Summary of business performance and operating results in 2017

Axel Springer has had a very successful conclusion to the 2017 financial year. The forecast published in March 2017 and partially raised in August was met (see page 58).

In the reporting year, **revenues** of € 3,562.7 million were 8.3 % higher than the prior-year figure (€ 3,290.2 million). This increase was mainly due to the good operational development. In addition, consolidation effects also contributed, while currency effects had a negative impact overall. Organically, i.e. adjusted for consolidation and currency effects, sales revenues were 6.3 % higher than in the previous year. All operating segments contributed to this revenue growth.

The transformation towards an increasingly digital company is reflected in the share of digital business in our key figures: In 2017, we generated 71.5 % of our revenues and 87.1 % of our advertising revenue in the digital field.

Compared with the prior year, **adjusted EBITDA** increased by 8.5 % to € 645.8 million (PY: € 595.5 million). The return remained stable at 18.1 % (PY: 18.1 %). The partially significant increase in earnings in the operating segments was only opposed by a deterioration in earnings in the Services/Holding segment. Overall, we generated 80.0 % of our operating result in the past financial year with digital activities.

Adjusted earnings per share from continuing operations of € 2.60 were 8.1 % above the prior year's figure of € 2.41.

At the annual shareholders' meeting to be held on Wednesday, April 18, 2018, the Executive Board and Supervisory Board will propose a **dividend** of € 2.00 (PY: € 1.90) per qualifying share.

Outlook 2018

For the financial year 2018, we expect Group **revenues** to increase by an amount in the low to mid single-digit percentage range. Organically, we also anticipate an increase in the low to mid single-digit percentage range.

For **adjusted EBITDA**, we expect a rise in the lower double-digit percentage range. For the organic growth in EBITDA, we expect an increase in the mid to high single-digit percentage range.

For the **adjusted EBIT**, due to higher depreciation, we expect an increase in the lower single-digit percentage range, organically a rise in the lower to mid single-digit percentage range.

For the **adjusted earnings per share**, we expect an increase in the lower to mid single-digit percentage range. For the organic development, we anticipate an increase in the mid to high single-digit percentage range.

You can find detailed information on our forecasts on page 58.

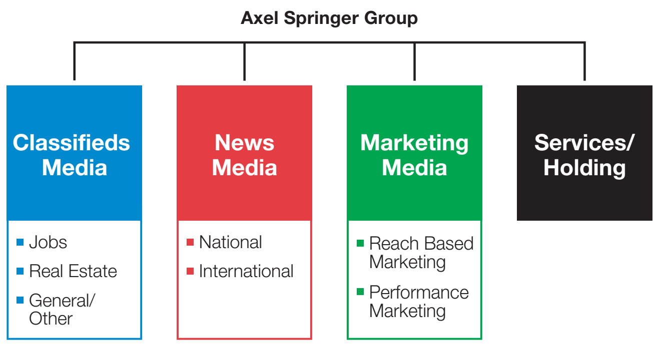
Introductory remarks

The combined management report for Axel Springer SE and the Group are summarized. The information contained in this combined management report relates to the economic situation and business performance of the Axel Springer Group. These statements are also largely applicable to Axel Springer SE. Additional information on the economic situation of the parent company Axel Springer SE is provided in a separate chapter on page 39.

For explanations of the key performance indicators used and the adjustments of our operating results, please refer to page 33 of the combined management report and the notes to the consolidated financial statements section (31).

Fundamentals of the Axel Springer Group

Segments



Business model

Axel Springer is a leading digital publisher with an emphasis on digital classifieds and journalism. Already today, 71.5 % of total revenues and 80.0 % of adjusted EBITDA are generated by digital activities. Axel Springer operates one of the world's largest portfolios of digital classifieds. From an economic point of view, these offers are the most important pillar in the Group, particularly those in the subsegment Jobs and Real Estate. In addition, the offers in the News Media segment include a broad-based portfolio of successfully established brands such as the BILD and WELT Group in Germany or Business Insider in the USA. The Marketing Media segment comprises all business models that generate revenues predominantly through reach-based or performance-based forms of advertising.

Legal structure, locations

Axel Springer SE, as the holding company of the Axel Springer Group, is a listed stock corporation with its registered head office in Berlin. The Group also maintains offices at other locations in Germany. In addition, the Group comprises numerous companies abroad. The consolidated shareholdings of the Group are listed in section (42) in the notes to the consolidated financial statements.

Segments of the Axel Springer Group

Axel Springer's business activities are bundled in three operating segments: Classifieds Media, News Media and Marketing Media. In addition, there is the Services/-Holding segment.

As part of the publication of the nine-month figures for 2017, we have adjusted the names of our segments. The former Classified Ad Models have been renamed Classifieds Media, the Paid Models have become News Media and the segment previously called Marketing Models has been changed to Marketing Media. The content composition of the segments remained unchanged.

Classifieds Media

The Classifieds Media segment encompasses all business models that generate their revenues primarily through advertisers paying for advertising of jobs, real estate, cars, etc.

Portfolio and market position

Axel Springer has established one of the world's largest portfolios of leading online classifieds portals over the last few years. The activities of the Classifieds Media segment are divided into three subsegments: Jobs, Real Estate and General/Other.

The following graph gives an overview of the main brands in the Classifieds Media portfolio.

Portfolio Classifieds Media

Jobs	Real Estate	General/ Other
▪ StepStone ▪ Totaljobs/Jobsite ▪ Saongroup	▪ SeLoger ▪ Immowelt ▪ Immoweb	▪ LaCentrale ▪ Yad2 ▪ @Leisure ▪ meinestadt.de[1]

[1] As of 2018 part of the subsegment Jobs.

Jobs comprises the StepStone Group and its subsidiaries, the leading company among the private-sector job boards in Germany, the UK, Ireland, South Africa and other countries. With its portals specialized in expert and managerial staff, according to the market research institute TNS, StepStone delivers around two and a half times more applications than its nearest competitor in Germany. The Totaljobs Group and the Jobsite Group, which alongside the general main brands, also include among others the specialist portals Caterer.com, CWJobs.co.uk, CityJobs.com and eMedcareers.com, together deliver significantly more applications in the UK than their competitors.

In **Real Estate**, Axel Springer is the leading provider in France and Belgium with SeLoger and Immoweb. SeLoger is the largest company in France in the field of specialized real estate classifieds in France and has been able to increase its average revenue per agent through price measures as well as an expansion of its offering in recent years, reaching an average value of € 724 in 2017 (PY: € 676) per month. The SeLoger's portfolio also includes some highly specialized niche portals such as: bellesdemeures.com for luxury real estate. Since the first quarter of 2018, Logic-Immo.com is also part of the portfolio (see page 24). In Belgium, Immoweb achieved an average revenue per agent of € 514 per month (PY: € 460). The Real Estate subsegment also includes the German Immowelt Group, which was created in 2015 from the merger of Immowelt and Immonet and is the clear number two of the German real estate portals. In the year 2017, the focus of the Immowelt Group was again on the marketing of the DUO offer, which enables agents to place their properties on both portals. This resulted in another significant increase in average revenue per agent. In 2017, this averaged € 294 per month (PY: € 252).

General/ Other includes Car&Boat Media, based in Paris. The company operates LaCentrale, the leading specialist classifieds portal for used cars in France as well as other portals related to cars and boats. LaCentrale's average revenue per agent in 2017 was € 410 per month. The Yad2 Group includes the leading generalist classifieds portal in Israel for real estate, cars and classifieds, as well as a leading job board (Drushim). The subsegment also includes @Leisure, a leading operator of online holiday property rental portals. The group of companies based in Amsterdam includes, among others, the portals belvilla and casamundo as well as the company TraumFerienwohnungen and the DanCenter Group (previously Land & Leisure Group), which, among others, operates the portal DanCenter. The German regional portal meinestadt.de generates the majority of its revenues through digital classifieds.

Business model and key factors

The offers in the Classifieds Media segment generate revenues mainly through sales of classified ads. A certain price per ad is paid by HR departments for placing job ads, by estate agents for advertising real estate, and by car dealerships for publishing car ads. In addition, revenues are generated by marketing online advertising spaces and cooperations as well as through the provision of software functionalities for customers. Long-term growth drivers are, among others, the continuing relocation of classified ads to the Internet, the acquisition of new customers and the increasing monetization of the offer. Moreover, business developments are significantly determined by the economic environment in the respective market segments, the market position in the respective segment, and online usage behavior of advertisers and seekers.

Within **Jobs**, ads are sold to job providers and logins are offered to online CV databases that belong to the respective portals in which the job advertisers can actively search for suitable candidates.

Real Estate primarily generates revenues by selling advertising and display space to agents, project developers, housing agencies, or private individuals.

Within **General/Other**, revenues are based on the focus of the relevant portal. These include, among others, commercial automobile retailers, landlords of vacation homes, real estate agents and project developers. The portals are also partially aimed at private individuals who predominantly sell second-hand goods via this marketplace.

News Media

The News Media segment includes primarily business models that are based on content creation and funded by paying readers and/or advertisers.

Portfolio and market position

The News Media segment is sub-divided into national and international offerings. The main activities in the News Media segment are illustrated in the following chart.

Portfolio News Media

National	International
▪ BILD-Group ▪ WELT-Group	▪ Ringier Axel Springer Media ▪ Business Insider ▪ eMarketer ▪ upday ▪ Politico

The **digital portfolio** in **News Media National** mainly comprises BILD.de and WELT.de, including affiliated online portals such as Stylebook and Gründerszene, as well as the digital apps of magazines (including Autobild.de). In addition, with WELT (previously N24) a TV news channel belongs to the WELT Group. N24 was renamed WELT on January 18, 2018.

In terms of reach BILD.de is Germany's strongest news and entertainment portal with a digital subscription model. In addition, BILD.de has the widest reach of journalistic mobile offers in Germany. BILD.de is also distributed via mobile channels, with apps for nearly all kinds of smartphones, tablet PC and smart TV, not to mention the mobile portal. In 2017, in addition to our portal Upday, it was one of the two most-visited mobile media brands in Germany ("digital facts 2017 12“, AGOF - Working Group for Online Research). BILD.de also offers other products such as fitbook.de and travebook.de.

WELT digital products are some of the most successful stationary and mobile Internet sites in the segment of German quality media. The offering is also available on PC tablet, smartphones and e-readers as well as a digital subscription. WELT (previously N24) is leading in the TV news channel segment and maintained its 1.4 % market share in 2017 among the 14- to 49-year-old advertising-relevant audience group.

The **print portfolio** in the **News Media National** segment comprises the newspapers of the umbrella brands BILD and WELT, as well as our magazines.

BILD is Europe's biggest daily newspaper with the widest reach, as well as the unchallenged number one in Germany with a share of 79.4 % of newsstand sales (all figures for the German newspapers and magazines are based on paid circulation as per German Audit Bureau of Circulation, (IVW - Informationsgemeinschaft zur Feststellung der Verbreitung von Werbeträgern) as at December 31, 2017). BILD am SONNTAG is Germany's best-selling nationwide Sunday newspaper in 2017, with a share of 59.8 %. B.Z. is one of Berlin's biggest newspapers. The automotive, computer and sports media of the BILD brand family make up a magazine portfolio built on the core brands of AUTO BILD, COMPUTER BILD and SPORT BILD.

The WELT AM SONNTAG is the clear number one in the area of supraregional quality Sunday newspapers based on circulation. DIE WELT (including WELT KOMPAKT) is the third-biggest quality newspaper in Germany based on paid circulation.

The subsegment **News Media International** comprises the international digital and print media offers.

In Eastern Europe, Axel Springer is active with Ringier Axel Springer Media in the markets of Poland, Hungary, Serbia, Slovakia and, since 2017, also in the Baltic States. The portfolio includes leading digital and print offerings. With the **digital offerings**, we reach 77.7 % of the country's Internet users with the leading Polish online group Onet. In Hungary the leading job portal, profession.hu, belongs to the portfolio. In Slovakia, azet.sk is the leading online portal, reaching 80.7 % of Internet users. Since the acquisition in the financial year 2017 of the CV Keskus Group, which operates the leading job portals in Estonia, Latvia and Lithuania, Ringier Axel Springer Media is also represented in the Baltic States. In Slovakia, the inclusion of the existing classifieds business in a joint venture with the Penta Group has created the leading classified portals in the Real Estate and Auto segments. **Print offers** include the largest Polish newspaper FAKT, the leading tabloid BLIKK in Hungary and the leading tabloid NOVY CAS in Slovakia, as well as other newspapers and magazines. In Slovakia, the sale of the print business, already agreed upon in 2017, is to take place in the middle of the year 2018 (see page 25).

The Europe Joint Venture with POLITICO in Brussels continued its growth course in 2017 and has strengthened its position as the most widely read and influential EU media brand. In 2017, 62 % of EU decisionmakers read POLITICO at least once a week. The website politico.eu, the printed weekly newspaper, the conference business and the digital payment offers continued to contribute to the growth course.

In the US, Axel Springer is represented by the leading digital business and financial news provider Business Insider. In addition to businessinsider.com, the company also operates other services such as: for example, the INSIDER portal in the US and Business Insider UK in the UK. In 2017 Business Insider reached over 300 million monthly readers and viewers. In cooperation with finanzen.net, Business Insider has been running a German portal since November 2015 and the Markets Insider since October 2016 in the USA. Business Insider also launched another digital subscription offering with Business Insider Prime in 2017 and is expanding its B2C offering to include the paid business customer product BI Intelligence.

eMarketer complements the portfolio of innovative paid digital offerings in English-speaking countries and strengthens Axel Springer's position in business news and information. Based in New York, the company is a leading provider of analytics, studies and digital market data to companies and institutions.

The mobile news aggregator Upday, developed in partnership with Samsung and initially launched in four countries, has been represented in 16 European countries since April 2017. Since then, Upday has become the largest mobile news offering in Europe. In December 2017, the platform reached a total of 498.4 million visits (IVW) in 16 countries, a quarter of them in Germany. Upday aggregates content from more than 3,500 different sources. In addition to "Top News" selected and summarized by journalist, news is displayed by algorithm that reflect the individual interests of users in the "My News".

Business model and key factors

Revenues in the News Media segment mainly comprise circulation and advertising revenues. The circulation revenues come from the sale of classic print products and digital subscriptions. Advertising revenues are generated by marketing the reach of our online and print media. The value chain is, however, aligned across media. It encompasses all the essential processes for the creation of information, entertainment and moving image content, ranging from conception, editorial work and production to sales and marketing. All journalism content is collected in integrated newsrooms, some of which are used for more than one publication, and processed there in accordance with the demands of our print and online media.

News Media is marketed predominantly centrally in Germany via Media Impact, the leading cross media marketer (measured by gross market shares). The digital marketing portfolio also includes content produced by external companies. The cross-media approach to marketing enables optimal use of synergies, competencies and reach.

The print business continues to face the challenge of falling print circulations. For advertisers, in addition to the circulation development, the reach is particularly important. In particular, BILD continues to benefit from the fact that, with just under 10 million daily readers, it has by far the largest reach among daily newspapers in Germany.

We produce our newspapers, among others, in the three offset print shops in Hamburg-Ahrensburg, Essen-Kettwig and Berlin-Spandau. We therefore carry out all steps in the value chain ourselves, from production to monitoring dispatch logistics. The print media are distributed nationally and internationally above all by press wholesale companies, station book trade and press import companies. In Germany there are over 100 thousand retail shops where our newspapers and magazines are sold.

In the digital business, industry's circulation revenues are still much smaller than in the print business, but are recording strong growth. The willingness to pay for digital journalism is increasing and success stories of digital subscription models like the New York Times in the US illustrate this. Digital advertising revenues continue to be highly competitive due to the reach-based market power of Facebook and Google. For example, Facebook and Google already absorb two-thirds of the digital advertising market in the US today. A key driver of this development is the shift in user behavior from desktop to mobile. However, we see the secure brand environment that publishers can guarantee by editing content as a great opportunity. Against the background of the often viral distribution of fake news, social media platforms have increasingly come under fire in 2017- exposing the brands of advertising customers to a reputation damaging environment.

The production process of digital news media involves the journalistic preparation of content with subsequent provision on websites or other digital resources such as smartphones, tablets or smart TVs, or the processing and aggregation of information in databases. Distribution of digital products takes place predominantly via our own Internet pages or download platforms such as the app stores of Apple and Google.

Cross-media, the segment is influenced by the political situation in the relevant markets, the economic environment and, in particular, the development of the advertising markets. In addition to the general market cycle, seasonal aspects and one-off effects such as special editions play a role.

Marketing Media

In the Marketing Media segment, all business models are summarized, the proceeds of which are generated predominantly by advertisers in reach-based or performance-based marketing.

Portfolio and market position

The Marketing Media segment is divided into reach based and performance based offers. The principal activities are summarized in the graph below.

Portfolio Marketing Media

Reach Based Marketing	Performance Marketing
■ idealo ■ aufeminin[1)] ■ Bonial ■ finanzen.net	■ Awin

[1)] Sale envisaged for the second quarter of 2018.

Reach Based Marketing includes idealo.de, Germany's leading and in terms of reach strongest portal for product search and price comparison. idealo accesses around 2.2 million products with more than 333 million offers from online retailers (status: average December 2017) and is also represented internationally with numerous offers. The product comparison portal ladenzeile.de is also part of the idealo Group.

aufeminin and its affiliates provide online portals, forums and product subscriptions for predominantly female audiences. In addition to the internationally represented aufeminin portals, these include Marmiton, France's largest digital offering on the subject of cooking, the lifestyle brand My Little Paris with leisure tips, local recommendations and subscriptions, the UK parent portal netmums, the health portal Onmeda in Germany, France and Spain, and the Californian company Livingly Media with its four lifestyle portals Livingly, Zimbio, StyleBistro and Lonny. In December 2017, Axel Springer announced the signing of an option agreement for the sale of its stake in aufeminin to Télévision Française 1 (TF1). The sales agreement was concluded in January 2018 (see page 25).

kaufDA.de and MeinProspekt.de operate under the umbrella of the Bonial International Group as Germany's leading consumer information portals regarding local shopping. The offerings distribute digitized advertising retail leaflets predominantly via mobile Internet at a regional level. The services are offered under local brands also in France, Sweden, Norway, Denmark (all Bonial), Spain, Mexico, Chile and Colombia (all Ofertia). In December, Bonial announced the closure of US activities under the Retale brand, as profitability targets were not met (see page 24).

finanzen.net, the financial portal with the highest reach in Germany, offers its users data on the latest developments in the financial markets on a daily basis. The portal is part of its internationalization strategy, among others, also represented with an offer in Switzerland, Russia, Austria and the Netherlands. In addition, finanzen.net operates two portals in cooperation with Business Insider, the German edition of Business Insider and Markets Insider, a US stock exchange portal.

In the field of TV and radio, Axel Springer is directly and indirectly involved in leading private radio stations and thus holds one of the biggest private radio portfolios in Germany. Further, Axel Springer also holds a minority interest in Doğan TV Holding, one of the leading private television and radio companies in Turkey.

The **Performance Marketing** activities are bundled within the Awin Group (previously: Zanox group). The leading provider of success-based online marketing in Europe brings advertisers and publishers together, giving advertisers an efficient way to market their products and services on the Internet. Since January 2017, the US company ShareASale has also been part of the Awin Group. In October 2017, the merger of Awin and affilinet took effect. Axel Springer and United Internet, which had brought affilinet into the AWIN AG, thus strengthen their competitive position in the affiliate marketing area and lay the foundations for accelerated international growth. This also serves to prepare for a possible subsequent IPO of the Awin Group (see page 24).

Business model and key factors

In our **Reach Based Marketing**, advertising spaces are marketed to advertising customers and charged based on the reach generated by the given media offerings (number of users or listeners) or the interaction generated by the reach. Attractive content generates high reach values and topic-specific environments enable advertisers to precisely reach the desired target groups.

In the course of the rising use of online media, reach based marketing particularly on the Internet is a major business. Besides display ads like banners, layer ads, and wallpaper, videos are also increasingly being used as online advertising formats. In addition, marketing collaborations and innovative forms of advertising such as native advertising, sponsoring and marketing via social media channels are used. Due to the increased automatic purchase and sale of advertising space (programmatic advertising) and the progressive spread of mobile devices, the forms of reach marketing are constantly changing.

Through **Performance Marketing**, advertisers can promote their products and offerings on publisher websites through advertising such as text links, banner ads, or online videos. Advertisers pay only a performance fee to publishers if the ad has actually been used and led to the transaction requested by the advertiser. Our platforms provide the infrastructure for this efficient form of marketing, record data traffic and transactions, and facilitate a variety of services to advertisers and publishers.

The business segment is benefiting from the growth of stationary and mobile Internet usage and the increasing number of relocation of purchases to the Internet. Through the Awin Group, Axel Springer is benefiting from growing demand from advertising companies for success-based advertising and marketing models.

Services/Holding

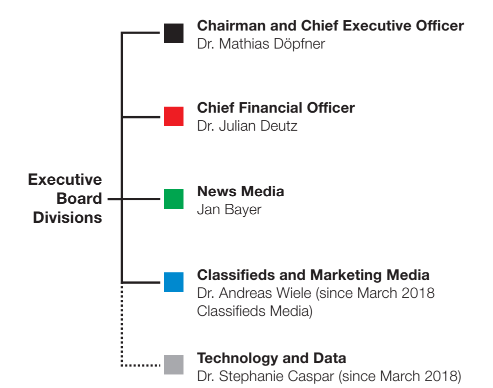
Group services, which also include the three domestic printing plants, as well as the holding functions are reported within the Services/Holding segment. Group services are purchased by in-house customers at standard market prices.

Management and Control

Executive Board divisions

During the reporting year, the Executive Board of Axel Springer SE consisted of four members; from March 1, 2018 there will be five members. In its management of the company, the Executive Board is advised and supervised by a Supervisory Board composed of nine members.

Axel Springer Executive Board Divisions



Executive Board responsibilities are divided as follows:

Dr. Mathias Döpfner is Chairman and Chief Executive Officer of Axel Springer SE. All editors-in-chief and the corporate staff divisions Corporate Communications, Public Affairs, Strategy, Executive Personnel as well as the Axel Springer Academy report to him.

Dr. Julian Deutz is responsible for the Finance and Personnel Executive Board division. In addition to the commercial departments, his division also includes, among others, Personnel, Law and Compliance, Group Purchasing, Group Security, as well as Corporate Audit & Risk Management.

Jan Bayer is President News Media. In addition to the journalistic product portfolio, this division also includes Media Impact (Marketing), Sales Impact (sales), IT, and the printing plants are also assigned to this segment. In addition, from March 1, 2018, Jan Bayer will take over the responsibility from Dr. Andreas Wiele for the reach based offers of the Marketing Media segment.

Dr. Andreas Wiele is President Classifieds and Marketing Media (from March 1, 2018: President Classifieds Media) and is responsible for the corresponding segments, including the associated investments. From March 1, 2018 he is responsible for the classifieds and performance-based marketing activities.

From March 1, 2018, Dr. Stephanie Caspar will be responsible for the overall technology and data strategy and the national digital media business as Executive Board member for Technology and Data.

Corporate governance principles

Axel Springer's corporate governance principles are aligned with our core values of creativity, entrepreneurship, and integrity. There are also five principles, the "essentials", which are laid down in a separate Axel Springer corporate constitution. For more information on our internal rules, see the section entitled "Important Management Practices" in the declaration of corporate governance law pursuant to Section 289f HGB (commercial law) on page 67 of this Annual Report.

Basic principles of the compensation system

The compensation of our employees, all the way up to senior management level, consists of a fixed component, and – for qualifying employees - an additional variable component. Variable compensation is determined on the basis of individual performance and the company's success. To this end, individual target agreements encompassing both group-wide targets and division targets are adopted every year anew. With regard to the Group targets for 2017, variable compensation is based primarily on the adjusted financial indicators EBITDA and EBIT. A presentation of the remuneration of the Executive Board can be found in the chapter "Corporate Governance" under "Compensation Report" (from page 76). We also provide information on the remuneration of our Supervisory Board members (from page 80).

Goals and Strategies

Axel Springer is pursuing a strategy of profitable growth with the ultimate goal of becoming the leading digital publisher. This goal is considered to be achieved when the Group is the leader in its respective market segments and in the countries in which it operates.

Segment strategies

In the **Classifieds Media** segment, Axel Springer intends to further expand its position as a leading international provider of digital classified portals. In addition to organic development, additional acquisitions should contribute to growth, depending on acquisition opportunities. Synergies within the group are used consistently.

In addition, early-stage activities were launched in the Classifieds Media segment in order to identify innovative business models and providers at an early stage.

In the **News Media** segment, Axel Springer intends to exploit the potential of the strong BILD and WELT brands in the digital and printed as well as the international brands (e. g. Business Insider and eMarketer).

At the beginning of 2018, Axel Springer has rebuilt the so far brand-based organization of the News Media National product portfolio and organized the publishing area across print and digital. The editors continue to work together brand-linked and cross-medially.

In this way, the very different requirements in the publishing area of the print and digital business should be taken into account. The print area is about limiting the circulation decline and aligning our products even more consistently with the readers in order to consolidate the strong market position of our titles. The digital sector, on the other hand, requires greater investments across brands in technological innovations in the future. Axel Springer is aiming for a sustained positive development of digital subscription models in the context of readers' increasing willingness to pay for journalistic quality. Another focus is the expansion of the video content in the digital offers of BILD and WELT. The BILD Group achieves a superior reading and usage time compared to other competitors thanks to the ever-closer integration of print, online and mobile offerings and increases its share, especially among young and high-income readers. With the digital brand subscription BILDplus, the basis of paying readers on the Internet is established and expanded.

The WELT Group wants to become the leading multimedia provider of quality journalism that can optimally serve print, digital, TV and out of home. For this the respective strengths are used: The print and digital offerings of the WELT Group use the moving image inventory of the TV news channel WELT (previously N24), while the quality news channel in conjunction with the other offers of the WELT Group serve to further expand its market position and better exploit its online potential. Furthermore, the WELT Group will use its digital subscription model to further increase the base of paying readers on the Internet.

Via the central marketer Media Impact, the segment offers advertisers an attractive, cross-media and strong reach based platform for campaigns. As one of the leading cross-media marketing firms (based on gross market shares), Media Impact will continue to expand its external marketing portfolio in the print and digital segments. The TV portfolio, together with Viacom's portfolio, will be marketed in the video image marketer Visoon Video Impact.

The strategy of sustainable growth in the **Marketing Media** segment extends to reach based marketing and performance based marketing alike. In reach based marketing, the strategy focuses on financial and consumer information portals. It is important to increase the range and use of offers, increase advertising utilization and develop new advertising, pricing and business models. Furthermore, innovative products and business models are promoted, developed and, if successful, expanded further via capital expenditures in early-stage activities. In the area of Performance Marketing, there is stronger integration of the activities bundled in the Awin Group; essentially by standardizing the technical platform and expanding services and the publisher network.

Organic and acquisition-driven growth

Furthermore, innovative products and business models are promoted, developed and, if successful, expanded further via capital expenditures in early-stage activities. This is complemented by inorganic growth.

In all segments, Axel Springer seizes opportunities to expand the business model by investing in companies with innovative business ideas which are still in an early phase of their development. Alongside the indirect participations in start-ups as part of our investments in early phase funds, Project A Ventures, in particular, forms part of the Start-up Accelerator recently founded together with Porsche, which supports digital business ideas with high market potential. Furthermore, Axel Springer has an equity stake in LAKESTAR II. The investment fund concentrates on digital companies with a focus on Europe and the USA. A number of direct minority interests are also assigned on a selective basis to these indirect interests in startups. Over the past few years, Axel Springer has also established an early-phase portfolio in the USA that focuses on digital journalism.

Above all, when the opportunities arise, companies that are well-established in the market will be acquired. We select suitable investments according to their appropriate strategic orientation, the quality of the management, the profitability and the scalability of the company business model.

Among other things, we assess the profitability of investments in new or existing business segments using approved capital value methods that take business and country specific risks into consideration.

Internal management system

We have aligned our internal control system along our corporate strategy, defining financial performance indicators (which are also our performance measures) and non-financial performance indicators that measure the success of our strategy.

Detailed monthly reports are an important element of our internal management and control system. These reports contain the monthly results of our most important activities, along with a consolidated statement of financial position, income statement, and cash flow statement. We use these reports to compare actual values with budget values. When variances arise, we investigate further or initiate suitable corrective measures.

These reports are supplemented by regular forecasts of expected advertising revenues over the coming weeks and months, as well as forecasts of the likely development of earnings.

Financial performance indicators

Our focus is on sustainably increasing both our profitability and our corporate value. The most important target and performance indicators in terms of profitability are revenues, EBITDA and EBIT. At the same time, the adjusted EBITDA and the adjusted EBIT are the basis for the performance-related compensation of executives (more about our compensation system can be found starting on page 76). These performance indicators and the adjusted EBITDA margin are anchored in our internal planning and control system.

Financial Control Parameters

Selected financial control parameters on the Group level, € millions	2017	2016
Revenues	3,562.7	3,290.2
EBITDA, adjusted[1]	645.8	595.5
EBITDA margin, adjusted[1]	*18.1 %*	*18.1 %*
EBIT, adjusted[1]	504.0	471.1

[1] Explanations with respect to the relevant key performance indicators on page 33.

Non-financial performance indicators

In addition to the financial performance indicators, the following non-financial performance indicators are relevant for assessing our customer, market and supply-related performance, even if the entity as a whole is not controlled by it:

- Unique Users/Visitors as well as business model-related key figures of our online media and the resulting market position
- Reach of our media in the advertising market as well as key figures on brand and advertising awareness
- Average circulation of all major newspapers and magazines sold
- Digital subscriptions

Economic Report

General economic conditions and business development

General economic conditions

According to the International Monetary Fund (IMF), **global economic growth** in 2017 was + 3.7 % in real terms, slightly higher than expected. The main driving forces included the national economies of Europe and Asia.

According to calculations by the Federal Statistical Office, the economy in **Germany** in the course of 2017 was characterized by strong economic growth. Price-adjusted gross domestic product rose by 2.2 % compared to the previous year. The German economy has thus grown for the eighth year in a row. Positive impulses for growth came mainly from the domestic market in 2017. Private consumption rose by 2.0 % in real terms. Investments increased by 3.0 % in 2017, which is above average. German exports also developed positively. Price-adjusted exports of goods and services were 4.7 % higher than in the previous year. Imports increased even more strongly at 5.2 % over the same period.

The ifo Business Climate Index moved upwards in 2017. This applies both to the assessment of the business situation and to business expectations. Consumers were in high spirits, especially in the second half of 2017. This applies above all to the economic expectations of consumers.

According to calculations by the Federal Statistical Office, consumer prices increased significantly in 2017 compared to the previous year by 1.8 %. The Federal Employment Agency recorded 2.5 million unemployed on an annual average in 2017. The number thus decreased by 5.9 % compared to the previous year, the annual average unemployment rate in 2017 was 5.7 %.

According to estimates by the German Institute for Economic Research (DIW), the **British economy** grew by 1.5 % in real terms in 2017. The recession, partly expected as a result of the Brexit vote, has so far failed to materialize. Private consumption increased more strongly in the third quarter of 2017 than at the beginning of 2017, and corporate investment also gave a stronger boost. At the same time, the foreign trade contribution was negative due to significantly increased imports. According to the DIW estimate, inflation in the United Kingdom rose noticeably to 2.7 %.

For **France**, the DIW expects price-adjusted economic growth in 2017 of 1.8 %. The inflation rate is likely to be below average relative to the euro area (1.4 %) at 1.1 %.

In **Central and Eastern Europe**, the dynamic development accelerated in the third quarter of 2017 according to the DIW estimate. Overall, the region should have achieved real growth of 4.6 %. The main driver in most countries was private consumption.

According to the DIW study, the **USA** achieved real economic growth of 2.3 % in 2017. In the third quarter of 2017, both private consumption and business investment increased significantly. Foreign trade also provided positive impulses.

Industry-specific environment

Advertising Market

According to the latest advertising market forecast of ZenithOptimedia (“Advertising Expenditure Forecast“, December 2017), the advertising market in Germany in 2017 grew by 0.9 % over the prior-year figure.

According to these surveys, net revenues of the **total advertising market** amounted to € 20.1 billion in the period under review (including classified ads and leaflets, less discounts and agency commissions and excluding production costs), representing a nominal increase of 0.9 % over the previous year.

In the **online** sector in Germany (display, keyword marketing and affiliate), net advertising revenues increased by 7.1 % to € 6.8 billion in 2017. The digital advertising expenditures thus represent a market share of the total advertising expenditures of 34.0 %. The advertisers are feeling the pressure of the rapid transformation of their companies. Marketing communication is shifting rapidly to online channels in response to changes in consumer behavior.

In the print media, net advertising revenues of **newspapers** (newspapers, advertising papers and newspaper supplements) totaled € 4.6 billion in the reporting period, 2.5 % below the previous year's level. **Magazines** (consumer magazines, directory magazines, directory media) also had a decline compared to the previous year, with net advertising revenues falling by 6.3 % to € 2.2 billion.

Commercial television in Germany recorded a decline of 0.8 % to € 4.5 billion in 2017 and net advertising revenues on **radio** were € 773 million, 0.7 % above the previous year. Net advertising revenues in **outdoor** advertising increased in 2017 by 1.6 % to € 1.1 billion.

According to ZenithOptimedia, the following digital advertising revenue development is expected in 2017 for selected countries:

Anticipated Advertising Activity 2017 (Selection)

Change in net ad revenues compared to prior year (nominal)	Online
Germany	7.1 %
Central and Eastern Europe	16.3 %
USA	14.6 %
United Kingdom	4.6 %

Source: ZenithOptimedia, Advertising Expenditure Forecast, December 2017.

Press distribution market

More and more people use the Internet as the main medium for news consumption. There is an increasing willingness to pay for digital content in Germany. Economically successful offers such as the New York Times, Washington Post, but also Netflix or Spotify prove that media content can be monetized not only via range models, but also via subscriptions. While digital newspaper distribution, at € 350 million, is not nearly as big as print distribution (€ 4.6 billion), overall market growth in distribution will take place online over the next few years, while the print market will see a slight decline. The online distribution market will grow by 5 % each year from 2017-2021. But we see a positive trend: All major national daily newspapers in Germany already offer digital subscriptions. The Axel Springer products in this segment, BILD Plus and WELT Plus, pioneers with their respective founding years of 2013 and 2012, have seen a growing number of subscribers for years.

The German press **distribution market** contracted somewhat further. The total paid circulation of newspapers and magazines was 5.0 % below the corresponding prior-year figure. Thanks to the price increases implemented in the past four quarters, however, circulation revenues declined by only 0.7 %.

The 335 IVW-registered daily and Sunday newspapers achieved total sales of 16.5 million copies per publication date. Compared to the prior-year figure, this corresponds to a fall of 4.6 %. As in the prior year, retail sales (–10.2 %) suffered a much greater decline than subscription sales (–3.5 %). Demand in the segment of daily and Sunday newspapers within the press distribution market weakened by 4.8 %, weighted according to the respective frequency of publication.

Overall sales of general-interest magazines, including membership and club magazines, was 91.0 million copies per publication date. Compared to the prior-year figure, this corresponds to a fall of 3.8 %. The number of IVW registered titles was 756 (–2.2 % compared to the previous year). The demand for general-interest magazines weighted for their respective publication frequencies declined by 5.7 %.

Business performance

In January 2017, the Awin Group (previously Zanox Group), which is majority owned by Axel Springer, acquired 100 % of **ShareASale**, a leading affiliate network in the USA. Acquisition costs amounted to € 44.4 million and included, in addition to the purchase price paid in the year under review, a contingent purchase price liability of € 9.3 million dependent on the development of earnings.

In June 2017, Axel Springer Digital Classifieds France entered into a purchase agreement with the French media holding company Spir Communication SA for the purchase of 100 % of the shares of Spir's subsidiary Concept Multimédia for a purchase price of € 105 million, taking into consideration purchase price adjustments which are to be determined on the basis of net debt and net cash. The transaction was approved by the French antitrust authorities at the end of January 2018 and completed in early February. In particular, Concept Multimédia, headquartered in Aix-en-Provence and Paris, runs under the core brand of **Logic-Immo.com** a real estate portal in France as well as additional online portals for mediation of luxury real estate and new-build properties.

In July 2017, we signed contracts to **sell** the **new Axel Springer building** under construction and **the Axel-Springer-Passage** for a total sale price of € 755 million. The sale of Axel-Springer-Passage, which was opened in 2004, was completed at the end of 2017 with payment of the purchase price of € 330 million (before tax payments of approximately € 80 million) and the handover of the building. The new owners of Axel-Springer-Passage are Blackstone Real Estate Partners Europe V and QUINCAP Investment Partners. We will continue to use the main part of the passage as a tenant until the end of 2020 after the completion of the sale. The sale of the Axel Springer new building to a company of the Norwegian state fund Norges Bank Real Estate Management is subject to the completion of the construction project (total investment volume of around € 300 million). The purchase price is € 425 million (before tax payments of about € 30 million). The sale is expected to be completed by the end of 2019. Axel Springer will rent the new building from 2020 on a long-term basis.

In September 2017, Axel Springer announced that it would reorganize the **publishing structure** of its media brands (including BILD, WELT) as well as the **marketing and sales activities** in the German market. In order to make even better use of the different potential of print and digital offerings, two separate publishing areas are created to which the respective brands and teams are assigned. For this purpose, on the one hand, the digital activities of the media brands are bundled with digital marketing, customer service and IT which are part of Media Impact, and on the other hand the print offers, including print marketing, print distribution and printing plants. The reorganization concerns exclusively the publishing areas, the editors continue to work fully integrated across all channels - digital, TV and print.

With effect from October 1, 2017, Axel Springer and United Internet have merged their companies **Awin** and **affilinet** to build a joint affiliate network. Axel Springer will hereby strengthen its competitive position in the affiliate marketing sector. Following the transfer of 100 % of the affilinet shares by United Internet to AWIN AG, United Internet holds 20 % of the Awin Group. Previously, Axel Springer had taken over the shares still held by Swisscom Schweiz AG (47.5 %) for a purchase price of € 62.4 million under an option agreement. The combination of the expertise, competences and reach of Awin and affilinet enables the development of innovative revenue models in order to increase further growth potential.

At the end of November 2017, the **Bonial Group**, which is majority owned by Axel Springer, announced that it was closing its offer in the USA, a website and an app under the name Retale, as no convincing economic perspective was foreseeable.

In December 2017, Axel Springer and Télévision Française 1 (TF1) signed an option agreement and in January 2018 signed an agreement to **sell** Axel Springer's interest in the French **aufeminin Group** at a price of € 38.74 per share. This was equivalent to a premium of 45.7 % on the closing price on December 8, 2017. Axel Springer's 78.43 % stake was therefore valued at € 286.1 million, plus a monthly interest payment until completion of the transaction. After carrying out a works council consultation as pertaining to French Law, the parties then concluded an appropriate purchase agreement at the beginning of January 2018. Completion of the transaction requires approval by the relevant antitrust authorities.

In Slovakia, the acquisition of Autobazar.eu, the leading car section portal in Slovakia, and TopReality.sk, a leading Slovak real estate portal, was completed in December 2017. In addition, the **sale of the newspaper and magazine portfolio**, including the associated online offers, is scheduled for the middle of the year 2018 and should be completed with the approval of the relevant authorities.

At the beginning of January 2018, we transferred the **Axel Springer high-rise building in Berlin** to Axel Springer Pensionstreuhandverein, thereby increasing plan assets to cover our pension obligations by approximately € 140 million. As part of a long-term lease, we will continue to use the property as headquarters.

Overall statement of the Executive Board on the course of business and economic environment

Digitization continues to be the defining trend for the economic environment for media companies. This reflects the development of the Axel Springer Group segments. While the two fully digitized segments Classifieds Media and Marketing Media registered significant organic revenue growth, revenues in the News Media segment were only slightly above the previous year's level due to the higher proportion of structurally declining print business. Business performance was also influenced by acquisitions in digital business models and by an active portfolio management. The overall positive development in the financial year confirms our strategy of rigorously digitizing the company.

Financial performance, liquidity and financial position

Financial performance of the Group

In the reporting year, **revenues** of € 3,562.7 million were 8.3 % above the prior-year figure (€ 3,290.2 million). The development of revenue was driven primarily by the good operational development of our activities. In addition, consolidation effects, mainly due to the inclusion of eMarketer and DanCenter (previously Land & Leisure), had an impact. Overall, currency effects had an opposite effect. Adjusted for consolidation and currency effects, total revenues rose by 6.3 %.

Organic revenue development for digital media is illustrated in the table below. Consolidation and currency effects have been adjusted.

Revenue Development Digital Media, Organic

yoy	2017	2016
Digital Media	**12.5 %**	**10.7 %**
Classifieds Media	12.7 %	12.5 %
News Media	12.0 %	14.7 %
Marketing Media	12.4 %	7.5 %

International revenues increased by 12.5 % from € 1,564.3 million to € 1,759.8 million. The share of Axel Springer's revenues increased from 47.5 % to 49.4 %.

Advertising revenues increased by 13.4 % to € 2,521.3 million (PY: € 2,223.1 million), due to a positive development of all three operating segments. In addition, particularly consolidation effects from the acquisition of DanCenter (previously Land & Leisure) in the Classifieds Media and the merger of Awin and affilinet, as well as the acquisition of ShareASale in the Marketing Media segment had an impact. Adjusted for consolidation and currency effects, advertising revenues within the Group increased by 10.8 %. Advertising revenues as a proportion of total revenues were 70.8 % (PY: 67.6 %). Of the total advertising revenues, 87.1 % were generated by **digital activities**.

The decline in **circulation revenues** by 2.1 % from € 646.9 million to € 633.0 million, was due to market conditions. Although digital circulation revenues continued to increase significantly, they were not yet able to fully compensate for the decline in **circulation revenues** in printed publications. Circulation revenues as a proportion of total revenues were 17.8 % (PY: 19.7 %).

Other revenues amounting to € 408.3 million were 2.8 % below the prior-year figure of € 420.2 million. Deconsolidation effects, in particular from the sale of Poliris and Smarthouse, had an impact. Adjusted for consolidation and currency effects, the decline was reduced to 0.8 %. Overall, other revenues represented a share of 11.5 % (PY: 12.8 %) of total revenues.

Other operating income amounted to € 317.3 million (PY: € 339.9 million) and was mainly impacted in the reporting year by the sale of the Axel-Springer-Passage in Berlin (€ 200.5 million) and effects from the revaluation of contingent considerations (€ 56.6 million). In the previous year, in addition to income in connection with the establishment of Ringier Axel Springer Schweiz AG (€ 102.2 million) and the sale of CarWale (€ 83.3 million), income from the sale of our real estate in Hamburg (€ 71.3 million) was included.

Changes in **inventories and other internal costs capitalized** amounted to € 87.7 million (PY: € 82.6 million) in the reporting year and continued to relate mainly to comprehensive IT development projects for the development and expansion of our digital business models.

Compared to the prior-year period, **total expenses** increased by 7.8 % to € 3,402.0 million (PY: € 3,155.5 million).

The increase in **purchased goods and services** of 8.2 % to € 1,051.4 million (PY: € 971.5 million) mainly relates to the Awin Group and, in addition to an increase due to increasing revenues, resulted in particular from the acquisition of affilinet during the reporting year. The ratio of purchased goods and services to total revenues remains unchanged compared to the previous year at 29.5 %.

The increase in **personnel expenses** by 9.3 % to € 1,202.1 million (PY: € 1,100.1 million) is mainly due to an increase in personnel in the digital business models, effects from the acquisition of subsidiaries, as well as higher expenses for restructuring measures and long-term compensation programs. The average number of employees grew by 3.3 % to 15,836 in 2017.

Depreciation, amortizations, and impairments amounted to € 236.1 million, and remained at the prior-year level (€ 232.6 million). Increased depreciation and amortization due to high investments in intangible assets was offset by slightly lower depreciation, amortization and impairments from purchase price allocations.

Other operating expenses increased by 7.1 % to € 912.4 million (PY: € 851.2 million), mainly due to the inclusion of acquired subsidiaries.

Income from investments amounted to € –39.0 million (PY: € 40.2 million) and was impacted in the reporting year by impairments of financial assets, in particular of our share in Ringier Axel Springer Schweiz AG. In the previous year, income from investments was particularly influenced by effects from the contribution of our intererst in Thrillist and NowThis into the non-controlling interest in Group Nine Media. The operating income from investments included in EBITDA amounted to € 16.0 million (PY: € 18.7 million).

The **financial result** was € –18.4 million and slightly above the prior-year level (PY: € –21.4 million).

Income taxes amounted to € –130.2 million (PY: € –126.1 million) at the end of the reporting period. The tax rate of 25.6 % (PY: 21.9 %) was characterized in the reporting year by the release of deferred taxes due to changes in tax rates, particularly in the USA. In the previous year, the tax rate was lower – as a consequence of the largely tax-neutral income in connection with the establishment of Ringier Axel Springer Schweiz AG and the lower taxed income from the sale of CarWale.

Compared with the prior year, **adjusted EBITDA** rose by 8.5 % to € 645.8 million (PY: € 595.5 million). The adjusted EBITDA margin is the same as in the previous year at 18.1 %. **Adjusted EBITDA of digital media** increased by 23.3 % from € 472.1 million to € 582.0 million. Based on the operating business, the digital business share in adjusted EBITDA was 80.0 % (PY: 72.5 %). Due to an increase in depreciation and amortization, **adjusted EBIT** increased by 7.0 % compared with the prior year to € 504.0 million (PY: € 471.1 million).

Net income of the Group developed as follows:

Net Income[1)]

€ millions	2017	2016	Change
Net income	**378.0**	**450.0**	**–16.0 %**
Non-recurring effects	–117.0	–234.6	–
Depreciation, amortization, and impairments of purchase price allocations	94.2	108.3	–13.0 %
Taxes attributable to these effects	–27.8	–23.8	–
Net income, adjusted[2)]	**327.5**	**299.9**	**9.2 %**
Attributable to non-controlling interest	47.1	40.4	16.6 %
Adjusted net income[2)] from continuing operations attributable to shareholders of Axel Springer SE	**280.4**	**259.5**	**8.1 %**
Earnings per share, adjusted (in €)[2) 3)]	**2.60**	**2.41**	**8.1 %**
Earnings per share (in €)[3)]	**3.19**	**3.94**	**–19.1 %**

[1)] Continuing operations, for the portion attributable to discontinued operations see notes to the consolidated financial statements under note (2d).
[2)] Explanations with respect to the relevant key performance indicators on page 33.
[3)] Calculation based on average weighted shares outstanding in the reporting period (107.9 million; PY: 107.9 million).

Non-recurring effects included income from the sale, i.e. contribution of business units and real estate of € 172.4 million (PY: € 290.9 million), in particular in connection with the sale of the Axel-Springer-Passage in Berlin (PY: effects from the establishment of Ringier Axel Springer Schweiz AG, the sale of CarWale, as well as the disposal of the remaining part of the office building complex at the Hamburg site). In addition, impairment losses of € – 55.5 million on investments were included

(PY: € – 3.0 million), mainly related to our interest in Ringier Axel Springer Schweiz AG, effects from the subsequent valuation of contingent considerations from options for the acquisition of non-controlling interests of € 34.9 million (PY: Expense of € –29.7 million), as well as other effects from initial consolidations of € –14.6 million (PY: € –20.0 million), which mainly resulted from acquisition costs and further effects from purchase price allocations. Expenses of € –20.2 million (PY: € –3.5 million) related to the long-term Executive Board remuneration program (LTIP) were adjusted.

Financial perfomance of the operating segment

Classifieds Media

In the Classifieds Media all business models are summarized, which generate their revenues mainly in the online classifieds business. The segment is sub-divided into Jobs, Real Estate, and General/Other.

Key Figures Classifieds Media

€ millions	2017	2016	Change
Revenues	**1,007.7**	**879.5**	**14.6 %**
Advertising revenues	990.4	858.5	15.4 %
Other revenues	17.3	20.9	–17.1 %
Jobs	**473.2**	**410.0**	**15.4 %**
Real Estate	**290.1**	**270.7**	**7.2 %**
General/Other	**244.4**	**198.8**	**23.0 %**
EBITDA, adjusted[1)]	**413.2**	**354.6**	**16.5 %**
Jobs	197.3	175.8	12.2 %
Real Estate	146.2	121.5	20.4 %
General/Other	78.1	64.9	20.3 %
EBITDA margin, adjusted	**41.0 %**	**40.3 %**	
Jobs	41.7 %	42.9 %	
Real Estate	50.4 %	44.9 %	
General/Other	32.0 %	32.7 %	

[1)] Segment EBITDA, adjusted includes non-allocated costs of € 8.5 million (PY.: € 7.6 million).

Revenues in the Classifieds Media segment increased compared to the prior-year period by 14.6 % to € 1,007.7 million (PY: € 879.5 million). The deciding factor in particular was again a very significant operational improvement, especially for the job and real estate portals. In addition, consolidation effects had a particular effect due to the inclusion of the DanCenter Group (previously Land & Leisure Group) in the subsegment General/Other. The organic increase in revenues, i.e. adjusted for consolidation and currency effects was 12.7 %. The currency effects mainly pertained to the job portal activities in the UK. The job portals achieved a revenue increase of 15.4 %, organically they increased by 17.0 %. Once again, business in continental Europe primarily contributed to this growth, but activities in the UK also slightly accelerated their growth. The real estate portals showed an increase of 7.2 %. Consolidation effects from the sale of the software business at SeLoger in the previous year had a positive effect here. Organically, growth was at 10.8 %. The strongest growth was recorded in the Immowelt group. In the subsegment General/Other, the revenue increase of 23.0 % was primarily due to consolidation effects in the @Leisure group. Organically, revenues increased by 6.3 %.

The adjusted EBITDA of the segment increased considerably by 16.5 % to € 413.2 million (PY: € 354.6 million). A significant part of this increase can be attributed to operational improvements in earnings. Organically, i.e. adjusted for consolidation and currency effects, the increase was at 14.7 %. The margin of 41.0 % was slightly higher than the prior-year value (40.3 %). The adjusted EBITDA for the job portals increased by 12.2 % compared to the prior year. As in the case of revenues, the increase is primarily attributable to business in continental Europe. The earnings decline in the UK business of the StepStone Group is attributable, among other things, to investments in improving its market position. Real estate portals recorded an adjusted EBITDA increase of 20.4 %, mainly due to improvements in earnings at the Immowelt Group. The increase in adjusted EBITDA of 20.3 % in the subsegment General/Other was mainly attributable to consolidation effects in the @Leisure Group. Organically, the increase was 8.5 %.

The adjusted EBIT in the Classifieds Media segment increased by 13.6 % from € 317.6 million to € 361.0 million. Depreciation, amortization and impairments / write-ups increased by 41.1 % to € 52.2 million (PY: € 37.0 million).

News Media

The News Media segment mainly comprises the BILD and WELT Group in the national segment, and in the international area particularly the digital media offerings in Europe and the USA.

Key Figures News Media

€ millions	2017	2016	Change
Revenues	**1,509.8**	**1,481.6**	**1.9 %**
Advertising revenues	666.1	617.2	7.9 %
Circulation revenues	633.1	646.8	– 2.1 %
Other revenues	210.6	217.7	– 3.2 %
National	**1,109.2**	**1,142.4**	**– 2.9 %**
Advertising revenues	448.3	441.0	1.7 %
Circulation revenues	504.7	539.6	– 6.5 %
Other revenues	156.2	161.8	– 3.5 %
International	**400.7**	**339.2**	**18.1 %**
Advertising revenues	217.8	176.2	23.6 %
Circulation revenues	128.4	107.2	19.8 %
Other revenues	54.4	55.8	– 2.5 %
EBITDA, adjusted	**218.8**	**214.4**	**2.0 %**
National	164.5	178.0	– 7.6 %
International	54.3	36.3	49.3 %
EBITDA margin, adjusted	**14.5 %**	**14.5 %**	
National	14.8 %	15.6 %	
International	13.5 %	10.7 %	

Revenues in the News Media segment were € 1,509.8 million, which is 1.9 % above the prior-year figure (€ 1,481.6 million). The digital proportion of revenues was 33.9 %. Revenues of News Media National were € 1,109.2 million, which is 2.9 % below the prior-year figure. Here, the digital proportion of revenues is 24.1 %. National advertising revenues increased slightly by 1.7 %, in the reporting period, supported by a BILD special issue in the second quarter, strong digital growth and a slight increase in print advertising revenues in the third quarter. The national circulation revenues, based on the general market environment were 6.5 % lower than the prior-year value. Revenues at News Media International also increased due to the first-time consolidation of eMarketer in mid-2016 by 18.1 % to € 400.7 million. Organically, i.e. adjusted for consolidation and currency effects, they grew by 10.3 %. The evolution of digital offerings continued to be good, with Business Insider recording strong growth. By contrast, most print activities were unable to escape the market trend and achieved revenues below the previous year's level. The digital proportion of revenues from News Media International was 60.9 %.

The adjusted EBITDA of € 218.8 million was 2.0 % above the value of the previous year (€ 214.4 million). International business contributed to the slight increase in earnings, boosted by the first-time consolidation of eMarketer since July 2016. Organically, i.e. adjusted for consolidation and currency effects, EBITDA was 3.2 % below the prior-year level. The segment's margin remained stable at 14.5 % compared to the same period last year (14.5 %).

Adjusted EBIT in the News Media segment increased by 1.1 % from € 180.9 million to € 182.9 million. Depreciation, amortization and impairments / write-ups increased by 6.9 % from € 33.5 million to € 35.8 million.

Marketing Media

In the Marketing Media segment, idealo, aufeminin and the Bonial Group, among others, are pooled in the reach-based marketing subsegment, whereas performance-based marketing consists of the Awin Group (previously Zanox Group).

Key Figures Marketing Media

€ millions	2017	2016	Change
Revenues	**984.5**	**856.2**	**15.0 %**
Advertising revenues	864.7	747.4	15.7 %
Other revenues	119.8	108.7	10.2 %
Reach Based Marketing	**314.7**	**288.7**	**9.0 %**
Performance Marketing	**669.9**	**567.4**	**18.1 %**
EBITDA, adjusted[1]	**95.6**	**82.2**	**16.3 %**
Reach Based Marketing	71.2	65.5	8.8 %
Performance Marketing	32.4	25.5	27.4 %
EBITDA margin, adjusted	**9.7 %**	**9.6 %**	
Reach Based Marketing	22.6 %	22.7 %	
Performance Marketing	4.8 %	4.5 %	

[1] Segment EBITDA, adjusted includes non-allocated costs of € 8.1 million (PY: € 8.7 million).

Revenues in the Marketing Media segment increased by 15.0 % to € 984.5 million (PY: € 856.2 million). In addition to a still very good operating performance, the consolidation of Awin and affilinet in Performance Marketing intensified in the fourth quarter. Organically, i. e. adjusted for consolidation and currency effects, the increase was 12.4 %. Revenues in Reach Based Marketing increased by 9.0 % to € 314.7 million. Adjusted for consolidation and currency effects, which resulted in particular from the sale of Smarthouse Media in the previous year, organic growth was 12.0 %. Revenues in Performance Marketing increased by 18.1 % to € 669.9 million. Revenue growth had already been positively impacted by the first-time consolidation of ShareASale since the beginning of 2017, and was further intensified in the last quarter of the reporting year by the merger between Awin and affilinet in October. Organic growth was at 12.7 %.

The adjusted EBITDA in the segment of € 95.6 million was 16.3 % above the prior-year value (€ 82.2 million). Earnings declines in the Bonial and aufeminin groups were more than compensated by improvements in other activities. In organic terms, too, the segment achieved an adjusted EBITDA improvement and increased by 8.4 %. Due to revenue growth, especially in the subsegment Performance Marketing, the return for the segment remained more or less stable at 9.7 % (PY: 9.6 %) despite the earnings growth.

The adjusted EBIT in the Marketing Media segment increased by 14.9 % from € 67.4 million to € 77.4 million. Depreciation, amortization and impairments / write-ups increased by 22.6 % to € 18.2 million (PY: € 14.8 million).

Services/Holding

Group services, which also include the three domestic printing plants, as well as holding functions, are reported within the Services/Holding segment. The services of the Group Services are procured by in-house customers at normal market prices.

Key Figures Services/Holding

€ millions	2017	2016	Change
Revenues	**60.7**	**72.9**	**– 16.8 %**
EBITDA, adjusted	**– 81.7**	**– 55.7**	

Revenues in the Services/Holding segment decreased by 16.8 % due to market conditions compared to the comparable prior-year period, and amounted to € 60.7 million (PY: € 72.9 million).

The adjusted EBITDA with € –81.7 million was below the level of the previous year (€ –55.7 million). This development was driven by a number of factors, including higher stock option costs, higher restructuring expenses, as well as lower revenues in the structurally declining business of printing plants.

The adjusted EBIT in the Services/Holding segment amounted to € –117.4 million (PY: € –94.8 million). Depreciation, amortization and impairments / write-ups of € 35.7 million were slightly below the prior-year value (€ 39.0 million).

Liquidity

Financial Managment

As a general rule, Axel Springer SE provides all financing for the Axel Springer Group. This arrangement ensures that the Group companies have sufficient liquidity at all times. The overriding goal of financial management is to provide cost-effective liquidity in the form of maturity-matched financing.

Net Liquidity/Debt

€ millions	2017	2016
Cash and cash equivalents	216.8	224.1
Financial liabilities	1,237.0	1,259.3
Net liquidity/debt[1)]	**–1,020.2**	**–1,035.2**

1) Explanations with respect to the relevant key performance indicators on page 33.

In order to optimize our financing conditions, in May 2017, we improved the average rate of interest, extended the average term and significantly increased the financing volumes through the partial termination, transformation and subscription of our existing Schuldschein (promissory note). In this context, the long-term credit lines drawn down were repaid; furthermore, two promissory notes with floating interest rates were repaid prematurely.

As at December 31, 2017, there were now promissory notes totaling € 879.0 million (December 31, 2016: € 580.5 million) with a term to April 2018 (€ 70.5 million), to October 2018 (€ 104.0 million), to October 2020 (€ 69.0 million), to May 2021 (€ 11.5 million), to May 2022 (€ 158.0 million), to May 2023 (€ 72.0 million) and to May 2024 (€ 394.0 million). In addition, we can avail ourselves of long-term credit lines of € 1,200.0 million (PY: € 1.500,0 million), the drawdown of which will be due for repayment in July 2020. Both the Schuldschein and the credit facilities may be used either for general business purposes or for financing acquisitions. As of, December 31, 2017, € 365.0 million (December 31, 2016: € 680.0 million) of the existing long-term credit facility (€ 1,200.0 million; PY: € 1,500.0 million) had been utilized. Short-term and long-term credit facilities that were not utilized amounted to € 855.0 million as of the balance sheet date (December 31, 2016: € 840.0 million).

Cashflows

Consolidated Cash Flow Statement (Condensed)

€ millions	2017	2016
Cash flow from continuing operations	490.7	358.8
Cash flow from investing activities	–194.5	–94.3
Cash flow from financing activities	–281.7	–299.9
Change in cash and cash equivalents	14.5	–35.4
Cash and cash equivalents as of December 31	216.8	224.1

Cash flow from operating activities in the reporting period was € 490.7 million and therefore significantly above the value for the prior-year period (€ 358.8 million). This development was due in particular to the positive development of operating earnings. In addition, the increase resulted from payments from long-term compensation programs and restructuring programs that were lower than in the previous year, as well as from tax refunds received in the reporting period.

The cash flow from investing activities amounted to € –194.5 million (PY: € –94.3 million). At the end of December 2017, the sale of the Axel-Springer-Passage in Berlin was completed, the purchase price of € 330.0 million was collected and the related tax payments of € 79.9 million were made. Investments in intangible assets and property, plant and equipment increased in particular as a result of the new building in Berlin (on the total investment volume and the sale of the new building after completion see page 24). Payments (less cash acquired) for the acquisition of shares in consolidated subsidiaries and business units were mainly due to the acquisition of ShareASale and the cash outflows related to the exercise of options to acquire non-controlling interests in Immoweb, Onet and My Little Paris. In the previous year, payments were made in connection with the sale of the remaining part of the office building complex at the location in Hamburg, payments were received from the early repayment of the vendor loan granted to FUNKE Mediengruppe, payments were received in connection with the sale of 2.3 % of our share in Doğan TV Holding and the purchase price (less taxes) from the sale of our shares in CarWale. In addition to investments in intangible assets and property, plant and equipment in the previous year, these payments were offset by payments (less cash acquired) for the acquisition of shares in consolidated subsidiaries and business units (mainly the acquisitions of eMarketer and DanCenter (previously Land & Leisure) and the exercise of option rights for the acquisition of the remaining non-controlling interests in Car & Boat Media.

The cash flow from financing activities of € –281.7 million (PY: € –299.9 million) was characterized in particular by the payment of the dividend to the shareholders of Axel Springer SE, payments due to the exercise of the option rights to acquire remaining minority interests in Awin, the reorganization of our promissory notes and the repayment and reduction of our credit line in connection with this.

Financial position

Consolidated Balance Sheet (Condensed)

€ millions	12/31/2017	12/31/2016
Non-current assets	4,994.1	5,393.0
Current assets	1,441.5	1,063.2
Assets	**6,435.6**	**6,456.2**
Equity	2,801.5	2,638.6
Non-current liabilities	2,036.1	2,427.2
Current liabilities	1,598.0	1,390.4
Equity and liabilities	**6,435.6**	**6,456.2**

The development of non-current assets resulted in particular from the reduction in intangible assets (€ –257.9 million) and property, plant and equipment (€ –67.5 million). Due to the expected sale of the aufeminin Group in the first half of 2018 and the sale of the print activities in Slovakia in the middle of the year 2018, the assets and liabilities to be disposed of were reported separately as held for sale. In addition, the sale of the Axel-Springer-Passage Berlin was completed at the end of December 2017, and carrying amounts of € 104.8 million (property, plant and equipment) and € 29.8 million (investment property) were derecognized. The sale was made for a purchase price payment of € 330.0 million. At the same time, financial assets were reduced by € 36.5 million, which was mainly due to the impairment of our investment in Ringier Axel Springer Schweiz AG as a result of the development of earnings. In contrast, the first-time consolidation of the companies ShareASale and affilinet, which were acquired in the reporting year, had a positive effect.

The development of current assets was characterized by the reclassification of the assets held for sale of the aufeminin Group and the print activities in Slovakia.

The increase in equity resulted mainly from the generated net income. In addition, in connection with the acquisition of 100 % of the affilinet shares against the granting of 20 % non-controlling interests in the already fully consolidated Awin Group (including affilinet), the non-controlling interests were increased. In addition to the dividend payments to the shareholders of Axel Springer SE and other shareholders, the effects of currency translation of consolidated financial statements also had a reducing effect. The equity ratio increased to 43.5 % (PY: 40.9 %).

The development of non-current liabilities was characterized by the reclassification of short-term promissory notes and the decline in deferred tax liabilities, mainly due to the sale of the Axel-Springer-Passage in Berlin, changes in tax rates, particularly in the USA, and the reclassification of the aufeminin Group's liabilities and print activities in Slovakia as held for sale. In addition, other liabilities from agreed option rights decreased due to revaluation effects and the premature exercise of option rights to acquire non-controlling interests in My Little Paris.

The development of short-term debt was due in particular to the reclassification of short-term promissory notes and the reclassification of the liabilities held by the aufeminin Group and the print activities in Slovakia as held for sale. In addition, the recognition of short-term debt decreased mainly due to cash outflows related to the exercise of the option to acquire non-controlling interests in Immoweb (14.5 % of 20.0 %), Onet (25 %) and Awin (47.5 %).

Explanations with respect to the relevant key performance indicators

In accordance with the International Financial Reporting Standards (IFRS), the performance indicators used in this Annual Report, adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, adjusted EBIT (earnings before interest and taxes), adjusted net income, adjusted earnings per share, free cash flow, net debt/liquidity and equity ratio are undefined performance indicators to be regarded as additional information.

Adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income and adjusted earnings per share do not include any non-recurring effects, depreciation, amortization and impairments from purchase price allocations and taxes attributable to these items. Non-recurring effects include effects from the acquisition and disposal (including contribution) of subsidiaries, business units, and investments (including effects from the subsequent valuation of contingent considerations and other option liabilities for the acquisition of non-controlling interests), as well as impairment and write-ups of investments, effects from the sale of real estate, impairments, and write-ups of real estate used for own operational purposes, plus expenses related to the long-term incentive plan for the current Executive Board members (LTIP) granted at the beginning of May 2016. Purchase price allocation effects include the expenses of amortization, depreciation, and impairments of intangible assets, and property, plant, and equipment from the acquisition of companies and business units.

The adjusted EBITDA margin is the ratio between the adjusted EBITDA to revenues. The reconciliation of net income to adjusted EBITDA and adjusted EBIT results from the Group segment reporting. The financial performance of the Group contains the reconciliation of net income to the adjusted net income as well as the determination of the adjusted earnings per share.

The free cash flow results from the cash flow from operating activities less investments in intangible assets, property, plant and equipment, and investment property (capital expenditures), plus payments received for the disposal of intangible assets, property, plant and equipment and investment property. These partial amounts are stated separately in the Consolidated Statement of Cash Flows. Net debt/-liquidity is the balance of cash and cash equivalents and financial liabilities.

The equity ratio reflects the ratio between equity and the balance sheet total as of the respective balance sheet date.

We regard adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income and adjusted earnings per share as a suitable indicator for measuring the operating performance of Axel Springer, as these measures ignore effects that do not reflect Axel Springer's fundamental business performance.

To assess our Group’s current financing and capital structure as well as the future financing volume, we regard free cash flow, net debt/liquidity, and equity ratio to be suitable performance indicators.

Non-financial performance indicators

Employees

Axel Springer employed an average of 15,836 (PY: 15,323) employees in the reporting year (excluding vocational trainees and journalism students/interns). The slight increase of 3.3 % is mainly attributable to acquisitions and organic increase in personnel in the Classifieds Media and Marketing Media segments. Abroad, Axel Springer had an average of 7,425 employees (PY: 6,877); this corresponds to a share of 46.9 % (PY: 44.9 %). The group employed an average of 6,981 women and 8,854 men. The proportion of women increased to 44.1 % (PY: 43.5 %). The number of editors remained stable at 2,867 (PY: 2,888). In contrast, the number of employees increased by 5.1 % to 12,397, mainly due to the expansion of digital business activities and new investments.

Employees by Segments

Average number per year	2017	2016	Change
Classifieds Media	4,431	4,005	10.6 %
News Media	6,959	6,981	−0.3 %
Marketing Media	2,822	2,640	6.9 %
Services/Holding	1,623	1,697	−4.4 %
Group	**15,836**	**15,323**	**3.3 %**

The annual average increase in the number of employees in the Classifieds Media segment was due to acquisitions, but above all due to organic growth, especially in the subsegments Jobs and General/Other. In the Marketing Media segment, the increase resulted from the inorganic growth of the Awin Group, driven by ShareASale and affilinet, as well as from organic growth of the Bonial and the idealo Group. The decline in the News Media and Services/Holding segments is mainly attributable to staff reductions in offset printing plants, newspaper distribution, staff catering and event management.

Length of service and age structure

As of the reporting date in 2017, the average length of service with Axel Springer was 10.1 (PY: 10.1) years; 42.4 % (PY: 43.8 %) of the workforce belonged to the Group for more than ten years. More than half of all employees are between 30 and 49 years old. The proportion of severely disabled employees in the German companies averaged 3.7 % for the year (PY: 3.7 %).

Equal opportunities and diversity

In 2010, Axel Springer launched the initiative "Chancen: gleich!". The aim was to increase the diversity and balance of women and men in leadership positions. At the end of 2016, a first milestone was reached: The proportion of women in management positions of 16 % in 2010 was almost doubled. As at December 31, 2017, the share within the Group was 32 %. This share should be further increased. In order to achieve this, the following topics should be in focus: Creating the best possible conditions for reconciling family life and work, promoting the potential of young women and developing a modern and attractive corporate culture. From this, concrete measures were derived, among others, systematic talent development with modules such as succession planning, talent development programs, mentoring and coaching.

Axel Springer is committed to diversity and tolerance - based on nationality, age, gender, sexual orientation, physical ability and religion. Out of this conviction, numerous networks have been established; for example, parent networks, networking for tech-women, cross-company mentoring exclusively for women, and the LGBT network "queer: seite!". This is also supported, for example, by the annual participation of the Executive Board in Berlin's Christopher Street Day.

Human resources development

Our department for human resources development has consistently aligned its qualification activities in recent years with the requirements of digitization. In addition to established seminars and promotional programs, the range of shorter and unconventional formats has been greatly expanded, which in addition to the mere transfer of knowledge, leads to greater interlinking among each other. In this context, the collaboration platform moveoffice (Office 365) was introduced at Axel Springer and rolled out throughout the whole company. Networking, simultaneous and location-independent work in a team, open communication but also the sharing of knowledge are thus supported and promoted. Human resources development thus pursues the goal of developing Axel Springer into a permanent "learning organization" that copes well with change processes. With the Talent Management division, Axel Springer is investing in the development and retention of high potentials. Through network events and so-called talent dialogues at division and board levels, the Group creates transparency in terms of talent, development opportunities and vacancies within the Axel Springer family. Increasing synergies, sharing knowledge between Axel Springer family companies, teaching new knowledge content, and guiding teams to adopt new work techniques such as agile process work are equally important.

Research and development

Axel Springer does not operate a research and development department in the sense of an industrial enterprise. All areas of the company are optimizing existing offerings and working to establish innovative products in the market. Above all, this means that we are continually expanding our range of services through innovations in the digital business, developing editorial content and expanding our journalistic excellence. In doing so, we attach great importance to the early consideration of the changing use of media. In addition to our investments in companies in an early stage of development, we capitalized internal costs of € 87.0 million relating to IT development projects for the expansion of our digital business models in the financial year. We also reported € 59.3 million as planned depreciation, amortization and impairments on software and technologies that were developed in-house.

Further development of Classifieds Media

The development of new offers plays an important role in the Classifieds Media segment. The following examples illustrate this:

The core technology of the StepStone platform, the so-called Search & Match algorithm, is being continuously developed further and consistently implemented at newly acquired companies. StepStone has also introduced rating capabilities for employers and wages, further increasing its relevance to job seekers. Within the StepStone Group, Good & Co has developed a personality test via App. Using the knowledge gained from this, the job seeker can get an impression of how far his or her value orientation fits into a specific company or, depending on data availability, even to a specific department. With StepWeb, StepStone is developing a technology that aggregates publicly available data from job seekers to create a holistic profile. This enables companies to search for potential candidates and to actively approach them. The technology complements StepStone Group's existing resume databases, which are used in the UK in particular.

SeLoger has developed a range of offerings that build on the company's database and add value to the customer through algorithm-based processes. Thus, LaCoteImmo, as part of the SeLoger Group, offers the potential seller of a property an opportunity to have an indicative sale price. The intended audience generated by the product is of interest to agents, who can increase the likelihood of winning sales mandates through advertising in this environment. Likewise, Enriched Contacts provides SeLoger with an opportunity to assist agents with a scoring system particular to look after prospective buyers, where the probability is considered particularly high that the advertised property fits their previous search behavior and the prospect is in an intense phase of its search process. LaCentrale, our car portal in France, has developed a platform with MaVoitureCash that allows private car dealers to have their vehicle rated online while also showing dealers interested in the car. The very accurate initial pricing is based on the excellent quality and quantity of data from LaCentrale, with which damage and defects can be priced in directly. Yad2, our generalist classifieds portal in Israel, has implemented high-quality 3D and virtual reality tours for its real estate business. These provide a complete visualization of the respective property. The new offerings allow potential buyers to virtually browse their future property. In particular, real estate developers who, unlike sellers of existing real estate, cannot offer on-site visits, have the opportunity to market new construction projects in less time and at lower cost.

Further development of News Media

Our journalistic products, both digital and printed, were consistently expanded in the reporting year. In the digital domain, we have made progress on the product and technology side. BILD and WELT work together with Facebook and Google on innovative approaches for platform-based paid content. The introduction of FITBOOK and NOIZZ brought innovative content models to the German market. WELT.de is now the fastest news website in Germany (based on loading speed). At the same time, our joint venture Verimi continues to work on a single sign-on process for all companies involved in Verimi in order to make the use of Internet services significantly easier and safer in the future. In addition to Axel Springer, the partners include Allianz, Bundesdruckerei, Core, Daimler, Deutsche Bank and Postbank, Deutsche Lufthansa, Deutsche Telekom, Giesecke + Devrient and Here Technologies. In the print sector, we have launched "die dame" (The Lady) in Germany as an innovative, high-quality print lifestyle magazine on the market. In the sports segment we successfully introduced the BIKE BILD. In addition, FUSSBALL BILD was launched in January 2017 throughout Germany as an innovative content syndication model.

Further development of Marketing Media

In the area of Marketing Media, the existing online services are continuously being developed and supplemented by new ones. The development of innovative product functionalities and marketing technologies to increase range and use of offers and their monetization have a high priority for our investments. In addition, in the early stage, we invest in young companies that are developing new business models and technologies, either as direct investments or indirectly through investment companies such as Project A-Ventures, in which Axel Springer and the Otto Group are both involved, or the start-up accelerator recently founded together with Porsche to support digital business ideas with high market potential.

Sustainability and social responsibility

For Axel Springer, sustainability means linking economic success with ecologically sound and socially balanced action. These three criteria are an integral part of the corporate strategy. Hence, sustainability is integrated into the business processes. The Sustainability Department accompanies respective activities throughout the company - from measures to improve resource efficiency to social engagement initiatives. The department falls under the responsibility of the Chairman of the Executive Board. With our sustainability strategy, we take responsibility for present and future generations and create the basis for long-term business success.

Axel Springer had already started to publish environmental reports in the mid-1990s, and since 2000 publishes sustainability reports. Since 2005 we have been publishing a sustainability report on a biannual basis, which follows the full list of indicators in the Global Reporting Initiative (GRI), the internationally relevant format for sustainability reporting. The Sustainability Report 2016/2017 is also prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI).

The topics of the report are determined in advance by market research and stakeholder surveys - those groups that have a legitimate interest in the company, be it employees, customers or non-governmental organizations. The result: Above all, information on product responsibility, customer satisfaction, journalistic independence, employer attractiveness, compliance with social and ecological standards as well as the company's ability to innovate was in demand. The report also provides transnational figures on energy use and the calculated CO2 emissions.

The sustainability reports of Axel Springer are audited by independent auditors. The current sustainability report was published in November 2016 and is available at www.sustainability.axelspringer.com. The next sustainability report will be published in mid-2018.

Separate combined non-financial report

Axel Springer SE as well as the Axel Springer Group is required by Section 289b as well as Section 315b of the German Commercial Code (HGB) to expand its management report with a non-financial statement for the first time for the 2017 financial year. We make use of our option to publish the non-financial statement at the statutory deadline of April 30, 2018 and separately from the combined management report of the Company. This separate report will be published on our website at www.axelspringer.de/NonfinancialReport.

General assessment of the company's financial performance, liquidity, and financial position by the Executive Board

The strategy of digital transformation was also at the fore during the 2017 financial year, through organic growth and through acquisitions. Important milestones in the inorganic growth were the acquisition of the American affiliate network ShareASale and the merger of Awin with affilinet in Performance Marketing. Revenues, adjusted EBITDA, adjusted EBIT, and the adjusted earnings per share from continuing operations were all above the prior-year figures. At the end of the reporting year, the net debt was roughly at the level of the previous year. With a very strong cash flow, a still solid balance sheet structure, and the favorable financing options available to us, we continue to be in a good position to make the necessary investments to realize future growth.

We continue to believe that the path of systematic digitization is the right strategy for further improving the company's profitability in the future.

Financial performance, liquidity, and financial position

Group Key Figures (in € millions)	2017	2016
Revenues	3,562.7	3,290.2
EBITDA, adjusted[1)]	645.8	595.5
EBITDA margin, adjusted [1)]	*18.1 %*	*18.1 %*
EBIT, adjusted[1)]	504.0	471.1
Tax rate	*25.6 %*	*21.9 %*
Net income[2)]	378.0	450.0
Net income, adjusted[1) 2)]	327.5	299.9
Earnings per share, adjusted (in €)[1) 2) 3)]	2.60	2.41
Dividend per share (in €)[4)]	2.00	1.90
Total dividends[4)]	215.8	205.0
Net debt/liquidity[1)]	−1,020.2	−1,035.2
Free cash flow[1)]	497.4	270.5

1) Explanations with respect to the relevant key performance indicators on page 33.
2) Continuing operations, for the portion attributable to discontinued operations see notes to the consolidated financial statements under note (2d).
3) Calculation based on average weighted shares outstanding in the reporting period (107.9 million; PY: 107.9 million).
4) The dividend for the financial year 2017 is subject to the condition of approval by the annual shareholders' meeting.

Economic position of Axel Springer SE

€ millions	2017	2016	2015	2014	2013
Revenues	823.2	833.1	925.9	1,174.6	1,442.8
Net income	271.9	296.4	213.5	590.8	186.4
Transfer to retained earnings	56.1	91.4	19.3	412.7	8.3
Total dividends[1)]	215.8	205.0	194.2	178.1	178.1
Dividend per share (in €)[1)]	2.00	1.90	1.80	1.80	1.80

[1)] The dividend for the financial year 2017 is subject to the condition of approval by the annual shareholders' meeting.

Introductory remarks

Axel Springer SE is the parent company of the Axel Springer Group. Due to its subsidiaries, which Axel Springer SE controls directly or indirectly, the business development is subject to the same risks and opportunities as the entire Group. These are presented in the report on risks and opportunities (see page 42 et seqq.). Similarly, the expectations regarding the development of Axel Springer SE essentially correspond to the Group expectations described in the forecast report (see page 59).

The following explanations are based on the annual financial statements of Axel Springer SE, which were prepared in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act. The annual financial statements and management report are published in the German Federal Gazette and published on the Axel Springer SE website.

Business activity

Axel Springer SE is active in the News Media segment and publishes mainly nationwide daily and weekly newspapers. Axel Springer SE, as the parent company of the Axel Springer Group, carries out holding functions, manages group-wide liquidity management and provides additional services to Group companies. The economic framework conditions of Axel Springer SE correspond largely to those of the Group and are described in the economic report (see page 22 et seqq.).

Financial performance

Income statement (Condensed)

€ millions	2017	2016
Revenues	823.2	833.1
Other operating income	313.5	139.5
Purchased goods and services	−199.9	−208.5
Personnel expenses	−240.4	−203.9
Amortization, depreciation and impairments of intangible assets and property, plant and equipment	−19.0	−21.1
Other operating expenses	−422.5	−401.6
Net income from non-current financial assets	215.8	233.2
Net interest income	−33.2	−30.1
Income taxes	−165.7	−44.2
Net income	**271.9**	**296.4**

Revenues decreased by € 9.9 million or 1.2 % in the reporting year. Declines in circulation revenues of € 28.1 million were partially offset by increases of advertising revenues and other revenues of € 8.6 million and € 9.6 million, respectively.

Other operating income increased by € 174.0 million to € 313.5 million compared to the previous year. This was due in particular to higher income from the sale of real estate. In the reporting year, the Axel-Springer-Passage in Berlin was sold for a purchase price of € 330.0 million. The gain on disposal amounted to € 281.8 million. In the previous year, there was a profit of € 91.2 million from the sale of the office building in Hamburg.

The cost of purchased goods and services fell by € 8.6 million to € 199.9 million, mainly due to lower expenses for printing services.

Personnel expenses rose to € 240.4 million (PY: € 203.9 million). Higher expenses resulted in particular from the valuation of share-based payment programs, restructuring measures and pensions. The decline in the average number of employees by 10.0 % from 1,586 in the previous year to 1,427 in the 2017 financial year had the opposite effect.

Amortization, depreciation and impairments of intangible assets and property, plant and equipment remained € 2.1 million below the previous year's level at € 19.0 million.

The increase in other operating expenses to € 422.5 million (PY: € 401.6 million) resulted in particular from higher transaction costs in connection with the sale of real estate.

Net income from non-current financial assets amounted to € 215.8 million (PY: € 233.2 million). Higher profit transfer from subsidiaries (€ 231.0 million; PY: € 207.5 million), was off-set in particular by lower income from participating interests (€ 16.3 million; PY: € 35.3 million) and higher impairments of non-current financial assets (€ 37.2 million; PY: € 18.8 million).

The net interest income for the reporting year was € –33.2 million (PY: € –30.1 million) and mainly comprised interest expenses from the utilized revolving credit facility and the promissory note as well as the valuation of the pension obligations. The increase opposite to the previous year mainly resulted from prepayment fees in connection with the restructuring of the existing promissory note.

Income taxes amounted to € 165.7 million (PY: € 44.2 million). The increase compared to the previous year was mainly due to real estate transactions.

The 2017 financial year ended with a net income of € 271.9 million (PY: € 296.4 million).

Liquidity

The net debt (liabilities due to banks and promissory note less cash and cash equivalents) amounted to € 1,198.8 million as of December 31, 2017 (PY: € 1,242.8 million).

In the reporting year, the financing conditions of our existing promissory notes were optimized through partial termination, conversion and redrafting. As of December 31, 2017, there were promissory notes totaling € 879.0 million (PY: € 580.5 million). The long-term revolving credit facilities were reduced to € 1,200.0 million in the 2017 financial year (PY: € 1,500.0 million) and had been utilized to € 365.0 million at the balance sheet date (PY: € 680.0 million).

Financial position

Balance Sheet (Condensed)

€ millions	12/31/2017	12/31/2016
Intangible assets and property, plant and equipment	153.8	170.7
Non-current financial assets	5,643.5	5,435.2
Receivables from affiliated companies	171.2	186.0
Cash and cash equivalents	45.2	17.8
Other assets	63.9	98.8
Total assets	**6,077.6**	**5,908.5**
Equity	2,632.7	2,565.8
Provisions	333.2	266.7
Liabilities due to banks and promissory note	1,244.0	1,260.6
Liabilities to affiliated companies	1,796.6	1,740.7
Other liabilities	71.1	74.7
Total equity and liabilities	**6,077.6**	**5,908.5**

The balance sheet total increased by € 169.1 million to € 6,077.6 million in the reporting year (PY: € 5,908.5 million). Non-current assets amounted to € 5,797.3 million (PY: € 5,605.9 million) and represented 95.4 % (PY: 94.9 %) of total assets. 45.4 % (PY: 45.8 %) was covered by equity.

The decline in intangible assets and property, plant and equipment of € 16.9 million to € 153.8 million is attributable in particular to the sale of real estate in the reporting year.

Non-current financial assets increased by € 208.3 million to € 5,643.5 million. This increase was mainly due to additional payments in capital reserves of subsidiaries for financing company acquisitions.

Receivables from affiliated companies (€ 171.2 million; PY: € 186.0 million) and liabilities to affiliated companies (€ 1,796.6 million; PY: € 1,740.7 million) resulted mainly from group-wide liquidity management.

Other assets (€ 63.9 million; PY: € 98.8 million) decreased mainly due to lower income tax receivables as at the balance sheet date.

Equity increased by € 66.9 million to € 2,632.7 million (PY: € 2,565.8 million). The net profit for the reporting year (€ 271.9 million) more than compensated for the reduction in equity due to the dividend payment for the past financial year (€ 205.0 million). The equity ratio at the balance sheet date remained at 43.3 % (PY: 43.4 %) virtually unchanged.

Provisions grew by € 66.5 million compared with the previous year's balance sheet date to € 333.2 million (PY: € 266.7 million). The reason for the increase was higher pension provisions due to a lower discount rate and higher obligations from share-based payment programs.

Profit utilization proposal

The Supervisory Board and Executive Board propose that the company applies the full amount of the distributable profit of € 215.8 million (PY: € 205.0 million) to pay a dividend of € 2.00 (PY: € 1.90) per qualifying share for the 2017 financial year.

The company does not currently hold any treasury shares, so that all the company's shares qualify for dividends. However, the number of shares qualifying for dividends may be reduced in the time remaining before the annual shareholders' meeting. In that case, an adjusted profit utilization proposal will be submitted to the annual shareholders' meeting, without changing the target dividend of € 2.00 per qualifying share.

Dependency Report

The Executive Board of Axel Springer SE submitted the dependency report prescribed by Section 312 of the German Stock Corporations Act (Aktiengesetz – AktG) to the Supervisory Board and made the following concluding statement:

"According to the circumstances known to the management at the time of each transaction with an affiliated company, Axel Springer SE received adequate consideration for every such transaction and did not take, or fail to take, any actions in the reporting period, either at the behest or in the interest of the controlling company or a company affiliated with the controlling company."

Report on risks and opportunities

Risk policy principles and risk strategy

At Axel Springer, we define risks as the possibility of negative deviations of actual business performance from the planned targets or objectives, while opportunities represent the possibility of positive deviations. The risk policy principles and risk strategy of Axel Springer are coordinated and closely aligned with the business strategy and business objectives. We do not seek to avoid risks at all costs, but to carefully weigh the opportunities and risks associated with our decisions and our business activities, from a well-informed perspective. Against this backdrop, opportunities should be exploited to generate income or increase the company's value and risks should be assumed only if they remain within appropriate limits that are acceptable to the company. Thus, risks should be limited to a level deemed acceptable by the company's management by taking appropriate measures, be transferred to third parties in full or in part, or, in those cases where risk mitigation is not considered advisable, be avoided or monitored closely.

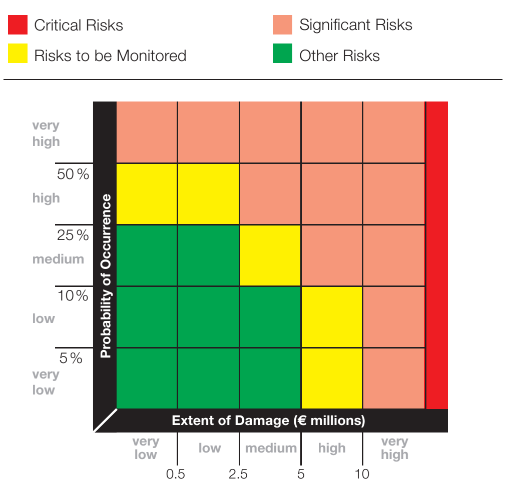
Group-wide risk management system

In this reporting year, we have continued to develop and expand individual elements of internal corporate monitoring (risk management, compliance management, internal control and internal auditing) against the background of national and international requirements, and an increasingly complex and volatile environment of a growing and globally changing company. One focal point was the continuous improvement of the quality and completion of the risk inventory as well as the corresponding control measures and the integration of new investments and areas into the existing risk management system. The general form of structures and processes in the risk management system at Axel Springer are based on the internationally recognized "Enterprise Risk Management Framework", a framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which links the risk management process with the internal control system. Group-wide coordination of the systems - risk management, compliance management and the internal control system as well as the related reporting – is carried out by the Compliance division as well as Corporate Audit & Risk Management.

The risk management process at Axel Springer is inter alia focused in accordance with Section 91 (2) of the German Stock Corporations Act (AktG) on recognizing and evaluating all significant and existential risks as well as essential changes in the risk situation as promptly as possible. It should therefore be assured that corresponding control and countermeasures can be used in time to react to such risks. This approach gives us the necessary maneuvering room and allows for the controlled and responsible management of risks.

Based on the risk management framework developed by COSO, the risks of Axel Springer are divided into the risk categories strategic, operative, reporting-relevant and compliance-related risks. Insofar it is appropriate and quantifiable, risks are assessed quantitatively with reference to the parameters "loss amount" (impact) and "probability of occurrence". Based on these parameters, risks are assigned to one of the following risks classes: critical risks, significant risks, risks to be monitored, and other risks. In order to achieve a focus on the relevant and significant risks at the Group level, an annual materiality limit is defined on the basis of adjusted EBITDA, from which the grading of the imaged risk matrix is derived. The materiality threshold at Group level is currently € 10 million.

Risk Matrix of Axel Springer SE



For the purpose of effective management and transparent presentation of the risk situation, all risks recorded are assessed both before risk management measures (gross assessment – inherent risk) and after the corresponding measures are taken (net assessment – residual risk).

Whilst overall responsibility for risk management lies with the full Executive Board, the operational management of the individual risks falls primarily within the area of responsibility of the respective company divisions or Axel Springer investments. This includes the early detection and identification, assessment, definition of appropriate measures, the management and monitoring of such measures and adequate documentation and reporting processes.

In addition, the respective divisional and senior managements of our companies are required to participate in the semi-annual update campaign in addition to the systematic, standardized risk-surveying conducted once a year. Additionally, they have to constantly monitor their area or company for a changing risk situation. Significant changes in the risk situation must be reported immediately to central risk management.

The purpose of the risk inventories and analyses carried out in the top-down and bottom-up procedures is to systematically identify and assess cross-company, cross-divisional and cross-procedural risks in order to complete the risk inventory and ensure its quality. In the Governance, Risk & Compliance division, risk management activities are coordinated, risks are aggregated up to the Group level, reported risks are checked in terms of their plausibility, and the completeness of the required risk reports is monitored. The division is also responsible for all supporting measures, such as maintaining the risk management software, and reporting to the Supervisory Board and Executive Board.

The semi-annual and ad-hoc risk reports prepared for the Executive Board and Supervisory Board focus primarily on existential risks and significant risks of individual business units and investments, along with the countermeasures adopted and suitable early warning indicators, to the extent they are available.

Internal audit system

Group Auditing within Axel Springer SE is organized as a process-independent staff department, which is under the control of the full Executive Board in functional terms, and under the Executive Board member in charge of Personnel and Finance in disciplinary terms. It provides consulting and investigations in all Group companies and divisions in a risk-oriented manner and aligns its activities with relevant national and international professional standards.

In particular, Group Auditing has the task of inspecting the effectiveness of the internal risk management and control system as well as the compliance management system based on a risk-oriented inspection plan and to derive measures for eradicating weaknesses. Implementation of improvement measures is tracked based on a systematic process.

The results of individual audit or consultancy mandates are typically reported to the Executive Board and periodically summarized to the Audit Committee of the Supervisory Board.

To ensure the effectiveness of the internal audit system, a quality assurance and improvement process is set up, which provides for external quality assessments among others in accordance with professional guidelines.

Report on the financial reporting related risk management system and internal control system pursuant to Section 289 (4) and Section 315 (4) of the Commercial Code (HGB)

The (consolidated) financial reporting-related risk management system and the connected internal control system are important elements of the internal management system of Axel Springer SE, which is also based on the internationally recognized framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (see page 42). As emphasized in the concept, the effective interplay of the risk management system and internal control system is meant to ensure the effectiveness and economic efficiency of the Group's business activities, as well as the completeness and reliability of its financial reporting. The (consolidated) financial reporting related risk management system and internal control system comprise all organizational regulations and measures aimed at the detection and management of risks related to financial reporting. With a view to the (Group) accounting process, it is intended to ensure that the Group's financial reports convey a true and fair view of the financial position, liquidity, and financial performance of Axel Springer SE and the Axel Springer Group, in compliance with all relevant laws, regulations, and standards. However, even an effective and therefore adequate and well-functioning risk management system and internal control system cannot guarantee the prevention or detection of all irregularities or inaccurate disclosures.

We consider the following elements of the risk management system and internal control system to be significant with respect to the (consolidated) financial reporting process:

- Processes for identifying, assessing, and documenting all significant financial reporting-related processes and risk areas, including the corresponding key controls. Such processes include financial and accounting systems, as well as administrative and operational business processes that generate important information used in the preparation of the separate and consolidated financial statements, including the management reports of the parent company and the Group.
- Process-integrated controls (computer-assisted controls and access restrictions, dual control principle, functional separation, analytical controls).
- Standardized financial accounting processes through the use of an intra-group shared service center for most consolidated German Group companies.
- Group-wide directives in the form of accounting guidelines, charts of accounts and reporting processes.
- Quarterly communication of information to all consolidated Group companies on current developments related to accounting, and the process of preparing the financial statements, as well as reporting deadlines to be observed.
- Assuring the requisite expertise of employees involved in the financial accounting process by means of appropriate selection procedures and training.
- Centralized preparation of the consolidated financial statements (including management report) employing manual and computer-system controls in respect of financial reporting-specific connections and dependencies.

- Protection of financial reporting-related IT systems against unauthorized access, by means of access restrictions.

- Monthly internal reports (complete income statement, statement of financial position, cash flow statement) and monthly reports on all cost units of the Group, including analysis and reporting of significant developments and budget/actual variances.

- Regular, group-wide reports to the persons responsible for reporting, the Executive Board and the Supervisory Board

The effectiveness of the (consolidated) financial reporting–related risk management system and internal control system is systematically reviewed and assessed by means of periodic control tests. As a process-independent staff unit, Group Auditing will inspect at regular intervals randomly selected elements of the accounting-related internal control system organized at central level and in the Group companies, in order to uncover weaknesses and thus contribute towards improving the legal conformity with rules and regulations (compliance).

Both the risk management system and the internal control system are being continuously refined.

Risk areas

If not stated elsewhere, all risks which have a considerable negative effect on reaching our company-wide targets will be mentioned in the following. Within the risk areas described below, risks are typically presented in the order of their priority for the Group. This method may be deviated from in order to prevent repetitions and in the interests of readability.

The risks recorded at the balance sheet date and described below are primarily based on the 2018 forecast period, unless the risks in question relate to long-term objectives.

Market and competition risks

Market and competitive risks basically relate to changes in sales and purchasing conditions as well as the development of competing suppliers. Since Axel Springer operates and acquires globally, a large number of economic factors must be taken into account to determine market risks. Economic forecasts, above all for the important sales markets of Germany, Europe and the USA, serve as overarching indicators for assessing market and competition risks.

Following positive economic growth in the year 2017, the market development in Germany for 2018 continues to be very good. The declining global uncertainties of the past year, a favorable labor market situation and low unemployment figures are leading to rising private consumption. In addition, companies benefit from an investment-friendly interest rate climate and rising demand, especially from the European and international economic area.

Also for Europe an increase of the economic situation is predicted. This economic upturn tends to be distributed synchronously across the Euro area Member States. The low level of interest rates throughout Europe is seen as a key pillar for a sustained good economy. Uncertainties arise with regard to upcoming political events such as the UK's exit negotiations or the parliamentary elections in Italy.

A cyclical economic upturn can be recognized world-wide in almost all major economies and is continuing. However, countries are in different stages of the business cycle. For example, the relatively high level of private debt in the US already points to an excess of the economic peak. However, it is unclear how the tax reform initiated by US President Trump will affect the economy. By contrast, economic growth in emerging markets is picking up. China, as the second largest economy in the world, has a decisive share in this development. The growth of the most important emerging market is greater than that of the USA. The consequences of the change of government in the US have not yet assumed the potentially negative impact on the global economy. However, possible protectionist intentions as well as political relations with North Korea and Russia pose risks to international markets.

Despite the overall very positive forecasts, the above-mentioned economic and political framework conditions must be viewed critically, as negative changes in Axel Springer's sales markets could lead to revenue reductions in all segments of the company at national and international level.

A particular challenge for Axel Springer's digital transformation and expansion is the high dynamics of digital offers and innovations. Digital technologies have long since established themselves in private and business everyday life. The digital transformation is comprehensive, omnipresent, changing people, society and markets in a sustainable way. New technologies enable a variety of innovations that offer good growth opportunities, while at the same time threatening traditional business models and forcing companies to fundamentally rethink and develop their business.

Classifieds & Marketing Media

Our Classifieds Media segment is also continuously exposed to high market and competitive dynamics, among others, due to ever shorter innovation cycles and technological change. Increasing competition threatens to continue on the part of the world's leading Internet corporations Google, Apple, Facebook and Amazon, called GAFA for short, which penetrate into new market segments and may possibly compete with our business segments. These dominant US companies not only pool specialized knowledge in their corporations, but also point the way in the course of digitized globalization. GAFA dominate the B2C domain on the Internet, e. g. through its platforms, the business relationships with retailers on the one hand, and with private persons on the other, so that hardly any retailer can afford to ignore, for example, Amazon's marketplace or refrain from integrating Google or Facebook into its communications and marketing strategy. However, young companies with innovative and disruptive technologies or business models may also pose potential risks, as well as associations of direct competitors, for example in the field of real estate marketing. In addition, the potential for missing out on trends, the late introduction of new technologies, as well as the lack of further development of our own products could increase this risk and, as a result, jeopardize our existing market position. In order to limit the before mentioned market and competition risks, a systematic and continuous monitoring of the market and competitive environment and resulting trends is carried out. Based on this information, control measures for operational management are derived. We enhance the attractiveness of our business models by investing in innovative product development, the use of new technologies, journalistic expertise, target-group-oriented marketing and increasing brand awareness through, for example, TV campaigns. With these measures, we want to meet the changing needs of our customers and readers while at the same time maintaining or expanding our competitive edge. The acquisition of highly qualified key personnel with appropriate expertise and the development of long-term customer relationships also reduces risk.

In addition, new business models are constantly being tested, the digitization of our products promoted, and our product portfolio supplemented both nationally and increasingly internationally.

Many of our digital marketing and classifieds offerings are constantly faced with the risk of a sudden loss of visibility resulting from the dominance of large internet search engines. The ever-changing and partly non-transparent criteria of the search algorithms can have a significant impact on the current and future revenue situation. Even small increases and decreases in the visibility or placement on the results pages can lead to significant traffic loss and concomitant decline in traffic-related revenues for certain business models.

We counter this risk by targeting paid ads on search engine results pages, improving online page structure, and search engine optimization. At the same time, the continuous improvement of the attractiveness of our offerings and the increase of awareness of the brands and offers of Axel Springer are in the foreground, in order to make their range and use more independent of offers of third parties, in particular the search engine visibility.

News Media

Digitization has significantly changed consumer and reader behavior. The increased importance and use of digital offerings, in particular the digitization of print media, continues to lead to ongoing revenue reductions in the area of printed publications. The rapid development in the performance of mobile devices also drives the digital transformation and leads to a rapidly increasing use of the mobile Internet compared to the stationary one. A further acceleration of this trend or unpredictable market developments could further increase the already factored in declines due to the structural change. In the television news market, too, the changing user behavior is reflected in the growing demand for video on demand and mobile services. This, as well as the increasing market density results in declining viewership and ultimately in advertising revenue losses. Falling advertising revenues are compounded by the general economic downturn in the TV advertising market.

Our national print business is still confronted with increasing challenges in the marketing environment. In addition to increasingly specific customer requirements, the general market and media situation is subject to an increasing number of competitors and at the same time a high degree of dynamism. With the marketing alliance Score Media, a national cross-media newspaper marketer, founded by several newspaper publishers and media groups, Media Impact, a joint marketing company with FUNKE media group, has a major counterpart. The competition for the daily newspaper titles of Axel Springer SE has increased significantly. Price pressure on ad marketing and the concomitant loss of revenue in the print sector cannot be ruled out for the coming financial year either. As a counterweight to Score Media, the marketing group Red Impact was founded under the umbrella of Media Impact. This cooperation, which Media Impact has entered into with other media groups in order to bundle the marketing of all relevant German tabloid titles under one roof, enables all participants to develop further sales potential for their brands in addition to the already established marketing.

The development of technical expertise helps us to continue our successful offensive strategy also in the area of national trade customers. In particular, it focuses on accompanying important retail customers in their transformation into the digital business.

In addition to the challenging competitive environment, our advertising revenues in the print and online sectors are exposed to the risk that annual contracts with major agency groups will not be concluded, or only at a lower volume. Also, the loss of large advertisers due to legal advertising restrictions or the evasion of significant commercial customers to other forms of advertising such as television or other online media pose a serious risk.

The marketing of audiovisual content also confronts risks. Visoon Impact, a company of Axel Springer and Viacom International Media Networks and active since the beginning of 2016, is responsible for the marketing of audiovisual content. Should the broadcasting performance of the clients deteriorate, this means a loss of attractiveness of the program for the viewers. Ultimately, fewer viewers lead to significantly lower prices that can be achieved in the market, even losing their relevance as an advertising medium.

In order to identify and counteract changing customer needs at an early stage, we carry out continuous market analyses and intensify customer service. Organizational restructuring measures, which primarily serve to strengthen customer support, also contribute to risk minimization.

The use of the mobile Internet has accelerated rapidly in recent years compared to the stationary Internet. The increasing orientation towards mobile services is risky, because the traffic in the mobile environment is associated with lower advertising prices and a lower utilization. In order to reduce risk, we combine the mobile and stationary marketing and work on opportunities to attain an even better monetization of mobile traffic. As a result, a shift in traffic from stationary to mobile leads, at least today, to a downward trend in advertising revenues. In a risk-reducing manner, we hereby exploit technical possibilities, for example by redirecting mobile access to stationary websites.

The increased availability and, above all, the widespread use of ad blockers also harbors risks for our digital advertising revenues by restricting marketing opportunities in the online advertising market and reducing advertising effectiveness. Specifically preconfigured browser and browser add-on programs are called ad blockers, which prevent the display of advertising on the targeted pages, both stationary and mobile, and thus have a revenue-reducing effect. This not only affects our digital payment offerings, but also our business models for reach marketing and performance-oriented advertising models. For the impact of the ePrivacy Regulation on our digital business models, please refer to the "Political and Legal Risks" section.

We counter the proliferation of ad blockers both with legal action against providers and with the development of alternative revenue streams. Also, technical solutions for detecting and deactivating ad blockers are increasingly being used. For example, for the readers of BILD.de, the journalistic content can only be used if the ad blockers used are deactivated or an almost ad-free subscription is concluded.

Political and legal risks

The relevance of data protection as well as the social and political sensitivity to privacy and security gaps in the digital domain have been steadily increasing for years.

For 2018, completely new risks arise from two European legislations. On the one hand, this is the European General Data Protection Regulation (DSGVO), which will apply from May 25, 2018. In addition to numerous substantive tightening of data protection (including consent, information to those affected, the processing of large amounts of data in the context of "Big Data and the requirements for IT security) the DSGVO brings two fundamental changes, which increase significantly the risks for data processing companies: There is a corporate accountability under which the data processor must be able to demonstrate compliance with the GDPR. In addition, the fines will be drastically increased in case of breaches. Fines of up to 4 % of group-wide turnover are possible, based on antitrust law.

The second European legislation is the draft of ePrivacy Regulation. Among others, this should regulate the very relevant setting of cookies and the creation of user profiles on the Internet for Axel Springer. In contrast to the GDPR, the ePrivacy Regulation has not yet been decided. Also, a concrete date of entry into force and any transition periods are not finalized (as of February 2018). Axel Springer deals with possible consequences and possible measures at an early stage. These include internal projects, but in the broader sense also the participation as a founding partner in the joint venture Verimi. At the same time, Axel Springer, as well as the entire European industry of publishers, marketers and e-commerce, is extremely concerned about the current drafts. This applies equally to the associations of publishers and the internet economy.

In order to be able to counteract the associated risks, Axel Springer is informed about these developments at an early stage, also through the associations representing us. The stakeholders in the publishing and media industries throughout Europe are making an effort to explain to political decision-makers the business models and risks that exist among members, so that they are properly reflected in the democratic legislative process. Axel Springer also intends to take timely measures to identify changes that are relevant to Axel Springer and to adequately implement the resulting organizational and legal requirements as part of its risk-based prioritization.

In order to reduce the risk of legal violations, binding guidelines are also issued for divisions and subsidiaries, which include organizational and risk-based measures for increased data protection compliance. For the measures taken by Axel Springer in the area of IT security, please refer to the section "IT risks".

Nevertheless, the political and legal risks can by no means be completely ruled out. In view of the continuous technical development of the digital business models and a largely new and risk-increasing legal situation and in the absence of relevant case law, there is often an unclear legal situation and thus the latent danger of warnings and possible legal violations.

Specifically, this concerns the regulation of the use of so-called cookies and similar technologies, in particular the admissibility of creating user profiles as well as the integration of advertising networks and "retargeting" in the areas of web, mobile and app. The obtaining of consents, so-called "opt-ins", warnings and potential legal violations bring with it reputational damage, particularly to well-known brands of Axel Springer such as BILD and WELT, alongside direct legal and commercial consequences.

The involvement of public service broadcasting on the Internet continues to pose a risk to us. Above all, the ARD has gone with a fee-financed, text-focused news app of the Tagesschau far into the business field of the private press and distorted the competition. Naturally, it is more difficult for publishers to enforce paid apps against this and other free offers from ARD's state broadcasters.

After negotiations with the ARD and the NDR had been fruitless, Axel Springer SE filed with seven other publishers and full support of the newspaper publisher's association BDZV action against ARD and NDR at the competition chamber of the District Court of Cologne. The district court granted the claim in September 2012 for the most part. The defendants have appealed against the judgment and prevailed in the appeal before the Higher Regional Court of Cologne. The plaintiffs lodged an appeal against this before the Federal Court of Justice, the appeal was granted and the case remanded to the Higher Regional Court of Cologne for a new trial.

Admittedly, the Cologne Higher Regional Court responded to the publishers' request and did not approve the appeal. Nevertheless, the legal process is not over, because after an unsuccessful so-called non-admission complaint, the NDR has now challenged the violation of a right to have a hearing in court with the Federal Court of Justice. Our business remains exposed to the risks of distortion of competition from public service broadcasting and regulatory pressure from legislators at all relevant levels of government, despite countermeasures taken.

Further potential risks or uncertainties for the Axel Springer arise from the political situation in the individual countries. The Polish media landscape, in particular, has been decisively influenced by the political influence of the national-conservative government; currently already on public-law but in the future also through attempts to influence private media. Government-influenced companies could reduce or even stop their advertising activities in our products, which would lead to a significant decline in our advertising revenues. We counteract this risk with targeted cost-saving measures and programs for securing earnings.

IT risks

For Axel Springer, as a Group with a high degree of digitization of its offers and internal processes, there are numerous significant risks with regard to the availability of IT systems used and the confidentiality and integrity of information.

Due to the high degree of integration of information technologies into business processes, Axel Springer relies on a high availability of IT components. A significant impact on the availability can be a failure of the IT infrastructure and the applications run on it, such as the use of paid content on BILD.de. Potential causes of impairment include internal factors such as the increasing complexity of systems and longer-term infrastructure, as well as external factors such as: Computer crime by deliberately induced data encryption (so-called ransomware attacks) or by third party injected malicious software. In the worst case, these can result in business interruptions with far-reaching consequences for revenue and reputation.

Additional IT risks are classified as important if the confidentiality of information and data integrity is compromised as a consequence. Against the background of the growing importance of paid content, notifiable services and the associated collection and storage of personal data as well as the constantly growing computer crime, the sensitive handling and protection of data is of great importance.

For this reason, targeted measures have been and are being taken to prevent or limit as far as possible the effects and likelihood of criminal acts and the failure of IT components. The risk reduction measures include DDoS protection, emergency data centers, vulnerability analysis, use of encryption, identity & access management, consolidation and standardization, and improving of systems. These measures are continuously analyzed and, if necessary, expanded and improved.

Reputation risks

As part of the risk survey at Axel Springer reputation risks are not separately levied, as they usually result in a secondary risk or effect related to the primary risks.

A violation of law and order can cause high attention and damage our reputation due to Axel Springer's prominent position in contributing to social opinion. Potential reputation risks may arise, for example, from the violation of journalistic independence if the journalistic work is endangered due to personal advantage, inadequate research, incomplete information or lack of care in dealing with sources. Violation of country-specific laws and regulations, as well as non-compliance with equal treatment and opportunity programs can also damage reputation.

In order to avoid reputation risks, the risk management measures introduced are primarily intended to prevent the occurrence of a corresponding primary risk. Regardless, it includes the basic compliance with law and order, education campaigns and public relations work on established measures to prevent reputation damage.

In addition, our International Social Policy, a catalogue of social standards, counteracts potential reputation risks. The International Social Policy defines the attitude of the company and others on questions of legal compliance, the protection of children and young people, dealing with employees and health and safety. These standards are globally binding for all activities of the company and can lead to a significant loss of image if disregarded. For further information, please refer to the section “Important management practices” on page 67 et seqq.

Axel Springer operates an advanced sustainability management system that meets international standards. However, if we were to recognize potential environmental and social conflicts in the procurement of resources along the wood, pulp, paper and recycling chain too late, this could damage our image. In order to effectively minimize this risk, we work closely with experts from the wood, pulp and paper industries and environmental organizations. In addition, we use monitoring measures along the value chain. Our internal and external communication in this respect is characterized by openness and transparency.

Violations of confidentiality agreements and insider regulations as well as information that has not been published correctly in the context of external reporting can have economic or legal consequences for Axel Springer. In addition, there is the risk of damage to the image of the Group or its brands through negative reporting or campaigns in social media channels, even if there is no violation of the law from a legal perspective.

The following risk management measures primarily serve to avoid or reduce reputational risks: Compliance with law and regulations, education campaigns and public relations as well as relevant guidelines (e. g. guideline on journalistic independence). These should prevent the occurrence of a corresponding primary risk and protect against reputational damage.

Strategic risks

Significant strategic risks at Axel Springer result primarily from decisions to invest in new business fields and models as well as companies that develop differently than planned over the long term or that cannot assert themselves on the market or are displaced by new business models. Also a possible insufficient diversification holds a high risk potential. Unscheduled write-off in the case of expected permanent impairment in the context of the impairment tests to be performed would be the result. In addition to our activities in the Classifieds Media and Marketing Media segments, this risk also affects our product portfolio of national and international News Media offerings.

Overall, however, the business fields and models of our investments are very heterogeneous, so that diversification avoids so-called cluster risks. There is also further risk minimization, preventive control measures such as clear investment criteria, which we use to review new investments as part of our M & A activities, as well as active portfolio and investment management, the establishment and maintenance of a qualified management level and active and systematic monitoring of business and market development.

In addition to the aforementioned risks, the dependence on strategically important cooperation partners is also risky, for example for Upday, a personalized pan-European news service that was developed in collaboration with Samsung and currently represents the news app with the widest reach in Germany. If Samsung does not want to continue the cooperation, this would call into question the continued existence of the business model. Active key account management, legal support in the negotiation and renegotiation of contracts and continuous monitoring of the business activities of our cooperation partners contribute to reducing this risk.

Other risks

Axel Springer is naturally exposed to natural hazards that continue to pose significant risks to the Group. Possible damage caused by natural phenomena can lead to property damage and business interruptions. We counter these risks in two ways: On the one hand structural and organizational structural measures were taken to increase the safety standard even further, on the other hand there is an insurance protection to mitigate any financial consequences.

Terrorist attacks continue to pose a serious risk to Axel Springer and, due to the current global political situation, a significant increase in risk. We counter this, among others, with increased security standards, significantly tightened access regulations and controls as well as a detailed education and training of the safety-relevant group of people. The financial risk from possible property damage and business interruptions is covered here by appropriate insurance.

In order to support the cultural change to the leading digital publishing house, work is under way on the construction of the new publishing house of Axel Springer SE, which should enable employees to work together more closely and exchange knowledge more effectively. When implementing such a major project, Axel Springer is inevitably confronted with construction-specific risks such as unplanned project delays as well as cost overruns due to planning, tendering or procurement errors, or raw material price increases such as steel, glass or concrete. To reduce the aforementioned risks, a corresponding general contractor agreement was concluded, professional project controlling and reporting structures were established. Also, the development of supplier relationships and their early contractual commitment help us to minimize these risks.

In addition to our construction project Berlin, our construction activities at the Hamburg site are also subject to risk. In the part of the building sold to the city of Hamburg, work is still to be done which, like the construction activities in Berlin, is subject to risk. Here, too, risk reduction is achieved through systematic and highly professional project management and the involvement of external specialists.

Personnel risks

The individual abilities, professional skills and commitment of our employees make a significant contribution to the success of Axel Springer. A significant risk therefore represents the loss of specialists and executives and the associated company-specific loss of knowledge and competence. We act professionally and actively. One focus of our HR management is the targeted and forward-looking development and motivation of employees through individual training and further education measures, regular feedback discussions, attractive bonus programs, flexible working time models and a comprehensive offer for better reconciliation of work and family life. Field-specific measures based on educational needs analysis also help us to identify individual employee needs and to minimize the risk of loss of skilled workers. Systematic succession planning and development, especially in the case of age-related fluctuation, is indispensable. In this way, the transfer of valuable wealth of experience and company expertise should be guaranteed and the personnel requirements should be covered in the long term.

In addition, the difficult situation in recruiting junior executives and executives represents a continuously growing risk. Due to demographic change and increasing competition in the personnel market, it is increasingly difficult to recruit qualified personnel. Particularly with regard to the continuously increasing digitization of the Group, IT specialists in particular will continue to be in greater demand. That is why we have set up an internal recruiting team that designs personnel strategy initiatives and, for example, pursues the long-term development of a shared talent pool with a focus on bottleneck and key functions. In addition, professional employer branding, our social media activities on Facebook and Instagram, and university marketing with its diverse internal and external events make an important contribution to setting us apart from other companies and positioning Axel Springer as an attractive and innovative employer in the relevant target group.

Financial risks and risks from the use of financial instruments

With regard to financial risks, default risks for loans and investments as well as interest rate risks for Axel Springer are particularly important for the 2018 financial year.

We counter the risk of possible default of loans, which Axel Springer assigns on a case-by-case basis, by regularly informing ourselves about the economic and financial situation of the borrower, analyzing and processing these data accordingly, and thus identifying possible negative developments at an early stage. Should these manifest themselves, we allow the borrowers to collateralize their assets on a case-by-case basis.

Regarding our stake in Doğan TV Holding A.S., potential default risks from the agreed sales options were fully hedged by bank guarantees.

In order to counteract possible default risks when investing funds that are not required for operational purposes, investment is made according to predefined criteria that are specified in a Group guideline. It defines fixed asset limits for risk limitation that must not be exceeded are defined therein. The limit compliance is monitored by consistent, daily monitoring.

The existing interest rate risk results primarily from a financial asset or liability with variable interest rates. However, this risk is limited due to well-defined financing principles and regular monitoring of the variable interest component. Among others, we finance ourselves on borrower's promissory notes, which are mostly fixed income. Any additional interest rate risk that could affect the promissory notes and variable interest rate credit lines is minimized, where necessary, by the use of interest rate derivatives. Significant financing risks due to uncertain developments in the financial sector are currently not apparent to Axel Springer: The current € 1.2 billion (up to 2020) credit line taken out as part of securing liquidity has been bindingly committed by the participating banks. The interest rate is linked to a ratio between the net debt and the earnings ratio of the Axel Springer Group, so that the use of the credit lines would result in higher interest charges if the debt ratio is higher. In addition, we have to take into account some uncritical additional conditions under the loan agreements, which give the banks a right of termination in the event of nonperformance. We comply with these and therefore consider the risk of early maturity of drawn loans to be low. Continuous monitoring of the money, capital and credit markets shows that the company can refinance on good terms due to its continued excellent credit standing and reputation. Furthermore, we have a reliable generation of liquidity due to a diversified customer base with no significant delays or defaults.

Due to the degree of internationalization of Axel Springer, there are corresponding currency risks for the Group. These result from expenses, revenues, income from participations as well as receivables and liabilities in foreign currencies (transaction risk).

The risk of changes in value due to exchange rate fluctuations is largely avoided by raising operating costs in the countries in which we sell our products and services. Residual currency risks from foreign currency cash flows are insignificant, as we generate most of our results in the euro currency area. Currency risks from open net positions of € 5 million or more per foreign currency are analyzed in a treasury committee. The Treasury Committee meets at least six times a year to better identify potential risks and resolve countermeasures. Local currency financial resources generated in non-euro countries are either reinvested to expand local business activities, invested in and secured or distributed by Axel Springer SE. The liquidity risk arising from exchange rate fluctuations on foreign currency financial assets is therefore limited.

Currency effects from the translation of foreign currency financial statements (translation risk) are recognized directly in accumulated equity. Therefore, Axel Springer does not hedge against such currency risks.

The risks from financial instruments and hedging measures are explained in detail in Note (34) of the explanatory notes to the consolidated financial statements.

Overall risk assessment

The overall risk situation of the Axel Springer Group consists of the individual risks of all risk categories of the consolidated majority holdings and the central areas.

Taking into account the interaction of risks and risk aggregation, there are currently no risks that could jeopardize the continued existence of the Axel Springer Group or could significantly influence its asset, earnings and financial position. This applies to the condition that there is no significant deterioration of the economy in our markets and the media industry and, consequently, a significant deterioration in the market and earnings position of the Group. In addition, risk concentrations are reduced through continuous diversification, internationalization, optimization of the brand and product portfolio and digitization.

In contrast to the presentation in the 2016 Annual Report, there are slight changes in risk positions, in particular as a result of the acquisitions and sales of companies and the associated investments. However, these changes did not materially affect the overall risk situation and risk-bearing capacity of the company.

Opportunity management

Axel Springer pursues the goal of sustainably securing entrepreneurial success. Potential opportunities arising from positive developments in the course of business activities should be identified early and systematically exploited. As part of the management, strategic and planning processes, potential opportunities induced both internally as well as externally are identified and assessed for the company divisions and interests. External opportunities are offered, for example, by changing market structures or customer requirements; internal opportunities arise from product innovations or quality improvements. This is based, for example, on market and competition monitoring activities and analyses as well as regular dialog with experts. In considering the risks involved, identified opportunities are fundamental to corporate decision-making and the introduction of corresponding measures, such as measures regarding investments in new markets or technologies. Responsibility for the management of opportunities is taken in as decentralized a manner as possible by the operational divisions and their management or senior managers.

Opportunities

In line with the definition of risks, opportunities are mirrored as the possibility of positive deviations from defined targets and can thus serve both the added value and the generation of potential competitive advantages. They may arise from unscheduled and/or non-budgeted positive developments and/or events. This applies if there is insufficient certainty regarding the occurrence of events, or the framework conditions and environment develop in a more favorable manner than expected. In addition, potential arising from long-term strategic decisions that had not been fully budgeted may lead to additional growth.

Strategic opportunities

In a constantly changing environment we continue to develop our company so that we are able to face global and industry-specific challenges in the future with innovative and tailored solutions.

Axel Springer's international digitization strategy offers further promising opportunities for generating additional growth and revenues based on highly positive developments within the digital markets. Axel Springer exploits these developments by investing in new or future-oriented technologies, entering into new forms of cooperation, the ongoing digital transformation and monetization of journalistic products. In addition, by combining different media, we achieve the most comprehensive multimedia coverage in the German media landscape. This spans digital, print, video, and live TV, with an emphasis on quality journalism as the hallmark in all media channels.

Acquiring interests in companies with promising digital business models in the early and growth phases of their life cycle gives us the opportunity to make contacts within the industry and to other founders and investors as well as to access and use new ideas and business models. On the other hand, we can gain access to co-investments, which may also be available to us for a later majority acquisition. If the portfolio companies develop successfully, we can benefit from potentially significant increases in value. For this purpose, Axel Springer and Martin Varsavsky, an experienced Internet entrepreneur and member of the supervisory board of Axel Springer SE, founded an investment fund for media start-ups. This cooperation is not only intended to secure long-term growth, but also to further expand our business in the US market. In addition to this new early-stage investment, the start-up accelerator recently founded with Porsche, which supports digital business ideas with high market potential, can offer valuable strategic opportunities. We see further growth opportunities in our digital internationalization strategy and the associated entry into new or expanding existing markets. For example, the introduction of successful business models on the home market, the acquisition of existing and successfully established companies and the establishment of strategic partnerships in international growth regions offer considerable potential for success. Compared to our competitors, we also benefit from the fact that we already have strong market positions in many countries.

The sale of the new Axel Springer building and the Axel-Springer-Passage will provide us with additional liquid funds that can be used for future growth initiatives, especially in the digital sector.

Market and competitive opportunities

Should the global economy develop better than previously forecasted, this could have a positive impact on our revenue performance. The deciding factor will be the impact that regional conflicts and crises will have on our core markets when the world economy is highly interconnected. Nonetheless, its early investments in regional and digital growth markets places Axel Springer in a good position to capitalize on the opportunities this brings. Even a negative macroeconomic development can open up opportunities: This could eliminate competitors from the market, thereby strengthening our own position. In addition, it would be possible to acquire companies at advantageous prices, thus expanding our position in existing markets and investing in new markets with growth potential.

Additional industry-specific potential to generate unplanned revenues for Axel Springer may also arise from higher advertising expenditures on individual advertising media than forecasted by advertising associations. This could in particular be the case if the media mix changes in our favor, or, in other words, if advertising expenditure flows into the digital sector driven by journalistic content. For example, the paid subscription service for journalistic offers announced by Google and Facebook could help us to better market our paid content online. Should this actually happen and succeed, additional sales revenues could result and the brands of Axel Springer can be strengthened. Furthermore, increasing mistrust of Fake News could also strengthen the paid journalistic payment offers in the journalistic pay range of Axel Springer and generate higher circulation revenues. The technological developments in the marketing business - in addition to the associated challenges - also provide further opportunities for additional advertising revenues. Thus, a change in the online marketing by programmatic advertising is taking place. This form of media planning stands for the automated purchase and sale of advertising with the help of target group data in digital media and thus a change from the marketing of the environment to the marketing of target groups. With our know-how and the targeted customer approach through targeting measures, there are promising additional opportunities in the advertising business. The international orientation of Axel Springer, which has increased as a result of corresponding investments, represents a further advantage for the Group in advertising business. Compared to competing publishers with a stronger focus on the German-speaking area, we can offer global customers a broader readership or higher reach for ad campaigns from a single source.

All divisions and companies of Axel Springer are working on the continuous improvement of technologies and processes in order to maintain and expand their position in the competitive field. This includes an intensive cross-company exchange on successful business models, as well as innovative start-ups.

Political and legal opportunities

The ancillary copyright for press publishers (Leistungsschutzrecht für Presseverleger) entered into force at the beginning of August 2013, with the aim of further enhancing the protection of intellectual property. This stipulates that license fees shall be chargeable to search engine providers for using publisher content, unless such use relates to “individual words” or “the smallest text snippets“. Google as the market leader among the search engine providers rejected this. At present, there is a revocable “free-of-charge” consent granted by the publishers to Google to use their text snippets in search results. VG Media (collecting company), which represents more than 200 digital publisher offers, including by Axel Springer, has filed a payment claim against Google, which is currently pending before the Berlin Court of Appeal in a second instance. Depending on the outcome of the legal dispute or the agreement reached, this may have a positive effect on Axel Springer and its digital offerings.

Business and other opportunities

Axel Springer is continually working on the optimization of operational processes and structures. Axel Springer therefore regards inter-company, cross-divisional and cross-functional interlinking as a key factor for success in order to produce innovative and tailored content as well as provide high quality products and services for our customers. For this Axel Springer has begun a comprehensive restructuring with the separation of the prints from the digital business. If the new organizational structure is implemented swiftly and consistently for a cross-brand collaboration of core functions, this could, in addition to more efficient marketing, be associated with additional opportunities for greater growth, especially in the digital business and synergy potential in the cost area. Axel Springer could better identify and exploit opportunities through focused teams, clear responsibilities and less structural complexity.

The increased and promoted exchange of e. g. technological know-how of our companies offers additional opportunities to further improve our position in our core markets.

Forecast report

Anticipated economic environment

General economic environment

The upward trend of the **world economy** will accelerate according to the forecast of the International Monetary Fund (IMF). Accordingly, the growth rate of the global economy in 2018 should rise to a real +3.9 %. The boom is mainly driven by a significant growth spurt in the industrialized countries.

According to estimates by the ifo Institute, the upturn will continue in **Germany** in 2018. Growth drivers will therefore continue to be domestic demand and exports. According to the forecast, private consumption is expected to expand strongly with a real growth rate of 1.7 % driven by rising employment and rising wages. In view of the continued increase in the capacity utilization rate of the German economy in the previous year, the strong growth in corporate investment is expected to continue at 3.9 % in real terms. According to the ifo forecast, exports will continue to rise strongly in 2018, with real growth of 5.6 %. With a price-adjusted expansion of 5.5 %, imports will develop similarly dynamically.

According to forecasts by the ifo Institute, consumer prices will rise by 1.9 % in 2018 in view of the continuing buoyant economy. Unemployment is expected to fall to 5.3 % due to persistently high employment creation. At the same time, the number of persons in employment will rise by around 490,000. On average for the year 2018, the ifo Institute expects around 44.8 million people to be in gainful employment.

Anticipated Economic Development (Selection)

Change in gross domestic product compared to prior year (real)	2018
Germany[1]	2.6 %
United Kingdom[2]	1.4 %
France[2]	1.8 %
Central and Eastern Europe[2]	3.5 %
USA[2]	2.5 %

1) Source: ifo Institut, December 2017.
2) Source: DIW, December 2017.

According to a forecast by the German Institute for Economic Research (DIW), the **British economy** will expand by 1.4 % in 2018. Investments are unlikely to contribute to growth due to slightly restrictive monetary policy and persistently high levels of uncertainty in the face of the Brexit negotiations. However, positive impulses are to be expected from foreign trade, helped by the ongoing recovery in the eurozone and the continuing low value of the British pound.

For **France**, the DIW forecasts a real growth rate of 1.8 % for 2018. According to the economic research institute, the environment has improved slightly as a result of labor market and tax reforms. The DIW expects only modest price increases and rising of disposable income in real terms.

The economic forecast of the DIW comes to altogether optimistic expectations for the states of **Central and Eastern Europ**e. Consumption should remain the main driver. The economic recovery in the region goes hand in hand with a significantly and continuously falling unemployment rate. Investments should gain some momentum. Exports benefit from growing foreign demand. Overall, price-adjusted growth will amount to 3.5 % in Central and Eastern Europe, according to the DIW.

According to the DIW forecast, the development of the US economy remains upward. The continuous improvement of the labor market situation supports private consumption. The DIW estimates the real growth rate of US economic output for 2018 at 2.5 %. It is assumed that the tax reform will only have a relatively small stimulating effect on economic growth.

Industry environment

According to the current advertising market forecast of ZenithOptimedia, a worldwide increase of 4.1 % (nominal) is expected for the year 2018. The shift of advertising budgets to the internet continues with undiminished speed. According to ZenithOptimedia's current forecast, the share of online advertising in the global advertising cake will rise to 40 % next year.

The forecasts for **Germany** available to date show a largely similar picture for the individual media genres. ZenithOptimedia expects net advertising market revenue (marketing revenues net of rebates and agent’s commission) in Germany for 2018 to increase by 2.3 % (nominal). Thus, the total advertising market will not grow as fast as the general economy, which is expected to expand at a nominal rate of 4.0 % (+ 2.2 % in real terms) according to the DIW.

Growth in the advertising market is driven by digital (+8.0 %), TV (+2.8 %), outdoor (+2.6 %) and radio (+1.8 %). ZenithOptimedia is predicting a decrease in net advertising revenues for newspapers (– 3.2 %) and magazines (– 5.5 %).

The forecast data continue to reflect the structural redistribution of advertising expenditure in favor of digital offers. In the coming year, the share of online and mobile in Germany should rise to 35.9 %. This puts Germany below the global average. ZenithOptimedia says publishers will hardly benefit from the additional online ad reveue. Reason is the dominance of the big tech companies from the USA.

However, global trends also set the direction for Germany. Growth in the advertising market is technology-driven, especially in the mobile, online moving images (video), social media and programmatic growth segments. Thanks to the continued proliferation of mobile devices, technical advances in advertising, increased variety of ad formats, and technical innovations in driving multi-device campaigns, a significant increase in digital advertising investments is expected.

The progressive automation of advertising booking through programmatic buying platforms is also seen as a driver for online and mobile advertising. In addition, all media will in future be digital, addressable and thus programmatically tradable. The challenge for the marketers will be, on the one hand, to connect their inventory to the available trading platforms and, on the other hand, to provide data that will enable advertisers to address consumers in a more targeted manner - and thus more effectively.

The industry expects positive stimuli for the advertising industry from the two sporting highlights of 2018, the Winter Olympics in South Korea and the World Cup in Russia, with sports-related advertising media likely to benefit from this.

One of the big trends in the advertising industry is the use of artificial intelligence for mass communication. Self-learning technologies predict customer behavior and focus on personalized customer engagement.

The expectation of further increasing budgets in the area of **digital classified ads** in 2018 is confirmed by a study of the strategy consultancy OC & C Strategy Consultants in the spring of 2017. According to this study, advertising expenditures (online) in Germany for job advertisements will rise by an average of 12 % per year by 2020 compared to 2016. This growth goes hand in hand with the forecast that by 2020, 63 % of advertising spending in the area of job advertisements in Germany will be made online, whereas in 2016 the share was still at 50 %. For the German real estate advertising market (online), OC & C expects an average increase of 9 % by 2020 compared to 2016. The online share of real estate advertising spend was already 69 % in 2016, and according to the study, it will increase even further to 77 % by 2020.

The **digital international markets** in which Axel Springer engages in with its own corporate activities will develop differently according to the prognosis of Zenith-Optimedia: In the online market in Western Europe, net advertising volume will increase by 7.3 % to USD 42.7 billion in 2018, based on the assumption of constant exchange rates. While in the UK (+3.8 %) digital advertising spending will grow less strongly than in Germany, France (+10.4 %) and the US (+13.1 %) are expected to achieve higher growth.

Anticipated Advertising Activity 2018 (Selection)

Change in net ad revenues compared to prior year (nominal)	Online
Germany	8.0 %
Central and Eastern Europe	12.9 %
USA	13.1 %
United Kingdom	3.8 %

Source: ZenithOptimedia, Advertising Expenditure Forecast, December 2017.

The expected positive development of foreign advertising spending on digital classified advertisements in 2018 is also underpinned by the OC & C study. For the job market in the United Kingdom, the analysis forecasts an average increase in digital advertising spending of 3 % per year by 2020 compared to 2016. Real estate markets in France and Belgium are expected to grow by 6 % and 5 % respectively over the same period. Compared to the German market, the online share of advertising spending in the respective foreign markets in 2016 was already comparatively high, at 79 % in the UK, 65 % in France and 67 % in Belgium. For 2020, according to the study, a further shift in advertising spend from offline channels to online channels is forecast in all three markets. As a result, the United Kingdom is expected to have an 85 % online share of advertising spend in the jobs segment, and France 72 % and Belgium 73 % in the real estate segment (based on advertising expenses online + offline per category).

Group

Strategic and organizational orientation

The highest strategic priority for Axel Springer is to pursue the consistent digitization of its business. We aim to attain the goal of becoming the leading digital publisher by further developing our digital offerings in Germany and abroad, and by making targeted acquisitions.

Comparison of forecast with actual performance

The forecast targets published in March 2017, and raised at mid-year 2017 for adjusted EBITDA, adjusted EBIT and adjusted earnings per share were attained. For revenues the forecast was exceeded.

Group

	Forecast / adjustments during the year	2017
Revenues	Mid single-digit percentage increase	8.3 %
EBITDA, adjusted	Mid to high single-digit percentage increase / high single-digit percentage increase	8.5 %
EBIT, adjusted	Mid single-digit percentage increase / mid to high single-digit percentage increase	7.0 %
Earnings per share, adjusted	Mid to high single-digit percentage increase / high single-digit percentage increase	8.1 %

Segments

	Forecast	2017
Revenues		
Classifieds Media	Low double-digit percentage increase	14.6 %
News Media	Development roughly on par with prior-year level	1.9 %
Marketing Media	High single-digit to low double-digit percentage increase	15.0 %
Services/ Holding	Considerable decline	-16.8 %
EBITDA, adjusted		
Classifieds Media	Low double-digit percentage increase	16.5 %
News Media	Stable development	2.0 %
Marketing Media	High single-digit to low double-digit percentage increase	16.3 %
Services/ Holding	Significant deterioration	-46.5 %
EBIT, adjusted		
Classifieds Media	Development significantly below development of EBITDA, adjusted	13.6 %
News Media	Comparable development to EBITDA, adjusted	1.1 %
Marketing Media	Development slightly below development of EBITDA, adjusted	14.9 %
Services/ Holding	Significant deterioration	-23.9 %

Business development in the segments confirmed or exceeded expectations for both revenue, adjusted EBITDA and adjusted EBIT. In terms of revenues the forecast was exceeded in the News Media and Marketing Media segments and in terms of adjusted EBITDA in all three operating segments Classifieds Media, News Media and Marketing Media.

Anticipated business developments and financial performance of the Group

The forecast for the financial year 2018, takes the application of the new accounting standards IFRS 15 and IFRS 16 into account (for impacts, we refer to the notes to the consolidated financial statement of the Group Note (3q)), the initial consolidation of Logic-Immo from February 2018, as well as the sales of aufeminin in the second quarter of 2018 and the print portfolios in Slovakia in the middle of the year 2018. Due to the significant implications of these effects, we also state our expectations regarding the organic development of our key performance indicators that result from adjusted consolidation and currency effects, as well as the effects from IFRS 16. Consideration of IFRS 15 follows an appropriate adjustment of our prior-year figures, which reduces the Group revenues for 2017 by approximately € 500 million in the Marketing Media segment.

For the financial year 2018, we expect Group **revenues** to increase by an amount in the low to mid single-digit percentage range. Organically, we also assume growth in the low to mid single-digit percentage range.

For **adjusted EBITDA**, we expect a rise in the low double-digit percentage range. For organic growth in adjusted EBITDA we assume an increase in the mid to high single-digit percentage range.

For **adjusted EBIT**, we expect a rise in the low single-digit percentage range due to higher depreciation, amortization and impairments, and organically we expect an increase in the low to mid single-digit percentage range.

For the **adjusted earnings per share**, we expect an increase in the low to mid single-digit percentage range. For the organic development we assume a rise in the mid to high single-digit percentage range.

Anticipated business developments and financial performance of the segments

The revenues of the **Classifieds Media** segment are expected to show a rise in the double-digit percentage range. Organic growth is expected to be in the high single-digit to low double-digit percentage range. We expect adjusted EBITDA to increase in the double-digit percentage range. The organic increase should lie in the high single-digit to low double-digit percentage range, despite increased investments in IT, marketing and sales.

In the **News Media** segment, we expect a decrease in revenues in the low to mid single-digit percentage range for the financial year 2018. Deconsolidation effects from the sale of the print portfolio in Slovakia will have an impact here from mid year. Organically, we expect a decline in revenues in the low single-digit percentage range. For adjusted EBITDA we expect a rise in the mid single-digit percentage range. Organically, we assume a decline in the low to mid single-digit percentage range.

We expect revenues in the **Marketing Media** segment to decrease by an amount in the high single-digit to low double-digit percentage range, based essentially on the anticipated closing of the sale of aufeminin in France. In terms of organic development, we expect an increase in revenues in the high single-digit percentage range. Starting point for the forecast is the reduced revenue for 2017 by approximately € 500 million after applying IFRS 15. For adjusted EBITDA, we expect an increase in the high single-digit percentage range and organically we expect a growth in the low double-digit percentage range.

For the **Services/Holding** segment, we expect a decline in revenues in the mid single-digit percentage range, depending on market conditions. For the organic development too, we expect a decline in the mid single-digit percentage range. For adjusted EBITDA, we expect a rise (improvement) in the low to mid single-digit percentage range and equally organically a rise in the low to mid single-digit percentage range.

For adjusted EBIT, we expect developments in all segment to be below that of adjusted EBITDA due to higher depreciation.

Anticipated liquidity and financial position

With regard to liquidity and financial position, investments in property, plant and equipment and intangible assets will be significantly above the prior-year level, mainly due to investments in the new building in Berlin. Financing will be provided by operating cash flow. Excluding the investments for the new building in Berlin, investments are also expected to be significantly above the prior-year figure.

Dividend policy

Subject to the condition of continued sound financial performance in the future, Axel Springer will pursue a dividend policy of stable or slightly increased dividend distribution, while also allowing for the financing of growth.

Anticipated development of the workforce

The annual average number of employees in the Group for 2018 will be higher than the prior-year figure. This is mainly due to organic growth and acquisitions in connection with the digital transformation of the Group's business.

Planning assumptions

We plan the future development of the financial performance, liquidity, and financial position on the basis of assumptions that are plausible and sufficiently probable from today's perspective. However, actual developments could possibly be much different from the assumptions applied and thus from the business plans and trend forecasts prepared on the basis of those assumptions.

In particular, the forecast is based on the assumption that no significant deterioration in the economic environment will follow and that the actual exchange rates do not deviate significantly from the underlying assumed exchange rates.

The forecasts for adjusted EBITDA, adjusted EBIT, and the adjusted earnings per share reflect the expected effects at the time of the publication of the Annual Report from known acquisitions (particularly Logic-Immo), divestments (in particular aufeminin and the print portfolio in Slovakia) and planned restructuring expenses. The additional disclosures regarding organic development have been adjusted for consolidation and currency effects, as well as effects from the application of the new accounting standards IFRS 16.

Disclosure and explanatory report of the Executive Board pursuant to takeover law

This section contains the disclosures pursuant to Sections 289a (1), 315a (1) of the Commercial Code and the explanatory report of the Executive Board in accordance with Section 176 (1) sentence 1 AktG related to Section 9 (1) lit. c) ii) SE-VO.

Composition of subscribed capital

The subscribed capital of the company amounts to € 107,895,311.00 and is divided into 107,895,311 registered shares. The shares may only be transferred with the company's consent (registered shares of restricted transferability, see below).

Different classes of shares do not exist. All shares have the same rights and obligations. Each share grants one vote at the annual shareholders' meeting and is decisive for the share of the shareholders in the profits of the company. This does not apply to treasury shares held by the company (see page 64), on treasury shares), from which the company has no rights (see Section 71b of the German Stock Corporation Act).

Restrictions on voting rights or the transfer of shares

Pursuant to Section 5 (3) of the Articles of Association of the company, the shares and the subscription rights to shares in Axel Springer SE may only be transferred with the consent of the Company. The approval is granted by the Executive Board, whereby the Supervisory Board decides internally on the approval. The consent can be refused according to the statute without giving reasons. However, the company does not arbitrarily refuse to approve the transfer of the shares.

According to the knowledge of the company's Executive Board, transfer restrictions under the law of obligations arise from the following agreements:

- On July 31/August 4, 2006, a share transfer restriction agreement was concluded between Dr. Mathias Döpfner, Brilliant 310. GmbH, Axel Springer AG and M.M. Warburg & Co. KGaA. Under this share transfer restriction agreement, the direct and indirect purchase or disposal of the shares of Axel Springer AG by Brilliant 310. GmbH or by Dr. Mathias Döpfner are made contingent to the prior consent of Axel Springer SE in accordance with the Articles of Association of the company.

- By virtue of a declaration dated August 14, 2012, Dr. Mathias Döpfner acceded to a pool agreement (“pool agreement”) concluded between Dr. h.c. Friede Springer and Friede Springer GmbH & Co. KG, in respect of the 1,978,800 shares of Axel Springer SE that were given to him as a present by Dr. h.c. Friede Springer on the same date. In total, the pool agreement includes 52,826,967 voting shares of Axel Springer SE (pool-linked shares). Under the terms of the pooling agreement, a pool member wishing to transfer his pooled shares to a third party must first offer these shares to the other pool members for purchase (purchase right). The purchase right expires two weeks after the purchase offer. It does not apply to transfers to certain persons close to the pool member.

- In addition, shares of Axel Springer SE acquired by the Brilliant 310. GmbH and Dr. Mathias Döpfner were pledged to a bank; the same applies to the shares of Axel Springer SE held by Dr. Giuseppe Vita.

Under the virtual stock option plans 2011 II and 2014 for executives, the beneficiaries are required to make a personal investment in shares of Axel Springer SE. These shares are not subject to any restrictions on disposal, but any disposition of these shares would cause the corresponding virtual stock option rights to lapse without replacement or compensation (for information on the virtual stock option plan 2011 II and 2014 for senior executives, see page 80).

The same applies to the virtual stock option plans 2012 and 2014 for members of the Executive Board (see page 78 for information on the virtual stock option plans 2012 and 2014 for Executive Board members).

Finally, persons performing managerial duties at Axel Springer SE within the meaning of the European Market Abuse Regulation (MAR) must comply with the closed periods established by Section 19 (11) MAR (trade prohibitions); Based on these statutory blocking periods, the Company has developed guidelines for trading in shares of Axel Springer SE, which should be followed by persons of senior management.

Voting right restrictions

According to the aforementioned pool contract between Dr. Mathias Döpfner, Dr. h. c. Friede Springer and Friede Springer GmbH & Co. KG the voting rights and other rights arising from the pooled shares in the Annual General Meeting of Axel Springer SE are to be exercised in accordance with the respective resolutions of the pool members, irrespective of whether and in what sense the relevant pool member was voting on the pool. The voting rights of the pool members in the pool meeting are based on their voting rights at the General Meeting of Axel Springer SE, calculated on the basis of the respective number of voting pool-linked shares. As long as Friede Springer GmbH & Co. KG holds an indirect interest in Axel Springer SE, its voting rights are based on the number of shares of the pooling shares held indirectly by Friede Springer GmbH & Co. KG.

Furthermore, restrictions on voting rights may exist in accordance with the provisions of the German Stock Corporation Act (AktG), for example pursuant to Section 136 AktG and capital market regulations, in particular pursuant to Sections 33 et seqq. (prev. Sections 21 et seqq. WpHG). Securities Trading Act (Wertpapierhandelsgesetz, "WpHG").

Shareholdings that represent more than 10 % of voting rights

At the end of the 2017 financial year, the following direct and indirect shareholdings in the capital of Axel Springer SE, which exceeded the threshold of 10 % of the voting rights, existed on the basis of the voting rights announcements received by the company up to December 31, 2017 in accordance with Sections 33, 34 WpHG (prev. Sections 21, 22 WpHG): Axel Springer Gesellschaft für Publizistik GmbH & Co, Berlin, Germany (direct), AS Publizistik GmbH, Berlin, Germany (indirect), Friede Springer GmbH & Co. KG, Berlin, Germany (indirect), Friede Springer Verwaltungs-GmbH, Berlin, Germany (indirect), Dr. h. c. Friede Springer, Berlin, Germany (indirect), and Dr. Mathias Döpfner, Potsdam, Germany (indirect).

Information on the amount of the aforementioned shareholdings in the Company can be found in statements on the voting rights disclosures in the Notes to the Financial Statements 2017 of Axel Springer SE, see www.axelspringer.com/financialpublications, as well as in the section "Voting Rights Announcements" on the Company's website at www.axelspringer.com/votingrights.

Shares with special rights that confer powers of control

Shares with special rights conferring control powers have not been issued.

Manner of controlling voting rights when employees hold shares in the company's capital

As part of the bonus and share bonus program for 2009 and the share participation programs for the years 2011, 2012, 2013, 2014, 2015 and 2017, Deutsche Bank AG was initially entered into the share register as the third-party holder of the shares transferred to employees. However, each employee is free to be registered as a shareholder in the share register.

Statutory provisions and provisions of the Articles of Association pertaining to the appointment and dismissal of Executive Board members and amendments to the Articles of Association

The Executive Board of Axel Springer SE consists of at least two persons according to the Articles of Association of the Company. The Supervisory Board determines the number of Executive Board members, appoints them and dismisses them. Pursuant to Section 8 (2) sentence 1 of the Articles of Association in connection with Section 46 (1) SE-VO, the members of the Executive Board are appointed for a maximum period of five years; reappointments are allowed. If several persons are appointed as members of the Executive Board, the Supervisory Board may appoint a member as Chairman of the Executive Board (Section 8 (3) sentence 2 of the Articles of Association). If a required member of the Executive Board is absent, the court has to appoint a member in urgent cases at the request of one involved party (Section 9 (1) lit. c) ii) SE-VO in connection with Section 85 (1) sentence 1 AktG). The Supervisory Board may revoke the appointment as a member of the Executive Board and the appointment as Chairman of the Executive Board if there is good cause (see in detail Section 39 (2) sentence 1, Section 9 (1) lit. c) ii) SE Regulation, Section 84 (3) sentences 1 and 2 AktG).

Insofar as mandatory statutory provisions or provisions of the Articles of Association do not require a greater majority, amendments to the Articles of Association are made by a resolution of the General Meeting by a majority of two-thirds of the votes cast or, if at least half of the share capital is represented, by a simple majority of the votes cast (cf. Section 21 (2) sentence 2 of the Articles of Association in connection with Section 51 sentence 1 SEAG, Section 59 (1) and (2) SE-VO). The latter does not apply to an amendment changing the business object and purpose of the company, or to a resolution regarding the relocation of the registered head office of the SE to another member state pursuant to Section 8 (6) SE-VO as well as cases that prescribe a higher majority stake (see Section 51 (2) SEAG, Section 59 (1) and (2) SE-VO). An amendment to the corporate governance principles laid down in Section 3 of the Articles of Association requires a majority of at least four-fifths of the votes cast (see Section 21 (3) of the Articles of Association).

The Supervisory Board is authorized to adopt amendments to the Articles of Association which only affect the wording (Section 13 of the Articles of Association).

Authority of the Executive Board to issue or buy shares back

The Executive Board was authorized, in accordance with Section 5 (4) of the Articles of Association, and based on the resolution of the annual shareholders' meeting of April 14, 2015, to increase the capital stock by April 13, 2020, subject to the approval of the Supervisory Board, by issuing registered shares of restricted transferability, either in a single tranche or in several tranches and in return for cash and/or non-cash contributions (including mixed non-cash contributions), up to a total of € 11,000,000.00 (authorized capital).

By partially drawing down this authorized capital, the capital stock was increased by € 8,955,311.00 and 8,955,311 new registered shares of Axel Springer SE were issued to General Atlantic, with effect from December 9, 2015. The remaining authorized capital, which allows an increase of the share capital by a further € 2,044,689.00 until April 13, 2020, was not utilized until the end of the year under review.

By resolution of the General Meeting on April 16, 2014 (Agenda item 8), the Executive Board was authorized, with the approval of the Supervisory Board, until April 15, 2019 to acquire treasury shares of up to 10 % of the share capital existing at the time of the resolution. The acquisition may be made via the stock exchange or by means of a public offer addressed to all shareholders or a public invitation to submit an offer.

Along with the shares held by the company or attributable to the company in accordance with Section 5 SE-VO in conjunction with Sections 71a ff. AktG, the shares purchased by virtue of the foregoing authorization may not at any time exceed 10 % of the company's capital stock. Details concerning this authorization are provided in the invitation to the annual shareholders' meeting of April 16, 2014, which is available on the website of Axel Springer SE (see Agenda Item 8 and the Executive Board's report on this subject).

The company held no treasury shares at the end of financial year 2017.

There is no contingent capital at Axel Springer SE.

Significant agreements of the company subject to the condition of a change of control resulting from a takeover offer

With the exception of regulations in the promissory notes and consortium loans stated in the following, as well as contractually entitled cancellation rights for Executive Board members in case of a change of control (see further information below and page 78 of this Annual Report), the company has not concluded any major agreements that would take effect in the event of a change of control due to a takeover.

The company has placed promissory notes on the capital market since April 2012. Following partial termination, conversion and redrafting in October 2014 and May 2017 as well as the termination of two variable tranches in October 2017, the promissory notes have a total amount of € 879,000,000.00 available in nine tranches. The lender may demand, in the event of a change of control, that the claim held can be partially or fully paid back early within a 90 days period.

Aside from specific exceptions that relate to the shareholders that currently control Axel Springer SE, a change of control is understood to mean, in the context of the promissory notes, the acquisition of shares of Axel Springer SE representing more than 50 % of the capital stock and/or voting rights by one or more parties acting together.

With regard to the syndicated loans renegotiated in July 2015 and totaling € 1,200,000,000.00, the lenders are also entitled to terminate the loan in the event of a change of control with a term of 30 days following the receipt of such knowledge. Aside from specific exceptions that relate to the shareholders that currently control Axel Springer SE, a change of control is understood to mean the acquisition of shares of Axel Springer SE representing more than 50 % of voting rights by one or more parties acting together.

Indemnification agreements between the company and the Executive Board members or employees in the event of a change of control

Some Executive Board members have the right to terminate their employment contracts in the event of a change in control. A change of control within the meaning of these contracts exists if the majority shareholder Dr. h. c. Friede Springer no longer - directly or indirectly - should hold or control the majority of shares. In such a case, the members of the Executive Board concerned are entitled to payment of the basic salary for the last agreed remaining period of contract (some of the entitled Executive Board members are entitled to payment of at least one annual basic salary) or a severance payment equal to the total remuneration for the duration of the original remaining term; the above payments are regularly limited in amount. In addition, the company pays the performance-related remuneration pro rata temporis for the period of the activity in the year of departure. Other remuneration does not exist for the service contracts of members of the Executive Board in the event of termination of employment due to a change of control. Corresponding compensation agreements with other employees of the company do not exist.