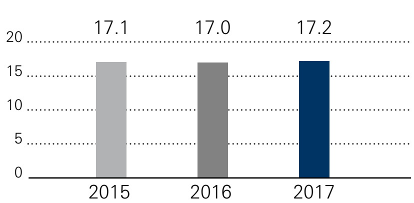
Financial Information

Combined Management Report

Financial Year 2017 in Review

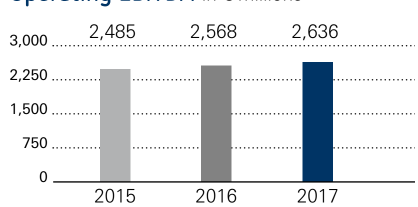
Bertelsmann recorded positive business performance in 2017, achieving revenue growth and increases in operating EBITDA and Group profit. This development was accompanied by further strategic progress with Bertelsmann's transformation into a faster-growing, more digital, more international and diversified 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



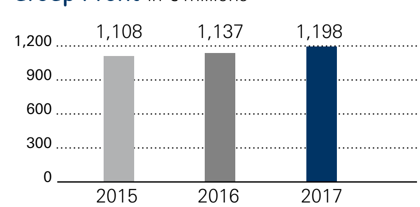
- Revenue growth of 1.4 percent, improved organic growth of 1.7 percent
- Revenue increases at RTL Group, BMG, Arvato and Bertelsmann Education Group
- Increased share of revenues generated by growth businesses

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 though 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 adressable 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

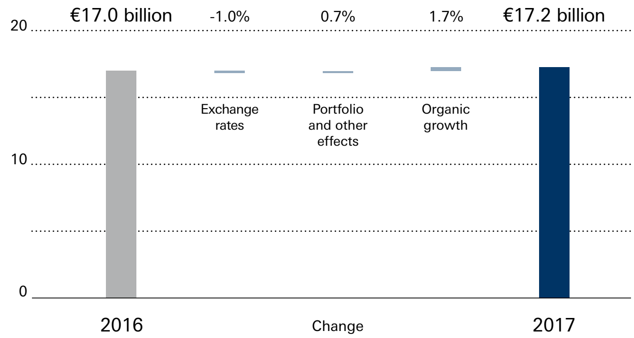
growth of 1.7 percent, adjusted for exchange rate and portfolio effects. The exchange rate effects were -1.0 percent and the portfolio effects were 0.7 percent.

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.

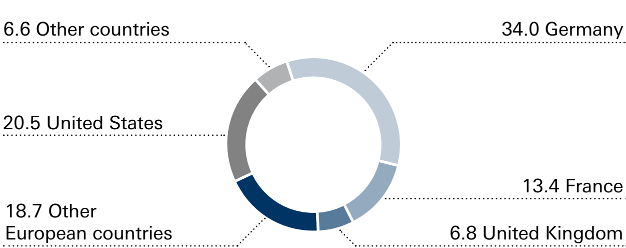
There were only minor changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 34.0 percent compared to 34.6 percent in the previous year. The revenue share generated by France amounted to 13.4 percent (previous year: 13.2 percent). 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 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.

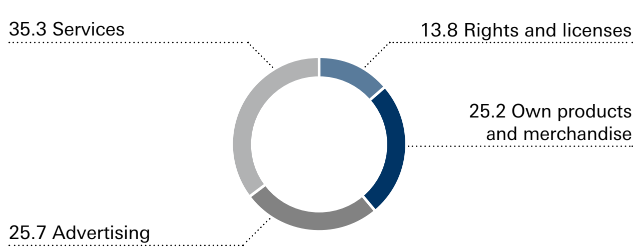
Revenue Breakdown



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.

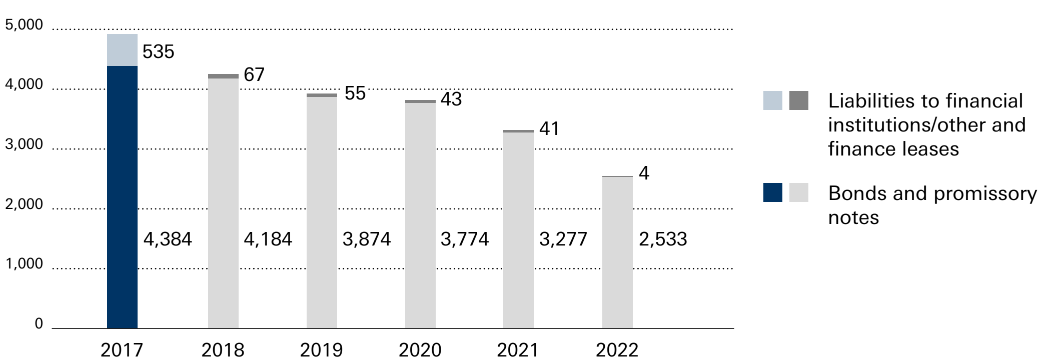
Credit Facilities

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 million 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.

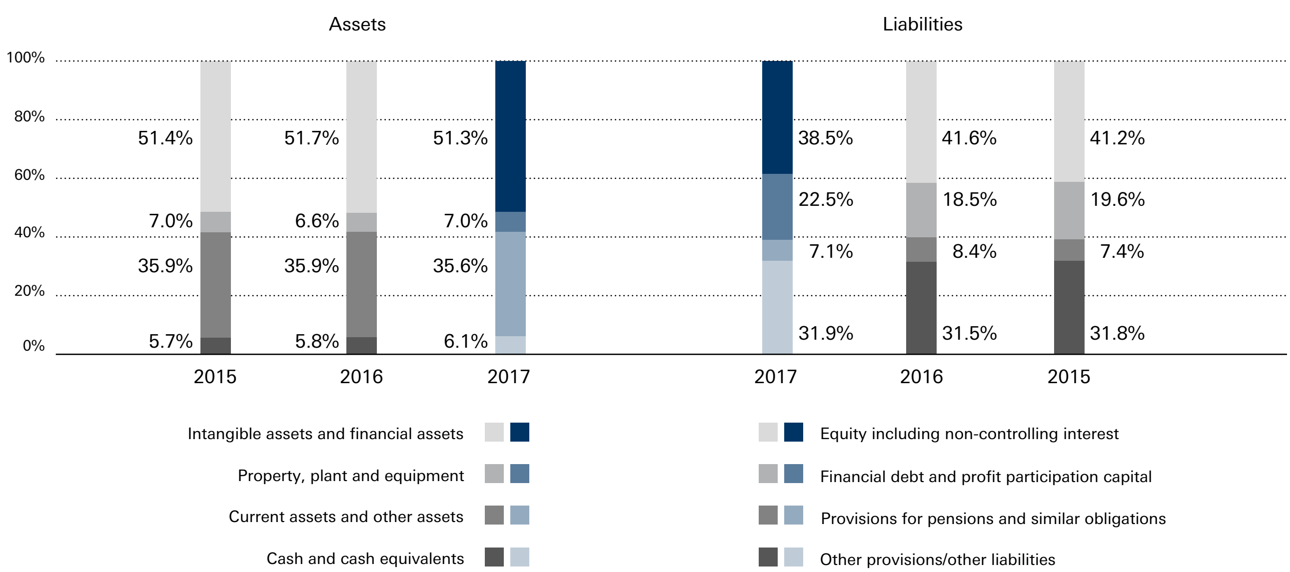
The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of par value. The lowest closing rate of the 2001 profit participation certificates in the financial year 2017 was 316.00 percent 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.

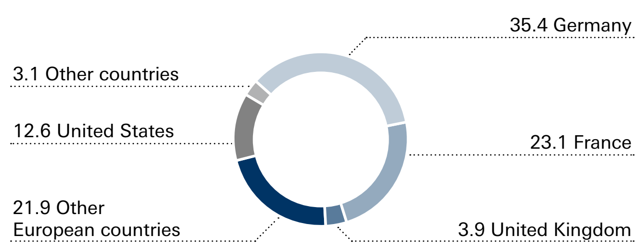
Mediengruppe RTL Deutschland once again ended the financial year with record revenues and earnings. This was fueled by higher advertising revenues from the TV and digital business, as well as growing platform revenues. The combined average audience share of the family of channels increased to 28.9 percent 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.

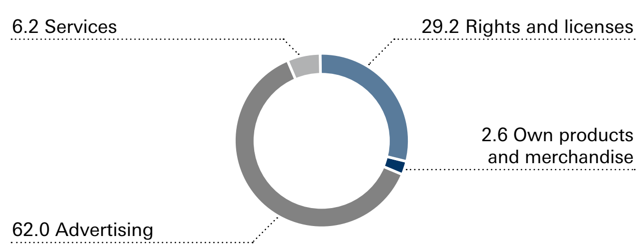
Fremantle Media reported slightly lower revenues for 2017 due to negative exchange rate effects, but increased its operating result as a result of higher profit contributions from North America and Europe. Its greatest creative successes included the fantasy series "American Gods," which was produced 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.

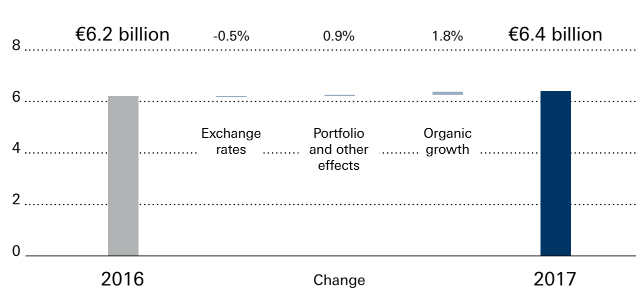
Revenues by Region in percent (without intercompany revenues)



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.

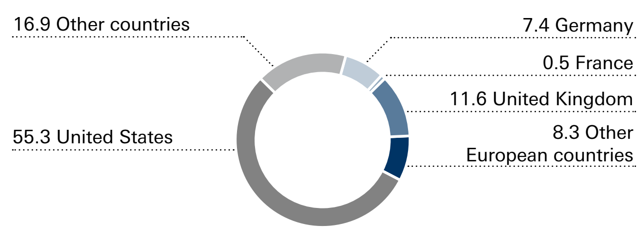
In the United Kingdom, Penguin Random House UK publishers recorded growth. Titles published by Penguin Random House UK publishers achieved a 43 percent share of "The Sunday Times" top 10 weekly bestseller lists. Top sellers included "5 Ingredients" by Jamie Oliver, "Origin" by Dan Brown, and "Diary of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

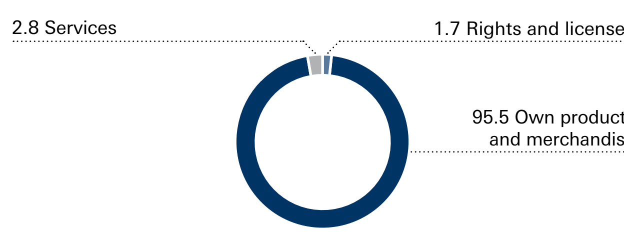
In Germany, notwithstanding the industry-wide impact of declining consumer traffic in bookstores, Verlagsgruppe Random House maintains its market-leading position. The publishing group had 401 titles on the "Spiegel" bestseller lists, including 22 at number one. "Die Geschichte der Bienen" ("The History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

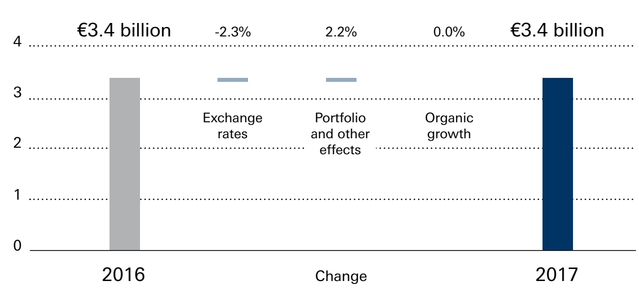
Revenues by Region in percent (without intercompany revenues)



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).

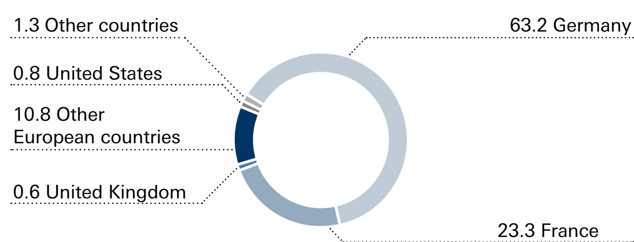
G+J grew both its revenues and earnings in Germany. The decline in the print ad-sales business, which was slight compared to the rest of the market, was offset by surging digital revenues. The German sales business also grew in total.

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.

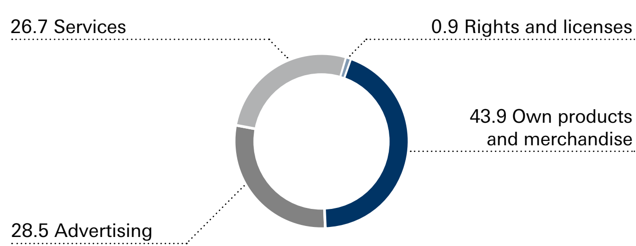
As in previous years, there were several new magazine launches in 2017, such as "Ideat," "Hygge" and "Cord." Another positive contributor were the activities of the Ad Alliance jointly formed by RTL subsidiary IP Deutschland and G+J eMS, which develops cross-genre advertising concepts. "Der Spiegel" 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.

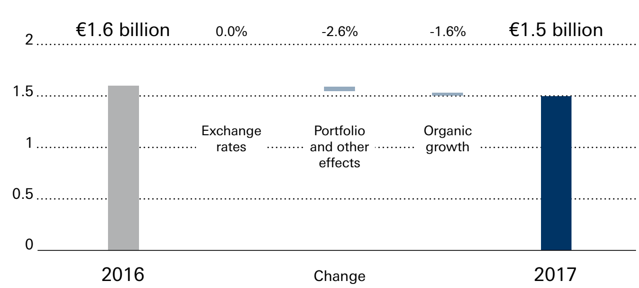
Revenues by Region in percent (without intercompany revenues)



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.

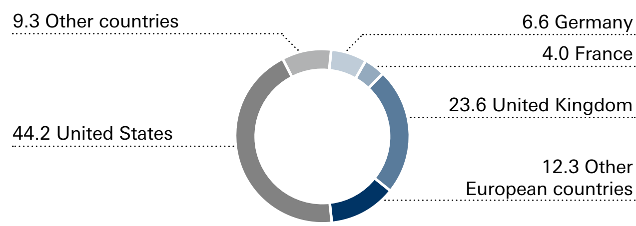
The company has strengthened its international footprint with enhanced representation in Canada and an expansion of its activities in China, including an innovative partnership with mobile social network Momo to develop Chinese talent with the help of BMG songwriters.

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.

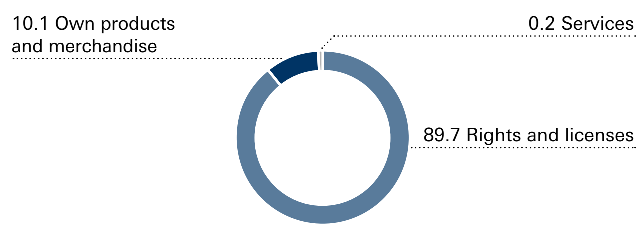
BMG concluded significant partnership agreements with several major entertainment providers in the reporting period. The company now manages the music publishing rights of RTL Group's content production arm Fremantle Media, the streaming provider Netflix and the production company Amblin Partners, founded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

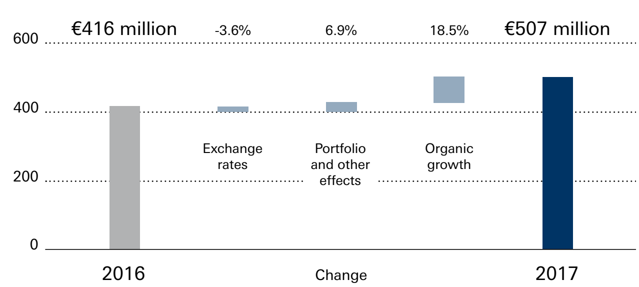
Revenues by Region in percent (without intercompany revenues)



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.

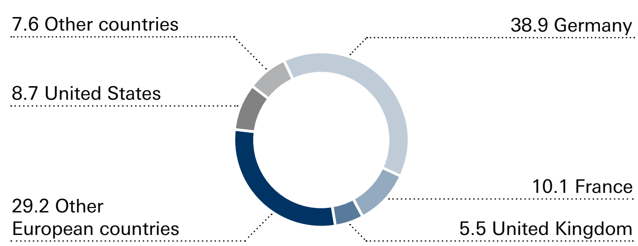
Revenues of the Solution Group Arvato CRM Solutions grew slightly in the financial year, but its earnings declined. The main reasons for this were declining business volumes in the telecommunications sector, start-up costs for new clients and the expansion of business with international companies from 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.

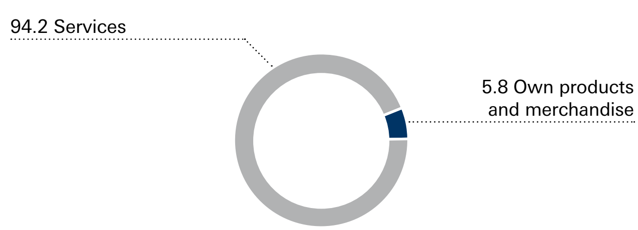
Arvato Financial Solutions' financial services businesses did well in terms of both revenues and earnings. Its continued positive business performance was fueled primarily by the steadily growing business in the core market of Germany. To expand the service portfolio in the innovative fintech sector, 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.

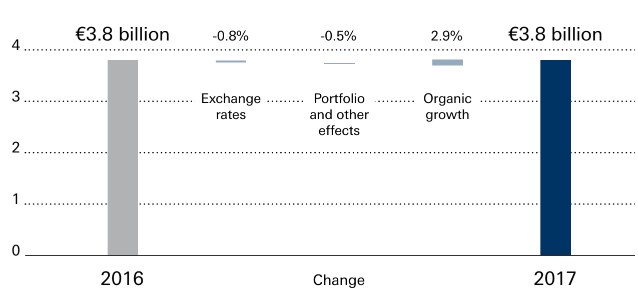
Revenues by Region in percent (without intercompany revenues)



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.

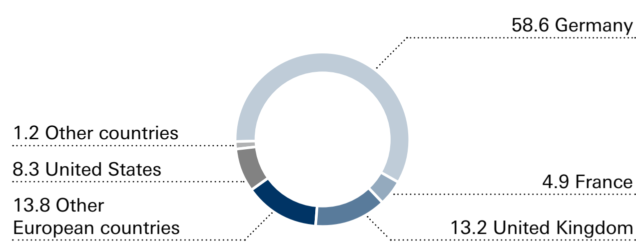
The gravure printing activities bundled in the Prinovis Group declined slightly overall due to difficult market conditions. In the United Kingdom, the business with the major customers acquired in 2016 was expanded. The German Prinovis sites suffered from chronic volume declines, especially in the magazine 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.

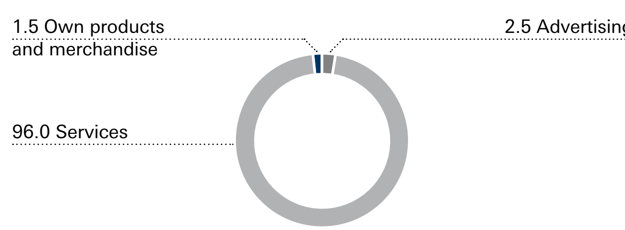
Revenues at Sonopress rose slightly despite difficult market conditions in Mexico. At the Gütersloh headquarters, the company once again bucked the overall market trend by increasing its production volumes, revenues and earnings. Among other things, this development is due to sales successes, also as 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.

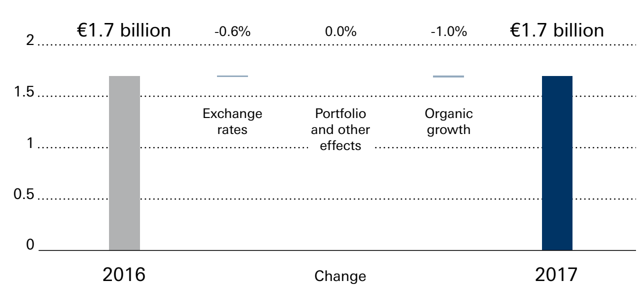
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



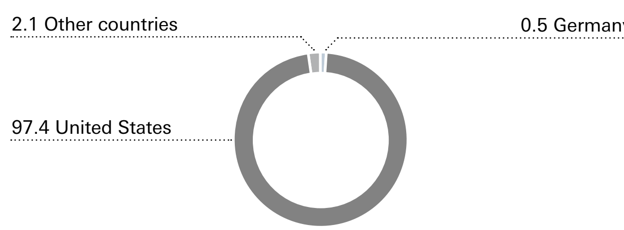
Bertelsmann Education Group

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).

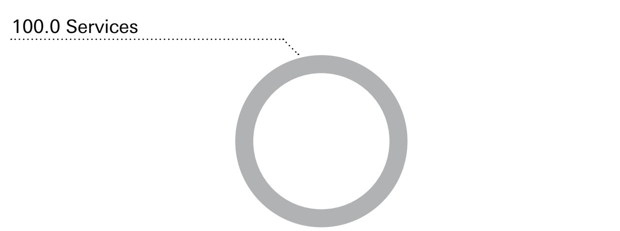
Relias, currently the most profitable business in the Bertelsmann Education Group, recorded significant growth, continued its expansion path during the reporting period, and grew both organically and through acquisitions. The company expanded its client base to more than 6,500 institutions, whose employees 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.

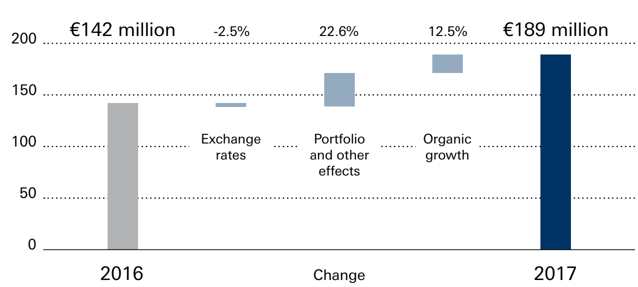
Revenues by Region in percent (without intercompany revenues)



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 EBTIDA 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

		Risk Classification				
Priority	**Type of risk**	Low	Moderate	Significant	Consider-able	Endanger-ing
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 antitrust 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 succeed 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.

Consolidated Financial Statements

Consolidated Income Statement

in € millions	Notes	2017	2016 (adjusted)
Revenues	1	17,190	16,950
Other operating income	2	568	613
Cost of materials	14	(5,487)	(5,487)
Royalty and license fees		(1,547)	(1,462)
Personnel costs	3	(5,541)	(5,375)
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	4	(691)	(632)
Other operating expenses	5	(2,781)	(2,866)
Results from investments accounted for using the equity method	12	63	29
Impairment losses and reversals on investments accounted for using the equity method	12	(50)	(4)
Results from financial assets	6	(10)	(8)
Results from disposals of investments	13	182	41
EBIT (earnings before interest and taxes)		1,896	1,799
Interest income	7	14	13
Interest expenses	7	(134)	(146)
Other financial income	8	26	14
Other financial expenses	8	(125)	(125)
Financial result		(219)	(244)
Earnings before taxes from continuing operations		1,677	1,555
Income tax expense	9	(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:			
Bertelsmann shareholders			
Earnings from continuing operations		783	685
Earnings from discontinued operations		(7)	1
Earnings attributable to Bertelsmann shareholders		776	686
Non-controlling interests			
Earnings from continuing operations		422	451
Earnings from discontinued operations		–	–
Earnings attributable to non-controlling interests		422	451

The figures from the previous year have been adjusted. Further details are presented in the section “Prior-Year Information.”

Consolidated Statement of Comprehensive Income

in € millions	Notes	2017	2016
Group profit or loss		1,198	1,137
Items that will not be reclassified subsequently to profit or loss			
Remeasurement component of defined benefit plans		176	(242)
Share of other comprehensive income of investments accounted for using the equity method		–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences			
– changes recognized in equity		(445)	32
– reclassification adjustments for gains (losses) included in profit or loss		13	(4)
Available-for-sale financial assets			
– changes in fair value recognized in equity		17	73
– reclassification adjustments for gains (losses) included in profit or loss		(35)	–
Cash flow hedges			
– changes in fair value recognized in equity		(53)	26
– reclassification adjustments for gains (losses) included in profit or loss		(27)	(22)
Share of other comprehensive income of investments accounted for using the equity method		(8)	11
Other comprehensive income net of tax	18	(362)	(126)
Group total comprehensive income		836	1,011
attributable to:			
Bertelsmann shareholders		502	554
Non-controlling interests		334	457

Consolidated Balance Sheet

in € millions	Notes	12/31/2017	12/31/2016
Assets			
Non-current assets			
Goodwill	10	8,084	8,174
Other intangible assets	10	2,478	2,544
Property, plant and equipment	11	1,658	1,564
Investments accounted for using the equity method	12	952	1,041
Other financial assets	13	644	542
Trade and other receivables	15	87	76
Other non-financial assets	16	710	704
Deferred tax assets	9	920	1,007
		15,533	15,652
Current assets			
Inventories	14	1,664	1,685
Trade and other receivables	15	4,010	3,853
Other financial assets	13	67	112
Other non-financial assets	16	868	953
Current income tax receivables		120	66
Cash and cash equivalents	17	1,440	1,373
		8,169	8,042
Assets held for sale		3	100
		23,705	23,794
Equity and liabilities			
Equity	18		
Subscribed capital		1,000	1,000
Capital reserve		2,345	2,345
Retained earnings		4,491	4,527
Bertelsmann shareholders' equity		7,836	7,872
Non-controlling interests		1,283	2,023
		9,119	9,895
Non-current liabilities			
Provisions for pensions and similar obligations	19	1,685	1,999
Other provisions	20	126	136
Deferred tax liabilities	9	124	146
Profit participation capital	21	413	413
Financial debt	22	4,251	3,763
Trade and other payables	23	366	392
Other non-financial liabilities	23	391	362
		7,356	7,211
Current liabilities			
Other provisions	20	323	315
Financial debt	22	668	235
Trade and other payables	23	4,313	4,307
Other non-financial liabilities	23	1,709	1,657
Current income tax payables		214	166
		7,227	6,680
Liabilities related to assets held for sale		3	8
		23,705	23,794

Consolidated Cash Flow Statement

in € millions	2017	2016
Group earnings before interest and taxes	1,889	1,800
Taxes paid	(434)	(234)
Depreciation and write-ups of non-current assets	766	672
Results from disposals of investments	(176)	(42)
Gains/losses from disposals of non-current assets	(119)	(50)
Change in provisions for pensions and similar obligations	(84)	(55)
Change in other provisions	7	(20)
Change in net working capital	(225)	(175)
Fair value remeasurement of investments	(15)	(12)
Other effects	33	70
Cash flow from operating activities	1,642	1,954
– thereof discontinued operations	–	–
Investments in:		
– intangible assets	(319)	(388)
– property, plant and equipment	(360)	(326)
– financial assets	(211)	(248)
– purchase prices for consolidated investments (net of acquired cash)	(213)	(278)
Disposals of subsidiaries and other business units	4	(28)
Disposals of other fixed assets	339	220
Contribution to/withdrawals from defined benefit plans	(37)	(33)
Cash flow from investing activities	(797)	(1,081)
– thereof discontinued operations	–	–
Issues of bonds and promissory notes	697	694
Redemption of bonds and promissory notes	–	(786)
Proceeds from/redemption of other financial debt	282	59
Interest paid	(166)	(190)
Interest received	12	16
Dividends to Bertelsmann shareholders	(180)	(180)
Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))	(743)	(388)
Change in equity	(657)	(18)
Cash flow from financing activities	(755)	(793)
– thereof discontinued operations	–	–
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 1/1	1,376	1,310
Cash and cash equivalents 12/31	1,442	1,376
Less cash and cash equivalents included within assets held for sale	(2)	(3)
Cash and cash equivalents 12/31 (according to the consolidated balance sheet)	1,440	1,373

Details on the cash flow statement are presented in note 26 “Cash Flow Statement.”

Change in Net Financial Debt

in € millions	2017	2016
Net financial debt at 1/1	(2,625)	(2,765)
Cash flow from operating activities	1,642	1,954
Cash flow from investing activities	(797)	(1,081)
Interest, dividends and changes in equity, additional payments (IAS 32.18(b))	(1,734)	(760)
Exchange rate effects and other changes in net financial debt	35	27
Net financial debt at 12/31	(3,479)	(2,625)

Net financial debt is the balance of the balance sheet positions “Cash and cash equivalents” and “Financial debt.”

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital	Capital reserve[1]	Retained earnings: Other retained earnings	Accumulated other comprehensive income[2]: Currency translation differences	Accumulated other comprehensive income[2]: Available-for-sale financial assets	Accumulated other comprehensive income[2]: Cash flow hedges	Accumulated other comprehensive income[2]: Share of other comprehensive income of investments accounted for using the equity method	Bertelsmann shareholders' equity	Non-controlling interests	Total
Balance as of 1/1/2016	1,000	2,345	3,993	96	13	29	15	7,491	1,943	9,434
Group profit or loss	–	–	686	–	–	–	–	686	451	1,137
Other comprehensive income	–	–	(230)	17	72	3	6	(132)	6	(126)
Group total comprehensive income	–	–	456	17	72	3	6	554	457	1,011
Dividend distributions	–	–	(180)	–	–	–	–	(180)	(376)	(556)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	16	–	–	–	–	16	9	25
Equity transactions with shareholders	–	–	(164)	–	–	–	–	(164)	(367)	(531)
Other changes	–	–	(9)	–	–	–	–	(9)	(10)	(19)
Balance as of 12/31/2016	1,000	2,345	4,276	113	85	32	21	7,872	2,023	9,895
Balance as of 1/1/2017	1,000	2,345	4,276	113	85	32	21	7,872	2,023	9,895
Group profit or loss	–	–	776	–	–	–	–	776	422	1,198
Other comprehensive income	–	–	170	(361)	(16)	(60)	(7)	(274)	(88)	(362)
Group total comprehensive income	–	–	946	(361)	(16)	(60)	(7)	502	334	836
Dividend distributions[3]	–	–	(180)	–	–	–	–	(180)	(789)	(969)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(400)	52	–	–	1	(347)	(282)	(629)
Equity transactions with shareholders	–	–	(580)	52	–	–	1	(527)	(1,071)	(1,598)
Other changes	–	–	(11)	–	–	–	–	(11)	(3)	(14)
Balance as of 12/31/2017	1,000	2,345	4,631	(196)	69	(28)	15	7,836	1,283	9,119

1) The capital reserve mainly includes share premiums received from the issue of ordinary shares in excess of their par values.
2) Thereof, as of December 31, 2017, no significant amounts (December 31, 2016: €3 million) relate to assets classified as held for sale in accordance with IFRS 5.
3) The increased level of dividend distributions to non-controlling interests compared with the previous year includes a special dividend distribution to the co-shareholder in Penguin Random House in the amount of €430 million. Further details are presented in note 12 "Interests in Other Entities."

Segment Information (Continuing Operations)

in € millions	RTL Group 2017	RTL Group 2016	Penguin Random House 2017	Penguin Random House 2016	Gruner + Jahr 2017	Gruner + Jahr 2016	BMG 2017	BMG 2016	Arvato 2017	Arvato 2016 (adjusted)
Revenues from external customers	6,358	6,228	3,359	3,360	1,493	1,554	504	413	3,754	3,693
Intersegment revenues	15	9	–	1	20	26	3	3	69	70
Divisional revenues	6,373	6,237	3,359	3,361	1,513	1,580	507	416	3,823	3,763
Operating EBITDA	1,478	1,405	521	537	145	137	104	95	320	356
EBITDA margin[1]	23.2%	22.5%	15.5%	16.0%	9.6%	8.7%	20.5%	22.8%	8.4%	9.5%
Impairment (-)/reversals (+) on intangible assets and property, plant and equipment	(3)	(3)	–	–	(32)	–	–	–	(2)	(9)
Results from investments accounted for using the equity method	69	67	–	–	8	4	–	–	9	9
Invested capital	6,564	6,649	2,309	2,431	690	724	1,816	1,864	1,673	1,442

The figures from the previous year have been adjusted. Further details on the adjustment of previously published information are presented in note 27 "Segment Reporting."
1) Operating EBITDA as a percentage of revenues.
2) The business development of Bertelsmann Investments is determined primarily on the basis of EBIT. EBIT amounted to €141 million (previous year: €35 million).

Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	2017	2016
EBIT from continuing operations	1,896	1,799
Special items		
– impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations	30	–
– adjustment to carrying amounts on assets held for sale	4	14
– impairment on other financial assets	20	22
– impairment losses and reversals on investments accounted for using the equity method	50	4
– results from disposals of investments	(182)	(41)
– fair value remeasurement of investments	(15)	(12)
– restructuring and other special items	176	152
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	691	632
Adjustments on amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment included in special items	(34)	(2)
Operating EBITDA from continuing operations	2,636	2,568

	Bertelsmann Printing Group		Bertelsmann Education Group		Bertelsmann Investments[2]		Total divisions		Corporate		Consolidation		Continuing operations	
	2017	2016 (adjusted)	2017	2016	2017	2016	2017	2016 (adjusted)	2017	2016	2017	2016 (adjusted)	2017	2016
	1,498	1,510	189	142	–	–	17,155	16,900	35	50	–	–	17,190	16,950
	183	199	–	–	–	–	290	308	39	31	(329)	(339)	–	–
	1,681	1,709	189	142	–	–	17,445	17,208	74	81	(329)	(339)	17,190	16,950
	118	121	3	(17)	(3)	–	2,686	2,634	(53)	(62)	3	(4)	2,636	2,568
	7.0%	7.1%	1.8%	-11.6%	n/a	n/a	15.4%	15.3%	n/a	n/a	n/a	n/a	15.3%	15.2%
	–	(1)	–	–	–	–	(37)	(13)	–	–	–	–	(37)	(13)
	–	–	(16)	(32)	(6)	(18)	64	30	–	–	(1)	(1)	63	29
	172	211	904	1,053	576	466	14,704	14,840	99	115	(36)	(19)	14,767	14,936

Information by Geographical Areas (Continuing Operations)

	Germany		France		United Kingdom		Other European countries		United States		Other countries		Continuing operations	
in € millions	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from external customers	5,840	5,858	2,306	2,242	1,169	1,078	3,212	3,102	3,526	3,532	1,137	1,138	17,190	16,950
Non-current assets[1]	3,231	3,175	1,180	1,204	1,324	1,343	3,291	3,159	2,947	3,177	247	224	12,220	12,282

1) Non-current assets comprise property, plant and equipment and intangible assets (including goodwill).
Details on segment reporting are presented in note 27 "Segment Reporting."

Information on Revenue Sources (Continuing Operations)

	Own products and merchandise		Advertising		Services		Rights and licenses		Continuing operations	
in € millions	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from external customers	4,335	4,602	4,406	4,384	6,073	5,767	2,376	2,197	17,190	16,950

General Principles

The Bertelsmann SE & Co. KGaA Consolidated Financial Statements as of December 31, 2017, were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) that are applicable in the European Union (EU-IFRS). The supplementary requirements set out in section 315e of the German Commercial Code (HGB) were also met. The Consolidated Financial Statements are prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million). For the sake of clarity, certain items in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet are combined. These items are disclosed and explained in greater detail in the notes.

Bertelsmann SE & Co. KGaA is a partnership limited by shares with its registered office in Gütersloh, Germany. The address of the company's registered headquarters is Carl-Bertelsmann-Strasse 270, 33311 Gütersloh.

Bertelsmann is a media, services and education company that operates in about 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). Further information on the main activities of Bertelsmann SE & Co. KGaA and its subsidiaries is presented in detail in the Combined Management Report.

Impact of New Financial Reporting Standards

The first-time application of new financial reporting standards and interpretations had no material impact on the Bertelsmann Group.

Impact of Issued Financial Reporting Standards That Are Not Yet Effective

The Bertelsmann Group has not opted for early adoption of any additional standards, interpretations or amendments that have been issued by the IASB or the IFRS IC but are not yet mandatory. Financial reporting standards having a material impact on Bertelsmann that are not yet effective are IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

IFRS 9 Financial Instruments contains revised regulations for the classification and measurement of financial assets, new requirements for impairment of financial instruments and new requirements for hedge accounting. For the Bertelsmann Group, IFRS 9 will be applied for the first time in the financial year 2018. Analyses to assess the effects of IFRS 9 on the Consolidated Financial Statements started in 2016 were completed in 2017. The analysis of debt instruments indicated that, in the majority of cases, these were held in order to collect the contractual cash flows representing exclusively principal and interest payments so that the majority of debt instruments will continue to be measured at amortized cost. The Bertelsmann Group also holds so-called fund-in-fund investments purchased by the Bertelsmann Investments division. Under IFRS 9, these primarily represent debt instruments. The returns from these fund-in-fund investments do not solely represent payments of principal and interest and thus do not meet the conditions applicable to contractual cash flows. As a result, these debt instruments will be recognized at fair value through profit or loss under IFRS 9. Because, as a rule, these fund-in-fund investments are already measured at fair value, there will be no financial impact from the measurement of these financial instruments as of January 1, 2018. During the financial year, the gains and losses resulting from changes in the fair value were recognized in other comprehensive income with deferred taxes taken into consideration, while these will be recognized in the consolidated income statement in the future. As of December 31, 2017, financial assets amounting to €509 million are classified as available for sale and measured at fair value through other comprehensive income. These financial assets will continue to be measured at fair value; however, as a rule, for the majority changes in the fair value will be recognized in the consolidated income statement. The amounts related to these financial assets recognized in other comprehensive income totaling €69 million will be reclassified to other retained earnings as of January 1, 2018, and will subsequently no longer be recycled in the consolidated income statement. Equity instruments recognized at fair value through other comprehensive income are immaterial for the Bertelsmann Group, both individually and in total, and relate mainly to subsidiaries not included in the scope of consolidation for reasons of materiality. To the extent that changes in carrying amounts are recognized in other comprehensive income, they are no longer to be recycled to profit or loss when these instruments are sold. The analyses of effects on the measurement of financial instruments, in particular in regard to the impairment of financial instruments, have also been completed. Going forward, impairment matrices will be used for this analysis to determine the loss allowance of trade receivables on the basis of historic bad debt losses, maturity bands and expected credit losses. The impairment matrices are created for division-specific or business-unit-specific groups of receivables, each with similar default patterns. In addition, separate risk assessments are performed. Changes to the calculations for impairment result in an immaterial increase of impairment, which will be recognized directly in other retained earnings as of January 1, 2018. Furthermore, there is no material impact with regard to the measurement of financial instruments. As of December 31, 2017, no material impacts are anticipated for the Consolidated Financial Statements from the new regulations for hedge accounting. Application of IFRS 9 must be generally retrospective, but various exceptions are granted, particularly in the area of hedge accounting. Prior-year figures will not be adjusted on the grounds of the existing practical expedients in accordance with IFRS 9.

IFRS 15 Revenue from Contracts with Customers includes new comprehensive regulations for the recognition of revenue that are independent of a specific industry or transaction. The new standard replaces the current risk and reward approach with a contract-based five-step model. In addition to substantially more extensive application guidance for the accounting treatment of revenue from contracts with customers, there are more detailed disclosure requirements in the notes. Application of the standard is mandatory for financial years beginning on or after January 1, 2018. Bertelsmann has decided to apply the modified retrospective method for initial application, according to which IFRS 15 will be applied prospectively on a Group-wide basis from January 1, 2018, recognizing the cumulative effect of first-time application in retained earnings. For its first-time application, Bertelsmann will apply the expedients provided in the standard for the modified retrospective method.

As part of the implementation, Bertelsmann initiated and successfully conducted a Group-wide project tailored to the individual needs of the respective divisions. On the basis of defined and analyzed core business models in the divisions, these analyses were rolled out to existing customer contracts, and a decentralized review of sales processes was conducted to identify the need for adaptations. This will serve as the basis for ensuring the process-related requirements of IFRS 15 are fulfilled. As part of the project, adjustments have been made to the reporting systems, chart of accounts and the disclosure templates. At the end of 2017, Bertelsmann assessed the anticipated impact of implementing IFRS 15 on the balance sheet, income statement and notes for each business unit based on the revenues generated in 2017 and on balance sheet figures as of December 31, 2017.

The following effects have been identified for the divisions:

- RTL Group: In the future, the timing of revenue recognition for business models generating revenue from licenses will depend on whether the license represents a right to access the intellectual property through the entire licensing period or a right to use the intellectual property at the time licensing is granted. At RTL Group, the majority of licenses provided represent a right to use the intellectual property at the date licensing is granted, and as a result, revenue recognition is at the point in time the license is granted to the licensee. Compared to current accounting, revenue recognition will in some cases be at an earlier date. The effect on the opening balance as of initial application is immaterial.
- Penguin Random House: With regard to certain contracts underlying e-book sales, presentation of revenue and expenses will change as a result of the new standard. Based on a more specific concept of the term “customer” – or, more specifically, as a result of a more specific definition of the term “customer,” the control concept underlying IFRS 15 and the application of the enhanced principal/agent approach – revenue will be recognized in the amount of the retail price to the end consumer in the future. Related commissions for the online retailer are recognized as an expense. In respect to physical books, expected returns of books sold are no longer offset against the receivables but are presented as a return liability. Return assets are presented as non-financial assets rather than in inventory.

- Gruner + Jahr: In subscription sales, giveaways to customers meet the criteria of a separate performance obligation. Any giveaways to third parties during the acquisition of new subscriptions are considered costs to obtain a contract and are amortized over the expected term of the subscription. Additionally, marketing incentives paid to customers are no longer presented as an expense but they reduce revenue. Both individually and cumulatively, the effects on the balance sheet and income statement of the Bertelsmann Group based on the issues described are immaterial. In terms of the sale of magazines, expected returns are no longer offset against the receivables but are presented as a return liability.
- BMG: No material impact on the balance sheet and income statement is expected at BMG.
- Arvato: Based on the service character of the business activities at Arvato, no material impact regarding timing and measurement of revenue recognition is expected. As a result of the more specific definition of the customer and revenue under IFRS 15, other operating income will now be presented as revenue in selected situations. Additionally, the core principal-agent analyses at Arvato have been completed with the conclusion that, based on the business models analyzed, no material impact in the assessment between gross and net presentation is expected.
- Bertelsmann Printing Group: Due to the increasing service character of the business activities, no material impact regarding timing and measurement of revenue recognition is expected.
- Bertelsmann Education Group: In the education business, no material impact on the balance sheet and income statement is expected.

Based on the changes mentioned above, a cumulative effect from first-time application in the low single-digit million euro range is expected in retained earnings as of the implementation date on January 1, 2018. Additionally, as of January 1, 2018, a balance sheet extension of about €370 million is expected due to the changes in presentation in the balance sheet. This corresponds to a percentage of the Group's total assets of 1.5 percent. In terms of the income statement, the changes described above result in a decrease in the EBITDA margin of about 0.25 percent points.

The Group opted to apply the following practical expedients from January 1, 2018:

- Costs associated with obtaining contracts are not capitalized if the underlying asset is amortized in no more than 12 months.
- The value of consideration is not adjusted for the effects of a material financing component if the financing component pertains to a period of no more than 12 months.

IFRS 16, issued in January 2016, sets out principles for recognition, measurement, presentation and disclosure requirements for leases. IFRS 16 replaces the current standards and interpretations IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The changes mainly affect lessee accounting and generally require lessees to recognize contractual rights and obligations on the lessee's balance sheet. The standard replaces the straight-line recognition of operating lease expense for those leases applying IAS 17 with the recognition of depreciation expenses for the right-of-use asset and interest expenses on the lease liability (included within the financial result). In addition, IFRS 16 includes more extensive disclosures in the notes for lessees. Compared to the current accounting rules under IAS 17, the IFRS 16 regulations for lessors are mostly unchanged. Application of the standard is mandatory for financial years beginning on or after January 1, 2019. For the initial application of IFRS 16, there is an option to choose a full retrospective approach or a modified retrospective approach. IFRS 16 will be introduced in the Bertelsmann Group as part of a Group-wide transition project. Under this project, initially, Bertelsmann Group's material lease agreements were analyzed to determine the approach for the initial application of IFRS 16, among other things. The analysis of material leases has not been completed. The effects on the Consolidated Financial Statements will be quantified as part of the further analysis of all lease agreements. As of December 31, 2017, present value of rental and lease commitments from non-cancelable leases qualified as operating leases in accordance with IAS 17 amounts to €1,261 million and will probably lead to the recognition of right-of-use assets in accordance with IFRS 16. Barring application of an exemption for short-term leases or lease agreements for low-value assets in individual cases, the Bertelsmann Group will have to recognize a right-of-use asset and a lease liability. No decision has been made within the Bertelsmann Group concerning the election to apply the accounting options for short-term leases with a lease term of up to one year and for leases for low-value assets, as well as for the approach for initial application of IFRS 16. It is to be assumed that, due to the recognition of the right to use the underlying leased objects and the recognition of the lease liability, the first-time application of IFRS 16 will have a material impact on the consolidated balance sheet of the Bertelsmann Group. In the consolidated income statement, the amortization of the right-of-use assets and the interest expense for the lease liabilities will be recognized in place of the other operating expenses for operating leases. Accordingly, the introduction of IFRS 16 will result in an improvement of EBITDA. In the consolidated statement of cash flows, the application of IFRS 16 will result in an improvement of cash flows from operating activities, while the repayment component of lease payments will reduce the cash flows from financing activities. A reliable estimate of the financial impact can only be made following completion of the Group-wide review of lease agreements.

The Bertelsmann Group has not opted for early application of IFRS 9, IFRS 15 and IFRS 16.

Consolidation

Principles of Consolidation

The Bertelsmann Consolidated Financial Statements include the financial statements of the parent company and its subsidiaries, joint ventures and associates.

Subsidiaries are companies controlled by Bertelsmann SE & Co. KGaA in accordance with IFRS 10. Consolidation begins on the date on which the ability to exercise control exists and ends when Bertelsmann loses the ability to exercise control. Profit or loss and each component of total comprehensive income are attributed to the shareholders of the parent company and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.
In accordance with IFRS 3, business combinations are accounted for using the acquisition method. Non-controlling interests are measured at the proportionate fair value of the assets and liabilities. If the consideration transferred for the business combination or the fair values attributable to the identifiable assets and liabilities of the company acquired can only be provisionally identified on the date of initial accounting, the business combination is accounted for using these provisional values. Initial accounting is completed in accordance with IFRS 3.45, taking into account the one-year measurement period. Comparative information for reporting periods prior to the completion of initial accounting is presented as if it had already been completed on the acquisition date.
Changes in the parent's ownership interest in a subsidiary that do not lead to a loss of control are accounted for as equity transactions. After the loss of control of a subsidiary, it is deconsolidated in accordance with the requirements of IFRS 10. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for in accordance with the applicable IFRSs from the date when control is lost.

Joint ventures in accordance with IFRS 11 and associates are included in the Consolidated Financial Statements using the equity method in accordance with IAS 28. Associates are companies over which Bertelsmann exercises a significant influence. This is generally the case for voting rights between 20 percent and 50 percent. Smaller shareholdings are accounted for using the equity method if there is a significant influence in accordance with IAS 28.6.

When changing the accounting treatment of investments to the equity method, IFRS 3 is applied correspondingly so that the fair value of the previously held interest is used in determining the cost of the investment accounted for using the equity method on the transition date. The difference between the fair value and the carrying amount of the previously held interest is recognized in profit or loss. When applying the equity method to an associate or a joint venture that is an investment entity, Bertelsmann, which is a non-investment entity, generally retains as investor the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

The Bertelsmann Group recognizes immaterial investments in accordance with IAS 39.

Scope of Consolidation

Bertelsmann is the majority shareholder of RTL Group with an interest of 75.1 percent and Penguin Random House with an interest of 75 percent (previous year: 53 percent). Gruner + Jahr, BMG, Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments are each wholly owned by Bertelsmann.

Composition of Scope of Consolidation

	Subsidiaries		Joint ventures		Associates		Total	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
RTL Group	291	272	15	12	37	28	343	312
Penguin Random House	93	90	–	–	1	1	94	91
Gruner + Jahr	118	133	7	8	1	2	126	143
BMG	69	72	1	1	–	–	70	73
Arvato	188	192	4	5	1	1	193	198
Bertelsmann Printing Group	39	32	1	–	–	–	40	32
Bertelsmann Education Group	25	23	–	–	5	5	30	28
Bertelsmann Investments	8	9	–	–	18	15	26	24
Corporate[1]	48	51	–	–	–	–	48	51
Total	879	874	28	26	63	52	970	952

1) Including Bertelsmann SE & Co. KGaA.

Development of Scope of Consolidation

	Germany	France	United Kingdom	Other European countries	United States	Other countries	Total
Consolidated as of 12/31/2016	296	115	132	186	87	136	952
Additions	11	6	7	12	10	42	88
Disposals	19	5	14	11	6	15	70
Consolidated as of 12/31/2017	288	116	125	187	91	163	970

A total of 213 (previous year: 227) companies without significant business operations were excluded from the scope of consolidation due to their negligible importance for the financial position and financial performance of the Bertelsmann Group. The complete list of the Bertelsmann Group's shareholdings will be published in the "Bundesanzeiger" ("Federal Gazette") as an annex to these Consolidated Financial Statements in accordance with section 313 (2) of the German Commercial Code and will be presented at the General Meeting.

Acquisitions and Disposals

In the financial year 2017, the cash flow from acquisition activities totaled €-213 million (previous year: €-278 million), of which €-178 million (previous year: €-250 million) related to new acquisitions during the reporting period less cash and cash equivalents acquired. The consideration transferred in accordance with IFRS 3 amounted to €273 million (previous year: €354 million) taking into account contingent consideration of €19 million (previous year: €21 million). In addition, put options in the amount of €12 million (previous year: €18 million) related to the acquisitions were accounted for.

In January 2017, BMG fully acquired the American group of companies BBR Music Group (BBRMG), which includes the country music labels Broken Bow Records, Stoney Creek Records and Wheelhouse Records, and the music publisher Magic Mustang Music. Concluding this transaction guarantees BMG a leading role in the capital of country music –

Nashville, Tennessee (United States) – and promises numerous benefits to the artists and songwriters under contract with BBRMG and BMG. By becoming a part of BMG's global platform, the customers of BBRMG will also benefit from a significantly larger international reach. At BMG, the musicians also have access to a wide range of marketing resources. The consideration transferred amounts to €95 million and is paid fully in cash. The purchase price agreement includes a variable consideration dependent on future sales figures of artists under contract with BBRMG. The maximum variable consideration amounts to US$25 million. As of December 31, 2017, Bertelsmann anticipates no payment from this variable consideration. The purchase price allocation resulted in tax-deductible goodwill amounting to €6 million, mainly representing potential synergy effects to be realized and increased future sales opportunities combining BBRMG and BMG. Due to exercising an optional right in the United States, the acquisition is treated as an asset deal from a tax perspective. On an individual level, the total consideration transferred is tax deductible over 15 years. In the financial year 2017, transaction-related costs amounted to €1 million and have been recognized in profit or loss.

In July 2017, Penguin Random House acquired an interest of 100 percent in the publishing group Ediciones B from Spain's Grupo Zeta media group. Penguin Random House considers the acquisition a reinforcement of Penguin Random House Grupo Editorial's market position and cultural importance in Spain, Latin America and the entire Spanish-speaking world. The consideration transferred amounted to €37 million and was fully paid in cash. The purchase price allocation resulted in non-tax-deductible goodwill of €28 million, mainly representing synergy potential to be realized from efficiency optimization in direct and structural expenses. In the financial year 2017, transaction-related costs amounted to €2 million and have been recognized in profit or loss.

In addition, the Bertelsmann Group made several acquisitions in the financial year 2017, none of which was material on a stand-alone basis. Payments net of acquired cash and cash equivalents amounted to €-93 million; the consideration transferred in accordance with IFRS 3 for these acquisitions amounted to €141 million taking into account contingent consideration of €19 million. The other acquisitions resulted in goodwill totaling €133 million reflecting synergy potential, of which €7 million is tax deductible. In the financial year 2017, transaction-related costs amounted to €2 million and have been recognized in profit or loss.

The purchase price allocations consider all the facts and circumstances prevailing as of the respective dates of acquisition that were known prior to preparation of the Consolidated Financial Statements. In accordance with IFRS 3, should further facts and circumstances become known within the 12-month measurement period, the purchase price allocation will be adjusted accordingly.

The following table shows the fair values of the assets and liabilities of the acquisitions on their dates of initial consolidation based on the purchase price allocations, some of which are currently preliminary:

Effects of Acquisitions

in € millions	BBR Music Group	Ediciones B	Other	Total
Non-current assets				
Goodwill	6	28	133	167
Other intangible assets	87	8	56	151
Property, plant and equipment	1	–	5	6
Trade and other receivables	–	–	6	6
Other non-current assets	1	2	7	10
Current assets				
Inventories	–	7	6	13
Trade and other receivables	–	5	24	29
Other current assets	1	2	3	6
Cash and cash equivalents	8	1	11	20
Liabilities				
Financial debt	–	–	14	14
Other financial and non-financial liabilities	9	16	53	78
Fair value of pre-existing interests	–	–	41	41
Non-controlling interests	–	–	2	2

Since initial consolidation, all new acquisitions in accordance with IFRS 3 in the financial year 2017 have contributed €115 million to revenue and €-13 million to Group profit or loss. If consolidated as of January 1, 2017, these would have contributed €156 million to revenue and €-17 million to Group profit or loss. On the acquisition date, the fair value of the acquired receivables was €35 million. Of that amount, €33 million is attributable to trade receivables and €2 million to other receivables. Trade receivables are impaired in the amount of €6 million, so that the gross amount of trade receivables amounts to €39 million. The other receivables are only impaired to a minor extent so that the fair value is equal to the gross amount.

The fair values of the identifiable assets, liabilities and contingent liabilities acquired are measured in accordance with IFRS 3, primarily using the market price-oriented method. According to this method, assets and liabilities are measured at the prices observed in active markets. If measurement using the market price-oriented method is not feasible, the capital value-oriented method is to be applied. According to that method, the fair value of an asset or a liability corresponds to the present value of the future cash inflows or outflows (cash flows).

After considering the cash and cash equivalents disposed of, the Bertelsmann Group recorded cash flows in the amount of €4 million (previous year: €-28 million) from disposals. The disposals resulted in a loss from deconsolidation of €-10 million (previous year: €-33 million), which is recognized in the item "Results from disposals of investments." The following table shows their impact on the Bertelsmann Group's assets and liabilities at the time of deconsolidation:

Effects of Disposals

in € millions	Total
Non-current assets	
Goodwill	3
Other intangible assets	4
Property, plant and equipment	3
Other non-current assets	1
Current assets	
Inventories	16
Other current assets	28
Cash and cash equivalents	10
Liabilities	
Provisions for pensions and similar obligations	–
Financial debt	–
Other financial and non-financial liabilities	30

Discontinued Operations

Earnings after taxes from discontinued operations of €-7 million (previous year: €1 million) comprise follow-on effects related to the disposal of companies of the former Direct Group division.

Assets Held for Sale and Liabilities Related to Assets Held for Sale

The carrying amounts of the assets classified as held for sale and related liabilities are presented in the following table:

Assets Held for Sale and Related Liabilities

in € millions	12/31/2017	12/31/2016
Assets		
Non-current assets		
Goodwill	–	2
Other intangible assets	1	3
Property, plant and equipment	–	87
Investments accounted for using the equity method	–	2
Other non-current assets	–	1
Current assets		
Inventories	–	6
Trade and other receivables	1	9
Other current assets	–	1
Cash and cash equivalents	2	3
Impairment on assets held for sale	(1)	(14)
Assets held for sale	3	100
Equity and liabilities		
Non-current liabilities		
Trade and other payables	1	–
Current liabilities		
Trade and other payables	1	5
Other current liabilities	1	3
Liabilities related to assets held for sale	3	8

In October 2016, RTL Group entered into an agreement to sell Media Properties Sàrl, which owns RTL Group's new buildings in Luxembourg ("RTL City"). The disposal was expected to be completed during the second quarter of 2017. The buildings were therefore recognized as assets held for sale at the end of 2016. In May 2017, the parties decided to renounce the transaction by common agreement. RTL Group management decided not to pursue the sale process over the coming year. Accordingly, the buildings were reclassified in the amount of €83 million from assets held for sale back into property, plant and equipment, and the related amortization expense was retrospectively recognized over the second quarter for an immaterial amount.

For disposal groups, which are measured at fair value less costs to sell, impairment losses were recognized in the amount of €-14 million in the previous year, which were mainly attributable to a planned disposal in the Arvato division. The disposal was completed in the financial year 2017. The fair values are based on level 3 of the hierarchy of non-recurring fair values. Valuations for level 3 are based on information from the contract negotiations. The impairment losses are recognized in profit or loss in the item "Other operating expenses."

Foreign Currency Valuation

Transactions denominated in a currency other than a subsidiary's functional currency are recorded in the functional currency at the exchange rate applicable on the day of their initial accounting. At the end of the reporting period, monetary assets and liabilities denominated in foreign currency are revalued into the functional currency using the closing rate applicable at that time. Gains and losses from these currency translations are recognized in profit or loss. Non-monetary balance sheet items in foreign currency are carried at the exchange rate applicable on the date of initial recognition.

Foreign Currency Translation

The financial statements of subsidiaries, joint ventures and associates that were prepared in foreign currencies are translated into euros using the functional currency concept set out in IAS 21 before they are included in the Consolidated Financial Statements. Assets and liabilities are translated into the reporting currency at the closing rate at the end of the reporting period, while income statement items are translated at the average rate for the financial year. Currency translation differences are recognized in other comprehensive income. Such differences arise from translating items in the balance sheet at a closing rate that differs from the previous closing rate and from using the average rate for the period and the closing rate at the end of the reporting period to translate the Group profit or loss. At the time of deconsolidation of Group companies, the respective accumulated currency translation differences recognized in other comprehensive income and accumulated in a separate component of equity are reclassified from equity to the income statement. The following euro exchange rates were used to translate the currencies most significant to the Bertelsmann Group.

Euro Exchange Rates for Major Foreign Currencies

		Average rates		Closing rates	
Foreign currency unit per €1		2017	2016	12/31/2017	12/31/2016
Australian dollar	AUD	1.4733	1.4881	1.5346	1.4596
Canadian dollar	CAD	1.4645	1.4660	1.5039	1.4188
Chinese renminbi	CNY	7.6278	7.3510	7.8044	7.3202
British pound	GBP	0.8766	0.8196	0.8872	0.8562
US dollar	USD	1.1295	1.1072	1.1993	1.0541

Accounting and Measurement Policies

Recognition of Income and Expense

Revenues are recognized in accordance with IAS 18. They are measured at the fair value of the consideration received or receivable and reduced by anticipated reductions in price, trade discounts and similar other deductions.

Revenues from the sale of goods are recognized when the Bertelsmann Group has transferred the significant risks and rewards associated with ownership of the goods to the purchaser, and the amount of revenue can be reliably measured. Revenues from advertising are recognized when the corresponding advertisement or commercial appears in the respective medium. Income from royalties (licenses) is recognized on an accrual basis in line with the provisions of the underlying contract. Revenues from services rendered are recognized based on their percentage of completion.

Interest income and expenses are recognized on an accrual basis using the effective interest method in accordance with IAS 39. Dividends are only recognized in profit or loss when the shareholder's legal entitlement to payment is established. Other income is recognized when the economic benefits are probable and the amount can be measured reliably. Expenses are deferred on the basis of underlying facts or the period of time to which they relate.

Goodwill

In accordance with IFRS 3, goodwill resulting from a business combination is initially recognized at acquisition cost, with subsequent recognition at cost less accumulated impairment losses. Goodwill is subject to impairment testing at least annually in accordance with IAS 36. In the Bertelsmann Group, goodwill is tested for impairment as outlined in the "Impairment Losses" section.

Other Intangible Assets

Non-current, internally generated intangible assets are capitalized at cost in accordance with IAS 38 if the corresponding requirements have been met. Intangible assets acquired separately are carried at acquisition cost less accumulated amortization and accumulated impairment losses, also in accordance with IAS 38. Intangible assets acquired as part of a business combination are initially recognized at fair value on the acquisition date in accordance with IFRS 3.

Intangible assets with finite useful life are amortized on a straight-line basis over their estimated useful life. Impairment losses and reversals of impairment losses are determined by applying the requirements for impairment testing in accordance with IAS 36. As a rule, capitalized software has a useful life of between three and five years. Supply rights and subscriber portfolios are amortized over a period of two to 15 years, while the amortization period for trademarks and music and publishing rights is three to 25 years. Licenses are amortized on a straight-line basis over the term of the license agreement or depending on performance (based on the ratios of income from use generated in the reporting period to the estimated total income from use over the whole useful life).

Intangible assets with indefinite useful life are not amortized. Instead, they are subject to at least annual impairment testing in accordance with IAS 36 and, if applicable, written down to their recoverable amount.

Property, Plant and Equipment

Items of property, plant and equipment are accounted for in accordance with IAS 16 and carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined on a straight-line basis over the estimated useful life of the asset. In the financial year 2017, depreciation is generally based on the following useful lives:

- buildings: 10 to 50 years
- technical equipment and machinery: four to 15 years
- other equipment, fixtures, furniture and office equipment: three to 15 years

Land is not subject to depreciation.

Impairment Losses

Goodwill and intangible assets with indefinite useful life are tested for impairment in accordance with IAS 36 annually as of December 31 and if a triggering event occurs. Intangible assets with a finite useful life and property, plant and equipment are tested for impairment at the end of each reporting period in accordance with IAS 36 only if there are any indications of impairment.

An impairment loss in accordance with IAS 36 has occurred when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal and the value in use are generally determined using the discounted cash flow method, which is based on future cash flow forecasts, which are part of company forecasts. For assets held for sale, only fair value less costs to sell is used as a basis for comparison.

For determining the value in use, estimated future cash inflows or outflows from future restructurings or from improvement or enhancement of the cash-generating units' performance are excluded unless, as of the end of the reporting period, the cash-generating unit is committed to the restructuring and related provisions have been made. If an active market exists, the market price or, if applicable, the price in the most recent comparable transaction is used for fair value measurement.

If there is no active market, fair value less costs of disposal is generally calculated using the discounted cash flow method. If it is not possible to allocate cash flows to assets, the relevant impairment losses are determined on the basis of cash flows attributable to the cash-generating unit to which the assets belong. Projected cash flows are based on internal estimates for three planning periods. Generally, two further detailed planning periods are applied in addition. For periods beyond this detailed horizon, a perpetual annuity is recognized, taking into account individual business-specific growth rates. Discounting is generally based on the weighted average cost of capital (WACC) after tax. Specific WACCs are derived for cash-generating units with different risk profiles. The Bertelsmann Group performs sensitivity analyses on the cash-generating units, especially on those where the headroom between the recoverable amount and the carrying amount is low.

If the reasons for an impairment loss recognized in prior periods no longer exist, the impairment loss is reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized. The latter does not apply to goodwill. The impairment loss and reversals of impairment losses are both recognized immediately in profit or loss.

Leases

On the date the lease agreement is entered into, a lease is classified as a finance lease or an operating lease in accordance with IAS 17. A lease is classified as a finance lease if substantially all the risks and rewards incidental to ownership are transferred to the Bertelsmann Group. An operating lease is a lease not classified as a finance lease. Lease payments for operating leases are recognized in profit or loss under "Other operating expenses" using the straight-line method over the lease term.

Financial Assets

Financial assets are recognized initially at fair value, taking into account transaction costs that are directly attributable to the acquisition of the financial asset. In the case of financial assets that are recognized at fair value through profit or loss, transaction costs are recognized directly in the income statement. Regular purchases and sales of financial assets are recognized on the trade date – the day on which the Bertelsmann Group enters into an obligation to buy or sell the asset.

For subsequent measurement, financial assets are classified into the following categories and subcategories:

- available-for-sale financial assets
- financial assets recognized at fair value through profit or loss
  - primary and derivative financial assets held for trading
  - financial assets initially recognized at fair value through profit or loss
- loans and receivables
  - originated loans and trade receivables
  - cash and cash equivalents

The Bertelsmann Group does not use the category of held-to-maturity financial instruments.

Available-for-sale financial assets:
The available-for-sale category primarily includes non-current equity investments not classified as loans and receivables or at fair value through profit or loss. In accordance with IAS 39, available-for-sale financial assets are measured at their fair value at the end of the reporting period to the extent that this value can be reliably measured. Otherwise these are measured at cost. With deferred taxes taken into consideration, gains and losses resulting from fluctuations in the fair value are recognized in other comprehensive income. However, if there is objective evidence of impairment, this is recognized

in profit or loss. A significant or prolonged decline in the fair value of an equity instrument below its acquisition cost is also to be regarded as objective evidence of impairment. If these assets are sold, the accumulated gains and losses previously recognized in other comprehensive income are reclassified from equity to the income statement.

Primary and derivative financial assets held for trading:
This category includes derivatives that do not meet the formal requirements of IAS 39 for hedge accounting. They are measured at their fair value. Gains or losses from changes to the fair values are recognized in profit or loss. All derivatives that fulfill the formal requirements of IAS 39 for hedge accounting are carried separately as derivative financial instruments used in hedging relationships and are measured at fair value. Further details are presented in the section "Derivative Financial Instruments."

Financial assets initially recognized at fair value through profit or loss:
This category includes financial assets that are designated upon initial recognition at fair value through profit or loss. Changes in fair value are recognized in the other financial result.

Originated loans and trade receivables:
Originated loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method. Long-term interest-free or low-interest loans and receivables are discounted. If there is objective evidence of impairment, the carrying amount is reduced through use of an allowance account and the loss is recognized in profit or loss.

Cash and cash equivalents:
Cash includes bank balances and cash on hand. Cash equivalents include short-term, highly liquid securities with a term to maturity on acquisition of a maximum of three months.

Impairment losses and reversals:
The carrying amounts of financial assets not recognized at fair value through profit or loss are examined at the end of each reporting period to determine whether there is objective evidence of impairment. Such evidence exists in the following cases: information concerning financial difficulties of a customer or a group of customers; default or delinquency in interest or principal payments; the probability of being subject to bankruptcy or other financial restructuring; and recognizable facts that point to a measurable reduction in the estimated future cash flows, such as an unfavorable change in the borrower's payment status or the economic situation that corresponds to the delayed performance. In the case of financial assets carried at amortized cost, the loss in case of impairment corresponds to the difference between the carrying amount and the present value of the anticipated future cash flows – discounted using the original effective interest rate for the financial asset. If it is established that the fair value has increased at a later measurement date, the impairment loss previously recognized is reversed up to a maximum of amortized cost in profit or loss. Impairment losses are not reversed in the case of unlisted equity instruments that are classified as available-for-sale assets and carried at cost. In case of impairment on available-for-sale assets carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted using the risk-adjusted interest rate.

Measurement at Fair Value

In the case of financial assets and financial liabilities measured at fair value, the valuation technique applied depends on the respective inputs present in each case. If listed prices can be identified for identical assets on active markets, they are used for valuation (level 1). If this is not possible, the fair values of comparable market transactions are applied, and financial methods that are based on observable market data are used (level 2). If the fair values are not based on observable market data, they are identified using established financial methods or on the basis of observable prices obtained as part of the most recently implemented qualified financing rounds taking into account the life and developmental cycle of the respective entity (level 3).

Inventories

Inventories – including raw materials and supplies, finished goods, work in progress and merchandise – are accounted for in accordance with IAS 2 and recognized at the lower of historical cost and net realizable value at the end of the reporting period. Similar inventories are measured at average cost or using the FIFO (first-in, first-out) method.

In addition, inventories include all short-term film, television and similar rights that are intended for broadcast or sale within the Group's normal operating cycle. In particular, this includes films and TV shows currently in production, co-productions and acquired broadcasting rights. The carrying amount of such items at the end of the reporting period is the lower of historical cost or net realizable value. The consumption of film and television rights starts from the date of initial broadcast and depends either on the number of planned broadcasts or the expected revenues. The broadcast-based consumption of film and television rights is as follows:

- Free television thematic channels: Program rights are consumed on a straight-line basis over a maximum of six runs.
- Free television other channels:
  - Entertainment programs such as soap operas, documentaries, sports, and quiz or music programs are written off in full at the initial broadcast date.
  - Fifty percent of the carrying amount of children's programs and cartoons is written off at each of the first two broadcast dates.
  - The consumption of cinema productions and TV feature films and series also spans a maximum of two broadcasts: 67 percent of the value is consumed upon the first broadcast and the remaining 33 percent upon the second broadcast.
- Pay television channels: Program rights are consumed on a straight-line basis over the license period.

The consumption of inventories and film and television rights is recognized in the income statement in the cost of materials and changes in inventories, respectively.

Customer-Specific Production Contracts

In the financial year 2017, no material revenues were recognized from customer-specific production contracts.

Income Taxes

In accordance with IAS 12 current income taxes are calculated on the basis of the respective entity-specific taxable income of the financial year. For the calculation of current and deferred taxes, the applicable tax laws and tax jurisdictions of the respective country in which the consolidated Group companies are registered are considered. In the case of existing tax groups and tax-transparent entities, current and deferred taxes are accounted for in accordance with the applicable tax requirements in each case and from the perspective of the formally applicable company laws. Accordingly, current and deferred taxes within Consolidated Financial Statements are recognized on the level of the entity carrying the tax liability.

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amounts shown on the IFRS consolidated balance sheet, and for as yet unused tax loss carryforwards and tax credits.

Deferred tax assets are recognized only to the extent it is probable that taxable income will be available against which the deductible temporary difference can be utilized. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities resulting from business combinations are recognized with the exception of temporary differences on goodwill not recognizable for tax purposes. The tax rates applied for computation are those expected as of the date of reversal of temporary differences and use of tax loss carryforwards, respectively. As a rule, deferred taxes are recognized in profit or loss unless they relate to items recognized in other comprehensive income. In this case, deferred taxes are recognized in other comprehensive income.

Accumulated Other Comprehensive Income

In addition to foreign exchange gains and losses, accumulated other comprehensive income also includes in accordance with IAS 39 in equity recognized unrealized gains and losses from the fair value measurement of available-for-sale financial assets and of derivatives used in cash flow hedges.

In addition, in accordance with IAS 28.10, changes in other comprehensive income for entities accounted for using the equity method are recognized. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the return implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized in the retained earnings in the year in which these gains and losses have been incurred as part of the reconciliation of total comprehensive income for the period in the statement of changes in equity. Deferred taxes on the aforementioned items are also recognized directly in equity.

Provisions

Provisions for pensions and similar obligations are calculated using the projected unit credit method in accordance with IAS 19. The net interest expense included in pension expense is recognized in the financial result. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the return implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized immediately in equity under other comprehensive income and are not reclassified to profit or loss in a subsequent period (recycled).

With the exception of the other personnel-related provisions calculated in accordance with IAS 19, all of the other provisions are recognized in accordance with IAS 37. Provisions are measured in the amount of the most likely outcome. Non-current provisions are discounted. The discount rates take into account current market expectations and, if necessary, specific risks for the liability. As a rule, income from the reversal of provisions is generally included in the income statement line item to which the provision was previously charged.

Liabilities

Trade payables and other primary financial liabilities, including profit participation certificates, are initially measured at their fair value less transaction costs. Subsequent measurement is based on amortized cost using the effective interest method (financial liabilities at amortized cost), unless the financial liability is classified as initially recognized at fair value through profit or loss. Finance lease liabilities, which are also recognized under financial liabilities, are carried at their net present value in accordance with IAS 17.

Future payments related to put options issued by the Bertelsmann Group on the equity interests of subsidiaries are accounted for as a financial liability. The liability is initially recognized at the present value of the redemption amount with a corresponding charge directly to equity. In case of a business combination with the transfer to the Bertelsmann Group of the risks and rewards of the non-controlling interests underlying the put option, the goodwill increases by a corresponding amount upon initial recognition. Subsequent measurement of liabilities from put options is recognized through profit or loss.

Derivative Financial Instruments

As set out in IAS 39, all derivative financial instruments are recognized at fair value on the balance sheet. Derivative financial instruments are recognized as of the transaction date. When a contract involving a derivative is entered into, it is initially determined whether that contract is intended to serve as a fair value hedge or as a cash flow hedge. Some derivatives do not meet the requirements included in IAS 39 for recognition as hedges, despite this being their economic purpose (stand-alone hedge).

Changes in the fair values of derivatives are recognized as follows:

1. Fair value hedge: Changes in the fair value of these derivatives used to hedge assets or liabilities are recognized in profit or loss; the corresponding gain or loss on the change in fair value of the underlying balance sheet item is also directly included in the income statement.
2. Cash flow hedge: The effective portion of the changes in the fair value of derivatives used to hedge future cash flows is recognized in other comprehensive income. The amounts carried here are included in the initial measurement when an underlying non-financial asset or a non-financial liability is received (basis adjustment). In other cases, the reclassification of the previously recognized gains and losses from equity to the income statement is performed when the hedged underlying transaction affects profit or loss. The ineffective portion of the changes in the fair value of the hedging instrument is recognized in profit or loss.
3. Stand-alone hedge: Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss in accordance with the held-for-trading category and are therefore classified as at fair value through profit or loss.

In the financial year 2017, no hedge transactions were recognized with fair value hedges. Likewise, no hedge of net investment in foreign operations was made.

Share-Based Payments

Share-based payments for employees of the Bertelsmann Group include equity-settled share-based payment transactions and cash-settled share-based payment transactions. Equity-settled share-based payment transactions are granted to certain directors and senior employees in the form of share options. The options are granted at the market price on the grant date and are exercisable at that price. For share options, the fair value of the options granted is recognized as personnel costs with a corresponding increase in equity. The fair value is measured at the grant date and allocated over the vesting period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option pricing model, taking into account the terms and conditions at which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options vesting. Share options forfeited solely due to share prices not achieving the vesting threshold are excluded.

The financial liability of cash-settled share-based payment transactions is measured initially at fair value at grant date using an option pricing model. Until the liability is settled, its fair value shall be remeasured at the end of each reporting period and at the date of settlement, with any value changes recognized in profit or loss as personnel costs of the period.

Non-current Assets Held for Sale and Related Liabilities

Non-current assets or disposal groups are classified as held for sale if the associated carrying amount will be recovered principally through a sale transaction and not from continued use. These non-current assets and the associated liabilities are presented in separate line items in the balance sheet in accordance with IFRS 5. They are measured at the lower of the carrying amount or fair value less costs to sell. Depreciation/amortization is not recognized if a non-current asset is classified as held for sale or forms part of a disposal group that is classified as held for sale.

Components of entities that fulfill the requirements of IFRS 5.32 are classified as discontinued operations and thus are carried separately in the income statement and cash flow statement. All of the changes in amounts made during the reporting period that are directly connected with the sale of a discontinued operation in any preceding period are also stated in this separate category. If a component of an entity is no longer classified as held for sale, the results of this entity component that were previously carried under discontinued operations are reclassified to continuing operations for all of the reporting periods shown.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of Consolidated Financial Statements requires the use of accounting judgments, estimates and assumptions that may impact the carrying amounts of assets, liabilities, income and expenses recognized. Amounts actually realized may differ from estimated amounts. The following section presents accounting judgments, estimates and assumptions that are material in the Bertelsmann Consolidated Financial Statements for understanding the uncertainties associated with financial reporting.

- Recognition of income and expense: In the event of return rights, mostly for print products, estimates must be made with regard to the anticipated return volume as revenues are recognized taking the anticipated returns into account. Return ratios determined using statistical methods are used to identify the anticipated returns.
- Control of entities in which the Bertelsmann Group holds less than half of the voting rights: Management considers that the Bertelsmann Group has de facto control of Groupe M6, which belongs to RTL Group, even though it holds less than 50 percent of the voting rights. RTL Group is the major shareholder of Groupe M6, while the balance of other holdings remains highly dispersed, and the other shareholders have not organized their interest in such a way that they intend to vote differently from the Bertelsmann Group. In addition the Bertelsmann Group has a majority in relevant governing bodies and the decision-making rights over the relevant activities of Groupe M6 resulting from this majority.
- Significant influence although the Bertelsmann Group holds less than 20 percent of the equity shares in another entity: Although the Bertelsmann Group holds less than 20 percent of the equity shares of Atresmedia, management considers that the Group exercises a significant influence in Atresmedia in view of the representation of RTL Group on the Board of Directors and other governing bodies of Atresmedia.
- Investments in equity instruments: The measurement of various investments in equity instruments recognized at fair value that are not based on prices quoted on active markets is based on observable prices obtained as part of the most recently implemented qualified financing rounds, taking into account the life and developmental cycle of the respective entity, or on valuations obtained on the basis of established financial methods using risk-adjusted discount rates.
- Trade receivables and other receivables: Valuation allowances are recognized for doubtful receivables based on risk factors such as a customer’s financial difficulties or unfavorable changes in the economic situation, taking into account the maturity structure of the receivables. Sales estimates and assumptions on future sales success are also made in connection with advances paid to authors to secure exploitation rights in their publications. In addition, in the case of sports and film rights, estimates are made with regard to anticipated revenues.
- Impairment losses: Management estimates of cash flow, on which impairment tests are based, are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments, EBITDA margins and growth rates. A combination of long-term trends, industry forecasts and in-house knowledge, with special emphasis on recent experience, is used in forming the assumptions about the development of the various relevant markets in which the Bertelsmann Group operates. The relevant markets are an area highly exposed to the general economic conditions. The state of the relevant markets is just one of the key operational drivers that the Bertelsmann Group uses when assessing individual business models. The most important assumptions include estimated growth rates, the

weighted average cost of capital and tax rates. All of these different elements are variable, interrelated and difficult to isolate as the main driver of the various business models and respective valuations. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. The growth rates applied are based on long-term real growth rates for the relevant economies, growth expectations for the relevant sectors and long-term inflation forecasts for the countries in which the cash-generating units operate. The values allocated to the key assumptions are in line with external sources of information. The figures obtained using the respective discount rates reflect the recoverable amount of the cash-generating units. Material changes in the market or competitive environment may impair the value of cash-generating units. Details on impairment testing for intangible assets (including goodwill) in the Bertelsmann Group are presented in note 10 "Intangible Assets."

- Pension obligations: Pension obligations are measured using the projected unit credit method. Using this approach, biometric calculations, the prevailing long-term capital market interest rates and, in particular, assumptions about future salary and pension increases are taken into account. As a result of the increase in the discount rate for measuring provisions for pensions, actuarial gains amounting to €136 million before related tax effects were recognized in the item "Remeasurement component of defined benefit plans." Details on the assumptions made in pension accounting are presented in note 19 "Provisions for Pensions and Similar Obligations."
- Provisions for onerous contracts and warranties are also based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation, whether an outflow of resources is probable and whether it is possible to reliably determine the amount of the obligation are generally based on the expertise of in-house or third-party specialists. More recent information could change the estimates and thus impact the Group's financial position and financial performance. The legal and regulatory environment in which Bertelsmann operates does not bear significant litigation risks. With regard to risk provisioning, a provision for potential losses from litigation is recognized when the risks of a loss are considered to be probable and when a reliable estimate of the anticipated financial impact is possible. For significant contingent liabilities for which the possibility of a future loss is more than remote but less than probable, the Bertelsmann Group estimates the possible loss where the Group believes that an estimate can be made. Contingent liabilities from litigation that were of subordinate significance from a Group perspective existed at the end of the reporting period. Management regularly reviews the recognition, measurement and use of provisions along with the disclosure requirements for contingent liabilities.

In the case of purchase price allocations, assumptions are also made regarding the measurement of assets and liabilities assumed as part of business combinations. This applies in particular with regard to the acquired intangible assets, as measurements are based on fair value. As a rule, this is the present value of the future cash flows after taking into account the present value of the tax amortization benefit. In addition, the definition of uniform useful lives within the Group is based on management's assumptions. General information on useful lives is presented in the sections "Other Intangible Assets" and "Property, Plant and Equipment."

Assessments of the ability to realize uncertain tax positions and future tax benefits are also based on assumptions and estimates. Recognition of an asset or liability from an uncertain tax position is performed in accordance with IAS 12 if payment or refund of an uncertain tax position is probable. Measurement of the uncertain tax position is at its most likely amount. Deferred tax assets are only carried to the extent that it is probable that they can be utilized against future taxable profits. When assessing the probability of the ability to use deferred tax assets in the future, various factors are taken into account, including past earnings, company forecasts, tax forecast strategies and loss carryforward periods. Information relating to the ability to realize tax benefits is presented in note 9 "Income Taxes."

Assumptions are also made for measuring fair values of financial assets and financial liabilities. In this regard, Bertelsmann uses various financial methods that take into account the market conditions and risks in effect at the end of the respective reporting periods. The inputs to these models are taken from observable markets where possible, but where these are not available, measuring fair values is based on assumptions by management. These assumptions relate to input factors such as liquidity risk and default risks.

Estimates and assumptions also relate to the share-based payments. The conditions of the cash-settled share-based payment transactions and the stock option plans are presented in greater detail in the "Share-Based Payments" section in note 18 "Equity." Estimates and the underlying assumptions are reviewed on an ongoing basis. As a rule, adjustments to estimates are taken into account in the period in which the change is made and in future periods.

Prior-Year Information

The items "Changes in inventories" and "Own costs capitalized" will no longer be reported separately in the Consolidated Income Statement but shown in the item "Cost of materials." The reclassifications increase clarity, legibility and comparability with the international companies preparing their Consolidated Financial Statements using the cost of sales method. The figures of the previous year were adjusted for better comparability. Because these items were only reclassified within the income statement, EBIT and Group profit or loss remain unchanged in their respective amounts. Further details are presented in note 14 "Inventories."

Notes to the Income Statement and the Balance Sheet

1 Revenues

in € millions	2017	2016
Revenues from selling goods and merchandise	4,335	4,602
Revenues from providing services	6,073	5,767
Revenues from advertising	4,406	4,384
Revenues from grant of use of assets	2,376	2,197
	17,190	16,950

The item "Revenues from advertising" includes, among others, revenues from barter transactions in the amount of €56 million (previous year: €58 million), which were primarily incurred by RTL Group and Gruner + Jahr.

2 Other Operating Income

in € millions	2017	2016
Income from reimbursements	179	231
Income from sideline operations	92	175
Gains from disposals of non-current assets	125	55
Fair value remeasurement of investments	15	12
Foreign exchange gains	–	10
Sundry operating income	157	130
	568	613

The item "Gains from disposals of non-current assets" primarily includes a capital gain of €94 million from the sale of three adjoining buildings in Paris by RTL Group. The item "Sundry operating income" includes, among others, income of €26 million from exercising a call option on a non-financial asset and its immediate resale.

3 Personnel Costs

in € millions	2017	2016
Wages and salaries	4,368	4,230
Statutory social security contributions	714	689
Expenses for pensions and similar obligations	138	149
Profit sharing	105	105
Other employee benefits	216	202
	5,541	5,375

The contributions paid by employer to state pension plans amount to €369 million (previous year: €342 million) in the financial year 2017.

4 Amortization, Depreciation, Impairment and Reversals on Intangible Assets and Property, Plant and Equipment

in € millions	2017	2016
Amortization/depreciation, impairment losses and reversals on		
– intangible assets	423	371
– property, plant and equipment	268	261
	691	632

5 Other Operating Expenses

in € millions	2017	2016
Administrative expenses	1,318	1,307
Selling and transmission expenses	479	523
Advertising costs	427	424
Allowances on receivables and non-financial assets	192	206
Consulting and audit fees	177	171
Operating taxes	85	120
Adjustment to carrying amounts on assets held for sale	4	14
Losses on disposals of non-current assets	6	5
Foreign exchange losses	16	–
Sundry operating expenses	77	96
	2,781	2,866

The item “Administrative expenses” includes, among others, payments recognized as expenses from operating leases of €270 million (previous year: €267 million), associated services and incidental costs of €29 million (previous year: €23 million), and contingent lease payments of €7 million (previous year: €7 million). In addition, this item includes repair and maintenance costs of €195 million (previous year: €188 million) and costs for IT services of €156 million (previous year: €162 million).

6 Results from Financial Assets

in € millions	2017	2016
Income from participations	10	14
Impairment on other financial assets	(20)	(22)
Results from financial assets	(10)	(8)

7 Interest Income and Interest Expenses

in € millions	2017	2016
Interest income		
Interest income on cash and cash equivalents	3	3
Interest income on interest rate derivatives	1	–
Other interest income	10	10
	14	13
Interest expenses		
Interest expenses on financial debt	(97)	(119)
Interest expenses on interest rate derivatives	(10)	(3)
Other interest expenses	(27)	(24)
	(134)	(146)

8 Other Financial Income and Expenses

in € millions	2017	2016
Other financial income		
Financial income from put options	–	5
Non-operating foreign exchange gains	11	5
Minority interests in partnerships	2	1
Other	13	3
	26	14
Other financial expenses		
Dividend entitlement on profit participation certificates	(44)	(44)
Net interest on defined benefit plans	(34)	(40)
Minority interests in partnerships	(11)	(12)
Financial expenses from put options	(11)	–
Other	(25)	(29)
	(125)	(125)

To better reflect the economic content, income and expenses from non-operating foreign currency hedging transactions are offset against the results from the measurement of the hedged foreign currency items and are recognized as non-operating foreign exchange gains or losses. In the financial year 2017, losses from these non-operating foreign currency transactions of €-194 million (previous year: €-116 million) were offset by income from foreign currency hedging transactions amounting to €256 million (previous year: €190 million). Gains from these foreign currency transactions of €63 million (previous year: €84 million) were offset by expenses from foreign currency hedging transactions amounting to €-114 million (previous year: €-153 million).

9 Income Taxes

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

Income Taxes

in € millions	2017	2016
Earnings before income taxes (total)	1,670	1,556
Current income taxes from continuing operations	(462)	(388)
Deferred income taxes from continuing operations	(10)	(31)
Income taxes from continuing operations	(472)	(419)
Current income taxes from discontinued operations	–	–
Deferred income taxes from discontinued operations	–	–
Income taxes from discontinued operations	–	–
Total income taxes	(472)	(419)
Net income after income taxes (total)	1,198	1,137

In the financial year 2017, net income after income taxes was subject to a non-recurring negative impact in the amount of €33 million as a result of the US tax reform (Tax Cuts and Jobs Act) in terms of measurement of deferred tax assets and liabilities of US Group companies. The remeasurement of deferred taxes for US Group companies was carried out at the reduced US corporate tax rate of 21 percent (previously 35 percent). In accordance with announcements published to date, the impacts from the introduction of the Base-Erosion and Anti-Abuse Tax ("BEAT"), which is effective from January 1, 2018, are not considered in the measurement of deferred taxes as of December 31, 2017. In the future, these impacts will be recognized in the year of their occurrence. The US federal tax rate reduction from 35 percent to 21 percent will lead to a lower tax burden in the United States in the future. Further impacts from the US tax reform on the Consolidated Financial Statements can affect the interest deduction in the United States, the minimum taxation and German Controlled foreign corporation (CFC) rules. They are part of a deeper analysis.

In addition, in the financial year 2017, changes in the tax rate for the calculation of long-term temporary differences in France and the United Kingdom were applied, which resulted in a reduction of the tax result of €13 million.

After the shareholding increase in Penguin Random House, the US entities of the division have been considered for the first time in the tax group of Bertelsmann Inc.

Tax loss carryforwards of €389 million (previous year: €433 million) were utilized in the financial year 2017, reducing current tax expenses by €106 million (previous year: €102 million). Of the tax loss carryforwards utilized, €31 million (previous year: €132 million) was due to German corporate income tax, €29 million (previous year: €41 million) was due to German trade tax and €329 million (previous year: €260 million) was due to foreign income taxes. These amounts include €78 million (previous year: €40 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past. These relate to German corporate tax in the amount of €2 million (previous year: €1 million), German trade tax in the amount of €2 million (previous year: €1 million) and foreign income taxes in the amount of €74 million (previous year: €38 million). This led to a reduction in current tax expense of €20 million (previous year: €11 million).

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

Deferred Taxes

in € millions	12/31/2017 Assets	12/31/2017 Equity and liabilities	12/31/2017 thereof recognized in profit or loss in the financial year	12/31/2016 Assets	12/31/2016 Equity and liabilities	12/31/2016 thereof recognized in profit or loss in the financial year
Intangible assets	283	436	118	276	570	(4)
Property, plant and equipment	46	39	(14)	63	39	10
Financial assets	15	27	1	14	26	7
Inventories	55	6	(16)	75	4	(7)
Receivables	119	22	15	111	24	(11)
Advance payments and other assets	160	161	17	113	153	17
Provisions	779	206	(11)	826	182	(5)
Financial debt	13	55	(19)	19	42	(13)
Liabilities	16	6	(14)	29	4	9
Advance payments and other liabilities	55	26	7	55	31	5
Loss carryforwards/tax credits	239		(94)	355		(39)
Total	1,780	984	(10)	1,936	1,075	(31)
Offset	(860)	(860)		(929)	(929)	
Carrying amount	920	124		1,007	146	

The decrease in deferred tax liabilities for intangible assets and deferred tax assets for tax loss carryforwards mainly relates to the impact of the US tax reform with regard to the measurement of these items.

No deferred tax liabilities were recognized for temporary differences in connection with investments in subsidiaries in the amount of €443 million (previous year: €781 million) as Bertelsmann can control their reversal, and it is probable that these temporary differences will not be reversed in the foreseeable future. Current and deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and meet the criteria for offsetting. The term of the deferred taxes on temporary differences is mostly long term.

Information on amounts of income tax relating to other comprehensive income is presented in note 18 "Equity."

Valuation allowances for deferred tax assets are recognized on temporary differences, tax loss carryforwards and tax credits when it is unlikely that they can be utilized in the foreseeable future. The need to recognize valuation allowances is assessed primarily based on existing deferred tax liabilities from temporary differences and projected taxable income within a planning period.

Temporary differences, tax loss carryforwards and tax credits for which no deferred taxes have been recognized can be carried forward as follows:

Expiration

in € millions	12/31/2017	12/31/2016
Tax loss carryforwards		
To be carried forward for more than 5 years	6,381	6,488
To be carried forward for up to 5 years	128	126
Temporary differences	154	91
Tax credits		
To be carried forward for more than 5 years	52	50
To be carried forward for up to 5 years	–	1

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

Reconciliation to Actual Tax Expense

in € millions	2017	2016
Earnings before income taxes from continuing operations	1,677	1,555
Income tax rate applicable to Bertelsmann SE & Co. KGaA	30.80%	30.80%
Expected tax expense from continuing operations	(517)	(479)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment to different national tax rates	(6)	(8)
Effect of changes in tax rate and tax law	(17)	(4)
Non-tax-deductible impairment on goodwill	(10)	–
Tax effects in respect of results from disposals of investments	37	5
Current income taxes for previous years	10	11
Deferred income taxes for previous years	(10)	13
Effects of measurements of deferred tax assets	23	48
Permanent differences	25	13
Other adjustments	(7)	(18)
Total of adjustments	45	60
Actual tax expense from continuing operations	(472)	(419)

The income tax rate applicable to Bertelsmann SE & Co. KGaA consists of corporate income tax, the solidarity surcharge and trade tax.

Effective Income Tax Rate

	2017	2016
Corporate income tax including solidarity surcharge	15.83%	15.83%
Trade tax	14.97%	14.97%
Effective income tax rate	30.80%	30.80%

10 Intangible Assets

in € millions	Goodwill	Other intangible assets: Music and film rights	Other intangible assets: Other rights and licenses	Other intangible assets: Internally generated intangible assets	Other intangible assets: Advance payments	Other intangible assets: Total	Total
Cost							
Balance as of 1/1/2016	8,193	2,701	1,989	962	11	5,663	13,856
Currency translation differences	28	(54)	(10)	21	–	(43)	(15)
Acquisitions through business combinations	255	27	77	5	–	109	364
Other additions	–	179	104	76	9	368	368
Reductions through disposal of investments	(8)	–	(18)	–	–	(18)	(26)
Other disposals	–	(72)	(57)	(11)	–	(140)	(140)
Reclassifications in accordance with IFRS 5	(2)	–	(5)	–	–	(5)	(7)
Reclassifications and other changes	(1)	50	5	(51)	(7)	(3)	(4)
Balance as of 12/31/2016	8,465	2,831	2,085	1,002	13	5,931	14,396
Currency translation differences	(229)	(144)	(102)	(53)	–	(299)	(528)
Acquisitions through business combinations	167	104	46	1	–	151	318
Other additions	–	165	139	32	23	359	359
Reductions through disposal of investments	(2)	–	(1)	–	–	(1)	(3)
Other disposals	–	(82)	(55)	(19)	–	(156)	(156)
Reclassifications in accordance with IFRS 5	–	–	(3)	–	–	(3)	(3)
Reclassifications and other changes	2	28	(44)	19	(22)	(19)	(17)
Balance as of 12/31/2017	8,403	2,902	2,065	982	14	5,963	14,366
Accumulated amortization							
Balance as of 1/1/2016	298	1,269	971	897	4	3,141	3,439
Currency translation differences	(1)	2	(6)	21	–	17	16
Amortization	–	183	157	25	–	365	365
Impairment losses	–	–	5	2	–	7	7
Reversals of impairment losses	–	–	(1)	–	–	(1)	(1)
Reductions through disposal of investments	(6)	–	(11)	–	–	(11)	(17)
Other disposals	–	(63)	(53)	(11)	–	(127)	(127)
Reclassifications in accordance with IFRS 5	–	–	(2)	–	–	(2)	(2)
Reclassifications and other changes	–	1	6	(9)	–	(2)	(2)
Balance as of 12/31/2016	291	1,392	1,066	925	4	3,387	3,678
Currency translation differences	(2)	(38)	(40)	(52)	–	(130)	(132)
Amortization	–	175	170	44	–	389	389
Impairment losses	30	1	3	1	–	5	35
Reversals of impairment losses	–	–	(1)	–	–	(1)	(1)
Reductions through disposal of investments	–	–	(1)	–	–	(1)	(1)
Other disposals	–	(82)	(45)	(16)	–	(143)	(143)
Reclassifications in accordance with IFRS 5	–	–	(2)	–	–	(2)	(2)
Reclassifications and other changes	–	4	(25)	6	(4)	(19)	(19)
Balance as of 12/31/2017	319	1,452	1,125	908	–	3,485	3,804
Carrying amount as of 12/31/2017	8,084	1,450	940	74	14	2,478	10,562
Carrying amount as of 12/31/2016	8,174	1,439	1,019	77	9	2,544	10,718

Other rights and licenses include brands, supply rights and publishing rights, along with acquired software and other licenses. In the financial year, BMG acquired music catalogs in the amount of €102 million, of which €53 million related to several music catalogs in the United Kingdom and €43 million to several music catalogs in the United States. Internally generated intangible assets mostly include own film and TV productions and internally generated software. As in the previous year, no intangible assets have been provided as collateral for liabilities.

Goodwill and other intangible assets are attributable to the following cash-generating units:

Goodwill and Other Intangible Assets with Indefinite Useful Life by Cash-Generating Units

	Goodwill		Other intangible assets with indefinite useful life	
in € millions	12/31/2017	12/31/2016	12/31/2017	12/31/2016
RTL Group	5,158	5,160	121	121
RTL Group, Group level	2,123	2,123	–	–
Fremantle Media	1,047	1,055	–	–
Television Germany	955	953	–	–
Groupe M6	525	459	120	120
RTL Nederland	160	152	–	–
SpotX	112	126	–	–
StyleHaul	104	117	–	–
Other	132	175	1	1
Penguin Random House	925	979	–	–
Penguin Random House Ventures	881	934	–	–
Random House Germany	44	45	–	–
Gruner + Jahr	524	547	–	–
Magazines and digital business Germany & MPS	334	327	–	–
Magazines and digital business International	174	204	–	–
Newspapers	16	16	–	–
BMG	355	343	–	–
Arvato	529	508	–	–
Financial Solutions	412	410	–	–
Other	117	98	–	–
Bertelsmann Printing Group	39	39	–	–
Print US	22	25	–	–
Other	17	14	–	–
Bertelsmann Education Group	554	598	–	–
Online Learning	548	592	–	–
Other	6	6	–	–
	8,084	8,174	121	121

Intangible assets with an indefinite useful life are primarily Groupe M6 trademark rights in France (€120 million; previous year: €120 million). In determining that the M6 brand has an indefinite useful life, management has considered various factors such as the past and expected longevity of the brand, the impact of possible changes in broadcasting technologies, the impact of possible evolutions of the regulatory environment in the French television industry, the current and expected audience share of the M6 channel, and M6 management's strategy to maintain and strengthen the trademark "M6." As of December 31, 2017, based on the analysis of these factors, there is no foreseeable limit to the period of time over which the M6 brand is expected to generate cash inflows.

For the purpose of impairment testing in accordance with IAS 36, goodwill from a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination.

The recoverable amount of the impairment test for RTL Group's goodwill recognized at Group level was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2017, the market price of RTL Group S.A. shares on the Frankfurt Stock Exchange was €67.07 (December 31, 2016: €69.73). No impairment was identified for goodwill carried. The recoverable amount for the goodwill impairment test of the cash-generating unit Groupe M6 was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2017, the market price of Groupe M6 shares on the Paris Stock Exchange was €21.54 (December 31, 2016: €17.67).

For the other cash-generating units, the recoverable amount equals the fair value, which is derived from discounted cash flows less costs of disposal, and which is based on level 3 of the fair value hierarchy. Projected cash flows were based on internal estimates for three detailed planning periods and, as a rule, two further detailed planning periods were applied. For periods after this detailed horizon, a perpetual annuity was applied, taking into account individual business-specific growth rates.

The cash flow forecasts underlying the impairment testing of the individual cash-generating units bearing material goodwill are based on the following assumptions relating to the market development for the beginning of the detailed planning period:

- For 2018, the European TV advertising markets are expected to remain stable or to 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 market segment, while significant growth is anticipated in the recording rights market segment.
- In 2018, the services markets are expected to achieve growth similar to the previous year.
- In 2018, the gravure printing market 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.

In addition, fair values based on discounted cash flows were measured using the following individual business-specific growth rates and discount rates for periods after the detailed planning period:

Overview of Growth and Discount Rates

	Growth rate in % for the year		Discount rate in % for the year	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
RTL Group				
Fremantle Media	1.8	2.5	7.1	7.1
Television Germany	1.5	2.0	6.8	6.9
RTL Nederland	1.5	2.0	6.8	6.9
SpotX	2.0	2.0	9.8	12.0
StyleHaul	2.0	2.0	11.1	13.9
Other	0.0–2.0	-1.0–2.0	7.2–10.8	7.2–13.9
Penguin Random House				
Penguin Random House Ventures	0.5	0.5	8.7	8.5
Random House Germany	0.5	0.5	6.9	6.5
Gruner + Jahr				
Magazines and digital business Germany & MPS	0.0	-0.8	6.1	6.0
Magazines and digital business International	0.0	-0.5	6.5	6.4
Newspapers	0.0	-1.0	7.1	7.0
BMG	2.0	2.0	6.9	6.5
Arvato				
Financial Solutions	1.0	1.0	6.8	6.3
Other	1.0	1.0	6.0–8.2	6.1–8.1
Bertelsmann Printing Group				
Print US	0.0	-1.0	9.4	9.0
Other	0.0	-0.8–0.0	6.0–7.9	6.0–7.6
Bertelsmann Education Group				
Online Learning	2.5	2.5	9.1	8.9
Other	2.0	2.5	13.8	11.5

In the financial year 2017, impairment losses on goodwill amounted to €30 million, which fully relates to the cash-generating unit Gruner + Jahr Magazines and digital business International. Due to a difficult market environment and declines in advertising and circulation revenues in the print sector, the recoverable amount was lower than the carrying amount. Impairment losses were measured on the basis of the following assumptions: a discount rate of 6.5 percent and a long-term growth rate of 0.0 percent. In the previous year, no impairment losses were recognized for goodwill. Impairment losses on goodwill and other intangible assets with indefinite useful lives are disclosed in the income statement under "Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment."

In addition to organic initiatives to develop new formats and intellectual property, Fremantle Media has continued its focus on the identification and integration of new businesses in order to increase the pipeline of new shows (IP creation), to gain presence in new markets and continue expanding its drama footprint. Additionally, management remains focused on areas of efficiency in order to further improve the margin. Fremantle Media's key brands continue to perform well, and this is expected to remain the case in the coming years.

Fremantle Media continues to build a scalable digital business by expanding capabilities across the value chain and by developing specific new content. Therefore, the increase in the diversity of Fremantle Media's portfolio has led to an updated business plan confirming an expected slight increase and sustainability of its EBITA margin compared to the most recent levels. The recoverable amount was determined using the fair value less costs of disposal on the basis of the discounted cash flow method with a long-term growth rate of 1.8 percent (previous year: 2.5 percent) and a discount rate of 7.1 percent (previous year: 7.1 percent). As of December 31, 2017, the recoverable amount exceeds the carrying amount by €202 million (previous year: €237 million). In the event of an increase in the discount rate by 0.8 percentage points, a reduction in the annual revenue of 0.9 percent or a reduction in the EBITDA margin by 1.1 percentage points, the recoverable amount is lower than the carrying amount.

Even if breakeven is not expected in the near future, StyleHaul continues to show strong video view and revenue growth, notably in its branded entertainment business. Management sees considerable potential of margin improvement even if StyleHaul is at a rather early stage of its life cycle with uncertainties regarding future development. The recoverable amount was determined using the fair value less costs of disposal on the basis of the discounted cash flow method with a long-term growth rate of 2.0 percent (previous year: 2.0 percent) and a discount rate of 11.1 percent (previous year: 13.9 percent). As of December 31, 2017, the recoverable amount exceeds the carrying amount by €4 million (previous year: €23 million). In the event of an increase in the discount rate by 0.3 percentage points, a reduction in the annual revenue of 0.3 percent or a reduction in the EBITDA margin by 0.4 percentage points, the recoverable amount is lower than the carrying amount.

Other material goodwill was not subject to impairment even given a change by one of the two most important factors: discount rate (increase of 1.0 percentage point) and long-term growth rate (reduction of 1.0 percentage point).

11 Property, Plant and Equipment

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Cost					
Balance as of 1/1/2016	1,769	2,572	1,355	98	5,794
Currency translation differences	(13)	(23)	(3)	–	(39)
Acquisitions through business combinations	–	–	2	–	2
Other additions	75	50	121	104	350
Reductions through disposal of investments	–	(1)	(28)	–	(29)
Other disposals	(14)	(145)	(100)	–	(259)
Reclassifications in accordance with IFRS 5	(84)	(3)	(9)	–	(96)
Reclassifications and other changes	93	3	30	(135)	(9)
Balance as of 12/31/2016	1,826	2,453	1,368	67	5,714
Currency translation differences	(19)	(46)	(43)	(2)	(110)
Acquisitions through business combinations	–	3	3	–	6
Other additions	52	70	136	68	326
Reductions through disposal of investments	–	–	–	–	–
Other disposals	(51)	(69)	(106)	(1)	(227)
Reclassifications in accordance with IFRS 5	81	1	(2)	–	80
Reclassifications and other changes	21	41	16	(77)	1
Balance as of 12/31/2017	1,910	2,453	1,372	55	5,790
Accumulated depreciation					
Balance as of 1/1/2016	986	2,244	959	–	4,189
Currency translation differences	(9)	(21)	–	–	(30)
Depreciation	50	79	125	–	254
Impairment losses	–	5	3	–	8
Reversals of impairment losses	(1)	–	–	–	(1)
Reductions through disposal of investments	–	–	(21)	–	(21)
Other disposals	(3)	(144)	(93)	–	(240)
Reclassifications in accordance with IFRS 5	(2)	(1)	(6)	–	(9)
Reclassifications and other changes	(8)	(9)	17	–	–
Balance as of 12/31/2016	1,013	2,153	984	–	4,150
Currency translation differences	(12)	(40)	(32)	–	(84)
Depreciation	55	81	129	–	265
Impairment losses	–	1	3	–	4
Reversals of impairment losses	–	–	(1)	–	(1)
Reductions through disposal of investments	–	–	–	–	–
Other disposals	(32)	(67)	(103)	–	(202)
Reclassifications in accordance with IFRS 5	–	(1)	(1)	–	(2)
Reclassifications and other changes	4	(3)	1	–	2
Balance as of 12/31/2017	1,028	2,124	980	–	4,132
Carrying amount as of 12/31/2017	882	329	392	55	1,658
Carrying amount as of 12/31/2016	813	300	384	67	1,564

As of the end of the reporting period, property, plant and equipment in the amount of €13 million (previous year: €8 million) was pledged as collateral for liabilities.

Impairment losses totaling €-4 million were recognized for property, plant and equipment (previous year: €-8 million).

12 Interests in Other Entities
Subsidiaries with Material Non-controlling Interests

In the Group's view, material non-controlling interests relate to RTL Group and the publishing group Penguin Random House. The proportion of ownership interests held by non-controlling interests in RTL Group based in Luxembourg, Luxembourg, is 24.3 percent after treasury shares (previous year: 24.3 percent). At RTL Group itself, material non-controlling interests relate to the subsidiary Groupe M6 based in Paris, France. The Bertelsmann Group has a 48.3 percent interest (previous year: 48.4 percent) in Groupe M6. Of the non-controlling interests of RTL Group, €437 million (previous year: €428 million) is attributable to Groupe M6. The publishing group Penguin Random House, formed due to the merger of Random House and Penguin as of July 1, 2013, consists of the two legal groups Penguin Random House LLC, based in Wilmington, Delaware, United States, which bundles all of the publishing units in the United States, and Penguin Random House Limited, based in London, United Kingdom, comprising all other publishing units. To better reflect the substance of the Bertelsmann Group's investment in the two groups, both groups are considered as a single entity. The proportion of ownership interests held by non-controlling interests in Penguin Random House is 25.0 percent (previous year: 47.0 percent).

On October 5, 2017, Bertelsmann acquired another 22 percent of the shares in Penguin Random House, the world's largest trade book publisher, from Pearson, the British media and education company, in addition to its existing 53 percent interest. The remaining 25 percent of the shares in the company, which was created by the combination of the Random House and Penguin Group book publishing companies on July 1, 2013, will remain with Pearson. By securing a strategic three-quarters majority, Bertelsmann gains greater governance rights at Penguin Random House and will thus in the future, among other things, appoint the chairman of the trade book publisher's board of directors. The purchase price payment for the 22 percent interest amounted to €505 million. In addition, transaction-related costs amounted to €4 million, which were recognized directly in equity. The transaction was accounted for as an equity transaction in accordance with IFRS 10. The difference between the purchase price including transaction-related costs in the amount of €509 million and the carrying amount of the acquired non-controlling interests was recognized in equity. The transaction resulted in a reduction of the equity attributable to the Bertelsmann shareholders of €275 million and the equity attributable to the non-controlling interests in the amount of €233 million.

In addition to the shareholding increase, dividend distribution agreements for the Penguin Random House shareholders were made. Under these agreements, a special dividend distribution of €430 million relates to Pearson, of which €373 million was paid in the financial year 2017 and a further €57 million is payable in the financial year 2018.

Change in Bertelsmann Shareholders' Equity

in € millions	Change in Bertelsmann shareholders' equity
Carrying amount of interests acquired	233
Purchase price for non-controlling interests	(505)
Transaction-related costs	(4)
Other effects	1
Decrease in Bertelsmann shareholders' equity	(275)
– thereof decrease in retained earnings	(327)
– thereof increase in the currency translation reserve	51
– thereof increase of share of other comprehensive income of investments accounted for using the equity method	1

With effect as of October 1, 2017, RTL Group acquired the remaining 36.4 percent (on a fully diluted basis) non-controlling interest in SpotX, Inc. ("SpotX") by exercising a call option for a total amount of €128 million, of which a cash contribution to SpotX amounted to €7 million. The purchase price further remains subject to a performance-based adjustment of up to US$8 million if SpotX reaches defined thresholds of net revenue and EBITDA in 2017; the liability for contingent consideration is zero as of December 31, 2017. The acquisition of the interests in SpotX resulted in a decrease of Bertelsmann shareholders' equity in the amount of €83 million.

The following table shows summarized financial information on RTL Group and Penguin Random House, including the interests in their subsidiaries, joint ventures and associates. The information disclosed shows the amounts before intercompany eliminations.

Financial Information for Subsidiaries with Material Non-controlling Interests

	RTL Group		Penguin Random House	
in € millions	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Non-current assets	6,672	6,672	1,759	1,910
Current assets	3,330	3,734	1,853	1,787
Non-current liabilities	1,315	1,210	860	239
Current liabilities	3,155	3,533	1,704	1,198
Bertelsmann shareholders' equity	4,436	4,527	892	1,407
Non-controlling interests	1,096	1,136	156	853
in € millions	2017	2016	2017	2016
Revenues	6,373	6,237	3,075	3,059
Profit or loss	836	814	365	374
– thereof of non-controlling interests	277	270	143	176
Total comprehensive income	683	845	214	339
– thereof of non-controlling interests	238	277	94	166
Dividends to non-controlling interests	222	224	506	149
Cash flow from operating activities	1,019	1,107	322	435
Cash flow from investing activities	(134)	(295)	(89)	(26)
Cash flow from financing activities	(1,041)	(827)	(132)	(353)
Increase/(decrease) in cash and cash equivalents	(156)	(15)	101	56

Investments Accounted for Using the Equity Method

The investments accounted for using the equity method relate to joint ventures in the amount of €46 million (previous year: €44 million) and to associates in the amount of €906 million (previous year: €997 million).

Investments in Joint Ventures

As of December 31, 2017, investments in 28 (previous year: 26) individually immaterial joint ventures were accounted for in the Consolidated Financial Statements. The following table shows summarized financial information on these joint ventures. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Joint Ventures

in € millions	12/31/2017	12/31/2016
Non-current assets	61	60
Current assets	57	57
Non-current liabilities	8	9
Current liabilities	58	59

in € millions	2017	2016
Earnings after taxes from continuing operations	30	27
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	(2)
Total comprehensive income	30	25

Investments in Associates

As of December 31, 2017, investments in 63 (previous year: 52) associates were accounted for in the Consolidated Financial Statements. As in the previous year, the investment of RTL Group in Atresmedia, based in San Sebastián de los Reyes, Spain, is individually material for the Group. As of December 31, 2017, the ownership is 18.7 percent after treasury shares (previous year: 18.7 percent). On December 31, 2017, the stock market value of Atresmedia, which is listed on the Madrid Stock Exchange, amounted to €1,964 million (previous year: €2,345 million).

As of December 31, 2017, the fair value of the Bertelsmann Group's interest in Atresmedia amounted to €366 million (previous year: €437 million).

The following table shows summarized financial information on Atresmedia. The information shows the amounts included in the financial statements of Atresmedia plus adjustments for using the equity method and not the Bertelsmann Group's share of these amounts.

Financial Information on Individually Material Associates

	Atresmedia	
in € millions	12/31/2017	12/31/2016
Non-current assets	631	621
Current assets	718	689
Non-current liabilities	226	141
Current liabilities	677	652
Equity	446	517

in € millions	2017	2016
Revenues	1,052	1,021
Earnings after taxes from continuing operations	142	129
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	(4)	2
Total comprehensive income	138	131
Dividends received from the associate	39	17

Reconciliation of the summarized financial information shown to the carrying amount of the interest in Atresmedia in the Consolidated Financial Statements is shown in the following table:

Reconciliation to Carrying Amount

in € millions	12/31/2017	12/31/2016
Equity	446	517
Proportionate equity	83	97
Goodwill	166	166
Carrying amount	249	263

The following table shows summarized financial information on associates that management considers individually immaterial. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Associates

in € millions	12/31/2017	12/31/2016
Non-current assets	687	663
Current assets	339	309
Non-current liabilities	67	52
Current liabilities	229	177

in € millions	2017	2016
Earnings after taxes from continuing operations	7	(22)
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	(8)	–
Total comprehensive income	(1)	(22)

The total carrying amount of the investments in all individually immaterial associates amounts to €657 million (previous year: €734 million) as of December 31, 2017. Of this, €126 million was attributable to the investment in the online education platform HotChalk (previous year: €192 million) and €111 million was attributable to the investment in the online learning provider Udacity (previous year: €134 million). Although at 18.6 percent (previous year: 18.6 percent) the interest is less than 20 percent, the Bertelsmann Group exercises a significant influence in Udacity due to the representation within the board of directors. In the financial year 2017, the share of earnings attributable to HotChalk amounted to €-16 million and to Udacity €-8 million. Both investments were tested for impairment as of December 31, 2017. Taking into account current growth targets, recognition of an impairment loss was not required for Udacity. An adjustment of the growth targets in connection with a realignment of the business model for the associate HotChalk, which belongs to Bertelsmann Education Group, resulted in an impairment loss of €29 million. The recoverable amount was determined using the fair value less costs of disposal on the basis of the discounted cash flow method with a long-term growth rate of 1.0 percent and a discount rate of 11.8 percent. The achievement of the growth targets is continually monitored and assessed. In addition, due to the ongoing difficult economic situation in Brazil, an impairment loss of €10 million was recognized for the associate Editora Schwarcz S.A., which belongs to Penguin Random House. The recoverable amount was determined using the fair value less costs of disposal on the basis of the discounted cash flow method with a long-term growth rate of 6.0 percent and a discount rate of 13.8 percent due to the business activities in the Brazilian market.

Of the total carrying amount of the investments in all individually immaterial associates, an additional €84 million (previous year: €68 million) is attributable to the three

University Venture Funds, which invest in high-growth companies in the education sector. Bertelsmann holds between 47.3 percent and 100 percent of the shares in these funds. As operational management and investment decisions in particular are the responsibilities of the respective fund managers, there is significant influence, but control as defined by IFRS 10 does not exist despite an ownership interest of over 50 percent in some cases.

Results from Investments Accounted for Using the Equity Method

in € millions	2017	2016
Income from investments accounted for using the equity method	119	90
– joint ventures	33	30
– associates	86	60
Expenses from investments accounted for using the equity method	(56)	(61)
– joint ventures	(2)	(3)
– associates	(54)	(58)
Results from investments accounted for using the equity method	63	29
– joint ventures	31	27
– associates	32	2

13 Other Financial Assets

in € millions	12/31/2017	12/31/2016
Non-current		
Loans	39	42
Investments in affiliates	18	15
Other investments	516	420
Securities and financial assets	18	16
Derivative financial instruments	53	49
	644	542
Current		
Loans	24	29
Securities and financial assets	5	1
Derivative financial instruments	38	82
	67	112

Investments in affiliates are measured at cost in accordance with IAS 39.46 (c) if they do not have a quoted market price in an active market and a reliable estimate of the fair value is not possible.

Measurement of other investments in the Bertelsmann Investments division is generally at fair value in accordance with IAS 39.43 ff. in conjunction with IAS 39.55 ff.

In addition to the loss from deconsolidation, the results from disposals of investments mainly include the result of several transactions conducted in the Bertelsmann Investments division, among others results from the sale of the interests in Ucloud and Uxin and from IPOs for BAI investments.

At the end of the reporting period, financial assets of €13 million have been provided as collateral for liabilities. In the previous year, no financial assets have been provided as collateral for liabilities. Financial assets of €4 million (previous year: €9 million) were pledged with restrictions on disposal. No financial assets were provided as security for contingent liabilities to third parties in the financial year 2017 or 2016.

14 Inventories

in € millions	12/31/2017	12/31/2016
Program rights	1,020	1,005
Raw materials and supplies	102	105
Work in progress	125	124
Finished goods and merchandise	279	294
Advance payments	138	157
	1,664	1,685

In the financial year 2017, write-downs on inventories were recognized in the amount of €-161 million (previous year: €-129 million). In addition, reversals of write-downs on inventories were recognized in the amount of €101 million (previous year: €119 million). These are due to broadcasting factors for program rights and also increased prices in some markets. As in the previous year, no inventories have been pledged as collateral for liabilities.

Cost of materials in the amount of €5,487 million (previous year: €5,487 million) includes changes in inventories of work in progress and finished goods of €77 million (previous year: €-123 million), cost for raw materials and supplies of €961 million (previous year: €986 million) and cost for merchandise of €205 million (previous year: €228 million). In addition, the item includes own costs capitalized of €42 million (previous year: €34 million).

15 Trade and Other Receivables

in € millions	12/31/2017	12/31/2016
Non-current		
Trade receivables	27	1
Other receivables	60	75
Current		
Trade receivables	3,290	3,149
Other receivables	720	704

The item "Other receivables" includes, receivables in the amount of €103 million (previous year: €114 million) mainly relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of its services in receivables management and then resold, and receivables from participations in the amount of €25 million (previous year: €27 million).

16 Other Non-financial Assets

in € millions	12/31/2017	12/31/2016
Non-current		
Other non-financial assets	710	704
Current		
Other non-financial assets	868	953
– advance payments	447	487
– other tax receivables	82	96
– deferred items	191	186
– sundry non-financial assets	148	184

The non-current other non-financial assets relate to advance payments for royalties and licenses in the amount of €659 million (previous year: €664 million). Advance payments for royalties and licenses are generally written off if no recoupment is expected. The amount of these write-downs is based on management estimates of future sales volumes and price changes using historical data.

17 Cash and Cash Equivalents

in € millions	12/31/2017	12/31/2016
Cash	1,384	1,192
Other securities < 3 months	56	181
	1,440	1,373

Cash and cash equivalents of €1 million (previous year: €27 million) were used as collateral for liabilities. As in the previous year, no restricted cash and cash equivalents existed as of the end of the reporting period.

18 Equity
Subscribed Capital

Number of shares	12/31/2017	12/31/2016
Ordinary shares	83,760	83,760
Total shares	83,760	83,760

Compared with the previous year, the subscribed capital of Bertelsmann SE & Co. KGaA remained unchanged at €1,000 million and comprises 83,760 registered shares (ordinary shares). As of December 31, 2017, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) held 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the other 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls the voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and personally liable partner Bertelsmann Management SE.

In the financial years 2017 and 2016, a dividend amounting to €180 million (a dividend of €2,149 per ordinary share in each year) was distributed to the shareholders.

The change in other comprehensive income after taxes is derived as follows:

Changes to Components of Other Comprehensive Income after Taxes

in € millions	2017				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	235	(59)	176	170	6
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Currency translation differences	(432)	–	(432)	(361)	(71)
Available-for-sale financial assets	(16)	(2)	(18)	(16)	(2)
Cash flow hedges	(103)	23	(80)	(60)	(20)
Share of other comprehensive income of investments accounted for using the equity method	(8)	–	(8)	(7)	(1)
Other comprehensive income net of tax	(324)	(38)	(362)	(274)	(88)

in € millions	2016				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	(347)	105	(242)	(230)	(12)
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Currency translation differences	28	–	28	17	11
Available-for-sale financial assets	75	(2)	73	72	1
Cash flow hedges	6	(2)	4	3	1
Share of other comprehensive income of investments accounted for using the equity method	11	–	11	6	5
Other comprehensive income net of tax	(227)	101	(126)	(132)	6

The item "Available-for-sale financial assets" comprises primarily the effects from the valuation of investments measured at fair value in the Bertelsmann Investments division. Further details are presented in note 13 "Other Financial Assets."

Share-Based Payments

The Bertelsmann Group has granted cash-settled or equity-settled share-based payment awards.
There are various stock option plans at Groupe M6, which belongs to RTL Group. Métropole Télévision has established a stock option plan open to directors and certain employees within Groupe M6. The number of options granted to participants is approved by the Supervisory Board of Métropole Télévision SA in accordance with the authorization given by the General Meeting of Shareholders.

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

Granting and Vesting Conditions (Groupe M6)

Free share plans	Maximum number of free shares granted (in thousands)[1]	Remaining options (in thousands)	Vesting conditions
May 2015	32.50	0.00	2 years of service
July 2015	480.40	0.00	2 years of service + performance conditions
July 2016	440.60	424.90	2 years of service + performance conditions
July 2016	361.00	361.00	2 years of service + performance conditions
July 2017	307.20	307.20	2 years of service + performance conditions
July 2017	217.66	217.66	3 years of service + performance conditions
October 2017	8.92	8.92	3 years of service + performance conditions
Total	1,848.28	1,319.68	

1) Maximum number of free shares granted if the performance conditions are significantly exceeded. Such number could be reduced to zero if objectives are not met.

The free share plans are subject to performance conditions. The plans granted in July 2015, July 2016 and July 2017 are subject to Groupe M6 achieving its target growth in net consolidated result over the financial years 2015, 2016 and 2017, respectively. The second plan in July 2016 and the plans in July 2017 and October 2017 are subject to a cumulative performance requirement over three years. The plan granted in May 2015 is only subject to presence in Groupe M6.

At the end of the year, 1,319,684 free shares are exercisable against 1,284,000 at the beginning of the year. During the year, 533,784 free shares were granted, with 475,500 being exercised and 22,600 being forfeited.

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

Conditions for Stock Options (Groupe M6)

Expiry date	Number of shares (in thousands) 2017	Number of shares (in thousands) 2016
Free share plans		
2017	–	486
2018	786	798
2019	534	–
	1,320	1,284

As of December 31, 2017, the market price of Groupe M6 shares on the Paris Stock Exchange was €21.54 (December 31, 2016: €17.67).

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

Fair Values of Stock Options (Groupe M6)

					Personnel costs in € millions	
Grant date	Share price	Risk-free interest rate	Expected return	Option life	2017	2016
Free share plans						
4/14/2014	16.05 €	0.53%	5.60%	2 years	–	0.3
10/13/2014	12.03 €	0.23%	7.60%	2 years	–	1.5
5/11/2015	18.62 €	0.16%	4.80%	2 years	0.1	0.2
7/28/2015	18.38 €	0.22%	4.90%	2 years	1.9	3.0
7/28/2016	16.24 €	-0.10%	5.50%	2 years	5.2	2.2
7/27/2017	20.59 €	-0.17%	4.31%	2 years	1.7	–
10/2/2017	20.59 €	-0.17%	4.31%	2 years	–	–
Total					8.9	7.2

There are additional share-based payments within the Bertelsmann Group that are immaterial on a stand-alone basis.

19 Provisions for Pensions and Similar Obligations

in € millions	12/31/2017	12/31/2016
Defined benefit obligation	1,606	1,902
Obligations similar to pensions	79	97
	1,685	1,999

The Bertelsmann Group operates various pension plans for current and former employees and their surviving dependents. The model of such plans varies according to the legal, fiscal and economic environment of the country concerned. These company pension plans include both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes payments into an external pension fund or another welfare fund through a statutory, contractual or voluntary model. The company has no obligation to provide further benefits once it has made these payments, so no provisions are recognized. Expenses for defined contribution plans in the amount of €46 million were recognized in the financial year 2017 (previous year: €50 million).

All other pension plans are defined benefit plans. The US companies' obligations for healthcare costs for employees after they retire (medical care plans) are also defined benefit obligations and are included in the provisions on the balance sheet. For all of the retirement benefit plans, a distinction must be made as to whether or not these are financed through an external investment fund.

Net Defined Benefit Liability Recognized in the Balance Sheet

in € millions	12/31/2017	12/31/2016
Present value of defined benefit obligation of unfunded plans	826	876
Present value of defined benefit obligation of funded plans	3,347	3,493
Total present value of defined benefit obligation	4,173	4,369
Fair value of plan assets	(2,591)	(2,479)
Impact from asset ceiling	1	–
Net defined benefit liability recognized in the balance sheet	1,583	1,890
– thereof provisions for pensions	1,606	1,902
– thereof other assets	23	12

Provisions are recognized for these defined benefit plans. These are mostly flat salary plans and final salary plans.

Defined Benefit Plans

in € millions	12/31/2017	12/31/2016
Flat salary plans/plans with fixed amounts	2,254	2,317
Final salary plans	1,265	1,316
Career average plans	416	428
Other commitments given	181	245
Medical care plans	58	63
Present value of defined benefit obligation	4,174	4,369
– thereof capital commitments	246	231

The obligations and plan assets available for the existing pension plans are, in some cases, exposed to demographic, economic and legal risks. The demographic risks are primarily the longevity risk for pensioners. Economic risks include, in this respect, mostly unforeseeable developments on the capital markets and the associated impacts on plan assets and pension obligations. Legal risks can result from restrictions to investments and minimum funding requirements. To substantially minimize these risks, a Group-wide pension guideline was introduced in 2004. This stipulates that all new pension plans are, as a rule, only to be designed as defined contribution plans so that the charges from benefit commitments are always acceptable, calculable and transparent, and so that no risks can arise that the company cannot influence. In addition, the Bertelsmann Group aims, in particular, to transfer existing final salary-related pension agreements to plans with fixed amounts and capital commitments that are independent from trends. As a result of these measures, the obligations are almost entirely due to the plans that have been closed.

The Bertelsmann Group has minimum funding obligations for the plans in the United States and the United Kingdom. The pension plan in the United States is subject to the minimum funding agreements according to the "Employee Retirement Income Security Act of 1974" (ERISA). In general, the aim under this agreement is for a fully funded pension plan so that the annual contributions to the plan assets are limited to the pension entitlements that the insured employee has earned during the year, as is the case for a defined contribution plan. If the pension obligations are not fully covered by the plan assets, an additional amount sufficient to ensure full financing over a seven-year period must be applied in excess of this contribution. The plans in the United Kingdom are subject to the "Pensions Act 2004," which includes reviewing the full financing of the pension plan from an actuarial perspective every three years with annual monitoring and, if necessary, eliminating any deficits that may have arisen by means of further additions to plan assets. There are no other material regulatory conditions over and above the minimum funding regulations in the United States and the United Kingdom.

Furthermore, one Group company participated in a multi-employer plan with other non-affiliated companies until December 31, 2014. As the relevant information required to account for this as a defined benefit plan was neither available on time nor available to a sufficient extent, this benefit plan was carried in the Consolidated Financial Statements in line with the requirements for defined contribution benefit plans. In the financial year 2015, the withdrawal from the plan with retrospective effect from January 1, 2015, was declared. The resulting withdrawal liability shall be settled by a lump sum for which a provision in the amount of €16 million was recognized in 2014. The negotiations concerning the agreement of the withdrawal modalities started in the first half of 2017 are still ongoing. Since April 2017, the company has been making monthly contribution payments, which are expected to amount to €1 million in the financial year 2018. The provision was still carried at €16 million as of December 31, 2017.

The provisions are determined using actuarial formulas in accordance with IAS 19. The amount of provisions depends on employees' length of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, in which the benefit entitlement earned is allocated to each year of service, thus assuming an increasing cost of service in comparison to the entry age normal method. When identifying the present value of the pension obligation, the underlying interest rate is of material importance. In the Bertelsmann Group, this is based on the "Mercer Yield Curve Approach." With this approach, separate spot rate yield curves are created for the eurozone, the United Kingdom and the United States on the basis of high-quality corporate bonds. To appropriately present the time value of money in accordance with IAS 19.84, the basis does not consider either spikes for which the risk estimate may be substantially higher or lower or bonds with embedded options that distort interest rates. As in the previous year, the biometric calculations in Germany are based on the 2005 G mortality tables issued by Prof. Dr. Klaus Heubeck.

Further significant actuarial assumptions were made as follows:

Actuarial Assumptions

	12/31/2017		12/31/2016	
	Germany	Foreign	Germany	Foreign
Discount rate	2.06%	2.58%	1.72%	2.80%
Rate of salary increase	2.25%	3.03%	2.25%	3.08%
Rate of pension increase	1.56%	3.00%	1.56%	3.20%

An increase or decrease in the assumptions set out above compared to the assumptions actually applied would have had the following effects on the present value of the defined benefit obligation as of December 31, 2017:

Effect of Actuarial Assumptions

in € millions	Increase	Decrease
Effect of 0.5 percentage point change in discount rate	(318)	363
Effect of 0.5 percentage point change in rate of salary increase	41	(37)
Effect of 0.5 percentage point change in rate of pension increase	155	(139)
Effect of change in average life expectancy by 1 year	155	(153)

To determine the sensitivity of the longevity, the mortality rates for all beneficiaries were reduced or increased evenly, so that the life expectancy of a person of a country-specific retirement age increases or decreases by one year.

Changes in the present value of defined benefit obligations and plan assets in the reporting period were as follows:

Development of the Defined Benefit Plans

	Defined benefit obligation (I)		Fair value of plan assets (II)		Net defined benefit balance (I)-(II)	
in € millions	2017	2016	2017	2016	2017	2016
Balance as of 1/1	4,369	3,960	2,479	2,365	1,890	1,595
Current service cost	71	64	–	–	71	64
Interest expenses	86	107	–	–	86	107
Interest income	–	–	52	67	(52)	(67)
Past service cost	(7)	2	–	–	(7)	2
Income and expenses for defined benefit plans recognized in the combined income statement	**150**	**173**	**52**	**67**	**98**	**106**
Income/expense on plan assets excluding amounts included in net interest income and net interest expenses	–	–	80	115	(80)	(115)
Actuarial gains (-) and losses (+)						
– changes in financial assumptions	(136)	510	–	–	(136)	510
– changes in demographic assumptions	(11)	(17)	–	–	(11)	(17)
– experience adjustments	5	(30)	12	–	(7)	(30)
Impact from asset ceiling	–	–	–	–	1	–
Remeasurements for defined benefit plans recognized in the combined statement of comprehensive income	**(142)**	**463**	**92**	**115**	**(233)**	**348**
Contributions to plan assets by employer	–	–	37	33	(37)	(33)
Contributions to plan assets by employees	3	4	3	4	–	–
Pension payments	(159)	(141)	(30)	(27)	(129)	(114)
Cash effects from settlements	(1)	–	(1)	–	–	–
Change of consolidation scope	–	(13)	–	–	–	(13)
Currency translation differences	(51)	(66)	(41)	(69)	(10)	3
Other changes	4	(11)	–	(9)	4	(2)
Other reconciling items	**(204)**	**(227)**	**(32)**	**(68)**	**(172)**	**(159)**
Balance as of 12/31	4,173	4,369	2,591	2,479	1,583	1,890
thereof						
Germany	3,221	3,407	1,830	1,765	1,391	1,642
United Kingdom	531	543	551	526	(20)	17
United States	199	211	144	137	55	74
Other European countries	191	179	53	39	139	140
Other countries	31	29	13	12	18	17

Of the contributions to plan assets, €3 million (previous year: €3 million) pertains to Germany. Employer contributions to plan assets are expected to amount to €20 million in the next financial year.

In Germany, reimbursement rights for defined benefit obligations in the amount of €18 million (previous year: €22 million) mostly relate to reinsurance, which is not pledged to the pension beneficiary. Reimbursement rights are carried under the balance sheet item "Trade and other receivables."

The expenses for defined benefit plans are broken down as follows:

Expenses for Defined Benefit Plans

in € millions	2017	2016
Current service cost	71	64
Past service cost and impact from settlement	(7)	2
Net interest expenses	34	40
Net pension expenses	98	106

The portfolio structure of plan assets is composed as follows:

Portfolio Structure of Plan Assets

in € millions	12/31/2017	12/31/2016
Equity instruments[1]	659	675
Debt instruments[1]	1,658	1,582
Other funds	78	68
Qualifying insurance policies	140	129
Cash and cash equivalents	43	12
Property	8	5
Derivatives	4	7
Other	1	1
Fair value of plan assets	2,591	2,479

1) For almost all equity and debt instruments, market prices are listed on an active market.

The plan assets in the Bertelsmann Group are used exclusively for the fulfillment of benefit obligations. To avoid a concentration of risk, plan assets are invested in various classes of investments. The majority of plan assets are managed by Bertelsmann Pension Trust e.V. under a contractual trust arrangement (CTA) for pension commitments of Bertelsmann SE & Co. KGaA and some of the German subsidiaries. There is no funding requirement for the CTA. No contribution was made to plan assets during the reporting period. The trust assets were invested in accordance with the investment guideline of the beneficiary, using a long-term total return approach. This approach is based on the aim of using strategic asset allocation to generate a suitable return in the long term regardless of short-term market fluctuations and/or crises. The management board of the pension trust is responsible for the investment and regularly informs the beneficiary of the status and performance of the pension assets.

The weighted average duration of the pension obligations on December 31, 2017, was 17 years (previous year: 17 years).

The maturity profile of the anticipated undiscounted pension payments is presented in the following table:

Maturity Profile of Pension Payments

in € millions	Expected pension payments
2018	149
2019	150
2020	155
2021	161
2022	169
2023-2027	884

Obligations similar to pensions relate to provisions for bonuses for employee service anniversaries, amounts due but not yet paid to defined contribution plans and severance payments at retirement. Severance payments at retirement are made when employees leave the company and are based on statutory obligations, primarily in Italy and Austria. Provisions for employee service anniversary bonuses and severance payments at retirement are recognized in the same way as defined benefit plans, but with actuarial gains and losses recognized in profit or loss. Employees in Germany who are at least 55 years old and have a permanent employment contract with the company qualify for the old-age part-time schemes. The partial retirement phase lasts two to five years.

The following table shows the breakdown in obligations similar to pensions:

Breakdown of Obligations Similar to Pensions

in € millions	12/31/2017	12/31/2016
Provisions for old-age part-time schemes	10	30
Provisions for severance payments	36	34
Provisions for employee service anniversaries	28	28
Other	5	5
Obligations similar to pensions	79	97

20 Other Provisions

in € millions	12/31/2016	of which > 1 year	Additions	Reversal	Usage	Other effects	Change of consolida-tion scope	Accrued interest	12/31/2017	of which > 1 year
Restructuring	52	3	52	(6)	(27)	–	–	–	71	4
Onerous contracts	160	37	104	(10)	(91)	(4)	–	1	160	49
Litigation	103	59	22	(12)	(8)	(1)	2	–	106	42
Guarantees and warranties	14	1	3	(2)	(6)	–	–	–	9	–
Sales and distribution	11	–	2	(3)	(3)	(1)	1	–	7	–
Other employee benefits	31	1	3	(3)	(3)	(3)	–	–	25	–
Other	80	35	32	(15)	(23)	(4)	1	–	71	31
	451	136	218	(51)	(161)	(13)	4	1	449	126

In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions in the amount of €71 million (previous year: €52 million) are recognized for various restructuring programs within the Bertelsmann Group. Of the additions, €18 million relates to a restructuring plan concluded in September 2017 for RTL Belgium, which belongs to RTL Group.

The provisions for onerous contracts in the amount of €107 million (previous year: €107 million) concern RTL Group and were recognized mainly for program rights, of which a total of €74 million (previous year: €64 million) relates to Mediengruppe RTL Deutschland, and an additional €33 million (previous year: €42 million) to Groupe M6. Additions related to provisions for onerous contracts total €62 million for movies and series and €19 million for sports events. Provisions for litigation totaling €94 million (previous year: €90 million) also pertain mainly to RTL Group companies. They cover expected losses from partly multiannual court proceedings and extrajudicial disputes. Please refer to the risk report in the Combined Management Report for information on antitrust litigation. The other provisions include a provision in the amount of €24 million (previous year: €26 million) for compensation obligations from pension entitlements of employees at the Prinovis location in Ahrensburg toward Axel Springer SE.

21 Profit Participation Capital

in € millions	12/31/2017	12/31/2016
Profit participation capital 1992	23	23
Profit participation capital 2001	390	390
	413	413

The market value of the 2001 profit participation certificates with a closing rate of 334.00 percent on the last day of trading in the past financial year on the Frankfurt Stock Exchange was €950 million (previous year: €907 million with a rate of 319.00 percent) and, correspondingly, €34 million for the 1992 profit participation certificates with a rate of 199.00 percent (previous year: €32 million with a rate of 190.00 percent). The market values are based on level 1 of the fair value hierarchy.

Further information on profit participation capital is presented in detail in the Combined Management Report.

22 Financial Debt

Financial debt includes all of the Bertelsmann Group's interest-bearing liabilities to banks and capital markets as of the end of the reporting period. Carrying amounts are calculated as follows:

Current and Non-current Financial Debt

	Current		Non-current			
			Remaining term in years			
in € millions	12/31/2017	12/31/2016	1 to 5 years	> 5 years	12/31/2017	12/31/2016
Bonds	–	–	1,342	2,383	3,725	3,175
Promissory notes	200	–	309	150	459	509
Liabilities to banks	314	91	10	–	10	12
Lease liabilities	10	8	37	–	37	43
Other financial debt	144	136	16	4	20	24
	668	235	1,714	2,537	4,251	3,763

The Bertelsmann Group has access to floating-rate and fixed-rate funds through various contractual arrangements. Financial debt is generally unsecured.

In May 2017, Bertelsmann placed a publicly listed bond of €500 million with a term of four years. In private placements, Bertelsmann also issued a bond in the amount of €50 million with a term of seven years in July 2017 and a promissory note in the amount of €150 million with a term of a year and a half in August 2017. At the end of the reporting period, the Group had bonds, private placements and promissory notes outstanding with a nominal volume of €4,410 million (previous year: €3,710 million). To finance a short-term funding requirement, a loan of US$250 million was taken out with a major internationally operating bank in the financial year 2017. This mainly caused the increase of short-term liabilities to banks.

The differences in carrying amount versus nominal amount in the table that follows result from transaction costs, premiums and discounts.

Bonds and Promissory Notes

Interest rate; emission; maturity; fixed interest	Nominal amount	Carrying amount 12/31/2017	Carrying amount 12/31/2016	Fair value 12/31/2017	Fair value 12/31/2016
		in € millions			
0.090%; 2016; 2018; fixed interest promissory note	200	200	200	200	200
0.110%; 2017; 2019; fixed interest promissory note	150	150	–	150	–
4.207%; 2012; 2019; fixed interest promissory note	60	60	60	63	66
3-Mon.-EURIBOR + 40 Bp.; 2014; 2019; floating rate note	100	100	100	100	100
0.774%; 2015; 2020; fixed interest promissory note	100	100	100	102	102
0.250%; 2017; 2021; fixed interest bond[1]	500	497	–	502	–
2.625%; 2012; 2022; fixed interest bond[1]	750	745	744	829	845
1.500%; 2017; 2024; fixed interest bond	50	50	–	52	–
1.750%; 2014; 2024; fixed interest bond[1]	500	497	497	536	541
1.787%; 2015; 2025; fixed interest promissory note	150	149	149	157	160
1.125%; 2016; 2026; fixed interest bond[1]	500	494	494	509	507
3.700%; 2012; 2032; fixed interest bond	100	99	98	125	128
3.000%; 2015; 2075; fixed interest hybrid bond[1]	650	647	646	687	654
3.500%; 2015; 2075; fixed interest hybrid bond[1]	600	596	596	632	574
		4,384	3,684	4,644	3,877

1) Listed.

The documentation of the bonds from Bertelsmann SE & Co. KGaA in 2012, 2014 and 2017 is within the framework of a base documentation for debt issuance programs. The hybrid bonds and promissory notes as well as the unlisted bond of the financial year 2017 were issued on the basis of separate documentation. The bonds mainly have a rating of "Baa1" (Moody's) and "BBB+" (Standard & Poor's). The debt issuance program was updated in April 2017. The framework documentation allows Bertelsmann SE & Co. KGaA to place bonds with a total volume of up to €4 billion on the capital market. Transaction costs and agreed discounts or premiums are taken into account in the interest result over the term, impacting the carrying amount of the bonds and promissory notes. These led to a difference to the nominal volume of €26 million (previous year: €26 million) at the end of the year.

As a rule, the quoted prices at the end of the reporting period are used to determine the fair value of the bonds issued. On December 31, 2017, the cumulative fair value of the listed bonds totaled €3,695 million (previous year: €3,121 million) with a nominal volume of €3,500 million (previous year: €3,000 million) and a carrying amount of €3,476 million (previous year: €2,977 million). The stock market prices are based on level 1 of the fair value hierarchy.

The fair values of private placements and promissory notes are determined using actuarial methods based on yield curves adjusted for the Group's credit margin. This credit margin results from the market price for credit default swaps at the end of the respective reporting periods. Fair value is measured on the basis of discount rates ranging from -0.30 percent to 1.88 percent. The fair values of the private placements and promissory notes are based on level 2 of the fair value hierarchy.

Credit Facilities

The Bertelsmann Group has access to a syndicated loan agreement entered into with major international banks in the amount of €1,200 million (previous year: €1,200 million). Bertelsmann SE & Co. KGaA can draw down this credit facility using floating-rate loans in euros, US dollars and pounds sterling based on EURIBOR or LIBOR on a revolving basis. In addition, Bertelsmann has access to further syndicated and bilateral credit facilities in the amount of €470 million, which can also be drawn down using floating rate loans based on EURIBOR on a revolving basis. As of December 31, 2017, the credit facilities were taken out in the amount of €10 million.

Lease Liabilities

Finance leases exist for the following assets:

Leased Assets

in € millions	12/31/2017 Acquisition costs	12/31/2017 Net carrying amount	12/31/2016 Acquisition costs	12/31/2016 Net carrying amount
Land, rights equivalent to land and buildings	89	36	89	39
Technical equipment and machinery	5	1	6	2
Other equipment, fixtures, furniture and office equipment	12	4	13	3
	106	41	108	44

The Group's finance lease activities primarily relate to long-term agreements for office space. The Group generally has the option to acquire such properties at the end of the lease term. Finance leases for buildings are generally subject to non-cancelable minimum lease terms of approximately 20 years.

The minimum lease payments for finance leases are presented in the following table:

Minimum Lease Payments for Finance Leases

in € millions	12/31/2017 Nominal amount of lease payments	12/31/2017 Discount amounts	12/31/2017 Present value	12/31/2016 Nominal amount of lease payments	12/31/2016 Discount amounts	12/31/2016 Present value
Up to 1 year	10	–	10	8	–	8
1 to 5 years	41	4	37	48	6	42
Over 5 years	–	–	–	1	–	1
	51	4	47	57	6	51

As in the previous year, no subleases were in place as part of finance lease agreements as of the end of the reporting period.

23 Liabilities

in € millions	12/31/2017	12/31/2016
Non-current		
Trade payables	143	207
Other financial payables	223	185
Other non-financial liabilities	391	362
Current		
Trade payables	3,453	3,557
Other financial payables	860	750
Other non-financial liabilities	1,709	1,657
– tax liabilities	204	174
– social security liabilities	102	104
– personnel-related liabilities	633	689
– received advance payments	220	125
– deferred items	233	318
– sundry non-financial liabilities	317	247

Non-current other financial payables include liabilities from put options relating to shareholders with non-controlling interests of €67 million (previous year: €79 million), minority interests in partnerships of €41 million (previous year: €46 million), liabilities from the acquisition of assets in the amount of €48 million (previous year: €19 million) and derivative financial instruments of €14 million (previous year: €10 million). The current other financial payables include liabilities in the amount of €86 million (previous year: €96 million), mainly relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of its services in receivables management and then resold. They also comprise liabilities from the acquisition of assets in the amount of €134 million (previous year: €121 million), liabilities to participations in the amount of €28 million (previous year: €14 million) and derivative financial instruments in the amount of €33 million (previous year: €56 million).

24 Off-Balance-Sheet Liabilities
Contingent Liabilities and Other Commitments

in € millions	12/31/2017	12/31/2016
Guarantees	28	30
Rental and lease commitments for already used real estate and movables	1,475	1,740
Commitments from assets under construction	185	–
Other commitments	3,522	3,981
	5,210	5,751

Commitments from assets under construction result from lease contracts for assets, which were not completed at the end of the reporting period. The right of use will begin in future periods. All commitments from assets under construction relate to contracts entered into during the reporting period. The commitments relate in the amount of €36 million to periods between one and five years and in the amount of €148 million to periods of more than five years. There were no such commitments in the previous year. Of other commitments, €2,481 million (previous year: €2,932 million) pertains to RTL Group. These relate to supply agreements for productions and co-productions, contracts for TV licenses and broadcasting rights, and other rights and services. A further €786 million (previous year: €782 million) of other commitments pertains to Penguin Random House, which represents the portion of obligations to authors for which no payments have yet been made, where future payments are contingent upon other events (such as delivery and acceptance of manuscripts). Other commitments of €18 million (previous year: €22 million) are for the acquisition of property, plant and equipment.

The following minimum lease payments exist from all of the Group's long-term rental commitments classified as operating leases:

Minimum Lease Payments for Operating Leases

in € millions	12/31/2017	12/31/2016
Nominal amount		
Up to 1 year	276	285
1 to 5 years	653	765
Over 5 years	546	691
	1,475	1,741
Present value	1,261	1,501

These commitments largely concern tenancy. They are partially offset by expected minimum lease payments from subleases with a nominal amount of €14 million (previous year: €60 million). The net present values calculated considering country-specific interest rates show all of the net payments required to settle the obligation.

25 Additional Disclosures on Financial Instruments

Maturity Analysis of Selected Financial Assets

in € millions	Neither impaired nor past due on the reporting date	Not individually impaired as of the reporting date and past due by: < 1 month	1 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Gross value of accounts receivable individually impaired
Loans	62	–	–	–	–	–	47
Securities and financial assets	23	–	–	–	–	–	–
Trade receivables	2,549	472	150	61	29	33	173
Receivables from participations	24	–	–	1	–	–	–
Other selected receivables	653	27	15	13	16	44	20
Balance as of 12/31/2017	3,311	499	165	75	45	77	240
Loans	71	–	–	–	–	–	48
Securities and financial assets	17	–	–	–	–	–	4
Trade receivables	2,508	412	142	52	27	22	184
Receivables from participations	24	1	–	–	–	1	4
Other selected receivables	722	16	13	1	2	3	37
Balance as of 12/31/2016	3,342	429	155	53	29	26	277

No impairment losses were recognized for unsettled receivables not yet due as of the end of the reporting period, as there was no indication of default.

Reconciliation of Changes in Impairment in Accordance with IFRS 7

in € millions	Balance as of 1/1	Additions	Usage	Reversal	Change of consolida-tion scope	Exchange rate effect	Balance as of 12/31
Loans	(48)	(15)	5	11	–	1	(46)
Trade receivables	(197)	(46)	23	66	(5)	9	(150)
Receivables from participations	(3)	–	3	–	–	–	–
Sundry financial receivables	(42)	(12)	14	6	–	1	(33)
Total 2017	(290)	(73)	45	83	(5)	11	(229)
Loans	(46)	(6)	–	2	2	–	(48)
Trade receivables	(242)	(62)	12	88	4	3	(197)
Receivables from participations	(3)	–	–	–	–	–	(3)
Sundry financial receivables	(28)	(17)	1	2	–	–	(42)
Total 2016	(319)	(85)	13	92	6	3	(290)

The carrying amount of all receivables, loans and securities constitutes the Bertelsmann Group's maximum default risk.

The following table presents the contractually fixed undiscounted cash flows of the financial liabilities for settlement. The figures are based on undiscounted cash flows at the earliest date at which the Bertelsmann Group can be held liable for payment.

Contractual Maturity Analysis of Financial Liabilities

in € millions	Carrying amount	Undiscounted cash flows			
		Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	413	–	413	–	413
Fixed interest bonds and promissory notes	4,284	200	1,560	2,550	4,310
Floating rate bonds and promissory notes	100	–	100	–	100
Liabilities to banks	324	314	10	–	324
Lease liabilities	47	10	41	–	51
Other financial debt	164	144	16	4	164
Trade payables	3,596	3,453	127	16	3,596
Liabilities to participations	28	28	–	–	28
Derivative financial instruments	47	36	13	1	50
Sundry financial payables	1,008	799	161	48	1,008
Balance as of 12/31/2017	10,011	4,984	2,441	2,619	10,044
Profit participation capital	413	–	–	413	413
Fixed interest bonds and promissory notes	3,584	–	360	3,250	3,610
Floating rate bonds and promissory notes	100	–	100	–	100
Liabilities to banks	103	91	12	–	103
Lease liabilities	51	9	48	–	57
Other financial debt	160	136	19	5	160
Trade payables	3,764	3,557	184	23	3,764
Liabilities to participations	14	14	–	–	14
Derivative financial instruments	66	56	10	–	66
Sundry financial payables	855	680	122	53	855
Balance as of 12/31/2016	9,110	4,543	855	3,744	9,142

Current cash outflows from financial obligations are offset by planned cash inflows from receivables and other financial assets. To cover current cash flows, Bertelsmann SE & Co. KGaA also has adequate financial reserves in the amount of the cash and cash equivalents and unutilized credit facilities in place at the end of the reporting period.

The following table presents the remaining terms of the contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged:

Liabilities from Derivatives with Gross Settlement

	Remaining term of liabilities		
in € millions	Up to 1 year	1 to 5 years	Over 5 years
Cash outflow	(1,810)	(406)	(32)
Cash inflow	1,776	393	31
Balance as of 12/31/2017	(34)	(13)	(1)
Cash outflow	(2,256)	(127)	–
Cash inflow	2,195	118	–
Balance as of 12/31/2016	(61)	(9)	–

Based on the remaining contractual terms of its financial liabilities at the end of the reporting period, the Bertelsmann Group will have to make the following future interest payments:

Future Interest Payments

	Undiscounted interest payments			
in € millions	Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	45	181	–	226
Bonds and promissory notes	86	333	210	629
Liabilities to banks	8	1	–	9
Lease liabilities	2	3	–	5
Other financial debt	3	1	1	5
Balance as of 12/31/2017	144	519	211	874
Profit participation capital	45	181	45	271
Bonds and promissory notes	85	332	290	707
Liabilities to banks	3	1	–	4
Lease liabilities	2	5	–	7
Other financial debt	3	3	1	7
Balance as of 12/31/2016	138	522	336	996

Carrying Amounts and Measurement Methods by Measurement Category

Assets

in € millions	Category in accordance with IAS 39					
	Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading	Derivatives with hedge relation
Measurement	At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss	
Loans	63	–	–	–	–	–
Investments in affiliates	–	3	15	–	–	–
Other investments	–	25	491	–	–	–
Securities and financial assets	–	1	3	19	–	–
Derivative financial instruments	–	–	–	–	87	4
Trade receivables	3,317	–	–	–	–	–
Receivables from participations	25	–	–	–	–	–
Sundry financial receivables	755	–	–	–	–	–
Cash	1,384	–	–	–	–	–
Other securities < 3 months	56	–	–	–	–	–
	5,600	29	509	19	87	4

Other investments include mainly the minority stakes in other entities and so-called fund-in-fund investments purchased by the Bertelsmann Investments division. As a rule, these financial instruments are measured at fair value, and the gains and losses from fluctuations in fair value are recognized in other comprehensive income with deferred taxes taken into consideration. The fair value measurement of fund-in-fund investments is based on the valuations of the external management as presented in regular reporting and taking into account a fungibility discount. When possible, measuring the fair value of minority stakes in other entities is based on observable prices obtained as part of the most recently

	Balance as of 12/31/2017	Category in accordance with IAS 39					Derivatives with hedge relation	Balance as of 12/31/2016
		Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading		
		At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss		
	63	71	–	–	–	–	–	71
	18	–	3	12	–	–	–	15
	516	–	54	366	–	–	–	420
	23	–	1	3	13	–	–	17
	91	–	–	–	–	68	63	131
	3,317	3,150	–	–	–	–	–	3,150
	25	27	–	–	–	–	–	27
	755	752	–	–	–	–	–	752
	1,384	1,192	–	–	–	–	–	1,192
	56	181	–	–	–		–	181
	6,248	5,373	58	381	13	68	63	5,956

implemented qualified financing rounds, which meet the minimum requirements for volume and participants, taking into account life and development cycles of the entity.

Certain investments in affiliates and other investments that are classified as available-for-sale within financial assets are measured at cost as they do not have a quoted price on an active market and a reliable estimate of the fair value is not possible. No plan has been made to sell significant holdings of the other available-for-sale investments in the near future. For all other financial assets and financial liabilities, their carrying amount represents a reasonable approximation of fair value.

Equity and Liabilities

in € millions	Category in accordance with IAS 39				
	Financial liabilities	Financial liabilities initially recognized at fair value through profit or loss	Financial liabilities held for trading	Derivatives with hedge relation	Payables out of scope of IAS 39
Measurement	At amortized cost	Fair value recognized in profit or loss	Fair value recognized in profit or loss		
Profit participation capital	413	–	–	–	–
Bonds and promissory notes	4,384	–	–	–	–
Liabilities to banks	324	–	–	–	–
Lease liabilities	–	–	–	–	47
Other financial debt	164	–	–	–	–
Trade payables	3,596	–	–	–	–
Liabilities to participations	28	–	–	–	–
Derivative financial instruments	–	–	24	23	–
Sundry financial payables	964	44	–	–	–
	9,873	44	24	23	47

	Balance as of 12/31/2017	Category in accordance with IAS 39			Derivatives with hedge relation	Payables out of scope of IAS 39	Balance as of 12/31/2016
		Financial liabilities	Financial liabilities initially recognized at fair value through profit or loss	Financial liabilities held for trading			
		At amortized cost	Fair value recognized in profit or loss	Fair value recognized in profit or loss			
	413	413	–	–	–	–	413
	4,384	3,684	–	–	–	–	3,684
	324	103	–	–	–	–	103
	47	–	–	–	–	51	51
	164	160	–	–	–	–	160
	3,596	3,764	–	–	–	–	3,764
	28	14	–	–	–	–	14
	47	–	–	63	3	–	66
	1,008	807	48	–	–	–	855
	10,011	8,945	48	63	3	51	9,110

Financial Assets Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2017
Financial assets initially recognized at fair value through profit or loss	4	15	–	19
Available-for-sale financial assets	134	1	374	509
Primary and derivative financial assets held for trading	–	87	–	87
Derivatives with hedge relation	–	4	–	4
	138	107	374	619

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2016
Financial assets initially recognized at fair value through profit or loss	–	13	–	13
Available-for-sale financial assets	9	1	371	381
Primary and derivative financial assets held for trading	–	65	3	68
Derivatives with hedge relation	–	63	–	63
	9	142	374	525

It is possible to allocate the financial instruments measured at fair value in the balance sheet to the three levels of the fair value hierarchy by category based on the table “Carrying Amounts and Measurement Methods by Measurement Category.”

The increase of level 1 financial instruments results from IPOs of BAI investments that belong to Bertelsmann Investments within the reporting period.

Financial Assets Measured at Fair Value Based on Level 3

in € millions	Available-for-sale financial assets	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2017	371	3	374
Total gain (+) or loss (-)	(30)	–	(30)
– in profit or loss	(9)	–	(9)
– in other comprehensive income	(21)	–	(21)
Purchases	94	–	94
Sales/settlements	(76)	(3)	(79)
Transfers out of/into level 3 (including first-time classification on level 3)	15	–	15
Balance as of 12/31/2017	374	–	374
Gain (+) or loss (-) for assets still held at the end of the reporting period	(9)	–	(9)

in € millions	Available-for-sale financial assets	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2016	30	6	36
Total gain (+) or loss (-)	–	(3)	(3)
– in profit or loss	–	(3)	(3)
– in other comprehensive income	–	–	–
Purchases	2	–	2
Transfers out of/into level 3 (including first-time classification on level 3)	339	–	339
Balance as of 12/31/2016	371	3	374
Gain (+) or loss (-) for assets still held at the end of the reporting period	–	(3)	(3)

The available-for-sale financial assets of level 3 mainly pertain to investments held by the Bertelsmann Investments division, which were recognized at fair value.

Financial Liabilities Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2017
Financial liabilities initially recognized at fair value through profit or loss	–	–	44	44
Primary and derivative financial liabilities held for trading	–	24	–	24
Derivatives with hedge relation	–	23	–	23
	–	47	44	91

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2016
Financial liabilities initially recognized at fair value through profit or loss	–	–	48	48
Primary and derivative financial liabilities held for trading	–	63	–	63
Derivatives with hedge relation	–	3	–	3
	–	66	48	114

Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial liabilities initially recognized at fair value through profit or loss	Total
Balance as of 1/1/2017	48	48
Total gain (-) or loss (+)	3	3
– in profit or loss	5	5
– in other comprehensive income	(2)	(2)
Purchases	23	23
Settlements	(30)	(30)
Transfers out of/into level 3	–	–
Balance as of 12/31/2017	44	44
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	–	–

in € millions	Financial liabilities initially recognized at fair value through profit or loss	Total
Balance as of 1/1/2016	45	45
Total gain (-) or loss (+)	(12)	(12)
– in profit or loss	(12)	(12)
– in other comprehensive income	–	–
Purchases	22	22
Settlements	(7)	(7)
Transfers out of/into level 3	–	–
Balance as of 12/31/2016	48	48
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	(5)	(5)

Level 1:
The fair value of the listed financial instruments – including those in the Bertelsmann Investments division – is determined on the basis of stock exchange listings at the end of the reporting period. That applies regardless of whether any contractual lockups are in place at the end of the reporting period for financial instruments held by Bertelsmann.

Level 2:
For measuring the fair value of unlisted derivatives, Bertelsmann uses various financial methods reflecting the prevailing market conditions and risks at the respective balance sheet dates. Irrespective of the type of financial instrument, future cash flows are discounted at the end of the reporting period based on the respective market interest rates and yield curves at the end of the reporting period. The fair value of forward exchange transactions is calculated using the average spot prices at the end of the reporting period and taking into account forward markdowns and markups for the remaining term of the transactions. The fair value of interest rate derivatives is calculated on the basis of the respective market rates and yield curves at the end of the reporting period. The fair value of forward commodity transactions is derived from the stock exchange listings published at the end of the reporting period. Any mismatches to the standardized stock exchange contracts are reflected through interpolation or additions.

Level 3:
If no observable market data is available, measuring fair values is based primarily on cash flow-based valuation techniques. As a rule, so-called qualified financing rounds are used for minority stakes in the Bertelsmann Investments division.

The valuation of financial assets and financial liabilities according to level 2 and level 3 requires management to make certain assumptions about the model inputs, including cash flows, discount rate and credit risk, as well as the life and development cycle of start-up investments.

Net Result from Financial Instruments

in € millions	Loans and receivables	Available-for-sale financial assets	Financial assets initially recognized at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities initially recognized at fair value through profit or loss	Derivatives with hedge relation	Financial instruments held for trading	Other currency translation differences
From dividends	–	10	–	–	–	–	–	–
From interest	7	–	–	(110)	–	(1)	(23)	–
From impairment	12	(23)	–	–	–	–	–	–
From fair value measurement	–	–	–	–	(5)	–	6	–
From currency translation differences	–	–	–	–	–	–	135	(141)
From disposal/derecognition	(25)	178	–	12	–	–	–	–
Net income 2017	(6)	165	–	(98)	(5)	(1)	118	(141)
From dividends	–	14	–	–	–	–	–	–
From interest	9	–	–	(117)	–	–	(3)	–
From impairment	5	(18)	–	–	–	–	–	–
From fair value measurement	–	–	–	–	12	4	(3)	–
From currency translation differences	–	–	–	–	–	–	39	(29)
From disposal/derecognition	(29)	72	–	23	–	–	–	–
Net income 2016	(15)	68	–	(94)	12	4	33	(29)

Other currency translation differences consist of the exchange rate effects of the “Loans and receivables” and “Financial liabilities at amortized cost” categories.

Financial assets and liabilities are offset on the balance sheet if master netting agreements or similar agreements allow the Bertelsmann Group and the counterparty to reach settlement on a net basis. Settlement on a net basis is thus legally valid both as part of ordinary business activities and in the event of payment default by one of the parties. In addition, Bertelsmann purchases financial derivatives that do not meet the criteria for offsetting on the balance sheet as future events determine the right to offset. As in the previous year, in general, the requirements for offsetting the financial instruments reported on the balance sheet are not met so that no material offsetting was carried out as of December 31, 2017.

Financial Derivatives

Bertelsmann uses standard market financial derivatives, primarily unlisted (OTC) instruments. These include, in particular, forward agreements, currency swaps, currency options, interest rate swaps and individual commodities forwards. Transactions are entered into solely with banks with a high credit rating. As a rule, the Central Financial Department's transactions are only performed with a group of banks approved by the Executive Board. The nominal volume is the total of all underlying buying and selling amounts of the respective transactions.

The majority of the financial derivatives at the end of the reporting period (nominal volume of €4,540 million) are used to hedge against exchange rate risks from intercompany financing activities. These financial derivatives account for a total of €2,613 million (58 percent) as of the end of the reporting period. A total of €1,677 million (37 percent) is due to financial derivatives used to hedge currency risks from operating business as of the end of the reporting period. Financial derivatives are also used to hedge against interest rate risks from interest-bearing receivables and liabilities. No financial derivatives were purchased for speculative purposes.

All relationships between hedging instruments and hedged items are documented, in addition to risk management objectives and strategies in connection with the various hedges. This method includes linking all derivatives used for hedging purposes to the underlying assets, liabilities, firm commitments and forecasted transactions. Furthermore, the Bertelsmann Group assesses and documents the degree to which changes in the fair values or cash flows of hedged items are effectively offset by changes in the corresponding derivatives used as hedging instruments, both when the hedges are initiated and on an ongoing basis.

Nominal Volume and Fair Values of Financial Derivatives

	12/31/2017				
	Nominal volume				
in € millions	< 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	2,652	1,435	203	4,290	44
Interest rate derivatives					
Interest rate swaps	–	250	–	250	–
Other derivative financial instruments	–	–	–	–	–
	2,652	1,685	203	4,540	44

	12/31/2016				
	Nominal volume				
in € millions	< 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	2,942	699	41	3,682	62
Interest rate derivatives					
Interest rate swaps	–	–	–	–	–
Other derivative financial instruments	–	–	–	–	3
	2,942	699	41	3,682	65

The option offered in IFRS 13.48 (net risk position) is used for measuring the fair value of financial derivatives. To identify the credit exposure from financial derivatives, the respective net position of the fair values with the contractual partners is used as a basis, as these values are managed based on a net position in view of their market or credit default risks. Currency forwards are used to hedge the exchange rate risk relating to the purchase and sale of program rights and output deals for the TV business. Bertelsmann hedges between 80 percent and 100 percent of the short-term (within one year) future cash flows, and between 10 percent and 80 percent of the longer-term (two to five years) future cash flows. The derivatives used for this purpose are recognized as hedging instruments in connection with cash flow hedges. The effective portion of changes in the fair value of cash flow hedges is recognized in other comprehensive income until the effects of the hedged underlying transaction affect profit or loss or until a basis adjustment occurs. The amount of €-39 million relating to cash flow hedge effects was reclassified from other comprehensive income (previous year: €-33 million) to the income statement. These are amounts before tax. The portion remaining in other comprehensive income at December 31, 2017, will thus mainly impact the income statement in the next years. In the financial year 2017, no ineffective portion of the cash flow hedges existed. In the previous year, the ineffective portion of the cash flow hedges in the amount of €5 million was recognized under the items "Other financial expenses" and "Other financial income." The effects of non-designated components of a cash flow hedge in the amount of €13 million (e.g., forward component of a foreign currency derivative with a designation on a spot basis) are recognized immediately in profit or loss.

The following table provides an overview of the carrying amounts of the derivative financial instruments, which correspond to their fair values. A distinction is made between derivatives that are included in an effective hedging relationship in accordance with IAS 39 and those that are not.

Derivative Financial Instruments

in € millions	Carrying amount as of 12/31/2017	Carrying amount as of 12/31/2016
Assets		
Forward contracts and currency swaps		
– without hedge relation	87	65
– in connection with cash flow hedges	4	63
Interest rate swaps		
– without hedge relation	–	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	3
Equity and liabilities		
Forward contracts and currency swaps		
– without hedge relation	24	63
– in connection with cash flow hedges	23	3
Interest rate swaps		
– without hedge relation	–	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–

Financial Instruments
Financial Risk Management

The Bertelsmann Group is exposed to various forms of financial risk through its international business operations. Above all, this includes the effects of exchange and interest rate movements. Bertelsmann's risk management activities are designed to effectively mitigate these risks.

The Executive Board establishes basic risk management policy, outlining general procedures for hedging currency and interest rate risk and the utilization of derivative financial instruments. The Central Financial Department advises subsidiaries on operating risk and hedges risks using derivative financial instruments as necessary. However, subsidiaries are not obliged to use the services provided by this department for their operating risks. Some subsidiaries, such as RTL Group in particular, have their own finance departments. They report their hedge transactions to the Central Financial Department each quarter. Further information on financial market risks and financial risk management is presented in the Combined Management Report.

Exchange Rate Risk

Bertelsmann is exposed to exchange rate risk in various currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against exchange rate risks in the local reporting currency by signing forward agreements with banks that have a high credit rating. Loans within the Bertelsmann Group that are subject to exchange rate risk are hedged using derivatives.

A number of subsidiaries are based outside the eurozone. The resulting translation risk is managed through the relationship of economic financial debt to operating EBITDA of key currency areas. Over the long term, the Group aims to achieve a reasonable relationship between financial debt and results of operations. Bertelsmann's focus is on the maximum leverage factor permitted for the Group.

Interest Rate Risk

There are interest rate risks for interest-bearing assets and financial debt. Interest rate risk in the Bertelsmann Group is analyzed centrally and managed on the basis of the Group's planned net financial debt. A key factor in this management is the Group's interest result over time and its sensitivity to interest rate changes. The Group aims for a balanced relationship between floating rates and long-term fixed interest rates depending on the absolute amount, forecast performance of the interest-bearing liability and interest level. This is implemented using underlying and derivative financial instruments for control.

Liquidity Risk

Liquidity risks may arise through a lack of rollover financing (liquidity risk in a narrow sense), delayed receipt of payment and unforeseen expenditure (budgeting risk). Budgeting risk is determined by comparing deviations in actual spending with budget and reserve amounts. In a narrow sense, liquidity risk depends on the volume of debt due within a given period.

Liquidity risk is monitored on an ongoing basis with reference to the budget for current and future years. New and unplanned transactions (e.g., acquisitions) are continuously tracked. The maturity profile of financial assets and liabilities is also reconciled on a regular basis. Budget risks are managed through effective cash management and constant monitoring of projected versus actual cash flows. Debt maturities are also diversified to ensure that rising financing costs do not have a short-term impact. Credit facilities with banks are also maintained for unplanned expenditures.

Counterparty Risk

The Bertelsmann Group is exposed to default risks in the amount of the invested cash and cash equivalents and the positive fair value of the derivatives in its portfolio. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with a high credit rating ("core banks"). The credit ratings of core banks are constantly monitored and classified on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.). Counterparty limits determined on the basis of credit ratings refer to cash holdings and positive fair values; the use of limits is monitored regularly. Funds are invested in very short-term portfolios in some cases to preserve flexibility in the event of credit rating changes. In addition, some tri-party transactions with banks have been concluded to reduce default risks. These tri-party transactions are collateralized investments, and the banks provide predefined securities as collateral. As in the previous year, at the end of the reporting period, no tri-party transactions were outstanding and no collateral had been provided. Processing these transactions and managing and valuing the collateral are performed by a clearing agent. Default risks arising from trade receivables are partially mitigated through credit insurance coverage. The Bertelsmann Group has obtained credit collateralization in the amount of €665 million for these receivables (previous year: €610 million).

Capital Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financing security, return on equity and growth. The Group's indebtedness is based specifically on the requirements for a credit rating of "Baa1/BBB+." Financial management at Bertelsmann is conducted using quantified financing objectives that are a central factor in ensuring the Group's independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are broadly defined performance indicators. The key performance indicator for limiting economic debt within the Bertelsmann Group is a maximum leverage factor of 2.5. On December 31, 2017, the leverage factor was 2.5 (previous year: 2.5). In addition, the coverage ratio is to remain above four. The coverage ratio amounted to 11.2 on December 31, 2017 (previous year: 9.7). The equity ratio is not to fall below 25 percent of total assets. Management of the equity ratio is based on the definition of equity in IFRS. Although minority interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes. In the financial year 2017, the equity ratio was 38.5 percent (previous year: 41.6 percent), meeting the internal financial target set by the Group.

Interest Rate and Exchange Rate Sensitivity

For the analysis of interest rate risk, a distinction is made between cash flow and present value risks. Financial debt, cash and cash equivalents, and interest rate derivatives with variable interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates impact the Group's interest result almost immediately. In contrast, medium- and long-term interest rate agreements are subject to a greater degree of present value risk. The accounting treatment of present value risks depends on the respective financial instrument or a hedging relationship documented in conjunction with a derivative (micro-hedge).

Upon initial recognition, originated financial debt is measured at fair value less transaction costs. Subsequent measurement is based on amortized cost. Changes in fair value are limited to opportunity effects, as changes in interest rates have no effect on the balance sheet or the income statement. The recognition of originated financial debt at fair value is only permitted for transactions for which a micro-hedge is documented in accordance with IAS 39 in conjunction with the conclusion of an interest rate or exchange rate hedge transaction involving derivatives. In this case, changes in the fair value of the respective items are recognized in the income statement in order to substantially balance out the offsetting effects of the fair value measurement of the related derivatives.

For derivative financial instruments, the effects of changes in interest rates are recognized in the income statement. In the case of documented hedging relationships (cash flow hedges), however, these effects are taken directly to equity.

The cash flow or present value risks existing at the end of the reporting periods are analyzed using a sensitivity calculation as an after-tax observation. A parallel shift in the interest rate curve of plus or minus 1 percent is assumed for all major currencies. The analysis is performed on the basis of financial debt, cash and cash equivalents, and derivatives at the end of the reporting period. The results are shown in the following table:

Sensitivity Analysis of Cash Flow and Present Value Risks

in € millions	12/31/2017 Shift +1%	12/31/2017 Shift -1%	12/31/2016 Shift +1%	12/31/2016 Shift -1%
Cash flow risks (income statement)	10	-10	8	-8
Present value risks (income statement)	16	-16	4	-4
Present value risks (equity)	–	–	–	–

The analysis of exchange rate sensitivity includes the Group's financial debt and operating transactions at the end of the reporting period and the hedging relationships entered into (forward agreements and options). The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent appreciation of the euro versus all foreign currencies and is presented after tax. A uniform devaluation of foreign currencies would have resulted in a change in the carrying amount recognized in profit or loss of €-9 million (previous year: €-11 million). Thereof, €-5 million (previous year: €-6 million) relates to fluctuations in the US dollar exchange rate with a net exposure of US$86 million (previous year: US$95 million). Shareholders' equity would have changed by €46 million (previous year: €50 million) as a result of fluctuations in the fair values of documented cash flow hedges. Thereof, €46 million (previous year: €50 million) relates to fluctuations in the US dollar exchange rate on the basis of a documented cash flow hedge volume of US$805 million (previous year: US$766 million). If there had been a uniform increase in the value of foreign currencies, this would have led to opposite changes in these amounts for the Bertelsmann Group.

Servicing Accounts Receivables Sold

In certain individual cases, Bertelsmann sells receivables purchased from third parties to financial intermediaries. The receivables sold relate primarily to short-term receivables, some covered by credit insurance, that Arvato Financial Solutions acquires from third parties in the course of its services in receivables management and some of which it resells to financial intermediaries on an ongoing basis. This business can be changed at any time during the year. As part of the contractual agreements on the sale of receivables, substantially neither all the rewards nor all risks that are associated with the receivables were transferred or retained. This relates in particular to possible defaults and late payments of receivables sold, so that a receivable was accounted for in the amount of the continuing involvement of €49 million (previous year: €45 million). The carrying amount of the associated liability is €56 million (previous year: €52 million). The underlying volume of receivables sold amounts to €346 million as of the end of the reporting period (previous year: €321 million).

26 Cash Flow Statement

The Bertelsmann consolidated cash flow statement has been prepared in accordance with IAS 7 and is used to evaluate the Group's ability to generate cash and cash equivalents. Cash flows from operating activities are presented using the indirect method, whereby EBIT is adjusted for the effects of a non-cash nature, any deferrals or accruals of past or future operating receipts or payments, and items of income or expenses associated with investing cash flows. In addition, cash flows arising from income taxes are classified as cash flows from operating activities as well as other cash flows that are neither investing nor financing.

The management of Group operations of the Bertelsmann Group utilizes indicators that include operating EBITDA and is thus before interest and taxes, and depreciation, amortization and impairment and special items. Operating results and the resulting cash flow from operating activities should therefore be consistent and comparable. Accordingly, the net balances of interest paid and interest received during the financial year are shown in the cash flow statement as part of financing activities. Contributions to pension plans are a cash outflow reported as a separate item in the cash flow from investing activities. The change in provisions for pensions and similar obligations represents the balance of personnel costs for pensions and similar obligations and company payments for these obligations (further explanations are presented in note 19 "Provisions for Pensions and Similar Obligations"). Other effects include the adjustments of results from investments accounted for using the equity method and adjustments in connection with non-cash income and expenses.

The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in the scope of consolidation. Items in the consolidated cash flow statement thus cannot be compared with changes in items disclosed on the consolidated balance sheet. Investing activities include payments for fixed assets and purchase price payments for consolidated investments acquired and proceeds from the disposal of non-current assets and participations. Further explanations concerning acquisitions made during the financial year are presented in the "Acquisitions and Disposals" section. Disposals during the financial year are also presented separately in that section. Financial debt of €14 million (previous year: €6 million) was assumed during the reporting period.

Cash flow from financing activities includes changes in equity, financial debt and dividend payments affecting cash, as well as interest paid and interest received. The item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €476 million (previous year: €263 million) and payments in the amount of €-194 million (previous year: €-204 million). The receipts include inflows from a bank loan in order to finance a short-term funding requirement of €228 million. The other receipts and payments mainly relate to short-term loans at short maturities and correspondingly high turnaround rates. In addition, the item also includes other changes affecting cash in the amount of €46 million in connection with hedge transactions. The item "Change in equity" amounts to €657 million, of which €505 million relates to purchase price payments in connection with the shareholding increase in Penguin Random House and €128 million relates to purchase price payments including a contribution to SpotX. The increase of the item "Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))" mainly results from the special dividend distribution of €373 million to the co-shareholder of the publishing group Penguin Random House.

The following table shows the cash changes and non-cash changes of financial debt.

Changes in financial debt

		Cash changes	Non-cash changes			
in € millions	12/31/2016		Acquisitions through business combinations	Exchange rate effects	Other changes	12/31/2017
Bonds	3,175	547	–	–	3	3,725
Promissory notes	509	150	–	–	–	659
Liabilities to banks	103	241	7	(26)	(1)	324
Lease liabilities	51	(6)	1	(1)	2	47
Other financial debt	160	1	6	(4)	1	164
Total financial debt	3,998	933	14	(31)	5	4,919

27 Segment Reporting

IFRS 8 Operating Segments requires that external segment reporting must be based on internal organizational and management structure and on management and reporting indicators used internally. The Bertelsmann Group comprises eight operating reportable segments (RTL Group, Penguin Random House, Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments) differentiated according to the type of products and services offered.

In early February, portions of the Arvato digital marketing business were integrated into the Bertelsmann Printing Group with retroactive effect as of January 1, 2017. In detail, these included the activities of AZ Direct in Germany, Austria and Switzerland, and of DeutschlandCard. The figures from the financial year 2016 have been adjusted accordingly.

Each of the eight segments is run by a segment manager who is responsible for results. This manager reports to the Executive Board of Bertelsmann Management SE in its role as the chief operating decision maker in accordance with IFRS 8. Corporate is mainly responsible for activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, corporate communications and management, internal control and strategic development of the Group, financing, risk management, and the optimization of the Group's investment portfolio.

Intersegment eliminations are carried in the column "Consolidation."

As in the past, specific segment information is defined according to the definitions on which Group management are based. As a rule, accounting and measurement in the segment reporting use the same IFRS principles as in the Consolidated Financial Statements. Invested capital is calculated 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. Intercompany revenues are recognized using the same arm's-length conditions applied to transactions with third parties.

Operating EBITDA serves as a key performance indicator for a sustainable determination of operating result. Assessment of the operating segments' performance is also based on this performance indicator. Operating EBITDA represents the operating earnings generated by the respective segment management before interest and income taxes, as well as depreciation, amortization and impairment, and it is adjusted for special items. Elimination of these special items allows the determination of a normalized performance indicator, thus simplifying forecasting and comparability. Segment depreciation and amortization include the depreciation of property, plant and equipment and the amortization of intangible assets as set out in notes 10 "Intangible Assets" and 11 "Property, Plant and Equipment." The business development of Bertelsmann Investments is determined primarily on the basis of EBIT.

Each segment shows the investments accounted for using the equity method and their results, provided these companies can be clearly allocated to the segment concerned. Results from investments accounted for using the equity method are shown before impairment. In addition to the segment breakdown, revenues are broken down by customer location and revenue source. Non-current assets are also stated according to the location of the respective company.

Tabular information on the segment information is presented on page 50 ff.

The following table shows the reconciliation of segment information to the Consolidated Financial Statements:

Reconciliation of Segment Information to the Consolidated Financial Statements

in € millions	2017	2016
Operating EBITDA from continuing operations	2,636	2,568
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	691	632
Adjustments on amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment included in special items	(34)	(2)
Special items	83	139
EBIT from continuing operations	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

28 Related Party Disclosures

For the Bertelsmann Group, related parties as defined in IAS 24 are those persons and entities that control or exercise a significant influence over the Bertelsmann Group, and those persons and entities controlled or jointly controlled by the Bertelsmann Group, or over which it exercises a significant influence. Accordingly, certain members of the Mohn family, the members of the Executive Board of Bertelsmann Management SE as the personally liable partner and the Supervisory Board of Bertelsmann SE & Co. KGaA including close members of their families and including the companies that are controlled or jointly managed by them, and the joint ventures and associates forming part of the Bertelsmann Group and their subsidiaries are defined as related parties.

Bertelsmann Verwaltungsgesellschaft mbH (BVG), Gütersloh, a holding company with no operating activities, has control of the Bertelsmann Group. Johannes Mohn GmbH has informed Bertelsmann SE & Co. KGaA that, as a result of the merger of Bertelsmann Beteiligungs GmbH into Johannes Mohn GmbH, it directly owns more than 50 percent of the shares in Bertelsmann Management SE and of Bertelsmann SE & Co. KGaA since December 12, 2017. Reinhard Mohn Verwaltungsgesellschaft mbH and Mohn Beteiligungs GmbH still own more than one-quarter of the shares in Bertelsmann Management SE and in Bertelsmann SE & Co. KGaA. Shares held both directly and indirectly are included when identifying shareholdings.

In the legal form of a KGaA, the business is managed by a personally liable partner. In the case of Bertelsmann SE & Co. KGaA, Bertelsmann Management SE, represented by its Executive Board, is responsible for the management of the business. The statutory bodies consist of the Supervisory Board and the General Meeting at the Bertelsmann SE & Co. KGaA level, and the Executive Board, Supervisory Board and General Meeting at the Bertelsmann Management SE level. The Supervisory Board of the KGaA is elected by the limited partners at the General Meeting. The members of the Bertelsmann Management SE Supervisory Board are appointed at the General Meeting of Bertelsmann Management SE. BVG controls the voting rights at the Bertelsmann SE & Co. KGaA and Bertelsmann Management SE General Meeting.

Remuneration for key management personnel includes:

Remuneration for Key Management Personnel

in € millions	2017	2016
Short-term employee and termination benefits	30	23
Post-employment benefits	2	7
Other long-term benefits	8	8

The remuneration shown also includes remuneration for activities by the members of the Supervisory Board of Bertelsmann SE & Co. KGaA in the Supervisory Board of Bertelsmann Management SE. Transactions with subsidiaries included in the scope of consolidation are eliminated and are not further disclosed. In addition to transactions with consolidated subsidiaries, the following transactions with related parties and entities were conducted in the reporting period:

Transactions with Related Parties

in € millions	Parent and entities with significant influence	Key members of management	Joint ventures	Associates	Other related parties
2017					
Goods delivered and services provided	–	–	66	33	–
Goods and services received	–	(2)	(38)	(14)	(1)
Receivables against	–	–	26	39	–
Amounts owed to	–	52	69	22	29
2016					
Goods delivered and services provided	–	–	64	32	–
Goods and services received	–	(2)	(33)	(9)	(1)
Receivables against	–	–	26	38	–
Amounts owed to	–	55	68	13	27

The amounts owed to key members of management include pension obligations, variable remuneration components and long-term incentives. The item "Other related parties" primarily includes transactions with the personally liable partner Bertelsmann Management SE. The obligations as of the end of the reporting period result from expenses passed on by Bertelsmann Management SE.

No guarantees were entered into for associates during the reporting period or in the previous year. In line with the previous year, Bertelsmann has no share in the contingent liabilities of its associates. There are contribution obligations in the amount of €63 million (previous year: €61 million) to a Brazilian fund set up by Bertelsmann along with the investment company Bozano Investimentos and other partners, investing in educational companies, with a particular focus on healthcare. Further contribution obligations exist to University Ventures Funds in the amount of €19 million (previous year: €44 million). As in the previous year, no significant expenses were recognized for bad or doubtful debts due from associates in the financial year 2017. Loans amounting to €15 million were granted to associates in the financial year 2017 (previous year: €18 million). As in the previous year, no loans were received from associates.

Joint ventures have obligations to the Bertelsmann Group from operating leases in the amount of €8 million (previous year: €12 million) and contingent liabilities in the amount of €27 million (previous year: €17 million). As of the end of the reporting period, commitments for RTL Group joint ventures existed in the amount of €21 million (previous year: €38 million). As in the previous year, no expenses were recognized for bad or doubtful debts due from joint ventures in the financial year 2017. Loans amounting to €1 million were granted to joint ventures in the financial year 2017 (previous year: €1 million). Loans were received from joint ventures in the amount of €8 million during the reporting period (previous year: €34 million).

29 Events after the Reporting Period

Sequent to the balance sheet date, no events of special importance occurred that could have a material impact on the financial position and financial performance of the Bertelsmann Group.

30 Exemption for Subsidiaries from Preparation, Audit and Publication of Financial Statements

The following subsidiaries took advantage of the exemption regulations set out in section 264 (3) of the German Commercial Code (HGB) relating to additional requirements for limited liability companies to prepare annual financial statements and a management report, and the requirements for audit of and publication by limited liability companies for the financial year ended December 31, 2017:

Name of the entity	Place
"I 2 I" Musikproduktions- und Musikverlags-gesellschaft mbH	Cologne
Ad Alliance GmbH	Cologne
adality GmbH	Munich
arvato analytics GmbH	Gütersloh
arvato CRM Energy GmbH	Leipzig
arvato CRM Healthcare GmbH	Berlin
arvato CRM Nordhorn GmbH	Nordhorn
Arvato CRM Solutions GmbH	Gütersloh
arvato direct services Brandenburg GmbH	Brandenburg
arvato direct services Cottbus GmbH	Cottbus
arvato direct services Dortmund GmbH	Dortmund
arvato direct services eiweiler GmbH	Heusweiler-Eiweiler
arvato direct services GmbH	Gütersloh
arvato direct services Münster GmbH	Münster
arvato direct services Neubrandenburg GmbH	Neubrandenburg
arvato direct services Potsdam GmbH	Potsdam
arvato direct services Rostock GmbH	Rostock
arvato direct services Schwerin GmbH	Schwerin
arvato direct services Stralsund GmbH	Stralsund
arvato direct services Wilhelmshaven GmbH	Schortens
arvato distribution GmbH	Harsewinkel
arvato eCommerce Beteiligungsgesellschaft mbH	Gütersloh
arvato eCommerce Verwaltungsgesellschaft mbH	Gütersloh
arvato health analytics GmbH	Munich
arvato infoscore GmbH	Baden-Baden
arvato IT support GmbH	Gütersloh
arvato Logistics, Corporate Real Estate & Transport GmbH	Gütersloh
arvato media GmbH	Gütersloh
Arvato Payment Solutions GmbH	Verl
arvato SCM Consumer Products GmbH	Gütersloh
arvato services Chemnitz GmbH	Chemnitz
arvato services Cottbus GmbH	Cottbus
arvato services Dresden GmbH	Dresden
arvato services Duisburg GmbH	Duisburg
arvato services Erfurt GmbH	Erfurt
arvato services Essen GmbH	Essen
arvato services Gera GmbH	Gera
arvato services Halle GmbH	Halle (Saale)
arvato services Leipzig GmbH	Leipzig

Name of the entity	Place
arvato services Magdeburg GmbH	Magdeburg
arvato services Rostock GmbH	Rostock
arvato services solutions GmbH	Gütersloh
arvato services Suhl GmbH	Suhl
arvato systems GmbH	Gütersloh
arvato Systems perdata GmbH	Leipzig
arvato Systems S4M GmbH	Cologne
arvato telco services Erfurt GmbH	Erfurt
AVE Gesellschaft für Hörfunkbeteiligungen mbH	Berlin
AZ Direct Beteiligungs GmbH	Gütersloh
AZ Direct GmbH	Gütersloh
BAG Business Information Beteiligungs GmbH	Gütersloh
BAI GmbH	Gütersloh
BDMI GmbH	Gütersloh
BePeople GmbH	Gütersloh
Bertelsmann Accounting Services GmbH	Gütersloh
Bertelsmann Accounting Services Schwerin GmbH	Schwerin
Bertelsmann Aviation GmbH	Gütersloh
Bertelsmann Capital Holding GmbH	Gütersloh
Bertelsmann China Holding GmbH	Gütersloh
Bertelsmann Music Group GmbH	Gütersloh
Bertelsmann Transfer GmbH	Gütersloh
Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung	Gütersloh
BFS finance GmbH	Verl
BFS finance Münster GmbH	Münster
BFS health finance GmbH	Dortmund
BMG RIGHTS MANAGEMENT (Europe) GmbH	Berlin
BMG RIGHTS MANAGEMENT GmbH	Berlin
Campaign Services Neckarsulm GmbH	Neckarsulm
Campaign Services Offenbach GmbH	Frankfurt am Main
Carcert GmbH	Wiesbaden
CBC Cologne Broadcasting Center GmbH	Cologne
COUNTDOWN MEDIA GmbH	Hamburg
DeutschlandCard GmbH	Munich
Digital Media Hub GmbH	Cologne
direct services Gütersloh GmbH	Gütersloh
Erste TD Gütersloh GmbH	Gütersloh
Erste WV Gütersloh GmbH	Gütersloh
European SCM Services GmbH	Gütersloh

Name of the entity	Place
FremantleMedia International Germany GmbH	Potsdam
GGP Media GmbH	Pößneck
Global Assekuranz Vermittlungsgesellschaft mit beschränkter Haftung	Gütersloh
Gruner + Jahr Management GmbH	Hamburg
infoNetwork GmbH	Cologne
informa HIS GmbH	Wiesbaden
informa Solutions GmbH	Baden-Baden
infoscore Business Support GmbH	Baden-Baden
infoscore Consumer Data GmbH	Baden-Baden
infoscore Finance GmbH	Baden-Baden
infoscore Forderungsmanagement GmbH	Verl
infoscore Portfolio Management International GmbH	Gütersloh
infoscore Profile Tracking GmbH	Gütersloh
infoscore Tracking Solutions GmbH	Gütersloh
infoscore Tracking Technology GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
IP Deutschland GmbH	Cologne
KWS Kontowechsel Service GmbH	Schortens
mbs Nürnberg GmbH	Nuremberg
MEDIASCORE Gesellschaft für Medien- und Kommunikationsforschung mbH	Cologne
Mediengruppe RTL Deutschland GmbH	Cologne
Mohn Media Energy GmbH	Gütersloh
Mohn Media Mohndruck GmbH	Gütersloh
NETLETIX GmbH	Munich
NORDDEICH TV Produktionsgesellschaft mbH	Hürth
Prinovis Ahrensburg Weiterverarbeitung und Logistik GmbH	Hamburg
Prinovis GmbH	Gütersloh
Prinovis Klebebindung GmbH	Nuremberg
PRINOVIS Service GmbH	Hamburg
Print Service Gütersloh GmbH	Gütersloh
Probind Mohn media Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Random House Audio GmbH	Cologne
Reinhard Mohn GmbH	Gütersloh
Relias Learning GmbH	Berlin
rewards arvato services GmbH	Munich

Name of the entity	Place
RM Buch und Medien Vertrieb GmbH	Gütersloh
RTL Group Central & Eastern Europe GmbH	Cologne
RTL Group Deutschland GmbH	Cologne
RTL Group Deutschland Markenverwaltungs GmbH	Cologne
RTL Group Financial Services GmbH	Potsdam
RTL Group Licensing Asia GmbH	Cologne
RTL Hessen GmbH	Frankfurt am Main
RTL interactive GmbH	Cologne
RTL Journalistenschule GmbH	Cologne
RTL Nord GmbH	Hamburg
RTL Radio Berlin GmbH	Berlin
RTL Radio Center Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
RTL Radio Luxemburg GmbH	Cologne
RTL Radiovermarktung GmbH	Berlin
RTL West GmbH	Cologne
rtv media group GmbH	Nuremberg
Smart Shopping and Saving GmbH	Berlin
Sonopress GmbH	Gütersloh
Sparwelt GmbH	Berlin
SpotX Deutschland GmbH	Cologne
SSB Software Service und Beratung GmbH	Munich
TERRITORY CTR GmbH	Gütersloh
TERRITORY MEDIA GmbH	Munich
UFA Distribution GmbH	Potsdam
UFA Fiction GmbH	Potsdam
UFA Film und Fernseh GmbH	Cologne
UFA GmbH	Potsdam
Ufa Radio-Programmgesellschaft in Bayern mbH	Ismaning
UFA Serial Drama GmbH	Potsdam
Universum Film GmbH	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlegerdienst München GmbH	Gilching
VIVENO Group GmbH	Gütersloh
Vogel Druck und Medienservice GmbH	Höchberg
VOX Holding GmbH	Cologne
webmiles GmbH	Munich

In addition, the exemption regulations set out in section 264b of the German Commercial Code (HGB) were used by the following companies for the financial year ended December 31, 2017:

Name of the entity	Place
"Alwa" Gesellschaft für Vermögensverwaltung mbH & Co. Grundstücksvermietung KG	Schönefeld
11 Freunde Verlag GmbH & Co. KG	Berlin
AVE II Vermögensverwaltungsgesellschaft mbH & Co. KG	Cologne
AZ fundraising services GmbH & Co. KG	Gütersloh
Berliner Presse Vertrieb GmbH & Co. KG	Berlin
DDV Mediengruppe GmbH & Co. KG	Dresden
Deutsche Medien-Manufaktur GmbH & Co. KG	Münster
G+J / Klambt Style-Verlag GmbH & Co. KG	Hamburg

Name of the entity	Place
G+J Food & Living GmbH & Co. KG	Hamburg
G+J Immobilien GmbH & Co. KG	Hamburg
Gruner + Jahr GmbH & Co KG	Hamburg
infoscore Portfolio Management GmbH & Co. KG	Verl
infoscore Portfolio Management II GmbH & Co. KG	Baden-Baden
LV-Publikumsmedien GmbH & Co. KG	Münster
Motor Presse Stuttgart GmbH & Co. KG	Stuttgart
Prinovis GmbH & Co. KG	Hamburg
Sellwell GmbH & Co. KG	Hamburg

The consolidated subsidiary Arvato SCM Ireland Limited in Balbriggan, Ireland, has used the option offered in section 357 of the “Republic of Ireland Companies Act 2014” for publication requirements for its annual financial statements.

31 Additional Information in Accordance with Section 315a of the German Commercial Code (HGB)

Compensation of the Supervisory Board of Bertelsmann SE & Co. KGaA for the financial year 2017 amounted to €1,875,167 plus statutory value-added tax. Members of the Executive Board received total remuneration in the reporting period of €28,926,652, including €16,966,406 from Bertelsmann Management SE. Former members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG and their surviving dependents received compensation of €11,511,599, including €11,125,937 from Bertelsmann SE & Co. KGaA. The provision for pension obligations to former members of the Executive Board of Bertelsmann AG and Bertelsmann Management SE accrued at Bertelsmann SE & Co. KGaA and Bertelsmann Management SE amounts to €78,419,242. The members of the Executive Board and Supervisory Board are listed on pages 144 ff.

The fees for the Group auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft totaled €7 million during the financial year, of which €6 million was due to fees for the audit of the financial statements. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was paid a total of €1 million for other audit-related services, for tax consulting services and for further services. The audit fees primarily include fees for the auditors’ review of the interim consolidated financial statements and the consolidated financial statements and the audit of the separate financial statements of Bertelsmann SE & Co. KGaA and its subsidiaries. The audit-related fees mainly cover statutory or voluntarily mandated attestation services by the auditor. Fees for other services mainly cover fees for project-related consulting services.

The following table shows the number of employees as of December 31, 2017, and on an annual average:

Number of Employees

	Number of employees (closing date)	Number of employees (average)
RTL Group	12,376	12,433
Penguin Random House	10,615	10,646
Gruner + Jahr	10,551	10,820
BMG	733	692
Arvato	72,931	71,613
Bertelsmann Printing Group	8,261	8,366
Bertelsmann Education Group	1,639	1,633
Bertelsmann Investments	29	29
Corporate	1,954	2,562
Total	119,089	118,794

32 Proposal for the Appropriation of Net Retained Profits

The personally liable partner Bertelsmann Management SE and the Supervisory Board of Bertelsmann SE & Co. KGaA will propose to the General Meeting that the remaining net retained profits of Bertelsmann SE & Co. KGaA of €665 million be appropriated as follows:

Net Retained Profits for Bertelsmann SE & Co. KGaA

in € millions	
Retained earnings	665
Dividends to shareholders	(180)
Carry forward to new financial year	485

The dividend per ordinary share thus totals €2,149.