmund
Börse Online Verlag GmbH & Co. KG	Munich
Döbelner Verlags GmbH & Co. KG	Döbeln
Dresdner Druck- und Verlagshaus GmbH & Co. KG	Dresden
Ehrlich & Sohn GmbH & Co. KG	Hamburg
G+J Immobilien GmbH & Co. KG	Hamburg
Gruner + Jahr AG & Co KG	Hamburg
IP Internationale Presse - MD & M Pressevertrieb GmbH & Co. KG	Mörfelden-Walldorf
Kurier Direktservice Dresden GmbH & Co. KG	Dresden
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
SI special interest - MD & M Pressevertrieb GmbH & Co. KG	Mörfelden-Walldorf
Sport+Freizeit Verlag GmbH & Co. KG	Stuttgart
Vogel Druck- und Medienservice GmbH & Co. KG	Höchberg

34 Recommendation on Appropriation of Retained Earnings

On May 15, 2007 and as provided by the statutes, €77 million will be distributed to the holders of profit participation certificates out of Bertelsmann AG's retained earnings of €765 million. The Executive Board recommends to the Annual General Meeting that the remaining retained earnings of €688 million be appropriated as follows:

	in € millions
Remaining retained earnings	**688**
Dividends to shareholders	**(120)**
Carryforward to new year	**568**

Bertelsmann AG's Executive Board approved the consolidated financial statements for issuance to the Supervisory Board on March 5, 2007. The Supervisory Board is responsible for reviewing the consolidated financial statements and stating whether it approves the consolidated financial statements.

Gütersloh, March 5, 2007

Bertelsmann AG
The Executive Board:

Dr. Thielen	Dr. Kundrun	Olson	
Ostrowski	Dr. Rabe	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 (until 4/30/2006)
- Klöckner & Co AG (since 6/7/2006) (Chairman since 6/21/2006)
- mobilcom AG (Chairman) (until 2/22/2007)
- telunico holding AG (Chairman since 2/2/2006) (until 2/22/2007)
- Wacker Construction Equipment AG (Chairman) (until 11/9/2006)
- WCM Beteiligungs- und Grundbesitz AG (Chairman) (until 1/31/2006)
- Debrunner König Holding AG
- HSBC Trinkaus & Burkhardt AG
- Klöckner & Co GmbH (Chairman) (until 9/27/2006)

Prof. Dr. Jürgen Strube
Vice Chairman
Chairman of the Supervisory Board,
BASF AG
- Allianz Deutschland AG (since 10/20/2006)
- Allianz Lebensversicherungs-AG (until 10/19/2006)
- BASF AG (Chairman)
- BMW AG
- Commerzbank AG
- Fuchs Petrolub AG (Chairman)
- Hapag-Lloyd AG
- Linde AG

Dr. Wulf H. Bernotat (since 5/22/2006)
Chairman of the Executive Board,
E.ON AG
- Allianz AG
- Metro AG
- E.ON Energie AG (Chairman)
- E.ON Ruhrgas AG (Chairman)
- E.ON Nordic AB (Chairman)
- E.ON UK plc (Chairman)
- E.ON US Investments Corp. (Chairman)
- E.ON Sverige AB (Chairman)

André Desmarais (until 7/4/2006)
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.
- Neurochem Inc. (since 5/9/2006)
- 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)
- DBV Winterthur Holding AG (since 5/31/2006)
- DBV Winterthur Krankenversicherung AG (since 4/3/2006)
- Kölnische Rückversicherung AG (Vice Chairman)
- TÜV Rheinland Holding AG (Chairman)
- Fachklinik Schleswig GmbH (since 3/7/2006)
- Hanse-Klinikum Stralsund GmbH
- Hanse-Klinikum Wismar GmbH (since 10/6/2006)
- Martin-Luther-Krankenhaus Schleswig GmbH (since 7/4/2006)
- TÜV Rheinland Berlin Brandenburg Pfalz e.V.

John R. Joyce
Managing Director, Silver Lake
- Gartner, Inc.
- Avago Technologies Limited
- Serena Software, Inc. (since 3/10/2006)

Dr. Hans-Joachim Körber
Chairman of the Executive Board,
Metro AG
- Kaufhof Warenhaus AG (Chairman)
- Real Holding GmbH
- Air Berlin PLC (since 5/9/2006)
- 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
Chairman of the Supervisory Board,
BMW AG
- Allianz Versicherungs-AG (until 11/22/2006)
- BMW AG (Chairman)
- Festo AG
- MAN AG (Vice Chairman)
- Deere & Company
- Leipziger Messe GmbH (until 12/20/2006)

Christoph Mohn (since 11/15/2006)
Chief Executive Officer,
Lycos Europe N.V.
- Lycos Armenia csjc
- Jubii A/S
- Lycos Ltd.
- Lycos Italia S.r.l.
- Lycos España Internet Services S.L.
- Lycos Netherlands BV
- Lycos Europe BV

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 (until 7/4/2006)
Managing Director, Frère-Bourgeois, Managing Director and Vice Chairman, Compagnie Nationale à Portefeuille S.A.
- Eiffage S.A. (since 3/3/2006)
- Groupe Bruxelles Lambert S.A.
- Groupe Flo S.A. (since 4/19/2006)
- Pargesa Holding S.A.
- RTL Group S.A. (until 7/4/2006)

Richard Sarnoff
Chairman of the Bertelsmann AG Management Representative Committee,
President, BDMI and Random House Ventures
- Activision, Inc.
- American Reading Company
- Audible, Inc.
- Classic Media (until 12/1/2006)
- Princeton Review, Inc.
- Xlibris, Inc.
- Vocel, Inc.

Lars Rebien Sørensen
President and CEO, Novo Nordisk A/S
- Scandinavian Airlines System AB (until 4/20/2006)
- Zymo Genetics, Inc.

Christian van Thillo (until 5/22/2006)
Chief Executive Officer, De Persgroep NV
- National Bank of Belgium

Committees of the Supervisory Board

Personnel Committee
Prof. Dr. Dieter H. Vogel (Chairman)
Prof. Dr.-Ing. Joachim Milberg
Liz Mohn
Prof. Dr. Jürgen Strube

Audit and Finance Committee
Prof. Dr. Jürgen Strube (Chairman)
Dr. Claus-Michael Dill
John R. Joyce
Christoph Mohn
Erich Ruppik

Strategy and Investment Committee
Prof. Dr. Dieter H. Vogel (Chairman)
Dr. Wulf H. Bernotat
Dr. Hans-Joachim Körber
Prof. Dr.-Ing. Joachim Milberg
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. Bernd Kundrun
Chairman and Chief Executive Officer, Gruner + Jahr AG
- Motor Presse Stuttgart GmbH & Co. KG
- Spiegel-Verlag Rudolf Augstein GmbH & Co. KG
- Prinovis, Ltd. (UK)
- PP3 SNC (FR)
- G+J USA Group, Inc. (USA)
- G+J Printing and Publishing (USA)
- Stern Magazine Corporation

Peter Olson, J.D./MBA
Chairman and Chief Executive Officer, Random House
- Bertelsmann, Inc.
- Grupo Editorial Random House Mondadori, S.L. (until 5/4/2006)
- Random House Direct, Inc.
- Random House Films LLC
- Random House Kodansha Co., Ltd.
- Random House Korea, Inc.
- Random House Mondadori, S.A. (since 6/30/2006)
- Random House V.G., Inc. (until 10/31/2006)
- Random House VG LLC
- Triumph Books Corp. (since 6/30/2006)

[1] external mandates

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

Hartmut Ostrowski
Chairman and Chief Executive Officer, 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. (Vorsitz)
- 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)
- Druck und Verlagshaus Gruner+Jahr AG (since 3/29/2006)
- Antena 3 de Television S.A. (until 1/1/2006)
- Archivio Ricordi S.p.A. (since 7/6/2006)
- Audiomédia Investments S.A. (until 1/1/2006)
- Bertelsmann Digital Media Investments S.A. (since 12/4/2006)
- Bertelsmann, Inc. (since 1/1/2006)
- 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 S.A. (until 3/7/2006)
- OOO 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 (until 1/1/2006)
- Sony BMG Management Co., LLC (since 1/1/2006)
- Sportfive S.A.
- TVI Télévision Indépendante S.A.

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) (until 8/7/2006)
- Bertelsmann Management (Shanghai) Co., Ltd.
- BOL Books Online Italia S.p.A. (Chairman) (until 6/20/2006)
- Bookspan
- Daekyo Bertelsmann Educational Services Ltd. (Chairman)
- OTTO Media GmbH & Co. KG
- Mondolibri S.p.A. (Chairman)
- RTL Group S.A.
- Shanghai Bertelsmann Culture Industry Co., Ltd.

Gerhard Zeiler
Chief Executive Officer, RTL Group
- Broadcasting Center Europe S.A. (Chairman) (since 1/30/2006, until 12/15/2006)
- Channel 5 Television Group, Ltd. (Chairman) (since 1/27/2006, until 7/1/2006)
- CLT-UFA S.A.
- Ediradio S.A. (until 6/1/2006)
- Fremantle Media S.A. (Chairman) (until 7/1/2006)
- Métropole Télévision S.A.
- M-RTL ZRT (Chairman)
- N-TV Nachrichtenfernsehen Beteiligungs GmbH (until 5/12/2006)
- RTL Hrvatska d.o.o. za uslugue
- RTL Television GmbH

Auditor’s Report

We have audited the consolidated financial statements prepared by 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, 2006. 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 7, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke	Dr. Schurbohm-Ebneth
Wirtschaftsprüfer	Wirtschaftsprüfer

Selected Terms at a Glance

Bertelsmann Value Added (BVA)
A central performance indicator for assessing the profitability of operations and return on invested capital. The BVA is the difference between Net Operating Profit After Tax (NOPAT), defined as Operating EBIT adjusted for a uniform tax rate of 33 percent, and cost of capital. Cost of capital is the product of the weighted average cost of capital (a uniform 8 percent after taxes) and invested capital (operating assets less non-interest-bearing operating liabilities).

Business Process Outsourcing
Business Process Outsourcing refers to the outsourcing of entire business processes to a third-party company.

Cash Conversion Rate (CCR)
Indicator for assessing cash flow generated by operations. CCR is calculated based on the ratio of Operating Free Cash Flow to Operating EBIT.

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

Coverage Ratio
The (interest) Coverage Ratio is an important financing target. It represents the ratio of Operating EBITDA to financial result. Amounts reported in the annual financial statements are modified in calculating the coverage ratio.

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
A joint venture is a contractual agreement whereby two or more partners jointly control a business. Joint ventures are included proportionally – based on the venturer's share – in the consolidated financial statements.

Leverage Factor
The Leverage Factor is the ratio of economic debt to Operating EBITDA. 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.

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

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.

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.

Syndicated Credit Line
Syndicated loan facility involving a consortium of banks.

Financial Calendar

May 15, 2007
Announcement of figures for the first three months of 2007

May 15, 2007
Payout of dividends on Profit Participation Certificates for the 2006 fiscal year

September 4, 2007
Announcement of figures for the first half of 2007

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

Additional Information

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www.bertelsmann.de
www.bertelsmann.com

The Annual Report is also available in German.

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The Spirit to Create