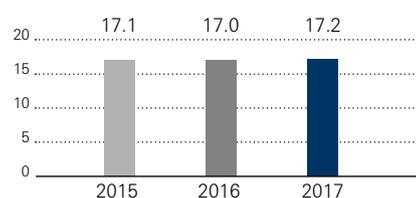


Combined Management Report

Financial Year 2017 in Review

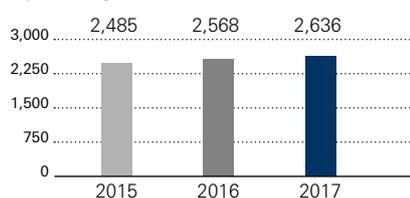
Bertelsmann recorded positive business performance in 2017, achieving revenue growth and increases in operating EBITDA and Group profit. This development was accompanied by further strategic progress with Bertelsmann's transformation into a faster-growing, more digital, more international and diversified Group. Group revenues rose by 1.4 percent to €17.2 billion (previous year: €17.0 billion), driven by organic growth of 1.7 percent. This was generated in particular by the TV, music, services and education businesses. The revenue share generated by the strategic growth businesses increased to 32 percent (previous year: 30 percent). Operating EBITDA of €2,636 million was above the high level of the previous year of €2,568 million, despite start-up losses for digital and new businesses, which, for Bertelsmann Education Group and RTL Group alone, amounted to €-69 million in total (previous year: €-71 million). RTL Group, BMG and Bertelsmann Education Group were mainly responsible for the improved earnings. The EBITDA margin improved from 15.2 percent in the previous year to 15.3 percent. Group profit increased from €1,137 million to €1,198 million. Economic investments during the reporting period increased to €1.8 billion (previous year: €1.3 billion), in particular as a result of the shareholding increase in Penguin Random House. For 2018, Bertelsmann again expects positive business performance and continued progress with the implementation of its strategy.

Revenues in € billions



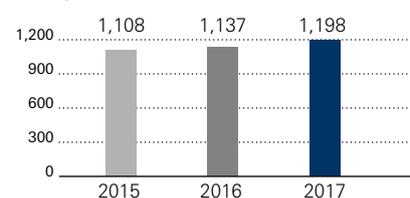
- Revenue growth of 1.4 percent, improved organic growth of 1.7 percent
- Revenue increases at RTL Group, BMG, Arvato and Bertelsmann Education Group
- Increased share of revenues generated by growth businesses

Operating EBITDA in € millions



- Operating EBITDA increased by 2.7 percent
- Increase in EBITDA margin from 15.2 percent to 15.3 percent
- Improved earnings at RTL Group, Gruner + Jahr, BMG and Bertelsmann Education Group

Group Profit in € millions



- Growth of Group profit of 5.4 percent despite higher tax expenses
- Improved operating result
- Higher contribution to earnings generated by the fund businesses

Fundamental Information about the Group

In this Management Report, the Group is using the option to combine the Group Management Report and the Management Report of Bertelsmann SE & Co. KGaA. This Combined Management Report outlines the business performance, including the business result and the position of the Bertelsmann Group and Bertelsmann SE & Co. KGaA. Information about Bertelsmann SE & Co. KGaA in accordance with the German Commercial Code (HGB) will be detailed in a separate section. The Combined Management Report will be published instead of the Group Management Report within the Bertelsmann Annual Report.

Corporate Profile

Bertelsmann operates in the core business fields of media, services and education in around 50 countries worldwide. The geographic core markets are Western Europe – in particular, Germany, France and the United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as China, India and Brazil. The Bertelsmann divisions are RTL Group (television), Penguin Random House (books), Gruner + Jahr (magazines), BMG (music), Arvato (services), Bertelsmann Printing Group (printing), Bertelsmann Education Group (education) and Bertelsmann Investments (funds).

Bertelsmann SE & Co. KGaA is a capital-market-oriented but unlisted partnership limited by shares. As a Group holding company, it exercises central corporate functions such as the specification and development of the Group's strategy, capital allocation, financing and management development. Internal corporate management and reporting follow the Group's organizational structure, which consists of the operating divisions and Corporate.

RTL Group is, based on revenue, one of the leading television groups in the broadcasting, content and digital business with interests in 56 television channels and 31 radio stations and content production throughout the world. The television portfolio of RTL Group includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as a stake in Atresmedia in Spain. Fremantle Media is one of the largest international creators, producers and distributors of a wide range of formats outside the United States. Combining the catch-up TV services of its broadcasters, the multichannel networks BroadbandTV, StyleHaul and Divimove, and Fremantle Media's over 280 YouTube channels, RTL Group has become the leading European media company based on online video

views. Furthermore, RTL Group owns SpotX, a programmatic video advertising platform. The publicly traded RTL Group S.A. is listed on the German MDAX index.

Penguin Random House is, based on revenue, the world's largest trade book publisher, with more than 250 imprints across six continents. Its book brands include storied imprints such as Doubleday, Viking and Alfred A. Knopf (United States); Ebury, Hamish Hamilton and Jonathan Cape (United Kingdom); Plaza & Janés and Alfaguara (Spain); Sudamericana (Argentina); and the international imprint Dorling Kindersley. Germany's Verlagsgruppe Random House, which includes illustrious publishing houses such as Goldmann and Heyne, is not part of Penguin Random House from a legal point of view, but is under the same corporate management and is part of the Penguin Random House division. Each year Penguin Random House publishes over 15,000 new titles and sells more than 600 million print books, e-books and audiobooks.

Gruner + Jahr is one of Europe's leading premium magazine publishers. Its magazine portfolio includes established brands such as "Stern," "Brigitte" and "Geo" – and young brands like "Barbara," "Beef" and "Chefkoch." It also has products and licenses such as the "Schöner Wohnen" furniture collection and digital offerings in all publishing segments, from News to People to Living. In digital marketing G+J operates international platforms (Ligatus, AppLike). Territory, one of the largest German communication agencies for brand content, is also part of G+J. In France, G+J operates Prisma Media, the country's largest print and digital magazine publisher in terms of overall reach. G+J holds majority stakes in Motor Presse Stuttgart and in DDV Mediengruppe in Saxony, and holds a stake in Spiegel-Gruppe.

BMG is an international group that manages music publishing rights and recording rights. With 14 branches in 12 music markets, BMG now represents more than 2.5 million songs and recordings, including those in the catalogs of Alberts Music, Broken Bow Music Group, Bug, Cherry Lane, Chrysalis, Mute, Primary Wave, Sanctuary and Trojan, among others.

Arvato develops and implements innovative solutions for customers in a wide range of sectors in over 40 countries for all kinds of business processes. These comprise Customer Relationship Management (CRM), Supply Chain Management (SCM), Financial Solutions and IT Services.

The Bertelsmann Printing Group bundles all of Bertelsmann's offset and gravure printing activities. It comprises the German offset printers Mohn Media, GGP Media and

Vogel Druck, the gravure activities of Prinovis in Germany and the United Kingdom, and the offset and digital printers Berryville Graphics, Coral Graphics and OPM in the United States. In addition, Campaign, DeutschlandCard and the Dialogue business offer various digital marketing services and specialize in data-driven multichannel marketing, campaign management and customer loyalty. The Bertelsmann Printing Group also includes RTV Media Group, the creative services provider MBS and the storage media producer Sonopress.

Bertelsmann Education Group comprises Bertelsmann's education activities. The digital education and service offerings are primarily in the healthcare and technology sectors. The education activities include the e-learning providers Relias and Udacity.

Bertelsmann Investments bundles Bertelsmann's global start-up investments. The activities are focused on the strategic growth markets of Brazil, China, India and the United States. Investments are made through the funds Bertelsmann Brazil Investments (BBI), Bertelsmann Asia Investments (BAI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI).

Regulatory Environment

In several European countries Bertelsmann has television and radio operations that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to antitrust legislation. Moreover, some education activities are subject to regulatory provisions of government authorities and accreditation bodies.

As its profit participation certificates and bonds are publicly listed, Bertelsmann is required to comply in full with capital market regulations applicable to publicly traded companies.

Shareholder Structure

Bertelsmann SE & Co. KGaA is an unlisted partnership limited by shares. Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) indirectly hold 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the remaining 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and Bertelsmann Management SE (general partner).

Strategy

Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability with efficient capital investment at the same time (see the "Value-Oriented Management System" section).

Bertelsmann aims to achieve a faster-growing, more digital, more international and more diversified Group portfolio. Businesses in which Bertelsmann invests should have long-term stable growth, global reach, stable and protectable business models, high market-entry barriers and scalability. The education business is being gradually developed into the third earnings pillar alongside the media and service businesses. The Group strategy comprises four strategic priorities: Strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions. In the financial year 2017, Bertelsmann continued to make progress in line with these strategic priorities.

Among other things, merging RTL Radio France with Groupe M6 helped to strengthen the core businesses. Bertelsmann also acquired a further 22 percent stake in Penguin Random House from the co-shareholder Pearson and now holds a strategic three-quarters majority in the world's largest trade book publisher based on revenue. Penguin Random House strengthened its market positions in Spain and Latin America with the acquisition of the Ediciones B publishing group. Gruner + Jahr continued to focus strongly on Germany and France by selling off the businesses in the Netherlands and China and discontinuing the international businesses of Motor Presse Stuttgart. Arvato Systems acquired the software provider Next Level Integration which specializes in the energy industry, and Vidispine, a company specialized in the media asset management sector. The "future package" for the German gravure printing business that was decided in 2017 is designed to cut costs and safeguard the three gravure printing locations in the medium term.

The digital transformation of the businesses also continued. RTL Group expanded its advertising technology business through the acquisition of the remaining shares in the programmatic video advertising company SpotX and the stronger integration of individual businesses into an extensive advertising technology platform. Penguin Random House expanded its range of products for targeting readers directly and grew its audio downloads business. Gruner + Jahr achieved growth in the German digital business.

Among other things, the growth platform Fremantle Media expanded its drama business through new productions such as "American Gods," undertook further investments and entered into further talent deals. BMG acquired the country

label group BBR Music Group, made further investments and signed many new artists. Arvato SCM Solutions expanded its logistics network in Germany, the Netherlands, Poland and the United States and achieved growth primarily through customers in the e-commerce, high-tech, entertainment and healthcare sectors. Arvato Financial Solutions acquired a stake in the fintech start-up Solaris Bank. In education, Relias achieved strong organic growth and acquired WhiteCloud Analytics, a company providing analyses and performance management in the hospital sector. Udacity posted strong growth with existing and recently introduced Nanodegrees.

In the growth regions, Bertelsmann further expanded its global network of start-up investments. During the reporting period, the company made over 40 new investments worldwide through the funds grouped under Bertelsmann Investments. In China, the Bertelsmann Asia Investments fund made various new and follow-up investments, achieved further significant value growth and made a considerable contribution to Group profit in particular through gains from disposals of investments. In India the Bertelsmann India Investments fund invested in the education provider Eruditus. Arvato CRM Solutions acquired the IT and analytics company Ramyam. In Brazil, the Bertelsmann Brazil Investments fund and its partner Bozano Investimentos continued their establishment of a network of universities focusing on education in the healthcare sector. Arvato Financial Solutions increased its stake in the financial services provider Intervalor.

Bertelsmann will push ahead with its ongoing transformation in 2018 in line with the four strategic priorities. Compliance with and achievement of the strategic development priorities are continuously examined by the Executive Board at the divisional level through regular meetings of the Strategy and Business Committee and as part of the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board. In addition, relevant markets and the competitive environment are analyzed on an ongoing basis in order to draw conclusions concerning the further development of the Group's strategy. The Executive Board is also supported by the Group Management Committee on issues of corporate strategy and development. This Committee is composed of executives representing key businesses, countries, regions and select Group-wide functions.

The Group's content-based and entrepreneurial creativity will remain very important for the implementation of its strategy. Bertelsmann will therefore continue to invest significantly in the creative core of its businesses. In addition, Bertelsmann needs to have qualified employees at all levels of the Group to ensure its strategic and financial success. Innovation competence is also very important for Bertelsmann and is a key strategic component (see the "Innovations" section).

Value-Oriented Management System

Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability. To manage the Group, Bertelsmann has been using a value-oriented management system for many years, which focuses on revenues, operating earnings and optimal capital investment. For formal reasons, Bertelsmann makes a distinction between strictly defined and broadly defined operational performance indicators.

Strictly defined operational performance indicators, including revenues, operating EBITDA and Bertelsmann Value Added (BVA), are used to directly assess current business performance and are correspondingly used in the outlook. These are distinguished from performance indicators used in the broader sense, which are partially derived from the above-mentioned indicators or are strongly influenced by these. These include the EBITDA margin and the cash conversion rate. The financial management system, with defined internal financing targets, is also part of the broadly defined value-oriented management system. Details of the expected development of performance indicators used in the broader sense are provided as additional information and are not included in the outlook.

To explain the business performance and to control and manage the Group, Bertelsmann also uses alternative performance measures that are not defined in accordance with IFRS (more details are given in the "Alternative Performance Measures" section).

Strictly Defined Operational Performance Indicators

To control and manage the Group, Bertelsmann uses revenues, operating EBITDA and BVA as performance indicators. Revenue is used as a growth indicator of businesses. Group revenues in the financial year 2017 rose by 1.4 percent to €17.2 billion (previous year: €17.0 billion). The organic growth was 1.7 percent.

A key performance indicator for measuring the profitability of the Bertelsmann Group and the divisions is the operating EBITDA. Operating EBITDA increased to €2,636 million (previous year: €2,568 million) in the reporting period.

Bertelsmann uses BVA for assessing the profitability of operations and return on invested capital. BVA measures the profit realized above and beyond the appropriate return on invested capital. BVA in the financial year 2017 was €121 million compared to the previous year's figure of €147 million. The impact of the increase in average invested capital could only partially be offset by the improved year-on-year operating earnings.

From the 2018 financial year onward, BVA will be determined without taking into account the Bertelsmann Investments division. Based on this methodology, BVA for financial year 2017 was €163 million (previous year: €180 million).

Broadly Defined Performance Indicators

To assess business development, other performance indicators are used that are partially derived from revenues and operating EBITDA or are strongly influenced by these figures.

The cash conversion rate serves as a measure of cash generated from business activities, which should be between 90 percent and 100 percent as a long-term average. In the financial year 2017 the Cash Conversion Rate was 92 percent (previous year: 93 percent).

The EBITDA margin is used as an additional criterion for assessing business performance. In the financial year 2017, the EBITDA margin of 15.3 percent was above the previous year's level of 15.2 percent.

Bertelsmann's financial management and controlling system is defined by the internal financial targets outlined in the "Net Assets and Financial Position" section. These financing principles are pursued in the management of the Group and are included in the broadly defined value-oriented management system.

The non-financial performance indicators (employees, corporate responsibility and similar topics) are not included in the broadly defined value-oriented management system. As they can only be measured to a limited extent, it is not possible to make any clear quantifiable statements concerning interrelated effects and value increases. For this reason, the non-financial performance indicators are not used for the management of the Group.

Non-Financial Performance Indicators

The following section describes the non-financial performance indicators at Bertelsmann. For more information about the organization, management and key topics of corporate responsibility, please refer to page 40 ff. of the "Combined Non-Financial Statement" section.

Employees

At the end of the financial year 2017, the Group had 119,089 employees worldwide. In 2017, there were 1,225 people serving in trainee positions in Bertelsmann companies in Germany.

The purpose of the human resources (HR) strategy is to support the implementation of the Group's strategy. In 2017, the main focus was again on the further development and training of employees. This included a comprehensive adaptation of the central talent management processes and tools, including the expansion of talent pools and digital learning.

Continuous employee training is the basis of a company's future economic success. In view of this, the training courses offered by Bertelsmann University have been further digitized and expanded, for example through a Group-wide scholarship program for data science. Furthermore, at the end of 2017, some 90,000 employees in 46 countries were able to access training courses on the Group-wide digital "peoplenet" HR IT platform.

At Bertelsmann, partnership primarily involves working with employees to shape the company. To ensure that this happens, the Employee Survey has been an important tool for many years at Bertelsmann. Measures were developed and piloted, based on the feedback from the previous year's Employee Survey.

Supporting dialogue between the employee representatives and dialogue with Bertelsmann management is also very important for a cooperative corporate culture. At the Group Dialogue Conference in December 2017, future work developments were discussed, and new concepts developed. In addition, the recommendations of the Bertelsmann Diversity Conference 2016 concerning training and career development were implemented.

Continuing to develop the corporate culture is another priority of the HR strategy. In 2017, the Group began to revise the Bertelsmann Essentials (company values) in accordance with the Sense of Purpose formulated in 2016.

Bertelsmann has been one of the pioneers in profit sharing since 1970. Accordingly, in 2017, a total of €105 million of the 2016 profit was distributed to employees across the Group (previous year: €95 million).

Corporate Responsibility

The aim of corporate responsibility (CR) at Bertelsmann is to bring the economic interests in line with the Group's social and ecological concerns as part of a dialogue with all relevant stakeholders.

In view of this, the Bertelsmann CR Council continued its cross-divisional dialogue and the strategic further development of significant Group-wide CR topics in 2017. The

focus here was on topics of particular relevance relating to employee and social concerns, respect for human rights, the fight against corruption and bribery, and environmental concerns. Bertelsmann made donations and was involved in funding initiatives in the areas of education, culture, science and creativity.

Innovations

Businesses invest in the research and development of new products in order to ensure their long-term competitiveness. The media sector has a similar imperative to create innovative media content and media-related products and services in a rapidly changing environment. This means that rather than conventional research and development activities, the company's own innovative power and business development are particularly important to Bertelsmann. The long-term success of the Group depends heavily on product innovations, investing in growth markets and integrating new technologies. Furthermore, innovative expertise is very important for strategy implementation.

Bertelsmann relies on innovation and growth in core operations and new business fields. The key success factors of Bertelsmann's innovation management include continuously following cross-industry trends and observing new markets. At the Group level, Bertelsmann works with the divisions to continuously identify and implement innovative business strategies. Alongside market-oriented activities, support is given to Group-wide initiatives that actively promote knowledge transfer and collaboration. At regular innovation forums, executives meet with internal and external experts to examine success factors for innovation and creativity.

The innovations at RTL Group are focused on three core topics: continuously developing and acquiring new, high-quality TV content and formats; using all digital means of distribution; and expanding diverse forms of advertising sales and monetization. New and innovative TV formats include the show "Lost in Time," an interactive production by Fremantle Media Norge, in which special effects and reality are combined in real time. In addition, RTL Group invested in virtual reality for the first time and initiated the latest round of investments of the Israeli start-up Inception VR. RTL Group is also pursuing an ambitious growth plan for its advertising technology business. The primary objective is to create a global, independent monetization platform for channels, video-on-demand services and content providers. For example, SpotX and Smartclip are to be merged to form an integrated advertising technology company by the end of 2018. The focus here is mainly on addressable TV, which means that advertising can be targeted at TV households via

linear television based on criteria such as income and age. Synergy committees are used for exchanging information and knowledge within RTL Group.

Innovations at Penguin Random House are related to the areas of content and distribution. They are central to forging direct relationships with millions of readers by utilizing the platforms to market the books and authors. As one example, subscribers worldwide receive regular e-mail updates from the publishers on early cover reveals, advance excerpts, sweepstakes, author appearances and more. With the novel "Wonder," the company is capitalizing on the theatrical release of the film adaptation by experimenting with large-scale merchandising through new retail channels and promotional partnerships with film production companies in an effort to convert fans of the movie to purchasers of the book. An example of innovation in partnership with new and emerging technology is the Penguin Young Readers' imprint collaboration with both Google and Amazon to make the app Mad Libs accessible on their respective voice assistants.

The innovations at Gruner + Jahr included digital marketing and the expansion of the brand business and the existing magazine division. The strong growth of the digital business was generated above all by the significantly increased advertising revenues from brand websites and the strong growth of the app recommendation platform AppLike, although Germany's food community Chefkoch also continued to grow. G+J expanded its brand-related activities with furniture from the "Schöner Wohnen" collection. In 2017 innovative magazines were launched such as the interior design magazine "Ideat." The publishing house Deutsche Medien-Manufaktur founded by Gruner + Jahr and Landwirtschaftsverlag successfully launched "Hygge."

The innovations at BMG are driven by the company's artist- and songwriter-friendly approach encompassing everything from contracts to administration, marketing and finance, and reflecting its core values of Fairness, Transparency and Service. An example of this came in 2017 with the launch of a mobile app to allow songwriters 24/7 access to their royalty information via their mobile phones. A version tailored to the needs of recording artists will be released during 2018. Powerful endorsement for BMG's innovative technology came with the decision of the TV Content Streaming Service Netflix to move the administration of its music publishing rights to BMG.

The innovations at Arvato were introduced in all four solution groups and primarily concern the use of innovative technologies, development and implementation of new service offerings, and investment in innovative companies. In

CRM Solutions, Arvato used new technologies such as analytics, machine learning and chatbots to optimize the service experience. In the SCM Solutions business area, data goggles and driverless transport systems are increasingly used. Arvato Financial Solutions worked on innovative cloud solutions to combat fraud in the healthcare and e-commerce sectors. Moreover, in the financial year 2017 Arvato again invested in innovative companies in the fintech and analytics sectors.

The innovations of the Bertelsmann Printing Group in 2017 again are mainly in improving technology and processes and in developing and marketing new products and services. With the production of the innovative Ultra HD Blu-ray data carrier, Sonopress was one of the pioneers in developing a growth market. In recognition of this, the company received the Digital Product Innovation Award at the start of the year from the US industrial association Digital Entertainment Group. Other innovation projects focused on 3-D scanning and the integration of augmented reality markers in books, magazines and catalogs.

The innovations at Bertelsmann Education Group mainly consist of the further development of digital and customized education offerings and the expansion of existing business areas. For example, Relias expanded its expertise in analytics and performance management in order to provide more data-based support to customers in the healthcare sector in improving performance within companies. At the same time, Relias developed a large number of online courses in the United States and expanded the range of courses being offered in the United Kingdom, Germany and China. Udacity developed new Nanodegree programs, including deep learning, digital marketing and software development for robotics, thus setting further standards in student qualifications for future technology jobs.

Report on Economic Position

Corporate Environment

Overall Economic Developments

The expansion of the global economy noticeably accelerated in 2017. Real GDP increased by 3.8 percent compared to 3.1 percent in 2016. Global economic growth was more broadly based and global trading increased significantly once more.

The economic upturn in the eurozone remains solid. Real GDP grew by 2.5 percent in 2017 compared to 1.7 percent in the previous year. The growth was supported by the increase in

private consumer spending and investments and by exports that benefited from increasing global trading.

The German economy is seeing a strong upturn. Real GDP grew by 2.2 percent compared to 1.9 percent in the previous year. In France too, the economic situation showed steady improvement. Real GDP growth was 1.9 percent in 2017 compared to 1.1 percent in 2016. In the United Kingdom, economic activity slowed as a result of Brexit with an increase in real GDP of 1.7 percent, compared to a rise of 1.9 percent in the previous year.

The US economy proved to be robust, backed by solid domestic demand. Real GDP grew by 2.3 percent in 2017 compared to 1.9 percent in 2016.

Developments in Relevant Markets

The following analysis focuses on markets and regions that are of a sufficient size and that are strategically important from a Group perspective.

The majority of the European TV advertising markets saw stable or declining development in 2017. While the development of the TV advertising markets in Germany, France and Spain was largely stable, the TV advertising markets in the Netherlands, Belgium, Hungary and Croatia saw a moderate to significant decline.

The markets for printed books achieved slightly positive growth overall in 2017. Sales of printed books in the United States and sales in Spain grew slightly, while sales of printed books were stable in the United Kingdom and fell slightly in Germany. Publishing sales of e-books in the United States and the United Kingdom continued to decline, although sales of audio downloads recorded strong growth.

The magazine markets in Germany and France in 2017 were characterized by strongly declining print advertising business and significantly declining circulation business, while the digital business posted strong growth.

The global music markets in 2017 reported moderate growth in the publishing rights market segment. The recording rights market segment grew significantly.

The key service markets for Arvato, namely Customer Relationship Management, Supply Chain Management, Financial Solutions and IT, saw moderate to significant growth.

The European offset printing markets showed stable development in 2017, while the European gravure printing markets

declined significantly. The development of the North American book printing market was stable over the same period.

The education markets in the United States continued to grow strongly overall in 2017 in the market segments where Bertelsmann is involved – namely, healthcare and technology, university education and online services.

Significant Events in the Financial Year

At the end of January 2017, BMG took over the BBR Music Group, which includes well-known country music labels such as Broken Bow Records, Stoney Creek Records, Wheelhouse Records and the music publisher Magic Mustang Music. The takeover also included the rights to many well-known country music artists.

In July 2017, Penguin Random House acquired the publishing business Ediciones B from Spain's Grupo Zeta media group, which as part of the Spanish-speaking Penguin Random House Grupo Editorial, strengthens the publishing businesses in Spain and Latin America.

Fernando Carro resigned from the Executive Board of Bertelsmann Management SE effective July 13, 2017. The position of Arvato CEO represented on the Bertelsmann Executive Board has not yet been filled. Since then, CEO Thomas Rabe and CFO Bernd Hirsch have been jointly managing the Arvato division.

In October 2017, RTL Group acquired the remaining shares of SpotX Inc. by exercising a call option. RTL Group thus

continued to expand its advertising technology business. The full takeover of SpotX enables a stronger integration with the European online video advertising company Smartclip and the creation of a comprehensive advertising technology hub to support the marketing solutions for RTL businesses.

In October 2017, Bertelsmann increased its stake in Penguin Random House to a strategic three-quarters majority by acquiring a further 22 percent from Pearson, the British media and education company. Through this acquisition, Bertelsmann gained greater governance rights at Penguin Random House and will in the future appoint the chairman of the board of directors, among other things. Pearson remains a co-shareholder of Penguin Random House with a share of 25 percent.

In December 2017, RTL Group sold three adjoining buildings in Paris that were previously used by RTL Radio France. The sale proceeds amount to €114 million; the capital gain is €94 million.

Results of Operations

The following analysis of earnings performance relates to continuing operations as of December 31, 2017. Please refer to the "Performance of the Group Divisions" section for a more detailed picture of the results of operations.

Revenue Development

Group revenues in the financial year 2017 rose by 1.4 percent to €17.2 billion (previous year: €17.0 billion). Revenue increases were recorded in particular at RTL Group, BMG, Arvato and Bertelsmann Education Group. The Group achieved organic

Revenues by Division

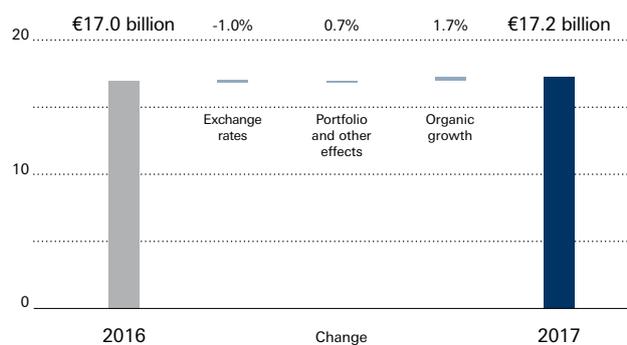
in € millions	2017			2016 (adjusted)		
	Germany	Other countries	Total	Germany	Other countries	Total
RTL Group	2,266	4,107	6,373	2,205	4,032	6,237
Penguin Random House	250	3,109	3,359	266	3,095	3,361
Gruner + Jahr	964	549	1,513	959	621	1,580
BMG	33	474	507	31	385	416
Arvato	1,521	2,302	3,823	1,568	2,195	3,763
Bertelsmann Printing Group	957	724	1,681	971	738	1,709
Bertelsmann Education Group	1	188	189	–	142	142
Bertelsmann Investments	–	–	–	–	–	–
Total divisional revenues	5,992	11,453	17,445	6,000	11,208	17,208
Corporate/Consolidation	(152)	(103)	(255)	(142)	(116)	(258)
Continuing operations	5,840	11,350	17,190	5,858	11,092	16,950

growth of 1.7 percent, adjusted for exchange rate and portfolio effects. The exchange rate effects were -1.0 percent and the portfolio effects were 0.7 percent.

Revenues at RTL Group rose 2.2 percent to €6,373 million (previous year: €6,237 million). The organic growth was 1.8 percent. The positive development was mainly generated by the German and French TV businesses and the continued expansion of digital activities. Revenues at Penguin Random House remained stable at €3,359 million (previous year: €3,361 million). Negative exchange rate effects were largely offset by portfolio effects. At €1,513 million, Gruner + Jahr's revenues were down 4.2 percent year on year (previous year: €1,580 million). The organic growth was -1.6 percent. The revenue decline stems largely from the portfolio effects of disposals. Revenues at BMG increased by 21.8 percent to €507 million (previous year: €416 million) as a result of further acquisitions and organic business expansion. The organic growth was 18.5 percent. Revenues at Arvato rose 1.6 percent to €3,823 million (previous year: €3,763 million). The organic growth was 2.9 percent. This was primarily the result of the growth of business with new and existing customers at SCM Solutions. Revenues at Bertelsmann Printing Group fell 1.6 percent to €1,681 million (previous year: €1,709 million) due to market and exchange rate effects. The organic growth was -1.0 percent. Bertelsmann Education Group increased its revenues by 32.6 percent to €189 million (previous year: €142 million). The organic growth was 12.5 percent. The rise was primarily the result of the organic and acquisitive expansion of Relias. None of the investments of Bertelsmann Investments are fully consolidated.

There were only minor changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 34.0 percent compared to 34.6 percent in the previous year. The revenue share generated by France amounted to 13.4 percent (previous year: 13.2 percent). In the United Kingdom, the revenue share was 6.8 percent (previous year: 6.4 percent). The share of total revenues generated by the other European countries amounted to 18.7 percent compared to 18.3 percent in the previous year. The

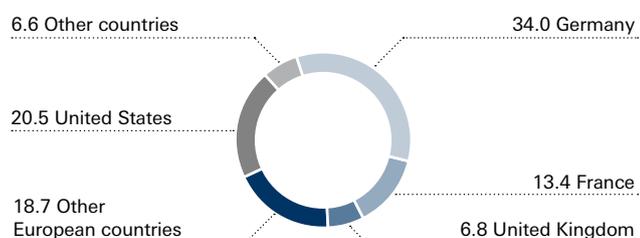
Revenue Breakdown



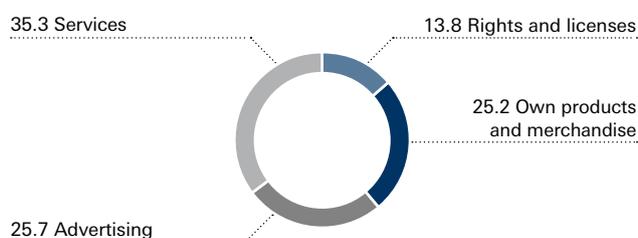
revenue share generated by the United States was 20.5 percent (previous year: 20.8 percent), and the other countries achieved a revenue share of 6.6 percent (previous year: 6.7 percent). This means that the share of total revenues generated by foreign business was 66.0 percent (previous year: 65.4 percent). Year on year, there was a slight change in the ratio of the four revenue sources (own products and merchandise, advertising, services, rights and licenses) to overall revenue.

The revenue share generated by the growth businesses increased to 32 percent overall (previous year: 30 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses remained stable at 4 percent (previous year: 4 percent). The growth businesses comprise those activities that post continuous revenue increases due to sustained positive market factors and that have been identified as growth priorities as part of Group strategy. These include the digital businesses of RTL Group and Gruner + Jahr; the TV production, music business and service businesses in the Arvato divisions of SCM Solutions and Financial Solutions and Systems; the education business, and the fund activities. The structurally declining businesses comprise those activities that post sustained revenue losses due to market factors. These include in particular the gravure printing activities and the storage media replication business.

Consolidated Revenues by Region in percent



Revenues by Category in percent



Results Breakdown

in € millions	2017	2016 (adjusted)
Operating EBITDA by division		
RTL Group	1,478	1,405
Penguin Random House	521	537
Gruner + Jahr	145	137
BMG	104	95
Arvato	320	356
Bertelsmann Printing Group	118	121
Bertelsmann Education Group	3	(17)
Bertelsmann Investments	(3)	–
Total operating EBITDA by division	2,686	2,634
Corporate/Consolidation	(50)	(66)
Operating EBITDA from continuing operations	2,636	2,568
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(657)	(630)
Special items	(83)	(139)
EBIT (earnings before interest and taxes)	1,896	1,799
Financial result	(219)	(244)
Earnings before taxes from continuing operations	1,677	1,555
Income tax expense	(472)	(419)
Earnings after taxes from continuing operations	1,205	1,136
Earnings after taxes from discontinued operations	(7)	1
Group profit or loss	1,198	1,137
attributable to: Earnings attributable to Bertelsmann shareholders	776	686
attributable to: Earnings attributable to non-controlling interests	422	451

Operating EBITDA

Bertelsmann achieved a 2.7 percent increase in operating EBITDA to €2,636 million in the financial year 2017 (previous year: €2,568 million). In particular, RTL Group, BMG and Bertelsmann Education Group achieved a good earnings performance. The operating EBITDA includes start-up losses for digital and new businesses, which for Bertelsmann Education Group and RTL Group alone totaled €-69 million (previous year: €-71 million). The EBITDA margin increased to 15.3 percent (previous year: 15.2 percent).

Operating EBITDA at RTL Group rose 5.2 percent to €1,478 million (previous year: €1,405 million). In particular, Mediengruppe RTL Deutschland and Fremantle Media posted earnings increases. The earnings figure for RTL Group also includes a profit from the sale of buildings in Paris previously used by RTL Radio France. Operating EBITDA at Penguin Random House declined by 2.9 percent to €521 million (previous year: €537 million), particularly as a result of negative exchange rate effects. Gruner + Jahr's operating EBITDA increased by 6.2 percent to €145 million (previous year: €137 million). A strong rise in earnings at G+J Deutschland, attributable among other things to the development of digital businesses and positive portfolio effects from disposals, was contrasted by lower contributions to earnings in France. BMG's operating EBITDA rose by 9.5 percent to €104 million

(previous year: €95 million), thanks to the continued development of the business. Operating EBITDA at Arvato declined by 10.0 percent to €320 million (previous year: €356 million). The lower earnings resulted primarily from a fall in the volume of CRM business within the telecommunications sector and from higher start-up losses for new businesses. Operating EBITDA at Bertelsmann Printing Group declined by 2.3 percent to €118 million (previous year: €121 million) due to the persistently declining print market and as a result of negative exchange rate effects. Operating EBITDA at Bertelsmann Education Group increased to €3 million (previous year: €-17 million). This is primarily attributable to the organic growth of Relias. This includes proportional start-up losses from Group investments that are not fully consolidated. None of the investments of Bertelsmann Investments are fully consolidated; therefore, in most cases no operating results are disclosed for this segment.

Special Items

Special items in the financial year 2017 totaled €-83 million compared to €-139 million in the previous year. They consist of reversals on impairments and impairment losses totaling €-100 million (previous year: €-26 million), adjustments of carrying amounts of assets held for sale of €-4 million (previous year: €-14 million), fair value remeasurement of investments of €15 million (previous year: €12 million), results from

disposals of investments totaling €182 million (previous year: €41 million), and restructuring expenses and other adjustments totaling €-176 million (previous year: €-152 million) (see also the reconciliation of EBIT to operating EBITDA in the notes to the Consolidated Financial Statements). Results from disposals of investments were characterized by gains on disposals at Bertelsmann Investments.

EBIT

EBIT amounted to €1,896 million in the financial year 2017 (previous year: €1,799 million) after adjusting operating EBITDA for special items totaling €-83 million (previous year: €-139 million) and the amortization, depreciation, impairments and reversals of impairments on intangible assets and property, plant and equipment totaling €-657 million (previous year: €-630 million), which were not included in adjustments.

Group Profit or Loss

The financial result improved to €-219 million compared to the previous year's figure of €-244 million. The income tax expenses came to €-472 million compared to €-419 million in the previous year, in particular due to the improved earnings before taxes from continuing operations and due to burdens in connection with the US tax reform. This produced earnings after taxes from continuing operations of €1,205 million (previous year: €1,136 million). Taking into account the earnings after taxes from discontinued operations of €-7 million (previous year: €1 million), this resulted in a Group profit of €1,198 million (previous year: €1,137 million). The share of Group profit held by non-controlling interests came to €422 million (previous year: €451 million). The share of Group profit held by Bertelsmann shareholders increased to €776 million (previous year: €686 million), particularly as a result of the shareholding increase in Penguin Random House. At the Annual General Meeting of Bertelsmann SE & Co. KGaA, an unchanged year-on-year dividend payout of €180 million will be proposed for the financial year 2017 (previous year: €180 million).

Net Assets and Financial Position

Financing Guidelines

The primary objective of Bertelsmann's financial policy is to achieve a balance between financial security, return on equity and growth. For this, Bertelsmann bases its

financing policy on the requirements of a "Baa1/BBB+" credit rating and the associated qualitative and quantitative criteria. Credit ratings and capital market transparency make a considerable contribution to the company's financial security and independence.

In accordance with the Group structure, the capital allocation is made centrally by Bertelsmann SE & Co. KGaA, which provides the Group companies with liquidity and manages the issuance of guarantees and letters of comfort for them. The Group consists largely of a single financial unit, thereby optimizing capital procurement and investment opportunities.

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One of the financial targets is a dynamic leverage factor limited to the defined maximum of 2.5. As of December 31, 2017, the leverage factor of Bertelsmann was 2.5, (December 31, 2016: 2.5), which is in line with the previous year's level (see further explanation in the "Alternative Performance Measures" section).

As of December 31, 2017, economic debt increased to €6,213 million from €5,913 million in the previous year, due to an increase in net financial debt. The latter increase to €3,479 million (December 31, 2016: €2,625 million) is largely attributable to the financing of the shareholding increase in Penguin Random House. Provisions for pensions and similar obligations fell to €1,685 million as of December 31, 2017 (December 31, 2016: €1,999 million), due to an increase in the interest rate.

Another financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA (after modifications) to financial result, which is used to determine the leverage factor and is supposed to be above four. In the reporting period, the coverage ratio was 11.2 (previous year: 9.7). The Group's equity ratio was 38.5 percent (December 31, 2016: 41.6 percent), which remains significantly above the self-imposed minimum of 25 percent. The decline is attributable to the purchase price payments for increases in shareholdings in the companies that are already fully consolidated, Penguin Random House and SpotX, as well as from dividend distributions to non-controlling interests, which also include the special dividend paid to the co-shareholder as part of the shareholding increase in Penguin Random House.

Financial Targets

	Target	2017	2016
Leverage Factor: Economic debt/Operating EBITDA ¹⁾	≤ 2.5	2.5	2.5
Coverage Ratio: Operating EBITDA/Financial result ¹⁾	> 4.0	11.2	9.7
Equity ratio: Equity as a ratio to total assets (in percent)	≥ 25.0	38.5	41.6

1) After modifications.

Financing Activities

In May 2017, Bertelsmann placed a bond with a four-year term and an issue volume of €500 million. The bond, which is listed in Luxembourg, has a fixed 0.25 percent coupon. In addition, Bertelsmann issued in the form of private placements in July 2017 a bond in the amount of €50 million with a seven-year term and in August 2017 a promissory note in the amount of €150 million with a term of a year and a half. The proceeds from the placements were primarily used to finance the shareholding increase in Penguin Random House.

Rating

Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The agency ratings facilitate access to the international capital markets and are therefore a key element of Bertelsmann's financial security. Bertelsmann is rated by Moody's as "Baa1" (outlook: stable) and by S&P as "BBB+" (outlook: stable). Both credit ratings are in the investment-grade category and meet Bertelsmann's target rating. Bertelsmann's short-term credit quality rating is "P-2" from Moody's and "A-2" from S&P.

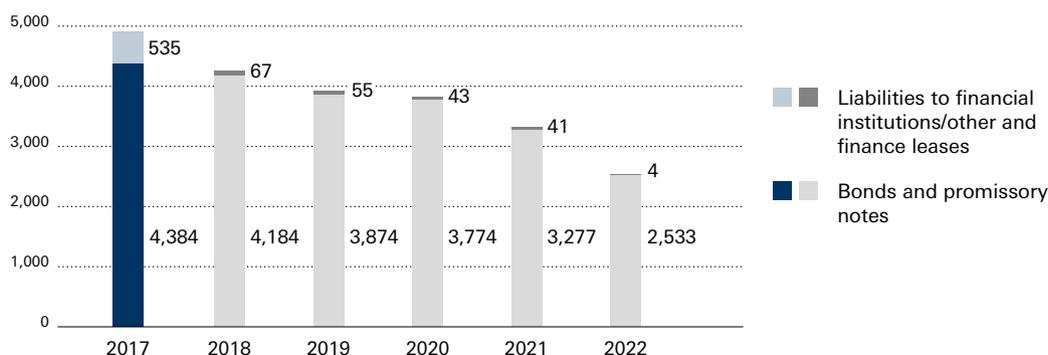
Credit Facilities

As well as its existing liquidity, the Bertelsmann Group has access to a syndicated loan agreement with major international banks. This forms the backbone of the strategic credit reserve; Bertelsmann can utilize this with a term until 2021 to draw up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling.

Cash Flow Statement

In the reporting period, Bertelsmann generated net cash from operating activities of €1,642 million (previous year: €1,954 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,822 million (previous year: €1,799 million), and the cash conversion rate was 92 percent (previous year: 93 percent); see also "Broadly Defined Performance Indicators" section. The cash flow from investing activities was €-797 million (previous year: €-1,081 million). This included investments in intangible assets, property, plant and equipment, and financial assets of €-890 million (previous year: €-962 million). The purchase price payments for consolidated investments (net of acquired cash and cash equivalents) were

Maturity Structure of Financial Debt in € millions



Consolidated Cash Flow Statement (Summary)

in € millions	2017	2016
Cash flow from operating activities	1,642	1,954
Cash flow from investing activities	(797)	(1,081)
Cash flow from financing activities	(755)	(793)
Change in cash and cash equivalents	90	80
Exchange rate effects and other changes in cash and cash equivalents	(24)	(14)
Cash and cash equivalents on 1/1	1,376	1,310
Cash and cash equivalents on 12/31	1,442	1,376
Less cash and cash equivalents included within assets held for sale	(2)	(3)
Cash and cash equivalents on 12/31 (according to the consolidated balance sheet)	1,440	1,373

€-213 million (previous year: €-278 million). Proceeds from the sale of subsidiaries and other business units and from the disposal of other non-current assets were €343 million (previous year: €192 million). Cash flow from financing activities was €-755 million (previous year: €-793 million). Dividends paid to the shareholders of Bertelsmann SE & Co. KGaA remained unchanged at €-180 million (previous year: €-180 million). Dividends to non-controlling interests and further payments to partners in partnerships came to €-743 million (previous year: €-388 million). This figure includes a special dividend of €373 million paid to the co-shareholder as part of the shareholding increase in Penguin Random House. As of December 31, 2017, Bertelsmann had cash and cash equivalents of €1.4 billion (previous year: €1.4 billion).

Off-Balance-Sheet Liabilities

The off-balance-sheet liabilities include contingent liabilities and other financial commitments, almost all of which result from operating activities conducted by the divisions. Off-balance sheet liabilities declined year on year. The off-balance-sheet liabilities in place as of December 31, 2017, had no significant negative effects on the Group's net assets, financial position and results of operation for the past or for the future financial year.

Investments by Division

in € millions	2017	2016
RTL Group	308	353
Penguin Random House	80	36
Gruner + Jahr	38	112
BMG	157	183
Arvato	285	167
Bertelsmann Printing Group	40	49
Bertelsmann Education Group	78	175
Bertelsmann Investments	114	147
Total investments by division	1,100	1,222
Corporate/Consolidation	3	18
Total investments	1,103	1,240

Investments

Total investments including financial debt acquired of €14 million (previous year: €6 million) amounted to €1.117 billion in the financial year 2017 (previous year: €1,244 million). Investments according to the cash flow statement amounted to €1,103 million (previous year: €1,240 million). As in previous years, the majority of the €360 million investment in property, plant and equipment (previous year: €326 million) stemmed from Arvato. Investments in intangible assets came to €319 million (previous year: €388 million) and were primarily attributable to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. The sum of €211 million was invested in financial assets (previous year: €248 million). These include, in particular, the investments of Bertelsmann Investments. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €213 million in the reporting period (previous year: €278 million) and were attributable, among other things, to BMG's acquisition of BBR Music Group.

Taking into account purchase price payments for increases in shareholdings in companies that are already fully consolidated, in particular for the shareholding increase in Penguin Random House and the acquisition of SpotX, the economic investments in the financial year 2017 increased to €1,776 million in total (previous year: €1,262 million). According to IFRS, these payments for increases in shareholdings are classified as change in equity and allocated to cash flow from financing activities. From a company point of view, these payments are, in substance, comparable to purchase price payments for consolidated investments and are thus considered as investments.

Balance Sheet

Total assets amounted to €23.7 billion as of December 31, 2017 (previous year: €23.8 billion). Cash and cash equivalents amounted to €1.4 billion (previous year: €1.4 billion). Equity declined to €9.1 billion (previous year: €9.9 billion).

The decline is primarily attributable to changes in equity due to the shareholding increase in Penguin Random House and the payment of a special dividend to the co-shareholder. This resulted in a decrease of the equity ratio to 38.5 percent (previous year: 41.6 percent). Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €7.8 billion (previous year: €7.9 billion). Provisions for pensions and similar obligations fell to €1,685 million (previous year: €1,999 million) due to an increase in the interest rate. Gross financial debt increased to €4,919 million compared to €3,998 million as of December 31, 2016, due to the taking up of financial debt as reported in the "Financing Activities" section. Apart from that, the balance sheet structure remained largely unchanged from the previous year.

Profit Participation Capital

Profit participation capital had a par value of €301 million as of December 31, 2017, which is unchanged from the previous year. If the effective interest method is applied, the carrying amount of profit participation capital was €413 million as of December 31, 2017 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of par value of profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of par value.

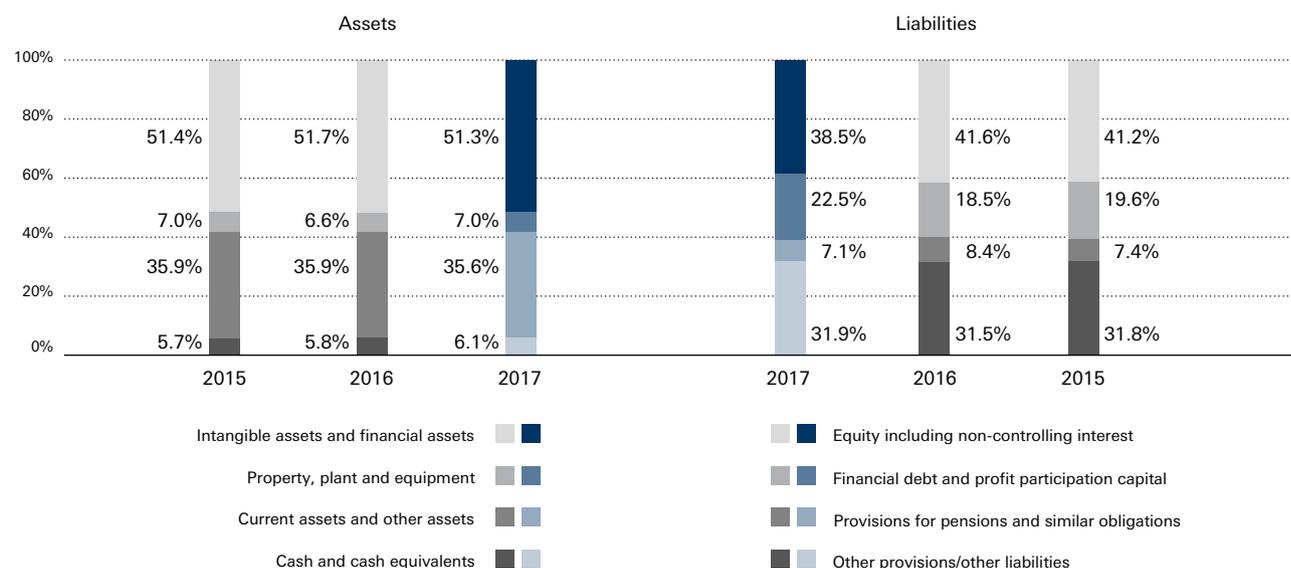
The lowest closing rate of the 2001 profit participation certificates in the financial year 2017 was 316.00 percent in January; their highest was 339.40 percent in November.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of par value, subject to the availability of sufficient Group profit and net income at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will also be made for the financial year 2017.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, only have a limited cash trade due to their low volume. Payouts on the 1992 profit participation certificates are based on the Group's return on total assets. As the return on total assets for the financial year 2017 was 7.73 percent (previous year: 7.09 percent), the payout on the 1992 profit participation certificates for the financial year 2017 will be 8.73 percent of their notional value (previous year: 8.09 percent).

The payout distribution date for both profit participation certificates is expected to be May 15, 2018. Under the terms and conditions of the profit participation certificates, the auditors appointed by Bertelsmann SE & Co. KGaA are responsible for verifying whether amounts to be distributed have been calculated correctly. The auditors of both profit participation certificates provide confirmation of this.

Balance Sheet



Performance of the Group Divisions

RTL Group

RTL Group once again delivered a very gratifying business performance in 2017. The main drivers were Mediengruppe RTL Deutschland and the French Groupe M6, which managed to increase their advertising revenues in their respective stable TV advertising markets. Rapidly growing digital businesses also contributed to the positive business performance. RTL Group's ad-tech business was expanded by the full takeover of the online video ad-serving platform SpotX. SpotX and Smartclip started merging into an integrated ad-tech powerhouse. RTL Group expanded its presence on numerous online platforms as part of its "Total Video" strategy, and saw strong growth in online video views.

Against this backdrop, RTL Group's revenues increased by 2.2 percent to a record €6.4 billion (previous year: €6.2 billion). Operating EBITDA also reached a new record, rising 5.2 percent to €1.5 billion (previous year: €1.4 billion). A positive one-off effect from the sale of commercial real estate in France and a higher contribution to earnings from Mediengruppe RTL Deutschland and RTL Group's production arm Fremantle Media contributed to this. The EBITDA margin increased to 23.2 percent after 22.5 percent in the previous year.

Mediengruppe RTL Deutschland once again ended the financial year with record revenues and earnings. This was fueled by higher advertising revenues from the TV and digital business, as well as growing platform revenues. The combined average audience share of the family of channels increased to 28.9 percent in the main target group (2016: 28.7 percent). At the same time, the group significantly widened its lead over its biggest commercial competitor to 4.5 percentage points (previous year: 3.4 percentage points).

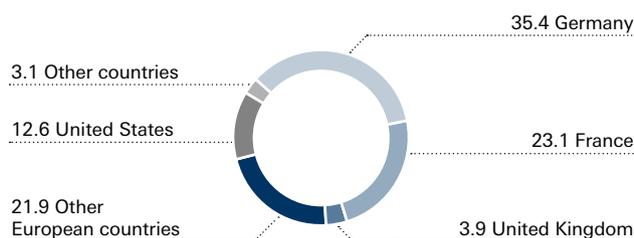
In France, Groupe M6 grew its revenues with higher TV advertising revenues and the first-time consolidation of French cashback market leader iGraal. Earnings decreased slightly as the previous year's result had included the positive one-off effect from the gradual expiration of a mobile telephony agreement. RTL Group merged its French radio business, RTL Radio (France), with Groupe M6 in October, enabling a strengthening of its commercial offering as well as program and cost synergies. Groupe M6 achieved a combined TV audience share of 22.3 percent in the main target group (previous year: 22.2 percent). RTL Nederland recorded decreased advertising revenues during the reporting period, resulting in lower revenues and earnings.

Fremantle Media reported slightly lower revenues for 2017 due to negative exchange rate effects, but increased its operating result as a result of higher profit contributions from North America and Europe. Its greatest creative successes

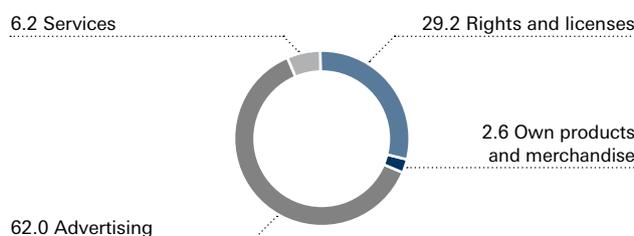
included the fantasy series "American Gods," which was produced by Fremantle Media North America for the US cable channel Starz and has also been available to more than 200 territories since May 2017 through Amazon Prime Video, and UFA Fiction's historical drama series "Charité," produced for Das Erste in Germany.

RTL Group continued to invest in its three strategic pillars of broadcasting, content and digital and, in addition to taking full ownership of SpotX, acquired a minority stake in the Israeli virtual-reality company Inception. Mediengruppe RTL Deutschland secured important sports rights to Formula 1 motor racing and UEFA Europa League soccer matches.

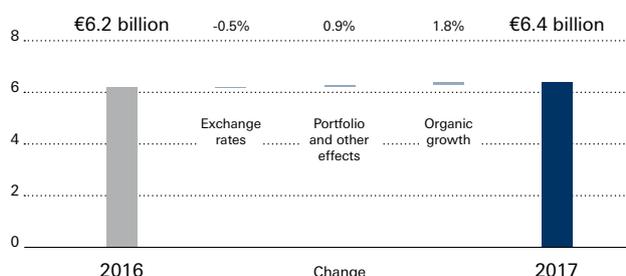
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Penguin Random House

For Penguin Random House, the 2017 financial year was dominated by changes in the ownership structure, a strong bestseller performance and an expansion of the business in the Spanish-language territories. Bertelsmann increased its shareholding in Penguin Random House to a strategic three-quarters majority in October by acquiring another 22 percent from co-shareholder Pearson, thereby strengthening its governance rights. The operating business benefited from hundreds of national and international bestsellers. "Wonder" by R.J. Palacio, its biggest-selling title in 2017 in the United States, received additional impetus through a movie adaptation and sold close to five million copies in print and e-book formats in its English-speaking territories. While print book revenues remained broadly stable overall, and e-book sales declined moderately, Penguin Random House again recorded strong growth in digital audiobooks. In 2017, the book group continued to expand its direct-to-consumer outreach to readers, and also acquired the world publishing rights for two books by former US President Barack Obama and former First Lady Michelle Obama.

Inclusive of Verlagsgruppe Random House, the German publishing group wholly owned by Bertelsmann, Penguin Random House achieved stable revenues of €3.4 billion in 2017 (previous year: €3.4 billion, -0.1 percent). Negative exchange rate effects were largely offset by portfolio effects. The book group's operating EBITDA declined by 2.9 percent to €521 million (previous year: €537 million) due to exchange rate effects. The EBITDA margin once again reached the high level of 15.5 percent (previous year: 16.0 percent).

In the United States, Penguin Random House publishers placed 461 titles on the "New York Times" bestseller lists last year, including 61 at number one. In addition to R.J. Palacio's "Wonder," the year's major successes included "Origin" by Dan Brown, "Camino Island" and "The Rooster Bar" by John Grisham and "Into the Water" by Paula Hawkins. Almost ten million copies of children's book classics by Dr. Seuss were sold.

In the United Kingdom, Penguin Random House UK publishers recorded growth. Titles published by Penguin Random House UK publishers achieved a 43 percent share of "The Sunday Times" top 10 weekly bestseller lists. Top sellers included "5 Ingredients" by Jamie Oliver, "Origin" by Dan Brown, and "Diary of a Wimpy Kid: The Getaway" by Jeff Kinney.

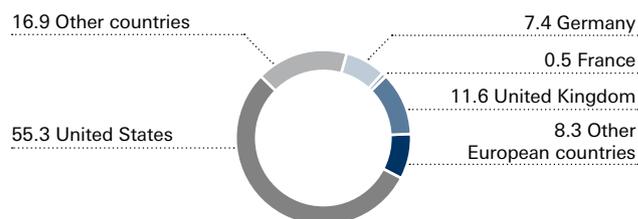
Penguin Random House Grupo Editorial also increased its revenues, benefiting from strong frontlist and backlist sales, which more than offset declining economic development in several Latin American countries. With the acquisition of Ediciones B in July, Penguin Random House Grupo Editorial enhanced

its position as the largest publisher in Latin America and its market position in Spain. Its bestselling titles in 2017 were "Una Columna de Fuego" ("A Column of Fire") by Ken Follett and "Más allá del invierno" ("In the Midst of Winter") by Isabel Allende.

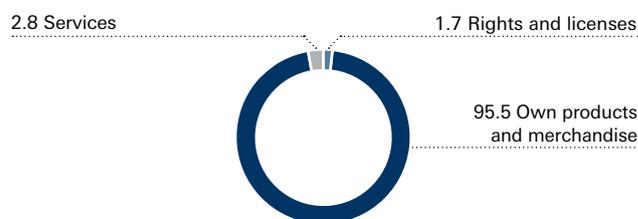
In Germany, notwithstanding the industry-wide impact of declining consumer traffic in bookstores, Verlagsgruppe Random House maintains its market-leading position. The publishing group had 401 titles on the "Spiegel" bestseller lists, including 22 at number one. "Die Geschichte der Bienen" ("The History of Bees") by Maja Lunde was the bestselling book in Germany in 2017.

Penguin Random House authors were honored with numerous major international literary awards. Kazuo Ishiguro, who is published by Penguin Random House, won the Nobel Prize in Literature. The publishing group's authors also received four Pulitzer Prizes, two Man Booker Awards, and a US National Book Award.

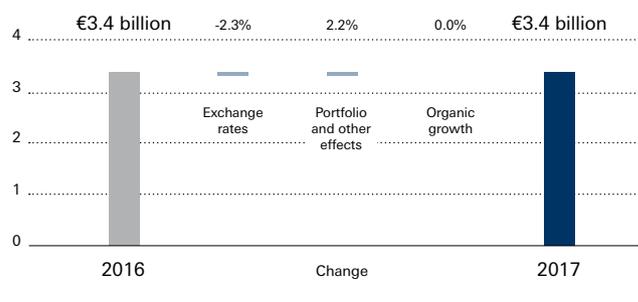
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

Gruner + Jahr achieved a significantly higher operating result, attributable mainly to the growing German business. Revenues fell by 4.2 percent to €1.5 billion (previous year: €1.6 billion), due to portfolio adjustments, notably the sale of the publishing activities in Spain and Austria. However, growing digital revenues and new business, including new magazines, had a positive impact on earnings. Operating EBITDA improved by 6.2 percent to €145 million (previous year: €137 million), causing the EBITDA margin to rise to 9.6 percent (previous year: 8.7 percent).

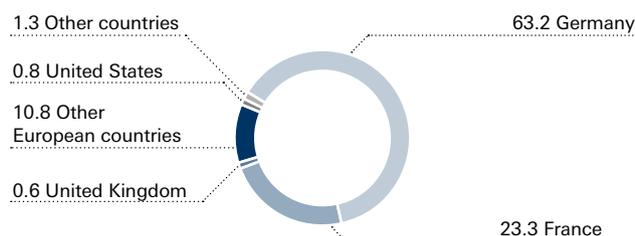
G+J grew both its revenues and earnings in Germany. The decline in the print ad-sales business, which was slight compared to the rest of the market, was offset by surging digital revenues. The German sales business also grew in total.

The fast-growing digital business was a major contributor to the good business performance in Germany. The digital share of total revenues in the German core market rose to over a quarter. The AppLike marketing platform, founded in 2016, experienced strong growth. G+J's most successful online offerings, such as the "Chefkoch" community and the journalistic flagships "Stern," "Gala" and "Brigitte," each achieved record reach and revenues in the 2017 financial year.

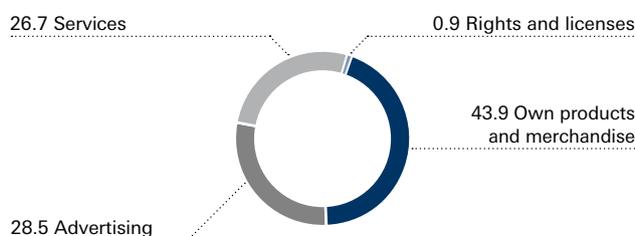
As in previous years, there were several new magazine launches in 2017, such as "Ideat," "Hygge" and "Cord." Another positive contributor were the activities of the Ad Alliance jointly formed by RTL subsidiary IP Deutschland and G+J eMS, which develops cross-genre advertising concepts. "Der Spiegel" was added last year. The content communication agency Territory did well, and the DDV Media Group had a stable financial year in terms of revenues and earnings.

G+J France's business was dominated by moderate declines in revenues. The earnings fell sharply. In particular, the print advertising business and individual digital businesses came under pressure, including the digital video ad marketer "Advideum." The journalistic digital offerings of the classic magazine brands such as "Voici," "Gala" and "Femme actuelle" significantly increased their reach and sales, mainly due to growing revenues in the mobile and video segment. In sum, digital revenues rose year on year.

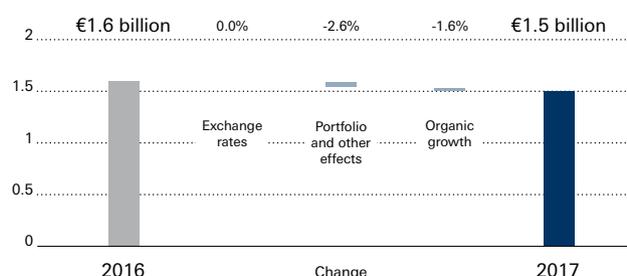
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



BMG

Bertelsmann's music subsidiary BMG significantly grew its publishing and recorded-music business in 2017, expanded its scope to include audiovisual content and continued its international expansion. BMG benefited from the acquisition of the country label BBR Music Group, from prominent artist signings and chart successes, and a continuing upturn in the recorded music industry fueled by streaming and new emerging markets.

BMG's revenues increased by 21.8 percent to €507 million (previous year: €416 million). This is attributable to higher revenues across all market segments and regions through organic growth and acquisition, especially in the recorded music business and in the British, US and Australian publishing business. Operating EBITDA also increased due to organic and acquisition derived growth, rising by 9.5 percent to €104 million (previous year: €95 million). This development was driven by the recording business in the United States as well as by the publishing business in the United Kingdom and United States. The EBITDA margin was 20.5 percent (previous year: 22.8 percent).

BMG expanded its portfolio with a series of purchases and catalog acquisitions. In January, the company acquired the BBR Music Group, which includes the country music labels Broken Bow Records, Stoney Creek Records and Wheelhouse Records, as well as the music publisher Magic Mustang Music. The deal secures BMG a significant position in the country music capital of Nashville – and thus in the lucrative country music market. In September, Chrissie Hynde, founder and singer of the British rock band The Pretenders, entrusted her entire song catalog to BMG. In the recorded-music business, BMG added Nickelback, Morrissey, Avril Lavigne, Fergie, Kylie Minogue and the rapper Kontra K to its artist roster. Further expansion of the recorded music business was accompanied by a strong showing in music publishing, with BMG songwriters responsible for each of the top three songs in the Billboard Hot 100 for 13 consecutive weeks in summer 2017.

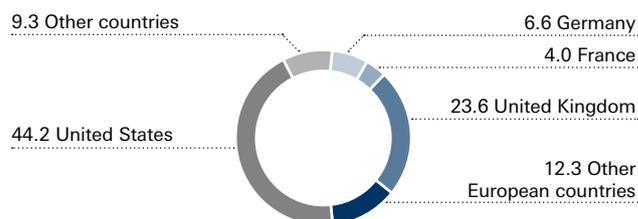
The company has strengthened its international footprint with enhanced representation in Canada and an expansion of its activities in China, including an innovative partnership with mobile social network Momo to develop Chinese talent with the help of BMG songwriters.

BMG extended the range of services it offers to artists with an entry into the movie and television business. Its first major production – a documentary about Joan Jett – was selected to premiere at the Sundance Film Festival. Moreover, BMG grouped its production music interests into a new international business unit, focused on commissioning and marketing the rights to music specifically produced for movies, radio, the Internet, video games and advertising.

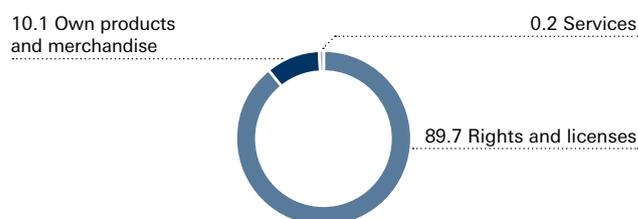
BMG concluded significant partnership agreements with several major entertainment providers in the reporting period. The company now manages the music publishing rights of RTL Group's content production arm Fremantle Media, the streaming provider Netflix and the production company Amblin Partners, founded by Hollywood legend Steven Spielberg.

BMG also developed a mobile application called myBMG, which gives artists and songwriters a 24/7 overview of their constantly updated royalty information.

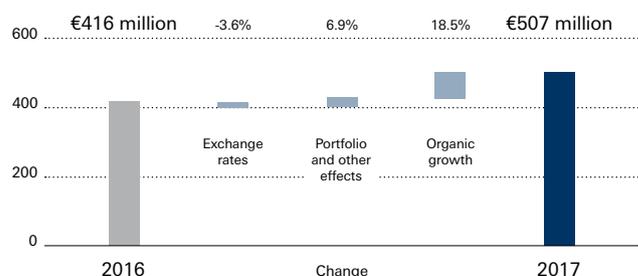
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Arvato

Arvato posted a stable revenue performance and a decline in the operating result in 2017. Arvato's revenues rose by 1.6 percent to €3.8 billion (previous year: €3.8 billion). Especially due to challenges in individual markets and sectors as well as high start-up costs for new business, operating EBITDA in the reporting period was down by 10.0 percent to €320 million (previous year: €356 million). The EBITDA margin was 8.4 percent, after 9.5 percent in the previous year.

In July 2017, Bertelsmann Chairman and CEO Thomas Rabe and Bertelsmann CFO Bernd Hirsch took over the management of the Arvato division.

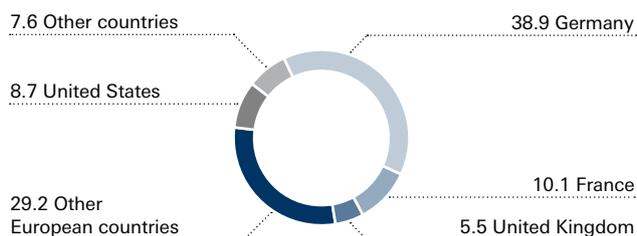
Revenues of the Solution Group Arvato CRM Solutions grew slightly in the financial year, but its earnings declined. The main reasons for this were declining business volumes in the telecommunications sector, start-up costs for new clients and the expansion of business with international companies from the IT/high-tech sector. The international network was expanded with the opening of new offices, including in the Philippines and Senegal.

Arvato SCM Solutions massively expanded its global logistics network in the past financial year, reflecting its good order-book situation. In Germany, the United States, France, Austria and Poland, new distribution centers took up operations and some existing sites were expanded, including in the Netherlands and Germany. The Solution Group also expanded its services businesses, primarily in the core sectors of e-commerce, fashion & beauty, and healthcare, and significantly strengthened its North American business by taking over US deliveries for a major high-tech client. The start-up costs for these new business activities impacted earnings.

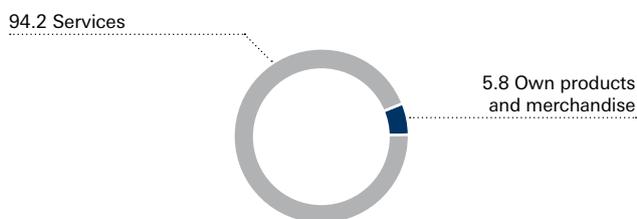
Arvato Financial Solutions' financial services businesses did well in terms of both revenues and earnings. Its continued positive business performance was fueled primarily by the steadily growing business in the core market of Germany. To expand the service portfolio in the innovative fintech sector, Arvato Financial Solutions began a collaboration with Solaris Bank. In addition, the shareholding in the Brazilian financial services company Intervalor was increased from 41.5 percent to 81.5 percent.

Demand for Arvato Systems' IT services remained high in 2017. To sustainably meet this demand, a nearshore site in Riga was opened, among other things. The expansion of business activities in the field of healthcare IT was successfully advanced, and further investments were made in emerging fields such as solutions for the smart-energy market and cloud services. In particular, the project costs for expanding the cloud capabilities had a negative impact on earnings.

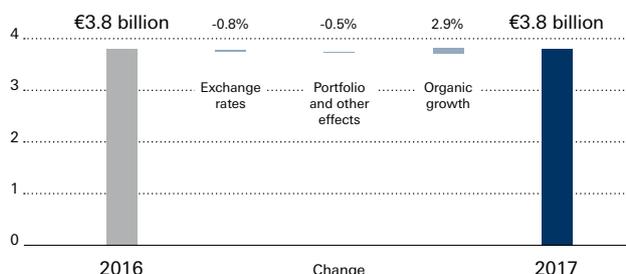
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Printing Group

In the 2017 financial year, the Bertelsmann Printing Group recorded a slight decline in revenue to €1.7 billion (previous year: €1.7 billion, -1.6 percent) and in operating EBITDA, which dipped slightly by 2.3 percent to €118 million (previous year: €121 million). The reason for these changes is the continuing decline in the printing market. At 7.0 percent, the Group's EBITDA margin is on par with the previous year's level of 7.1 percent.

The Bertelsmann Printing Group's offset printing business grew slightly in the 2017 financial year, and achieved a good result. Mohn Media was able to renew important customer contracts during the course of the year, including in the retail sector. GGP Media, a company specializing in print solutions for book publishers, successfully defended its position in a competitive market environment, as did the BPG subsidiary Vogel Druck, which specializes in magazines and catalogs with small to medium-size print runs.

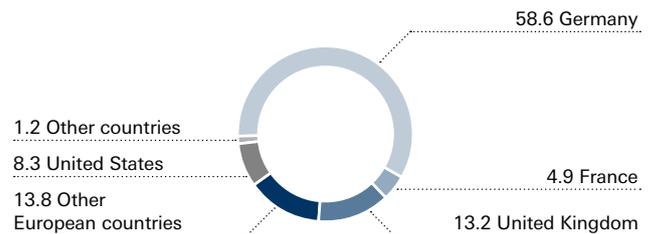
The gravure printing activities bundled in the Prinovis Group declined slightly overall due to difficult market conditions. In the United Kingdom, the business with the major customers acquired in 2016 was expanded. The German Prinovis sites suffered from chronic volume declines, especially in the magazine segment. This decline was countered by an extensive efficiency and cost reduction program, which was completed at the three German sites during the course of the year.

The Bertelsmann Printing Group's US printing companies faced intense competition in the book printing business. Significant declines in paperback production were at least partially offset by an expansion of the business outside the publishing sector. The US printers' operating results were below the previous year's level.

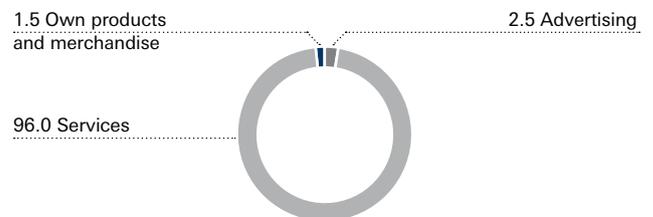
Revenues at Sonopress rose slightly despite difficult market conditions in Mexico. At the Gütersloh headquarters, the company once again bucked the overall market trend by increasing its production volumes, revenues and earnings. Among other things, this development is due to sales successes, also as a result of further market consolidation in Europe. During the year under review, Sonopress also further expanded the production of UHD Blu-ray discs.

The print-related marketing services businesses, which were assigned to the Bertelsmann Printing Group since January 2017, offer cross-channel communication services, especially for the retail segment. These businesses showed a stable overall development due to, among other things, the expansion of digital direct-marketing solutions and the extension of important customer contracts.

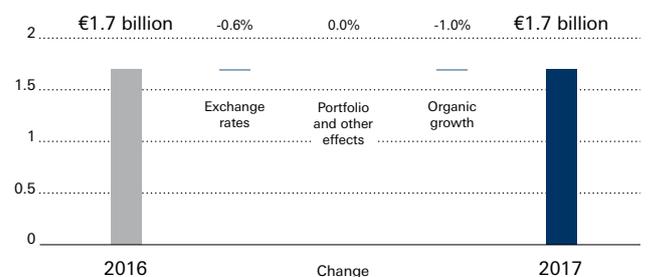
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



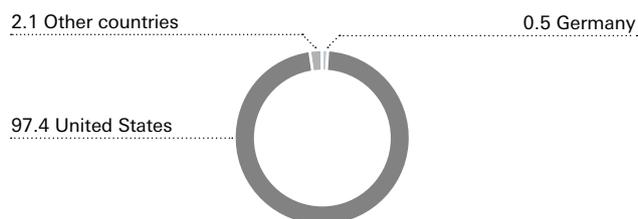
Bertelsmann Education Group

Bertelsmann's education holdings, pooled in the Bertelsmann Education Group, continued their expansion last year. With their focus on the e-learning (health and technology) and education services sectors, they recorded overall growth both in revenues and earnings during the reporting period. The revenues of Bertelsmann's fully consolidated companies increased significantly in the past financial year, by 32.6 percent to €189 million (previous year: €142 million). Operating EBITDA rose to €3 million (previous year: €-17 million), mainly due to the successful development of the e-learning provider Relias and lower start-up and transformation costs in other businesses. The EBITDA margin was 1.8 percent (previous year: -11.6 percent).

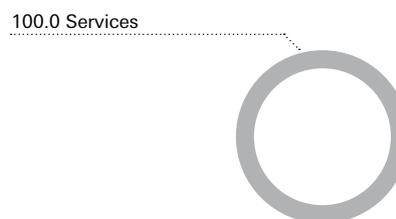
Relias, currently the most profitable business in the Bertelsmann Education Group, recorded significant growth, continued its expansion path during the reporting period, and grew both organically and through acquisitions. The company expanded its client base to more than 6,500 institutions, whose employees completed about 32.8 million online courses in 2017. Through the acquisition of the US company WhiteCloud Analytics, the Bertelsmann subsidiary further expanded its expertise in the fields of analytics and performance management, thereby expanding its existing business fields.

In collaboration with industry leaders, the online learning provider Udacity launched several new Nanodegree programs, focusing on in-demand skills in innovative fields such as deep learning, digital marketing and software development for robotics. Udacity further expanded its international growth activities; the number of paying students on Udacity programs increased to approximately 50,000. Bertelsmann is one of Udacity's largest shareholders.

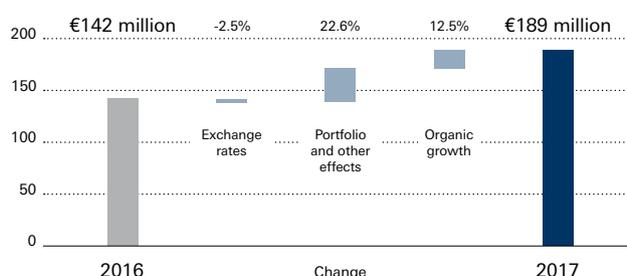
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Investments

The Group's four funds that comprise the Bertelsmann Investments division further expanded their global network of shareholdings in international start-ups in 2017. Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI) made a total of more than 40 new investments while also completing several exits, so that Bertelsmann held shares in over 160 companies through its corporate funds at year-end. Across all funds, the focus was on investments in lines of business that are very relevant for the Group, such as digital media offerings, e-commerce services, fintech and education.

Bertelsmann Investments' business performance is essentially measured by EBIT, which at €141 million significantly exceeds the previous year's figure of €35 million. Capital gains from divestments once again made a positive contribution to Group profit in the past financial year.

In China, BAI made 29 new investments during the reporting period, and seven follow-on investments, including in the bike-sharing app Mobike and mobile commerce services provider SEE. For the first time, four BAI holdings went public in a single year. In 2017, the premium lifestyle platform Secoo, the fintech company Lexin and the digital marketing platform iClick debuted on the New York technology exchange Nasdaq, and the online automobile retail

transaction platform Yixin Group on the Hong Kong Stock Exchange.

In India, BII strengthened its education market activities by investing in the education company Eruditus Executive Education, which develops courses with global Ivy League universities. BII also made six follow-on investments, including in Treebo, a marketplace for budget hotels, and the fintech start-up Lendingkart, which brokers online loans to small and medium-sized companies in more than 900 cities.

In Brazil, BBI continued the establishment of a university network focusing on healthcare education and training with its partner Bozano Investimentos, and increased its stake in Medcel, a provider of online preparatory courses for medical students.

During the reporting period, BDMI made eleven new investments, including in the video company Wibbitz and the charity platform Omaze. At the same time, the fund made several follow-on investments, including in the next-generation publisher Clique Media.

Through their work, all the funds helped to identify innovative and digital trends for the Group and further strengthen Bertelsmann's position as an attractive business partner. Since 2012, the four investment funds have collectively invested more than €600 million in future-oriented companies.

General Statement by Company Management on the Economic Situation

Over the financial year 2017, Bertelsmann's businesses posted positive overall development. The Group increased its revenues, operating EBITDA and Group profit year on year and in some cases exceeded the expectations expressed at the start of the year. Bertelsmann also made good progress with its transformation into a faster-growing, more digital, more international and more diversified Group.

Group revenues in the reporting period rose slightly by 1.4 percent to €17.2 billion from €17.0 billion in the previous year and were therefore in line with the estimates put forward (outlook in 2016 Annual Report: slight increase in revenues). The organic revenue growth was 1.7 percent. Operating EBITDA recorded a positive deviation from the outlook, increasing to €2,636 million from €2,568 million in the previous year (outlook in 2016 Annual Report: stable development), attributable among other things to a capital gain of €94 million from the sale of buildings in Paris. At €121 million, the BVA used for Group management was considerably below the previous year's figure of €147 million (outlook in 2016 Annual Report: strongly declining BVA). The expected development reflects the strong increase in the average level of capital invested, primarily due to investments, which overcompensated for the positive effect of an improved operating result.

In the financial year 2017, the Executive Board continued to focus on the four strategic priorities: strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions. For example, the core businesses were strengthened in particular through the merger of RTL Radio France and Groupe M6, the shareholding increase in Penguin Random House to 75 percent, and Gruner + Jahr's ongoing focus on the core markets in Germany and France. The Group also pushed forward with the digital transformation at RTL Group through the full takeover of SpotX and strong growth in the online video segment at RTL Group, among other things. The expansion of the growth platform BMG includes the acquisition of the company BBR Music Group and other investments and artist signings. In education, Relias continued to expand its business organically and through the acquisition of WhiteCloud Analytics. Further new and follow-up investments were made in the growth regions.

Net assets and financial position remain solid despite the increased economic debt. Despite the financing of the shareholding increase in Penguin Random House, the leverage factor during the reporting period was 2.5, which is in line with the previous year's level. As of December 31, 2017, the cash and cash equivalents reported at €1.4 billion (December 31, 2016: €1.4 billion) represent sufficient liquidity. The ratings agencies Moody's and S&P continued to rate Bertelsmann as "Baa1" and "BBB+," respectively, with a stable outlook. Overall, Bertelsmann ended the financial year 2017 with a successful performance and has a solid financial basis.

Alternative Performance Measures

In this Combined Management Report, the following Alternative Performance Measures, which are not defined in accordance with IFRS, are used to explain the results of operations and/or net assets and financial position. These should not be considered in isolation but as complementary information for evaluating Bertelsmann's business situation and are differentiated in terms of strictly defined and broadly defined key performance indicators, in the same way as the value-oriented management system.

The organic growth is calculated by adjusting the reported revenue growth for the impact of exchange rate effects and corporate acquisition and disposals. When determining the exchange rate effects, the functional currency that is valid in the respective country is used. The other effects include changes in methods, for example.

Organic revenue growth

in percent	2017	2016
Organic revenue growth	1.7	0.9
Exchange rate effects	(1.0)	(1.3)
Portfolio and other effects	0.7	(0.7)
Reported organic revenue growth	1.4	(1.1)

Operating EBITDA

in € millions	2017	2016
EBIT (earnings before interest and taxes)	1,896	1,799
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment	691	632
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(34)	(2)
Special items	83	139
attributable to: RTL Group	10	(7)
attributable to: Penguin Random House	39	38
attributable to: Gruner + Jahr	48	30
attributable to: BMG	10	8
attributable to: Arvato	28	51
attributable to: Bertelsmann Printing Group	5	7
attributable to: Bertelsmann Education Group	50	17
attributable to: Bertelsmann Investments	(144)	(35)
attributable to: Corporate/Consolidation	37	30
Operating EBITDA	2,636	2,568

Operating EBITDA

Operating EBITDA is determined as earnings before interest, tax, depreciation, amortization and impairment losses and is adjusted for special items. The adjustments for special items serve to determine a sustainable operating result that could be repeated under normal economic circumstances and is not affected by special factors or structural distortions. These special items primarily include impairment losses and reversals of impairment losses, remeasurements, restructuring expenses and/or results from disposals of investments. This means that operating EBITDA is a meaningful performance indicator. Disposal effects of strategic real estate transactions are not included in the special items.

BVA

BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value orientation is reflected in strategic investment, portfolio planning and the management of Group operations and, together with qualitative criteria, provides the basis for measuring the variable portion of management remuneration. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. NOPAT is determined by deducting depreciation and amortization, provided that they are not included in special items, and a flat 33 percent tax. Cost of capital is the product of the weighted average cost of capital (WACC) and the average

BVA

in € millions	2017	2016 (adjusted)
Operating EBITDA	2,636	2,568
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(657)	(630)
Operating EBIT	1,979	1,938
Flat taxes (33 percent)	(653)	(640)
NOPAT (Net Operating Profit After Tax)	1,326	1,298
Average invested capital	15,062	14,383
Cost of capital (8 percent)	1,205	1,151
BVA	121	147
Correction BVA Bertelsmann Investments	42	33
BVA (as of 2018 used methodology)	163	180

Cash Conversion Rate

in € millions	2017	2016
Cash flow from operating activities	1,642	1,954
Income taxes paid	434	234
Change in provisions for pensions and similar obligations	84	55
Investments in intangible assets and property, plant and equipment (less proceeds from the sale of non-current assets)	(489)	(610)
Further adjustments	151	166
Operating free cash flow	1,822	1,799
Operating EBTIDA	2,636	2,568
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	657	630
Operating EBIT	1,979	1,938
Cash Conversion Rate (in percent)		
Operating free cash flow / Operating EBIT	92	93

level of capital invested. The uniform WACC after taxes is 8 percent. The average invested capital is calculated quarterly on the basis of the Group's operating assets less non-interest-bearing operating liabilities. In addition, 66 percent of the net present value of the operating leases is considered in the calculation of invested capital plus other commitments from technical broadcasting facilities. BVA is determined from financial year 2018 onward without taking into account the Bertelsmann Investments division. Bertelsmann Investments' business performance is essentially measured by EBIT and therefore no NOPAT contribution occurs for this division. To maintain consistency, the invested capital will be adjusted for the Bertelsmann Investment division; hence, capital costs will be neutralized.

Cash Conversion Rate

The cash conversion rate serves as a measure of cash generated from business activities and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free

cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets and property, plant and equipment or, if applicable, increased by proceeds from the sale of non-current assets. Further adjustments are made to ensure an allocation of capital flows to the relevant periods and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with the operating EBITDA. Further adjustments in the financial year 2017 mainly reflected the impact of restructuring measures on payments. The operating EBITDA is used to calculate the operating EBIT by deducting amortization and depreciation, provided that these are not included in special items. The Group aims to maintain a cash conversion rate of 90 percent to 100 percent as a long-term average.

Economic Debt

in € millions	2017	2016
Gross financial debt	4,919	3,998
Less cash and cash equivalents	(1,440)	(1,373)
Net financial debt	3,479	2,625
Less 50 percent of the par value of the hybrid bonds	(625)	(625)
Provisions for pensions	1,685	1,999
Profit participation capital	413	413
Net present value of operating leases	1,261	1,501
Economic debt	6,213	5,913

Leverage Factor

in € millions	2017	2016
Economic debt	6,213	5,913
Modifications	125	199
Economic debt ^{LF}	6,338	6,112
Operating EBITDA	2,636	2,568
Modifications	(99)	(101)
Operating EBITDA ^{LF}	2,537	2,467
Leverage Factor: Economic debt^{LF}/ Operating EBITDA^{LF}	2.5	2.5

Economic Debt

Net financial debt is calculated on the basis of gross financial debt, which comprises the balance sheet items current and non-current financial debt minus cash and cash equivalents. Economic debt is defined as net financial debt less the 50 percent par value component of the hybrid bonds plus provisions for pensions, profit participation capital and the net present value of operating leases. In calculating economic debt, the hybrid bonds are accounted for at 50 percent as both bonds are classified by the rating agencies as 50 percent equity. Economic debt is modified for the purposes of calculating the leverage factor.

Leverage Factor

One of the financial targets is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA and limited to the defined maximum of 2.5. In determining the leverage factor, the economic debt and the operating EBITDA are modified to enable financial management that corresponds to the Group's structure and its tolerable indebtedness. The modifications in regard to the economic debt largely relate to cash and cash equivalents, which are tied up in the Group while the modifications in regard to the operating EBITDA address the Group's structure and its co-shareholder shares. The leverage factor determined in this way is thus always more conservative than the figure that would be obtained using only the items recognized in the balance sheet.

Significant Events After the Balance Sheet Date

On January 16, 2018, Thomas Buberl was appointed as a new member of the Supervisory Board of Bertelsmann SE & Co. KGaA with immediate effect.

At the end of January 2018, Bertelsmann announced that it was looking at various options for the further development of Arvato CRM Solutions. The options include partnerships and the complete or partial sale of the CRM businesses. The process will not include Arvato's CRM business in French-speaking countries, which in the future will be managed by Bertelsmann. The process will take several months to complete.

Risks and Opportunities

Risk Management System

The purpose of the Bertelsmann risk management system (RMS) is the early identification and evaluation of, as well as response to, internal and external risks. The internal control system (ICS), an integral component of the RMS, monitors the effectiveness of the risk response measures that have been implemented. The aim of the RMS is to identify, at an early stage, material risks to the Group so that risk response measures can be taken and controls implemented. Risks are possible future developments or events that could result in a negative deviation from outlook or objective for Bertelsmann. In addition, risks can negatively affect the achievement of the Group's strategic, operational, reporting and compliance-related objectives and its reputation.

The risk management process is based on the internationally accepted frameworks of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Enterprise Risk Management – Integrated Framework and Internal Control – Integrated Framework, respectively) and is organized in subprocesses of identification, assessment, response, control, communication and monitoring. A major element of risk identification is a risk inventory that lists significant risks year by year, from the profit center level upward. These risks are aggregated step by step at the division and Group levels. This ensures that risks are registered where their impact would be felt. There is also a Group-wide reassessment of critical risks every six months and quarterly reporting in case the risk situation has changed. Ad hoc reporting requirements ensure that significant changes in the risk situation during the course of the year are brought to the attention of the Executive Board. The risks are compared to risk management and control measures to determine the net risk position. Both one- and three-year risk assessment horizons are applied to enable the timely implementation of risk response measures. The basis for determining the main Group risks is the three-year period, similar to medium-term corporate planning. Risk assessment is the product of the estimated negative impact on Group free

cash flow should the risk occur and the estimated probability of occurrence. Risk monitoring is conducted by Group management on an ongoing basis. The RMS, along with its component ICS, is constantly undergoing further development and is integrated into ongoing reporting to the Bertelsmann Executive Board and Supervisory Board. Corporate and Divisional Risk Management Committee meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

The Group auditors inspect the risk early-warning system for its capacity to identify developments early on that could threaten the existence of Bertelsmann SE & Co. KGaA according to section 91(2) of Germany's Stock Corporation Act (AktG) and then report their findings to the Supervisory Board of Bertelsmann SE & Co. KGaA. Corporate Audit conducts ongoing reviews of the adequacy and functional capability of the RMS in all divisions apart from RTL Group. RTL Group's RMS is evaluated by the respective internal auditing department and by the external auditor. Any issues that are identified are promptly remedied through appropriate measures. The Bertelsmann Executive Board defined the scope and focus of the RMS based on the specific circumstances of the company. However, even an appropriately designed and functional RMS cannot guarantee with absolute certainty that risks will be identified and controlled.

Accounting-Related Risk Management System and Internal Control System

The objectives of the accounting-related RMS and ICS are to ensure that external and internal accounting are proper and reliable in accordance with applicable laws and that information is made available without delay. Reporting should also present a true and fair view of Bertelsmann's net assets, financial position and results of operation. The following statements pertain to the Consolidated Financial Statements (including the "Notes" to the "Consolidated Financial Statements" and "Combined Management Report" sections), interim reporting and internal management reporting.

The ICS for the accounting process consists of the following areas: The Group's internal rules for accounting and the preparation of financial statements (e.g., IFRS manual, guidelines and circulars) are made available without delay to all employees involved in the accounting process. The Group financial statements are prepared in a reporting system that is uniform throughout the Group. Extensive automatic system controls ensure the consistency of the data in the financial statements. The system is subject to ongoing development

through a documented change process. Systematized processes for coordinating intercompany transactions serve to prepare the corresponding consolidation steps. Circumstances that could lead to significant misinformation in the Consolidated Financial Statements are monitored centrally by employees of Bertelsmann SE & Co. KGaA and by RTL Group (for the preconsolidated subgroup) and then verified by external experts as required. Central contact persons from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with local subsidiaries to ensure IFRS-compliant accounting as well as compliance with reporting deadlines and obligations. These preventive measures are supplemented by specific controls in the form of analyses by the Corporate Financial Reporting department of Bertelsmann SE & Co. KGaA and RTL Group (for the preconsolidated subgroup). The purpose of such analyses is to identify any remaining inconsistencies. The controlling departments at the Group and division levels are also integrated into the internal management reporting. Internal and external reporting are reconciled during the quarterly segment reconciliation process. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The findings of the external auditors, Corporate Audit and the internal auditing department of RTL Group are promptly discussed with the affected companies and solutions are developed. An annual self-assessment is conducted to establish reporting on the quality of the ICS in the key fully consolidated Group companies. The findings are discussed at the divisional level. Like the RMS, each ICS cannot guarantee with absolute certainty that significant misinformation in the accounting process can be prevented or identified.

Corporate Audit and the internal auditing department of RTL Group evaluate the accounting-related processes as part of their auditing work. As part of the auditing process, the Group auditor also reports to the Audit and Finance Committee of the Bertelsmann SE & Co. KGaA Supervisory Board about any significant vulnerabilities of the accounting-related ICS that were identified during the audit and the findings regarding the risk early-warning system.

Major Risks to the Group

Bertelsmann is exposed to a variety of risks. The major risks to Bertelsmann identified in the risk reporting are listed in order of priority in the table below. In line with the level of possible financial loss, the risks are classified as low, moderate, significant, considerable or endangering, for the purposes of risk

Overview of Major Risks to the Group

Priority	Type of risk	Risk Classification				
		Low	Moderate	Significant	Considerable	Endangering
1	Pricing and discounting			■		
2	Changes in market environment			■		
3	Customer risks			■		
4	Audience and market share			■		
5	Supplier risks			■		
6	Cyclical development of economy			■		
7	Employee-related risks		■			
8	Legal and regulatory risks		■			
9	Financial market risks	■				
10	Technological challenges	■				

Risk classification (potential financial loss in three-year period): low: < €50 million, moderate: < €100 million, significant: < €250 million, considerable: < €500 million, endangering: > €500 million.

■ Existing risks

tolerability. The risk inventory carried out did not identify any risks that would be classified as considerable or endangering.

Given the diversity of the businesses in which Bertelsmann is active and the corresponding diversity of risks to which the various divisions are exposed, the key strategic and operational risks to the Group that have been identified are specified below. Risks from acquisitions and information security risks were identified as the primary risks and are therefore described separately. This is followed by an outline of legal and regulatory risks and financial market risks. These risks are largely managed at the corporate level.

Strategic and Operational Risks

The growth of the global economy noticeably accelerated in 2017. This level of growth is expected to continue in 2018. Bertelsmann's business development is still subject to risks. In particular, the unclear conditions of Brexit and the associated uncertainty could adversely impact Bertelsmann's economic environment and thus increase the risk from economic developments. Since the Brexit decision, Bertelsmann had been continuously monitoring the exit process to identify any risks at an early stage. Among other things, a Brexit Taskforce was established to coordinate information and develop action plans. In the short to medium term, other significant Group risks include pricing and discounting risks, changes in the market environment, customer risks, loss of audience and market share, supplier relationship risks and risks associated with economic development. How these risks develop depends, among other things, to a large extent on changes in customer behavior

due to factors such as the continued digitization of media, the development and implementation of products and services by new or existing competitors, bad debt losses, and default and interference along the production chains in individual sectors, such as IT. Employee-related and legal and regulatory risks are moderate risks for Bertelsmann, while financial market risks and risks from future technological challenges in the three-year period under review are classified as low.

Increasing competition and constant change, particularly in the digital environment, are resulting in a stronger fragmentation of RTL Group's markets as audiences will have more choice (e.g., through online platforms) and, at the same time, the market-entry barriers are being lowered. The possible risks of this for RTL Group are decreasing audience and advertising market shares of its advertising-financed channels and therefore, ultimately, lower revenues. To counter these risks, RTL Group is continuously revising and developing the channels and program strategies – for example, by establishing complementary families of channels and constantly adapting these to international program trends. RTL Group is addressing the risks associated with digitization and is actively helping to shape this trend through a range of investments in the fast-growing online video market and in advertising technology. Increasing competition in the area of program acquisition and TV production and the growing dependence on individual production companies, coupled with the risk of potential cost increases, could also impact RTL Group's ability to generate revenues. This risk is being reduced by expanding the program share of own productions – in particular local content – and signing

long-term contracts with major content providers. Furthermore, economic development directly impacts the TV advertising markets and therefore RTL Group's revenue. This risk is being countered by focusing on developing non-advertising revenue streams such as distribution revenues from platform operators. To reduce the risk of customer losses, active customer relationship management has been established.

Falling e-book sales constitute one risk for Penguin Random House, triggered in particular by falling sales prices and changes to the sales conditions for e-books. Declining sales from physical books, due to declining sales figures and increasing margin pressure in brick-and-mortar book retail, is another risk. Penguin Random House is countering these risks by introducing differentiated pricing, increasing online sales of physical books and continuously examining alternative marketing options. Any risk of bad debt loss is being limited through debtor management and in some cases through credit insurance. In addition, Penguin Random House is finding itself exposed to the risk of cost increases. There are also risks from general economic uncertainty, which could lead to lower sales. Management controls these risks through careful management of supplier relationships and by maintaining a flexible cost structure that allows for a quick response in the event of an economic downturn.

For Gruner + Jahr, besides the risk of a deterioration of the overall market environment and the resulting declines in advertising and circulation revenues, supplier risks represent significant challenges. A changing market environment with price pressure and declining revenues as a result of further concentration in the agency market and more aggressive advertising conditions may lead to falling margins. Furthermore, there is the risk of losing key customers as advertising customers could switch to other media, notably digital media. In France, the ongoing restructuring efforts for the service provider Presstalis could result in higher costs for the publishing houses. Currently the large publishing houses are engaged in negotiations with government representatives over the extent of their share in the restructuring of Presstalis. The risks are being countered by active cost and customer management; development of new, in particular digital, forms of offerings and product, price and quality improvements. Through association work, the Group is responding to the advertising restrictions discussed at the EU level (e.g., car advertising), which could lead to declining advertising revenues.

Risks that affect BMG primarily concern the business structure (including artists/authors and distribution partners), corporate growth (including acquisitions and integrations)

and the scalability of the company (including technical platform and organization). Market risks are addressed through high revenue diversification (clients/catalogs, business segments, regions) and contractual protection clauses (securing the recouping of advances).

Arvato sees itself as particularly exposed to risks from customer and supplier relationships. The potential loss of key customers is being countered through contracts offering comprehensive service packages with simultaneously flexible cost structures. On the supplier side there are risks associated with the quality and availability of goods and services. The same applies to procurement and labor costs where these cannot be passed on to customers. Countermeasures include an active exchange with existing suppliers, entering into long-term framework agreements and monitoring the supplier market. Technological trends arising from the digitization and ongoing automation could in some cases damage the business model and competitiveness in individual customer segments. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By developing the range of services, the aim is to improve the competitive position and to increase customer loyalty through integrated solutions. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. Broad diversification across regions and sectors helps to reduce this risk.

For Bertelsmann Printing Group, customer risks are the most significant risks. In addition, price and margin pressures result from a market environment that is characterized by overcapacity and existing trends toward consolidation. As well as the dependence on a handful of suppliers, there are further risks on the supplier side associated with rising raw material prices – particularly for paper – and with the quality of the raw materials purchased. Furthermore, deterioration in the economic environment also may lead to declining circulations. Similarly, the increasing use of digital media is accelerating the decline in circulation, particularly in the magazine segment. These risk minimization strategies are based, in particular, on the expansion of innovative print services, constantly optimizing cost structures and monitoring markets on an ongoing basis.

For the Bertelsmann Education Group, increasing competition with other online providers, particularly in the US healthcare market, can lead to growing price and margin pressure and impact the planned growth targets. These risks are being countered in particular through strategic partnerships and marketing measures.

The key risks for Bertelsmann Investments consist of falling portfolio valuations and a lack of exit opportunities. These risks are being addressed through a standardized investment process and continuous monitoring of investments.

The increasing pace of change in the markets and in Bertelsmann's business segments means that employees will need to be more willing and able to adapt in the future. There are also continuing demographic risks that impact the recruitment, development and retention of talent as a result of shifts in the age distribution of the workforce. To counteract this, employees are being offered further individual education, comprehensive health programs, a competitive salary and flexible working models. Bertelsmann is also extending its recruitment measures and making it easier for employees to switch jobs within the Group by harmonizing processes and structures.

Acquisition-Related Risks

The Group strategy focuses on acquisitions of businesses and organic growth. The risk of potential mistakes when selecting investments and the allocation of investment funds is limited by means of strict investment criteria and processes. Acquisitions present both opportunities and risks. For example, integration into the Group requires one-time costs that are usually offset by increased benefits in the long term, thanks to synergy effects. The risks here are that the integration costs may be higher than expected or the predicted level of synergies may not materialize. The integration processes are therefore being monitored by management on an ongoing basis.

Information Security Risks

For a global media company like Bertelsmann, the reliability and security of information technology are crucial – and a competitive edge. The ability to provide and process information in a timely, comprehensive, error-free and confidential way is crucial to Bertelsmann's success. Challenges arise, on the one hand, from the many non-standardized internal processes and comparatively fragmented IT system landscapes and on the other hand from external potential risks such as cyberattacks, which are still increasing dramatically in the market and competitive environment. Bertelsmann has responded to the stricter regulatory conditions at management level with an information security management system (ISMS, based on industry standard ISO 27001) that was introduced across the Group in 2014. This includes regular and structured monitoring of compliance

with Group regulations and systematic recording of information security risks and deriving appropriate mitigation measures. Bertelsmann has also responded to the stricter regulatory conditions by introducing specific measures that have a direct impact on IT security. Notable examples include measures to increase e-mail security within the Group and to increase employee awareness of spoof emails (known as phishing). Other important measures include the establishment of an ecosystem of external partners – among other things to gain access to state-of-the-art cybersecurity technologies – and membership in the German cybersecurity organization (DCSO) to promote professional dialogue with other major German companies. In addition, a Group-wide platform has been introduced for measuring and comparing the level of security of all linked systems worldwide and to identify security incidents on these systems.

Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is exposed to a variety of legal and regulatory risks concerning, for example, litigation or varying interpretations of tax assessment criteria. Bertelsmann has television and radio operations in several European countries that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to anti-trust legislation. Moreover, the education activities are subject to regulatory provisions of government authorities and accreditation bodies. Other risks include litigation relating to company acquisitions and disposals, which mainly relate to different interpretations of contract components. These risks are being continuously monitored by the relevant divisions within the Group.

Several subsidiaries of the Group are being sued by broadcaster RTL 2 Fernsehen GmbH & Co. KG and its sales house El Cartel Media GmbH & Co. KG before the regional court in Düsseldorf in Germany seeking disclosure of information in order to substantiate a possible claim for damages. The proceedings succeeded the imposition of a fine in 2007 by the German Federal Cartel Office for the abuse of market dominance with regard to discount scheme agreements ("share deals") IP Deutschland GmbH and SevenOne Media GmbH granted to media agencies. The German Federal Cartel Office argued that these discounts would foreclose the advertising market for small broadcasters. In 2014, the court of Düsseldorf decided to order an expert report.

The expert concluded in February 2018 that the likelihood of damages cannot be proven with certainty. It is assumed that the court will render its judgment in the second half of 2018. This judgment will be open to appeal. Similar proceedings of other small broadcasters initiated in different courts were unsuccessful or have been withdrawn.

In June 2016, the main competitors of Fun Radio alleged that a host of the morning show had influenced Fun Radio's audience results by encouraging his listeners to give favorable treatment to Fun Radio in the Médiamétrie surveys. In response to these allegations, Médiamétrie decided to remove Fun Radio from its surveys. Following a legal procedure initiated by Fun Radio, Médiamétrie was required to reinstate Fun Radio in the audience results surveys as from September 2016. Nevertheless, Médiamétrie decided to lower Fun Radio's audience results in its published surveys, alleging the existence of a "halo effect." Following a procedure initiated by Fun Radio, a judicial expert was appointed in December 2017 to examine Médiamétrie's assessment of the alleged "halo effect." In any case, as from September 2017, Médiamétrie has again published the full audience results for Fun Radio. In parallel to the above procedure, the main competitors of Fun Radio also filed, in December 2016, a claim for damages, claiming unfair competition. However, in the meantime, two of the claimants withdrew their claim and from the proceedings. The rest of the procedure is currently still ongoing.

Foreign direct investments in the People's Republic of China are subject to a number of regulatory restrictions. To satisfy local requirements, some of Bertelsmann's activities in China are owned by trust structures. Agreements have been signed with these trust structures to secure Bertelsmann's rights. These types of arrangements (known as "VIE" structures) are standard market practice for investments in China. However, these structures are rarely the subject of legal disputes in China, which means that there is a certain risk that it will not be possible to safeguard VIE structures through the courts particularly if the People's Republic changes its policies toward investments by foreigners (particularly in respect to VIE structures) or if courts and authorities change their case law or administrative practice. In 2015 the "PRC Foreign Investment Law" was revised by the Chinese Ministry of Economic Affairs and is now being discussed politically. The current draft stipulates that foreign investments in China shall be regulated via a "negative list" which will count the limited number of possible investments and those that are prohibited in particular industries and will also include a ban on VIE structures. In the past, however, such harsh measures

have only been reported in exceptional cases. By contrast, observers are anticipating solutions that will only have a minor impact on the Chinese economy. This affects companies within Fremantle Media, BMG, Arvato and the Bertelsmann Education Group as well as investments by Bertelsmann Asia Investments (BAI).

Aside from the matters outlined above, no further significant legal and regulatory risks to Bertelsmann are apparent at this time.

Financial Market Risks

As an international corporation, Bertelsmann is exposed to various forms of financial market risk, especially interest rate and currency risks. These risks are largely controlled by the Central Financial Department on the basis of guidelines established by the Bertelsmann Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann mainly uses currency derivatives to hedge existing foreign currency risks from intercompany financing and operating liabilities. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount being adapted over time. A number of subsidiaries are based outside the eurozone. The resulting translation risk to the leverage factor is managed based on economic debt in relation to operating EBITDA (leverage factor). Bertelsmann's long-term focus is on the maximum leverage factor permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. The cash flow risk from interest rate changes is centrally monitored and controlled as part of interest rate management. The aim is to achieve a balanced ratio of different fixed interest rates through the selection of appropriate maturity periods for the originated financial assets and liabilities affecting liquidity and through the ongoing use of interest rate derivatives. The liquidity risk is regularly monitored on the basis of the budget planning. The syndicated loan and appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in respect to invested cash and cash equivalents and in an amount equivalent to the positive fair value from existing derivatives and are exclusively conducted with a defined group of banks with an impeccable credit rating. Within the guidelines, a risk limit specified by the Bertelsmann Executive Board has been issued for financial assets and derivatives for each counterparty. Compliance with this limit is regularly monitored by the Central Financial Department. The guidelines concerning the investment of cash and cash equivalents are continuously monitored and extended if necessary.

Financial investments are made on a short-term basis so that the investment volume can be reduced if the credit rating changes. Overall, the financial market risks are estimated as low.

General Statement on the Risk Situation

The risks identified in the financial year 2017 are not endangering. Neither are there any substantial risks discernible that could threaten the existence of the Group.

The overall risk situation is slightly above the previous year's level. The major risks to the Group have not changed compared to the previous year. In particular, pricing and discounting risks, a changing market environment and customer and supplier relationship risks, and volatile economic development still constitute the key Group challenges. However, as a result of the diversification of Group businesses, there are no concentration risks stemming from dependency on individual business partners or products in either procurement or sales. The Group's financial position is solid, with liquidity needs covered by existing liquidity and available credit facilities.

Opportunity Management System

An efficient opportunity management system enables Bertelsmann to secure its corporate success in the long term and to exploit potential in an optimal way. Opportunities are possible future developments or events that could result in a positive deviation from outlook or objective for Bertelsmann. The opportunity management system, like the RMS, is an integral component of the business processes and company decisions. During the strategy and planning process, significant opportunities are determined each year from the profit center level upward, and then aggregated step by step at the division and Group levels. By systematically recording them on several reporting levels, opportunities that arise can be identified and exploited at an early stage. This also creates an interdivisional overview of Bertelsmann's current opportunities. A review of major changes in opportunities is conducted at the divisional level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group to derive synergies through targeted cooperation in the individual divisions. The interdivisional experience transfer is reinforced by regular meetings of the GMC.

Opportunities

While the above-mentioned opportunities associated with positive development may be accompanied by corresponding

risks, certain risks are entered into in order to be able to exploit potential opportunities. This link to the key Group risks offers strategic, operational, legal, regulatory and financial opportunities for Bertelsmann.

Strategic opportunities can be derived primarily from the Group's four strategic priorities. Strengthening core businesses, driving forward the digital transformation, developing growth platforms and expanding in growth regions constitute the most important long-term growth opportunities for Bertelsmann (see the "Strategy" section). In particular, there are opportunities in some cases for exploiting synergies as a result of the strategic portfolio expansions. There are individual operating opportunities in the individual divisions in addition to the possibility of more favorable economic development.

For RTL Group, a better-than-expected development of the TV advertising markets and higher audience and advertising market shares are major opportunities. Furthermore, the increasing digitization and fragmentation of the media landscape are opening up opportunities. Professionally produced content can be distributed across multiple platforms nationally and internationally. New revenue streams could be generated by exploiting existing TV content across different platforms and by creating native digital content. Also, with an increased presence in the digital sector, RTL Group could increase online video advertising sales on all devices and TV platforms and establish pay models in the on-demand business. In this way, new advertising sales could be generated through the offering of new interactive or targeted forms of advertising (HbbTV, IPTV or mobile television). As an established content producer with a global presence, RTL Group could further expand its digital distribution through multichannel networks and digital streaming platforms.

Penguin Random House is the world's largest trade book publisher. Its position enables the publishing group to attract new authors and book projects to potentially grow its market share. The group is well positioned to invest in emerging and multilingual markets to take advantage of increasing interest in long-form reading, and to thereby offer its content to the widest possible readership. The digital evolution transforming book markets offers the potential for new product development and for broader and more efficient marketing channels. Digital enhancements could make books more widely appealing, while new online tools and platforms can expand and enhance author engagement with the audience.

For Gruner + Jahr, better development of the advertising and sales markets represents significant opportunities. The transformation is providing further opportunities due to the development of new businesses related to the published brands. There are opportunities for growth, particularly in the development and expansion of digital activities and in cooperation with other publishers and marketers. There are also opportunities for developing additional services, such as commerce and paid services. In terms of marketing, G+J could gain new customers through new forms of advertising in the online, mobile and video media channels.

BMG anticipates further growth opportunities both through additional signings of artists and songwriters and through further takeovers of music rights catalogs, which could be managed on the existing platform at marginal cost. The accelerated market penetration of music streaming services also offers the opportunity for expansion of the recorded music and music publishing markets at an international level.

At Arvato, interdivisional cooperation and major projects can provide additional opportunities for acquiring new customers. The global e-commerce market will continue its dynamic growth over the next few years. Arvato could participate significantly in this growth through new services, particularly those offered by the Solution Groups SCM and Financial Solutions. Further growth opportunities from the ongoing digitization lie in the development of innovative IP-based and cloud-based IT services.

The Bertelsmann Printing Group businesses may decline less steeply through additional volumes of existing and new customers. This would provide opportunities from the targeted servicing of market segments that are still growing. There could also be a further consolidation of competitors, which could result in an additional strengthening of Bertelsmann Printing Group's own market position.

The education business is being developed as Bertelsmann's third earnings pillar, alongside the media and service businesses. A further shift away from the traditional classroom-based delivery methods toward online and skill-based training could offer further growth opportunities for the education business. The growing online education market also offers organic growth opportunities for Bertelsmann Education Group businesses. Relias has the potential to grow through the expansion of employee assessment and data analytics products, and through internationalization. Owing to the lack of skilled workers and the ongoing demand for further education in the technology sector, Udacity has

opportunities to develop into a premium brand in the area of IT and technology training.

For the Bertelsmann Investments fund activities, there is the opportunity to realize higher-than-expected profits, thanks to increasing portfolio valuations or through the disposal of investments.

The current innovation efforts detailed in the "Innovations" section offer further potential opportunities for the individual divisions.

Other opportunities could arise from changes to the legal and regulatory environment.

The financial opportunities are largely based on a favorable development of interest and exchange rates from Bertelsmann's point of view.

Outlook

Anticipated Overall Economic Development

Bertelsmann anticipates that economic conditions will develop as follows in 2018. The solid global economic growth will continue. The Kiel Institute for the World Economy (IfW) estimates that global production will increase by 3.9 percent in 2018, compared to 3.8 percent in 2017. The increases in growth are expected to be spread evenly across industrial and emerging countries. Risks to the global economy arise in particular from the financial environment and from uncertainties over a possible normalization of monetary policy.

The economic upturn in the eurozone is set to continue. It is therefore expected that the increase in real GDP in 2018 of 2.3 percent will be similar to last year. The economic recovery in Germany is expected to continue over the coming year. This positive outlook is based on a consumer climate that is likely to remain good, coupled with increasing investment activity. The IfW expects GDP to grow by 2.5 percent in real terms. The growth rate in France is expected to be 2.0 percent in real terms. In the United Kingdom the growth of real GDP is likely to remain relatively modest at just 1.4 percent. The subdued growth expectations reflect the significant uncertainty over the outcome of the Brexit negotiations and future economic relations. Moreover, the devaluation of the local currency after the referendum on EU membership is having an increasingly adverse effect on the consumer climate. For the United States, real economic growth of 2.5 percent is expected.

Anticipated Development in Relevant Markets

The worldwide media industry is primarily influenced by global economic developments and the resulting growth dynamic. The continued trend toward digitization of content and distribution channels, changes in media usage and the increasing influence of emerging economies will continue to present risks and opportunities in the years to come. Through the intended transformation of the Group portfolio in line with the four strategic priorities, Bertelsmann expects to benefit to an increasing extent from the resulting opportunities. Through its businesses, Bertelsmann operates in a variety of different markets and regions whose developments are subject to a range of factors and that do not respond in a linear fashion to overall economic tendencies. The following takes into account only those markets and regions that are large enough to be relevant for forecasting purposes and whose expected development can be appropriately aggregated and evaluated or that are strategically important from a Group perspective.

For 2018 the European TV advertising markets are expected to remain stable or grow at a moderate rate, apart from the Netherlands where a moderate decline is anticipated. In the book markets, an overall stable development is expected. In the magazine business, the strong decline in the print advertising and circulation markets in Germany and France will persist in 2018, while continued strong growth is expected in the digital segment. For 2018, continuing moderate growth of the global music market is expected in the publishing rights segment. At the same time, significant growth is anticipated in the recording rights segment. In 2018, the services markets are expected to achieve growth similar to the previous year. The gravure printing market in 2018 is likely to show an ongoing significant decline. Continued stable development is expected however for the offset market in Europe and the book printing market in North America. Overall, sustained strong growth is anticipated for the relevant US education markets.

Expected Business Development

The global economy is on a moderate growth path. However, economic prospects continue to be subject to certain risks. The following expectations are therefore based on the assumption that the recovery of the overall economic situation will continue and that most of the forecasted market developments and the economic predictions of the research institutions will be realized.

For the financial year 2018, Bertelsmann anticipates that business development will be driven by the stable to slightly

positive market expectations for the European TV advertising markets, by stable book markets, and by continuously growing service and music markets. The growth stimuli created through strategic portfolio expansions will continue to have a positive impact on Bertelsmann's growth profile.

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the basis of the expected business development. With revenue and earnings share within the eurozone expected at around two-thirds, the extent of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore predicts that GDP in the eurozone will increase by 2.3 percent in real terms and that the International Monetary Fund will increase by 2.2 percent for 2018. In view of these economic expectations, Bertelsmann expects Group revenues to show a moderate increase in the financial year 2018. Not including the capital gains from strategic real estate transactions realized for the financial year 2017, stable development of operating EBITDA is anticipated for the financial year 2018. If these gains are included, however, operating EBITDA is expected to decline moderately in the financial year 2018. The average level of capital invested will continue to increase in the financial year 2018 as a result of acquisitions made and the organic expansion of growth businesses. Compensating effects from earnings contributions are not expected to materialize for some time. Consequently, a strong fall in BVA is still expected for the Group. The same applies for BVA calculated by from financial year 2018 onward implemented methodology. These expectations are based on operational planning and the medium-term outlook for the corporate divisions, assuming that exchange rates remain constant.

At present, the expected performance of any individual unit of key significance for the Bertelsmann Group is not expected to deviate significantly from that of the Group.

Depending on how the economy develops, Bertelsmann does not currently anticipate interest rate changes to have any material impact on the average financing costs of medium- to long-term financing. The liquidity situation in the forecast period is expected to be sufficient.

These forecasts are based on Bertelsmann's business strategy, as outlined in the "Corporate Profile" section. In general, the forecasts reflect careful consideration of risks and opportunities. All statements concerning potential economic and business developments represent opinions advanced on

the basis of the information that is currently available. Should underlying assumptions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

Notes to the Financial Statements of Bertelsmann SE & Co. KGaA (in accordance with HGB, German Commercial Code)

In addition to the Group reporting, the business development of Bertelsmann SE & Co. KGaA is outlined below. Bertelsmann SE & Co. KGaA is a parent company and a management holding company of the Bertelsmann Group. Its tasks include management functions for the Bertelsmann Group as well as the management of its investments and financing. There are also service functions for individual divisions within the Corporate Center. It also bears the tax liability for most of the subsidiaries in Germany. The position of Bertelsmann SE & Co. KGaA is essentially determined by the business success of the Bertelsmann Group.

The Annual Financial Statements of Bertelsmann SE & Co. KGaA, in contrast to the Consolidated Financial Statements, have not been prepared in accordance with the International Financial Reporting Standards (IFRS) but in accordance with the regulations of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act (AktG).

Results of Operations of Bertelsmann SE & Co. KGaA

The results of operations of Bertelsmann SE & Co. KGaA will continue to be significantly affected by the amount of income from other participations, due to that company's role as the parent company of the Bertelsmann Group. The decrease in net income to €363 million (previous year: €450 million) is primarily attributable to the lower income from other participations and higher tax expenses. This development was partially offset by higher other operating income.

The increase in other operating income is attributable to increased write-ups recognized on the shares in Bertelsmann Inc., Wilmington, of €67 million and currency gains.

The downward trend in the income from participations from €857 million to €687 million is primarily attributable to income from profit and loss transfer agreements. Firstly, this development is the result of the absence of the positive special effects of the 2016 financial year in connection with the new accounting rules of the law "Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften." Secondly, the income from subsidiaries is negatively impacted by write-downs of long-term financial assets in the 2017 financial year.

In addition to higher taxable income, the increase in tax expenses from €-131 million to €-198 million is the result of the complete use of the corporate income tax loss carryforward in the previous year.

Income Statement of Bertelsmann SE & Co. KGaA in accordance with HGB

in € millions	2017	2016
Revenues	105	104
Other operating income	311	180
Cost of materials	(28)	(26)
Personnel costs	(143)	(134)
Amortization, depreciation and write-downs	(17)	(16)
Other operating expenses	(194)	(188)
Income from other participations	687	857
Interest income	(80)	(131)
Write-downs of long-term financial assets	(79)	(59)
Taxes on income	(198)	(131)
Earnings after taxes	364	456
Other taxes	(1)	(6)
Net income	363	450
Income brought forward from previous year	462	402
Transfer to retained earnings from net income	(160)	(210)
Unappropriated income	665	642

Balance Sheet of Bertelsmann SE & Co. KGaA in accordance with HGB (Summary)

in € millions	12/31/2017	12/31/2016
Assets		
Fixed assets		
Intangible and tangible assets	377	358
Financial assets	16,702	14,714
	17,079	15,072
Current assets		
Receivables and other assets	3,562	4,067
Securities, cash and cash equivalents	520	326
	4,082	4,393
Prepaid expenses and deferred charges	21	17
	21,182	19,482
Liabilities		
Equity	9,505	9,322
Provisions	498	484
Liabilities	11,177	9,673
Deferred income	2	3
	21,182	19,482

Net Assets and Financial Position of Bertelsmann SE & Co. KGaA

The total assets of Bertelsmann SE & Co. KGaA increased from €19,482 million to €21,182 million. A high ratio of equity (45 percent) and long-term financial assets (79 percent) to total assets continues to dictate the performance of the net assets and financial position.

The increase in long-term financial assets of €1,267 million concerns the medium- and long-term loans granted to Bertelsmann, Inc., Wilmington, which are presented as loans to affiliated companies. To a significant degree, the loans granted are the result of converting short-term receivables due from Bertelsmann, Inc., Wilmington. The receivables due from affiliated companies decreased by a corresponding amount compared to the previous year. In addition, the carrying amount of investments in affiliated companies increased by €588 million mainly in connection with the contributions to subsidiaries. In the 2017 financial year, contributions are primarily concerning Bertelsmann Capital Holding GmbH, Gütersloh, and the Gruner + Jahr GmbH & Co KG, Hamburg.

The equity increased as a result of the net income of the reporting year by €363 million and decreased by €180 million as a result of distributions to shareholders. The increase in liabilities to €11,177 million (previous year: €9,673 million) includes €650 million from bonds and promissory notes as a result of issuing one new bond and

one new promissory note. In addition, liabilities to affiliated companies increased by €633 million. The amount of the loans granted by subsidiaries to Bertelsmann SE & Co. KGaA is affected by the development of the financial position of these subsidiaries.

Risks and Opportunities for Bertelsmann SE & Co. KGaA

As Bertelsmann SE & Co. KGaA is largely linked to the Bertelsmann Group companies, among other things through the financing and guarantee commitments as well as through direct and indirect investments in the subsidiaries, the situation of Bertelsmann SE & Co. KGaA in terms of risks and opportunities is primarily dependent on the risks and opportunities of the Bertelsmann Group. In this respect, the statements made by corporate management concerning the overall assessment of the risks and opportunities also constitute a summary of the risks and opportunities of Bertelsmann SE & Co. KGaA (see the "Risks and Opportunities" section).

Outlook for Bertelsmann SE & Co. KGaA

As the parent company of the Bertelsmann Group, Bertelsmann SE & Co. KGaA receives dividend distributions from its subsidiaries as well as income from services provided to them. Consequently, the performance of Bertelsmann SE & Co. KGaA is primarily determined by the business performance of the Bertelsmann Group (see the "Outlook" section).

Dependent Company Report (Statement in accordance with Section 312 of the German Stock Corporation Act (AktG))

The Executive Board of Bertelsmann Management SE, as general partner of Bertelsmann SE & Co. KGaA, has submitted a voluntary report to the Supervisory Board of Bertelsmann SE & Co. KGaA in accordance with sections 278 (3) and 312 (1) of the German Stock Corporation Act, in which it outlines its relationships with affiliated companies for the financial year 2017. The Executive Board hereby declares that Bertelsmann SE & Co. KGaA received adequate consideration in return for each and every legal transaction under the circumstances known at the time that the transactions were undertaken.

Combined Non-Financial Statement

The following information relates to Bertelsmann SE & Co. KGaA and the Bertelsmann Group ("Bertelsmann") with its incorporated, fully consolidated subsidiaries ("subsidiaries").

Bertelsmann operates in the core business fields of media, services and education in around 50 countries (cf. section "Company Profile"). Responsible conduct – in business, toward employees, in society and in dealing with the environment – is firmly anchored in Bertelsmann's corporate culture. In its corporate responsibility management, Bertelsmann pursues the goal of reconciling its economic interests with social and environmental concerns within the Group and beyond.

To identify relevant topics and describe concepts, the GRI Standards 2016 specified by the Global Reporting Initiative (in particular standards 102 and 103) were used to produce the Group Non-Financial Statement. In addition, a voluntary CR report based on the GRI Standards (2016; Option "core") will be published by the middle of the financial year.

Company Principles and Guidelines

The prerequisites for a corporate culture in which employees, management and shareholders work together successfully, respectfully and in a spirit of trust are common goals and shared values. These are enshrined in the corporate constitution and in the four Bertelsmann Essentials: partnership, entrepreneurship, creativity and corporate citizenship. Furthermore, the Bertelsmann Code of Conduct – as a binding guideline – defines standards for law-abiding and ethically

responsible conduct within the company and toward business partners and the public. The sense of purpose embodied in the triad "To Empower. To Create. To Inspire." also provides orientation for the company's staff and partners.

Bertelsmann's actions are also determined by external guidelines. The company largely follows the recommendations of the German Corporate Governance Code for good and responsible corporate governance and the OECD Guidelines for Multinational Enterprises. Bertelsmann is committed to the principles of the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights, and the International Labor Organization core labor standards. Since 2008, Bertelsmann has also supported the 10 principles of the United Nations Global Compact as an active participant.

Corporate Responsibility Management

Organization

The advisory body for the strategic development of corporate responsibility at Bertelsmann is the CR Council. The CR Council is made up of the Chief Human Resources Officer (CHRO) and representatives from the corporate divisions and focuses on the Group-wide CR objectives in line with the corporate strategy and the cross-divisional coordination of CR activities within the Group.

At the Group level, the Corporate Responsibility & Diversity Management department coordinates and supports the work of the CR Council in close cooperation with the other Group functions. Within the decentralized Bertelsmann corporate structure, the local management teams are responsible for implementing corporate responsibility through specific CR measures and projects. The corporate divisions and companies have their own structures and processes in place for this, in accordance with local requirements.

Topics

To identify key CR topics, Bertelsmann carries out regular CR relevance analyses. In 2017, the company conducted a survey of internal and external stakeholders. The external stakeholders estimated the impact of Bertelsmann's business activity on the topics, while the internal stakeholders assessed their business relevance. This made it possible to identify topics of relevance to Bertelsmann relating to environmental, social and employee matters, respect for human rights, anti-corruption

and bribery matters. The topics are analyzed within the company boundaries, unless otherwise stated.

Corporate responsibility topics, including non-financial performance indicators, are not part of Bertelsmann's value-oriented management system. Due to limited measurability, no directly quantifiable statements can be made regarding relevant interdependencies and value increases for the Group. For this reason, the non-financial performance indicators are not used for the management of the Group (cf. section "Value-Oriented Management System").

Risks

A number of risks associated with CR topics are relevant for Bertelsmann. These risks can arise from the company's own business activities or from its business relationships, and can affect the company or its environment and stakeholders.

For the non-financial matters defined in the German "CSR Directive Implementation Act" – environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters – no significant risks were reported as part of the 2017 reporting.

For an analysis of the risks that are relevant for Bertelsmann, please see the "Risks and Opportunities" section.

Employee Matters

Motivated employees ensure long-term quality, innovation and growth. HR work at Bertelsmann is therefore based on the company's cooperative identity as codified in the corporate constitution and the Bertelsmann Essentials. Supplementary regulations are specified in Executive Board guidelines on HR work. The CHRO is primarily responsible for dealing with employee matters within the company. He works closely with the HR managers from the corporate divisions who report directly to him via a dotted-line concept. This cooperation is supported by other bodies such as the HR Committee, consisting of the CHRO and representatives from the corporate divisions and the HR Country Coordination Meetings (with the HR managers of the largest subsidiaries – or the subsidiaries with the largest number of employees in the region in question). Divisional Nomination & Compensation Committees decide on the implementation of remuneration and staffing policies in the respective areas of responsibility. In 2017, measures were taken to address the following topics.

Participation

Bertelsmann sees continual dialogue between employees and company management as a fundamental prerequisite to the company's success. As a media company, Bertelsmann is free to determine its political direction as defined in the German Works Constitutions Act (Tendenzschutz) and in this respect is not subject to statutory codetermination within the Supervisory Board. Nevertheless, the employees have five members serving on the Supervisory Board of Bertelsmann SE & Co. KGaA on a voluntary basis: four of these are works council members and one is a member of the Bertelsmann Management Representative Committee. In addition, managers, general workforce, employees with disabilities and trainees all have platforms for exchanging ideas, advancing topics and voicing their concerns. The Bertelsmann Group Dialogue Conference is an event where the CEO, CHRO and members of the Corporate Works Council can exchange ideas. Employees are also involved in the development and improvement of working conditions through standardized HR interview tools (Performance and Development Dialogue, Agreements on Objectives, Team Talk), as well as employee surveys. In 2017, measures were derived at corporate, divisional and Group level from the employee survey conducted in the previous year.

Learning

Highly trained employees are needed to overcome major challenges such as the Group's increasingly international focus, the digital transformation of the media and service landscape, and demographic change. By providing opportunities for lifelong learning, Bertelsmann helps to secure the long-term employability of its employees. With four different campuses – Strategy, Leadership, Function and Individual – Bertelsmann University is the central learning organization within the company. The most important measures implemented in 2017 included the further development of international programs in the areas of leadership, strategy and creativity, and holding strategic summits for the Group-wide finance, HR and IT community. In addition, 2017 saw the launch of a global Data Science Initiative and the continued integration of digital learning content in the various training and degree courses that Bertelsmann offers in Germany.

Diversity

For Bertelsmann, diversity of its workforce is a prerequisite for creativity, innovation and long-term business success.

The diversity strategy focuses on the aspects of gender, generations and nationality. The proportion of women in Bertelsmann talent pools (top management, senior management, career development) shall be increased. This was already considered in the 2017 talent pool nominations. The diversity strategy is implemented by the Corporate Responsibility & Diversity Management department with support from a Group-wide Diversity Working Group. In 2017, the primary focus was on realizing the recommendations from the Bertelsmann Diversity Conference 2016. These included piloting diversity training, management qualifications from Bertelsmann University and taking into account diversity aspects in Corporate Talent Management.

Health

With a view to designing a health-promoting work environment and preventing work-related risks of disease, Bertelsmann is expanding a systematic health management system at German locations. Bertelsmann Health Management has been put in charge of supervising and coordinating the Germany-wide health strategy and associated activities, in conjunction with a cross-functional strategy group. The cross-divisional "Health Community," which is comprised of health experts, works council chairs, Supervisory Board members, HR managers and representatives for employees with disabilities, plays a key role here. Through targeted networking, it also helps to reinforce uniform standards that Bertelsmann Health Management is seeking to apply to all German locations. In the medium term, the internationalization of Bertelsmann Health Management shall continue.

Fair Working Conditions

At Bertelsmann, remuneration issues are an essential part of the topic of fair working conditions. The policy is to establish consistent and transparent remuneration structures in the Group. The design of the compensation system is intended to ensure that remuneration is driven by market, function and performance, taking into account business-specific characteristics. Employee profit sharing in Germany is based on the same criteria as those used to calculate variable remuneration components for Executive Board members and executives. This includes Bertelsmann and subsidiaries based in Germany, except RTL Group and Gruner + Jahr. These and many foreign subsidiaries have similar success and profit-sharing models adapted to local requirements. In 2017, a total of €105 million of the 2016 profits was distributed as part of such schemes.

Social Matters

Corporate citizenship is one of the Bertelsmann Essentials and is thus firmly anchored in Bertelsmann's corporate culture. As a good corporate citizen, Bertelsmann is committed to contributing to society and implemented measures in the following areas in 2017.

Press Freedom

Bertelsmann stands for the freedom of the press and therefore a wide variety of opinions and positions. The Bertelsmann Code of Conduct defines freedom of speech and opinion and creative independence as a basic principle of the Group's business activities. Bertelsmann interprets this independence in two directions: Inside the company, it means that our management does not attempt to influence the decisions of artists, editors and program managers, or to restrict their artistic or editorial freedom. In accordance with the Bertelsmann "Editor-in-chief Principle," editorial decisions are the sole responsibility of the program managers. To the outside, this means that the company does not capitulate to political or economic influence in its journalistic coverage, and complies with existing laws regarding the separation of editorial content and commercial advertising. In addition to the Bertelsmann Code of Conduct, many companies and editors in 2017 continued to implement separate statutes to safeguard journalistic independence in their day-to-day business and to develop these further where necessary. These statutes focus primarily on journalistic and editorial duties of care, respect for privacy, and dealing with the representation of violence and the protection of minors.

Content Responsibility

Bertelsmann reflects on the repercussions of the content it produces and distributes to protect the rights and interests of media users and customers as far as possible. Overriding principles and guidelines of media ethics are set by national and international laws governing the press, broadcasting and multimedia; by voluntary commitments to external guidelines such as the ethics codes of national press councils; and within the company by the Bertelsmann Code of Conduct and editorial statutes. With it, Bertelsmann's editorial staff are committed to, among other things, "respecting privacy and the responsible treatment of information, opinion and images." In accordance with the "Editor-in-chief Principle," the responsibility for media content lies solely with the program managers in the local editorial teams.

In the area of youth media protection, content is monitored at Bertelsmann in accordance with different circulations for each medium and region to see if it could adversely affect the development of children or young people. Various restrictions come into force, such as broadcasting time restrictions or labeling content and/or products. Through voluntary labeling systems, Bertelsmann sometimes goes beyond the existing European and national regulations, particularly in the broadcasting industry. Other specifications relating to content responsibility are agreed through supplementary statutes at the divisional, company and editorial level.

Customer Data Protection

Bertelsmann attaches great importance to protecting customer data. This includes safeguarding the personal data of individual customers, as well as information about customers that is provided to Bertelsmann by its business partners. The objective of customer data protection is to protect an individual's right to determine who acquires what knowledge about them, and when. This also means that personal information, or information that could identify a person, must be handled in accordance with legal requirements and adequately protected against unauthorized access. In addition to the Bertelsmann Code of Conduct, customer data protection within the company is regulated by Executive Board guidelines on the topics of information security and IT risk management.

The Executive Board Guideline on Data Protection addresses the data protection framework conditions at Bertelsmann Group based on the General Data Protection Regulation (GDPR), which will be applicable from May 25, 2018, and is designed to ensure consistent data protection management across the Bertelsmann Group. To support this, a data protection management system was rolled out across the Group in the third quarter of 2017. It addresses the documentation and accountability obligations under GDPR, as well as regulations concerning governance obligations.

Responsibility for customer data protection is decentralized and rests with the management of the individual subsidiaries. To ensure compliance with local laws governing customer data protection, the subsidiaries in Germany have a data protection organization consisting of central data protection officers and local data protection coordinators. The latter report to the local management, as well as annually or on an event-driven basis to the central data protection officers, who in turn report to the Bertelsmann Executive Board. A similar organization exists in subsidiaries outside Germany. An information security management system (ISMS) based on industry standard

ISO 27001 creates the technical framework for confidential data processing. The ISMS features a regular and structured survey to ensure compliance with statutory information security requirements, a systematic recording of risks and the derivation of related mitigation measures.

Protecting Intellectual Property

Bertelsmann's businesses develop, produce, transfer, license, and sell products and services that are protected as intellectual property. For Bertelsmann, the protection of intellectual property rights is the foundation of its business success. For this reason, the company is committed to a high level of global copyright protection worldwide and in the digital world. The Group-wide Taskforce Copyright, with representatives from the relevant corporate divisions, supports current developments in copyright and summarizes its positions in the form of joint papers.

Respect for Human Rights

Through its corporate principles and its voluntary commitment to external guidelines, Bertelsmann is committed to respecting and protecting human rights within the company and in its business relationships. For this reason, the Bertelsmann Executive Board established an Integrity & Compliance program and appointed a Corporate Compliance Committee (CCC). The CCC submits an annual Compliance Report to the Bertelsmann Executive Board and the Audit and Finance Committee. The Integrity & Compliance (I&C) department was created to manage the ongoing day-to-day work and is subordinated to the CCC in the organization. I&C supports the CCC in fulfilling its tasks and makes suggestions for necessary improvements to the I&C program. I&C ensures that employees worldwide are made aware of the key legal provisions and internal company guidelines, including those concerning the respect for human rights, and it implemented the training and communication measures necessary for this in 2017.

Respect for human rights, particularly in respect to employees and within the supply chain, is expressly stipulated by the Bertelsmann Code of Conduct and the Supplier Code of Conduct. This includes the ban on child and coercive labor and the ban on discrimination and intimidation, and it reaffirms the right to freedom of association and the right to engage in collective bargaining. In addition, individual subsidiaries and Bertelsmann itself issued statements in 2017 in accordance with the "UK Modern Slavery Act" that condemn all forms

of modern slavery, coercive and child labor, and exploitation and discrimination, and present measures to prevent these human rights violations. These statements are revised each year (as required). At Bertelsmann, violations of this principle may be reported by employees and by third parties via the reporting channels within the existing compliance management system. In terms of antidiscrimination, contact persons for Germany's "General Equal Treatment Act" (AGG) have been appointed at all German locations. Employees can contact them in the event of suspected breaches of said act. The employees are informed of their rights under AGG and given corresponding training through a wide range of communication channels. The topic of antidiscrimination was addressed in a Group-wide e-learning program designed to build employee awareness of the issue and advise them of their rights.

Anti-corruption and Bribery Matters

Both the Bertelsmann Code of Conduct and the Bertelsmann guidelines expressly prohibit all forms of corruption and bribery. This prohibition also applies to all third parties that work for, with or on behalf of Bertelsmann, as stipulated in the Supplier Code of Conduct. Along with instructions for dealing with officials, and guidelines for the granting or accepting of gifts in the context of business relations, the anti-corruption and integrity guideline prescribes appropriate due diligence processes in dealing with third parties. An appropriate due diligence review is carried out for each individual risk profile through a corresponding risk classification. This Executive Board guideline also describes the channels for reporting suspected violations and seeking advice, as well as other prevention and control measures. The Executive Board guideline for dealing with alleged compliance violations anchors an obligation to report suspected violations of the prohibition of corruption to the Bertelsmann Corporate Center. The topic of corruption prevention is globally managed and further developed by the I&C department. One of the most important measures in 2017 was advising and training executives and employees on anticorruption and the design and initiation of the Group-wide rollout of a new e-learning program on this topic.

Fair Competition and Antitrust Law

Bertelsmann is committed to the principle of fair competition and condemns antitrust violations and anticompetitive behavior. The company acts against any contravention and consults internal or external experts on antitrust and competition issues. The Bertelsmann Executive Board has approved a "Group Guideline for Compliance with Antitrust Regulations." There is an obligation to report any antitrust violations. The Corporate Legal Department offers antitrust training programs to corporate divisions and the management and employees of these divisions. A comprehensive compulsory training program for employees working in antitrust-related areas, which was also implemented in 2017, is intended to identify antitrust risks at an early stage and to prevent antitrust violations.

Environmental Matters

The Bertelsmann Environmental Policy and the Bertelsmann Paper Policy provide the framework for the responsible use of natural resources throughout the Group, as well as environmentally friendly energy and material procurement. The environmental commitment extends beyond the individual locations to the supply chain, in particular by influencing paper suppliers and energy firms. Operational responsibility for energy and environmental management and for implementing the measures adopted in 2017 is decentralized and rests with the management of the individual companies. An international "Be Green" Working Group with representatives from the Bertelsmann corporate divisions again provided a platform for cross-divisional exchange on environmental topics in 2017. In the medium term, the cooperation will focus on increasing the use of paper from certified or recycled sources and reducing greenhouse gas emissions from the consumption of energy, heat and fuels. Experts from the "Be Green" Working Group also coordinate the annual collection of environmental key figures, which not only create transparency about impacts on the environment and climate as well as about Bertelsmann's environmental performance, but also enable the management to derive measures for improvement. The Group-wide environmental key figures are published on the Bertelsmann website.