

Interactive Online Report

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As well as company information and an extensive financial section, the online report offers many extra features, including several videos and extracts.

The Annual Report will also be available as a free app in the Apple App Store and in Google Play at the end of April.



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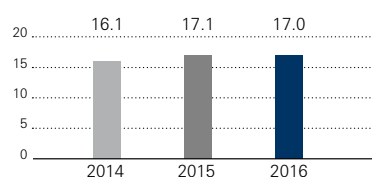


Combined Management Report

Financial Year 2016 in Review

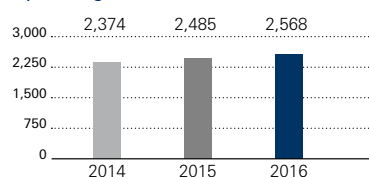
In 2016, Bertelsmann continued its successful operating business performance and made further progress with the implementation of its strategy. Despite some adverse exchange rate and portfolio effects, Group revenues were €17.0 billion (previous year: €17.1 billion), thanks to increased organic growth of 0.9 percent. The growth was generated in particular by the TV, music, services and education businesses. The revenue share generated by the growth businesses increased further to 30 percent (previous year: 28 percent). Despite start-up losses for digital and new businesses, which, for Bertelsmann Education Group and RTL Group alone, amounted to €-71 million in total (previous year: €-52 million), operating EBITDA reached a record level of €2,568 million (previous year: €2,485 million). The increase in operating result was primarily attributable to the TV, music and services businesses. In view of the positive business performance and lower effects of special items, Group profit increased by 2.6 percent to €1,137 million. Total investments, including assumed financial debt, in the reporting period were €1.2 billion (previous year: €1.3 billion). For 2017, Bertelsmann expects positive business performance and continued progress with the implementation of its strategy.

Revenues in € billions



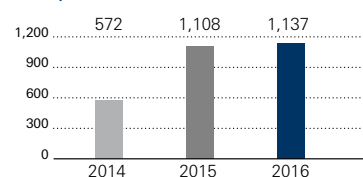
- Organic growth of 0.9 percent
- Revenue decline of 1.1 percent as a result of exchange rate and portfolio effects

Operating EBITDA in € millions



- Operating EBITDA reaches a record level despite start-up losses for digital and new businesses
- EBITDA margin increased to 15.1 percent

Group Profit in € millions



- Growth of Group profit of 2.6 percent despite higher tax expenses
- Improved operating result
- Lower impact of special items

Fundamental Information about the Group

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

Corporate Profile

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

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

RTL Group is, based on revenue, one of the leading television groups in the broadcasting, content and digital business with interests in 60 television channels, 31 radio stations and content production throughout the world. The television portfolio of RTL Group includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as investments in Atresmedia in Spain and RTL CBS Asia Entertainment Network in Southeast Asia. Fremantle Media is one of the largest international creators, producers and distributors of a wide range of formats outside the United States. Combining the catch-up

TV services of its broadcasters, the multichannel networks BroadbandTV, StyleHaul and Divimove and Fremantle Media's 260 YouTube channels, RTL Group has become the leading European media company based on online video views. Furthermore, RTL Group owns a majority stake in SpotX, a programmatic video advertising platform. The publicly traded RTL Group S.A. is listed on the German MDAX index.

Penguin Random House is, based on revenue, the world's largest trade book publisher, with more than 250 imprints across five continents. Its book brands include storied imprints such as Doubleday, Viking and Alfred A. Knopf (United States), Ebury, Hamish Hamilton and Jonathan Cape (United Kingdom), Plaza & Janés and Alfaguara (Spain) and Sudamericana (Argentina), as well as the international imprint Dorling Kindersley. Each year Penguin Random House publishes over 15,000 new titles and sells nearly 800 million print books, e-books and audio books. Germany's Verlagsgruppe Random House, which includes illustrious publishing houses such as Goldmann and Heyne, is not part of Penguin Random House from a legal point of view, but is under the same corporate management and is part of the Penguin Random House division.

Gruner + Jahr is represented in over 20 countries with more than 500 magazines and digital businesses. G+J Germany publishes well-known magazines such as "Stern," "Brigitte" and "Geo." The digital business consists of publishing offerings, communities, commerce transactions such as the "Schöner Wohnen" shop and the Ligatus Ad-Tech business. Gruner + Jahr owns 59.9 percent of Motor Presse Stuttgart. In France, G+J operates Prisma Media, the country's largest print and digital magazine publisher in terms of overall reach.

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

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

The Bertelsmann Printing Group bundles all of Bertelsmann's offset and gravure printing activities. It comprises the German

offset printers Mohn Media, GGP Media and Vogel Druck; the gravure activities of Prinovis in Germany and the United Kingdom; and the offset and digital printers Berryville Graphics, Coral Graphics and OPM in the United States. The group offers a wide range of print and other services. The Bertelsmann Printing Group also includes RTV Media Group, the creative services provider MBS and the storage media producer Sonopress.

Bertelsmann Education Group comprises Bertelsmann's education activities. The digital education and service offerings are primarily in the healthcare and technology sectors. The education activities include the e-learning providers Relias Learning and Udacity and the investments in the online education platform HotChalk and in Alliant International University.

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

Regulatory Environment

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

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

Shareholder Structure

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

Strategy

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

Bertelsmann aims to achieve a faster-growing, more digital, more international and more diversified Group portfolio. Businesses in which Bertelsmann invests should have long-term stable growth, global reach, stable and protectable business models, high market-entry barriers and scalability. The education business is being gradually developed into the third earnings pillar alongside the media and service businesses. Group strategy comprises four strategic priorities – strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions. In the financial year 2016, Bertelsmann continued to make significant progress in line with these strategic priorities.

As part of strengthening the core businesses, the Ad Alliance was formed as a cooperation in advertising marketing between Mediengruppe RTL Deutschland and Gruner + Jahr. In 2016, RTL Group launched new TV channels. Gruner + Jahr founded Deutsche Medien-Manufaktur in conjunction with Landwirtschaftsverlag and also focused on the core markets of Germany and France through the disposals of the publishing group News in Austria and G+J Spain. A new management structure was implemented at Bertelsmann Printing Group. Bertelsmann continued to roll out the Group-wide earnings improvement program.

The Group also pushed forward with the digital transformation at RTL Group, through the takeover of the online video marketer Smartclip among other things. Gruner + Jahr expanded its digital businesses primarily through the acquisition of the French digital video provider Groupe Cerise, the takeover of the demand-side platform provider LiquidM and the increase in its stake in (and thus complete takeover of) the marketing services provider trnd. Arvato generated growth through services for companies in the IT/high-tech sector and with e-commerce services.

The growth platforms were strengthened through the acquisition of a majority share in the ARC Music publishing catalog and signing contracts with many new artists at BMG – including Pink Floyd founding member and songwriter Roger Waters. BMG also entered the Australian market and took over the Australian music publisher Alberts. Arvato created the conditions for the further expansion of its SCM

services by developing a new logistics center in the Eastern Ruhr region and also commissioning a distribution center in Gennepe, Netherlands. In addition, Arvato posted further sales successes in the Financial Solutions division. The education business was further reinforced by, among other things, the continued organic and acquisitive expansion of the activities of Relias Learning. For example, Relias Learning expanded internationally and took over the US companies CMT, AHC Media and Swank Healthcare, among others. The e-learning provider Udacity also continued to expand its business internationally and is now also operating in Brazil, China, India and Germany with its Nanodegree offerings.

As part of expanding its presence in growth regions, the BAI fund made further new and follow-up investments in China and made a positive contribution to Group profit through gains from disposals of investments. In India, Bertelsmann strengthened its activities in strategically relevant business areas by acquiring stakes in the e-commerce services provider KartRocket, the social fashion network Roposo, the budget hotel marketplace Treebo and the Fintech company Lendingkart. BBI in cooperation with its strategic partner Bozano Investimentos took stakes in the university education provider Medcel and the NRE Education Group.

Bertelsmann will push ahead with its transformation into a faster-growing, more digital, more international and more diversified Group in 2017 in line with the four strategic priorities. Compliance with and achievement of the strategic development priorities are continuously examined by the Executive Board at the divisional level through regular meetings of the Strategy and Business Committee and as part of the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board. In addition, relevant markets and the competitive environment are analyzed on an ongoing basis in order to draw conclusions concerning the further development of the Group's strategy. The Executive Board is also supported by the Group Management Committee (GMC) on issues of corporate strategy and development. This Committee is composed of executives representing key businesses, countries, regions and select Group-wide functions.

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

Value-Oriented Management System

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

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

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

Strictly Defined Operational Performance Indicators

In order to control and manage the Group, Bertelsmann uses revenues, operating EBITDA and BVA as performance indicators. Revenue is used as a growth indicator of businesses. In the financial year 2016, organic growth was 0.9 percent. Group revenues of €17.0 billion were 1.1 percent below the previous year's figure (previous year: €17.1 billion) due to exchange rate and portfolio effects.

A key performance indicator for measuring the profitability of the Bertelsmann Group and the divisions is the operating EBITDA. Operating EBITDA increased to €2,568 million (previous year: €2,485 million) in the reporting period.

Bertelsmann uses BVA for assessing the profitability of operations and return on invested capital. BVA measures the profit realized above and beyond the appropriate return on invested capital. BVA in the financial year 2016 was €147 million compared

to the previous year's figure of €155 million. The impact of the increase in average invested capital could only partially be offset by the improved year-on-year operating earnings.

Broadly Defined Performance Indicators

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

The cash conversion rate serves as a measure of cash generated from business activities, which should be between 90 and 100 percent as a long-term average. The cash conversion rate in the financial year 2016 increased to 93 percent (previous year: 83 percent) as a result of an improved cash generation from operations and an associated increase in cash flow from operating activities.

The EBITDA margin is used as an additional criterion for assessing business performance. The EBITDA margin in the financial year 2016 improved to 15.1 percent compared to 14.5 percent in the previous year.

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

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

Non-Financial Performance Indicators

Employees

At the end of the financial year 2016, the Group had 116,434 employees worldwide. In 2016, there were 1,225 people serving in trainee positions in Bertelsmann companies in Germany.

The purpose of the human resources (HR) strategy is to support the implementation of the Group's strategy. In 2016, the main focus was again on the further development and training of employees. This included a comprehensive

adaptation of the central talent management processes and tools and the establishment of further talent pools.

Continuous employee training is the basis of a company's future economic success. In view of this, the training courses offered by Bertelsmann University have been further digitized and expanded. Furthermore, at the end of 2016, some 80,000 employees in 31 countries were able to access training courses on the Group-wide "peoplenet" HR IT platform.

At Bertelsmann, partnership primarily involves working with employees to shape the company. For this reason, the employee survey has been an important tool for many years at Bertelsmann. In 2016, 89 percent of employees took part in the worldwide survey. Supporting dialogue between the employee representatives and dialogue with Bertelsmann management is also very important for a cooperative corporate culture. As a result of this, a number of conferences were held in 2016 that, in particular, looked at how changes could be addressed. At the Diversity Conference in February 2016, business cases on the topic of diversity within the Group were presented and new concepts developed.

One priority of the HR strategy is the Bertelsmann Sense of Purpose. The Sense of Purpose "To Empower. To Create. To Inspire." was formulated and communicated in an international dialogue with various stakeholders.

Bertelsmann has been one of the pioneers in profit sharing since 1970. Thus, a total of €95 million (previous year: €85 million) was distributed to employees worldwide in 2016, thanks to the positive operating results for the previous year.

Corporate Responsibility

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

In view of this, the Bertelsmann Corporate Responsibility Council continued its cross-divisional dialogue and the strategic further development of significant Group-wide CR topics in 2016. The focus here was on employee concerns such as training, fair working conditions, health and diversity, societal and environmental concerns such as freedom of the press, media user/customer protection and eco-efficiency.

In 2016, Bertelsmann reported on its activities in these areas in the magazine "24/7 Responsibility." The Group also published an online index on its website in accordance with the guidelines of the Global Reporting Initiative (GRI G4)

and Bertelsmann's fifth annual carbon footprint report with extensive details regarding greenhouse gas emissions and further environmental data.

Also in 2016, Bertelsmann made donations and was involved in a wide range of funding initiatives in the areas of education, culture, science and creativity.

Innovations

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

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

The innovations at RTL Group are focused on three core topics – developing and acquiring new, high-quality TV content and formats, using all digital means of distribution, and expanding diverse forms of advertising sales and monetization. The new innovative TV formats include "The Young Pope," a production by the Italian Fremantle Media subsidiary Wildside, and the adaptation of the novel "American Gods" by Fremantle Media North America that is currently in production. RTL Group also expanded its position in the marketing of online videos. In particular, the takeover of Smartclip by Mediengruppe RTL Deutschland reinforced the technological competence of RTL Group and offers global innovation opportunities in cooperation with SpotX. Synergy Committees are used for exchanging information and knowledge within RTL Group. As a result of the growing significance of big data

and the provision and use of data, the position of Head of Smart Data was created at Mediengruppe RTL Deutschland in 2016.

The innovations at Penguin Random House incorporate a number of key areas, including innovative approaches toward content, distribution and interaction with consumers. In the digital sector the company is exploring new technologies in conjunction with well-known industry players. One example of this from the United States is the recording of children's book titles on the voice-activated platform Google Home. Penguin Random House also continues to identify new ways in which readers can discover authors and their works in order to reach the widest possible audience. Examples of this include "Subway Reads," an eight-week advertising campaign in the United States, where train commuters were offered e-books by Penguin Random House, and "Puffin World of Stories," a partnership with OnBlackheath for a family festival in the United Kingdom.

As well as the digital transformation, the innovations at Gruner + Jahr in various market segments were also a key focus in 2016. The digital business also grew strongly as a result of significantly increased advertising revenues from the brand websites and at the performance marketer Ligatus through innovative developments such as the marketing platforms InCircles and Appliance or the multichannel food network "Club of Cooks." G+J expanded its e-commerce activities with the "Schöner Wohnen" shop. The publishing house Deutsche Medien-Manufaktur founded by Gruner + Jahr and Landwirtschaftsverlag successfully launched innovative magazines such as "Wolf" and "Essen & Trinken mit Thermomix." G+J also formed Germany's largest provider of content communication services, Territory.

The innovations at BMG concern market access and product innovations in particular. In 2016 these included the global bundling of distribution in the label business into one distribution partner (Warner/ADA) and the creation of the songwriter workshop model SoundLab. In China, BMG expanded its cooperation with Alibaba Music, the music division of the e-commerce company Alibaba, with the aim of developing new music offerings for the Chinese market and to make it easier for international artists to access digital music platforms in China. In the digital sector, BMG extended the management of audiovisual content to live streaming and was able to stream excerpts from concerts by the artists Albert Hammond, Katie Melua and LP live on the Internet as part of its television program "Berlin Live" in cooperation with Arte.

The innovations at Arvato were driven forward in a number of different areas. These include promoting internal dialogue on

innovation topics, analyzing the use of innovative technologies, investing in innovative projects in the area of cloud infrastructure, creating innovation partnerships with companies such as IBM Watson, developing new products and solutions in the area of fraud prevention, and investing in innovative companies.

The innovations of the Bertelsmann Printing Group are mainly in optimizing technology and processes and in developing new products and services. One innovative approach is the development and launch of the optical data carrier Ultra HD Blu-ray 100 by Sonopress. In summer 2016, the storage media producer Sonopress obtained the certification for the innovative optical data carrier, commenced fully automated production of the innovative data carrier and thus successfully positioned itself in a new market segment.

The innovations at Bertelsmann Education Group refer to the further development of digital education offerings. For example, Relias Learning developed over 400 new online courses for employees in the healthcare sector and started local courses in the United Kingdom, Germany and China. The group was also able to expand its capabilities in the area of analytics with the aim of creating personalized training courses and improving performance within companies. At Udacity, further training programs were developed, such as, among other things, "Self-Driving Car Engineer" and "Artificial Intelligence," which give students the qualifications for future jobs in technology.

Report on Economic Position

Corporate Environment

Overall Economic Developments

In 2016 global economic expansion was moderate but accelerated slightly toward the end of the year. Real GDP once again increased by 3.1 percent compared to 3.1 percent in 2015. The global economy in 2016 was characterized by stable growth in the developed economies and a slight upturn in the emerging countries.

The economic recovery in the eurozone continued. Real GDP grew by 1.7 percent in 2016 compared to 1.5 percent in the previous year. More favorable financing conditions and sustained employment growth were the key drivers of this positive development.

The German economy proved to be robust, particularly as a result of strong domestic demand. Real GDP grew by

1.9 percent compared to 1.7 percent in the previous year. In France, too, the economic growth continued. Real GDP growth was 1.1 percent in 2016 compared to 1.2 percent in 2015. In the United Kingdom, economic activity slowed, with an increase in real GDP of 2.0 percent compared to a rise of 2.4 percent in the previous year.

In the United States, after a weak first six months, real GDP increased by 1.9 percent in 2016 compared to a rise of 2.4 percent in 2015.

Developments in Relevant Markets

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

The majority of the European TV advertising markets developed favorably in 2016. The TV advertising markets in Germany, France, Belgium and Croatia showed slight to moderate growth, while the TV advertising market in Spain once again reported significant growth. By contrast, the development of the TV markets in the Netherlands and Hungary showed a slight to moderate decline.

Sales of printed books in the United States and the United Kingdom saw moderate growth, while publishing sales of e-books fell as a result of changes to sales conditions. The German- and Spanish-language book markets showed largely stable development.

The magazine markets in Germany and France in 2016 were characterized by strongly declining print advertising business and moderately declining circulation business, while the digital business posted strong growth.

The global music markets in 2016 reported moderate growth in the publishing and recording rights segments.

The key service markets for Arvato, namely CRM, SCM, Financial Solutions and IT, saw moderate to significant growth.

Overall, the relevant European print markets declined in 2016, while the offset market showed far more stable development than the gravure printing market. The North American book printing market saw a moderate decline over the same period.

The education markets in the United States grew strongly overall in 2016 in the market segments where Bertelsmann is involved – namely, healthcare and technology, online services and university education.

Significant Events in the Financial Year

At its meeting on January 26, 2016, the Supervisory Board appointed Bernd Hirsch as the new Bertelsmann Chief Financial Officer. As of April 1, 2016, he took over the department from Executive Board Chairman Thomas Rabe who had performed this function in addition to his other responsibilities on a transitional basis.

With the acquisition of Smartclip in March 2016, Medien-gruppe RTL Deutschland has significantly extended its options in the area of digital advertising marketing and has therefore enhanced its growth strategy. The acquisition simultaneously strengthens RTL Group's technological competence and, in cooperation with SpotX, opens up global innovation options.

At the end of May 2016, the French G+J subsidiary Prisma Media took over Groupe Cerise, a digital media company operating in the video sector in France. Cerise develops its own technologies in order to produce and distribute content, thus ensuring that its brands reach a wide audience.

In December 2016, Bertelsmann Education Group took over Advanced Practice Strategies (APS), a provider of e-learning products for clinical assessments and performance improvement for US hospitals. With this takeover, Bertelsmann Education Group is expanding its range of acute healthcare services and strengthening its service offerings in terms of the targeted provision of online training courses and employee assessments.

Results of Operations

The following analysis of earnings performance relates to continuing operations as of December 31, 2016. Please refer

to the "Performance of the Group Divisions" section for a more detailed picture of the results of operations.

Revenue Development

In the financial year 2016, Group revenues of €17.0 billion were 1.1 percent below the previous year's figure (previous year: €17.1 billion). The revenue decline is primarily attributable to negative exchange rate effects, portfolio effects of disposals and declining organic revenues at Penguin Random House and Bertelsmann Printing Group. This was contrasted by organic revenue growth at RTL Group in particular and at BMG, Arvato and Bertelsmann Education Group. The Group achieved organic growth of 0.9 percent, adjusted for exchange rate and portfolio effects. The exchange rate effects were -1.3 percent and the portfolio effects were -0.7 percent.

Revenues at RTL Group rose 3.5 percent to €6,237 million (previous year: €6,029 million). The organic growth was 3.2 percent. This was mainly attributable to the fast-growing digital activities and positive developments in the French and German television businesses. Revenues at Penguin Random House declined by 9.6 percent to €3,361 million (previous year: €3,717 million). The organic growth was -3.9 percent. The revenue decline resulted primarily from portfolio and exchange rate effects. A decline in e-book revenues that was partly due to new sales conditions in the retail market had an adverse effect on organic growth. At €1,580 million, Gruner + Jahr's revenues were down 1.9 percent year on year (previous year: €1,611 million). The organic growth was -1.3 percent. The revenue decline stems largely from the portfolio effects of disposals and declining print advertising and circulation revenues. This was offset by revenue growth of new and digital businesses. Revenues at BMG increased by 12.2 percent to €416 million (previous year: €371 million) as a result of further organic and acquisitive business expansion. The organic growth was 12.8 percent. Revenues at Arvato rose

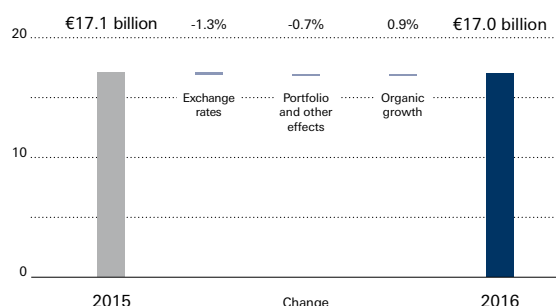
Revenues by Division

in € millions	2016			2015 (adjusted)		
	Germany	Other countries	Total	Germany	Other countries	Total
RTL Group	2,205	4,032	6,237	2,151	3,878	6,029
Penguin Random House	266	3,095	3,361	281	3,436	3,717
Gruner + Jahr	959	621	1,580	910	701	1,611
BMG	31	385	416	37	334	371
Arvato	1,630	2,208	3,838	1,578	2,205	3,783
Bertelsmann Printing Group	908	716	1,624	974	770	1,744
Bertelsmann Education Group	–	142	142	–	110	110
Bertelsmann Investments	–	–	–	1	–	1
Total divisional revenues	5,999	11,199	17,198	5,932	11,434	17,366
Corporate/Consolidation	(141)	(107)	(248)	(115)	(110)	(225)
Continuing operations	5,858	11,092	16,950	5,817	11,324	17,141

1.4 percent to €3,838 million (previous year: €3,783 million). The organic growth was 3.9 percent. The increase stemmed in particular from positive business development in the CRM and Financial Solutions divisions. Revenues at Bertelsmann Printing Group fell 6.9 percent to €1,624 million (previous year: €1,744 million). The organic growth was -4.0 percent. The revenue decline was primarily attributable to the closure of Sonopress USA in the reporting period and the disposal of the Spanish print companies in 2015. Bertelsmann Education Group increased its revenues by 28.9 percent to €142 million (previous year: €110 million). The organic growth was 15.9 percent. The rise was primarily the result of the organic and acquisitive expansion of Relias Learning. None of the held investments in the fund activities grouped under Bertelsmann Investments are fully consolidated.

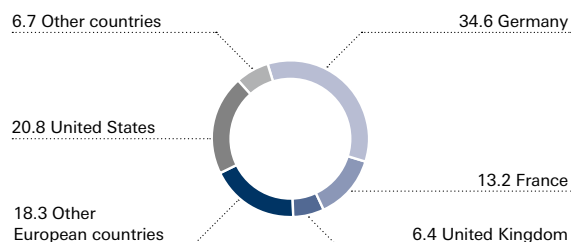
There were changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 34.6 percent compared to 33.9 percent in the previous year. The revenue share generated by France amounted to 13.2 percent (previous year: 13.2 percent). In the United Kingdom, the revenue share was 6.4 percent (previous year: 6.7 percent). The share of total revenues generated by the other European countries amounted to 18.3 percent compared to 17.7 percent in the previous year. The revenue share generated by the United States was 20.8 percent (previous year: 21.6 percent), and the other countries achieved a revenue share of 6.7 percent (previous year: 6.9 percent). This means that the share of total revenues generated by foreign business was 65.4 percent (previous year: 66.1 percent). Year on year, there was a slight change in the ratio of the four revenue sources (own products and merchandise, advertising, services, rights and licenses) to overall revenue.

Revenue Breakdown

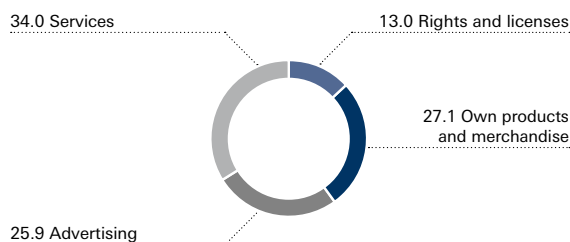


The revenue share generated by the growth businesses increased to 30 percent overall (previous year: 28 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses fell to 4 percent overall (previous year: 5 percent) as a result of disposals and scaling back. The growth businesses comprise those activities that post continuous revenue increases due to sustained positive market factors and that have been identified as growth priorities as part of Group strategy. These include the digital businesses of RTL Group and Gruner + Jahr; the TV production, music business and the service businesses in the Arvato divisions of SCM Solutions, Financial Solutions and Systems; the education business and the fund activities. The structurally declining businesses comprise those activities that post sustained revenue losses due to market factors. These include in particular the gravure printing activities and the storage media replication business.

Consolidated Revenues by Region in percent



Revenues by Category in percent



Results Breakdown

in € millions	2016	2015 (adjusted)
Operating EBITDA by division		
RTL Group	1,405	1,355
Penguin Random House	537	557
Gruener + Jahr	137	131
BMG	95	84
Arvato	359	313
Bertelsmann Printing Group	118	124
Bertelsmann Education Group	(17)	(5)
Bertelsmann Investments	–	1
Total operating EBITDA by division	2,634	2,560
Corporate/Consolidation	(66)	(75)
Operating EBITDA from continuing operations	2,568	2,485
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(630)	(613)
Special items	(139)	(191)
EBIT (earnings before interest and taxes)	1,799	1,681
Financial result	(244)	(230)
Earnings before taxes from continuing operations	1,555	1,451
Income tax expense	(419)	(346)
Earnings after taxes from continuing operations	1,136	1,105
Earnings after taxes from discontinued operations	1	3
Group profit or loss	1,137	1,108
attributable to: Earnings attributable to Bertelsmann shareholders	686	677
attributable to: Earnings attributable to non-controlling interests	451	431

Operating EBITDA

Bertelsmann achieved a 3.3 percent increase in operating EBITDA to €2,568 million in the financial year 2016 (previous year: €2,485 million), despite start-up losses for digital and new businesses. The increase in operating earnings was essentially generated by RTL Group, BMG and Arvato. The EBITDA margin of 15.1 percent was above the high level of 14.5 percent in the previous year.

Operating EBITDA at RTL Group rose 3.7 percent to €1,405 million (previous year: €1,355 million). The increase was primarily attributable to higher earnings contributions from the French and German television businesses. The French television businesses profited above all from a positive effect in connection with the gradual phase-out of the M6 Mobile contract. Penguin Random House posted lower earnings due to lower revenues. The operating EBITDA declined by 3.6 percent to €537 million (previous year: €557 million). Gruener + Jahr's operating EBITDA increased by 4.6 percent to

€137 million (previous year: €131 million), in particular thanks to a higher contribution to earnings by G+J Germany. BMG's operating EBITDA rose by 13.1 percent to €95 million (previous year: €84 million), thanks to the continued development of the business. At Arvato, operating EBITDA grew by 14.7 percent to €359 million (previous year: €313 million). All Solution Groups posted improved earnings, particularly the service businesses for IT and SCM. Operating EBITDA at Bertelsmann Printing Group declined by 4.8 percent to €118 million (previous year: €124 million) due to the persistently declining print market and as a result of divestments. Operating EBITDA at Bertelsmann Education Group amounted to €-17 million (previous year: €-5 million). This was mainly due to planned start-up losses for further business expansion of the investments in the online education platform HotChalk and the online learning provider Udacity, both of which were acquired in the previous year. None of the investments in the fund activities grouped under Bertelsmann Investments are fully consolidated, therefore in most cases no operating results are disclosed for this segment.

Special Items

Special items in the financial year 2016 totaled €139 million compared to €191 million in the previous year. They consisted of impairment losses and reversals on impairments on investments accounted for using the equity method totaling €4 million (previous year: €23 million), impairments on other financial assets of €22 million (previous year: €17 million), adjustments of carrying amounts of assets held for sale of €14 million (previous year: –), fair value remeasurement of investments of €12 million (previous year: €82 million), results from disposals of investments totaling €41 million (previous year: €24 million), restructuring expenses and other adjustments totaling €152 million (previous year: €257 million) (see also the reconciliation of EBIT to operating EBITDA in the Notes to the Consolidated Financial Statements, segment information). Results from disposals of investments were particularly characterized by gains on disposals at Bertelsmann Investments.

EBIT

EBIT amounted to €1,799 million in the financial year 2016 (previous year: €1,681 million) after adjusting operating EBITDA for special items totaling €139 million (previous year: €191 million) and the amortization, depreciation, impairments and reversals of impairments on intangible assets and property, plant and equipment totaling €630 million (previous year: €613 million), which were not included in adjustments.

Group Profit or Loss

The financial result was €244 million compared to €230 million in the previous year. The year-on-year deviation was attributable to a lower interest result and a lower other financial result. The income tax expenses came to €419 million compared to €346 million in the previous year, in particular due to the improved earnings before taxes from continuing operations. In addition, the positive special effects included in tax expenses decreased compared to the same period in the previous year. This produced after-tax earnings from continuing operations of €1,136 million (previous year: €1,105 million). Taking into account the after-tax earnings from discontinued operations of €1 million (previous year: €3 million), this resulted in a Group profit of €1,137 million (previous year: €1,108 million). The share of Group profit held by non-controlling interests came to €451 million (previous year: €431 million). The share of Group profit held by Bertelsmann shareholders was €686 million (previous year: €677 million). At the Annual General Meeting of Bertelsmann SE & Co. KGaA, an unchanged year-on-year dividend payout of €180 million will be proposed for the financial year 2016 (previous year: €180 million).

Net Assets and Financial Position

Financing Guidelines

The primary objective of Bertelsmann's financial policy is to achieve a balance between financial security, return on equity and growth. For this, Bertelsmann bases its financing policy on the requirements of a "Baa1/BBB+" credit rating and the associated qualitative and quantitative criteria. Credit ratings and capital market transparency make a considerable contribution to the company's financial security and independence.

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

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One of the financial targets is a dynamic leverage factor limited to the defined maximum of 2.5. As of December 31, 2016, the leverage factor of Bertelsmann was 2.5, slightly above the previous year's value (December 31, 2015: 2.4) but not over its self-imposed maximum value of 2.5 (see further explanation in the "Alternative Performance Measures" section).

As of December 31, 2016, economic debt increased to €5,913 million from €5,609 million in the previous year, despite a reduction in net financial debt. In particular, pension provisions increased due to a lower discount interest rate, while the net present value of the operating leases increased due to a consolidation of locations at Penguin Random House in the United States. The pension provisions and similar obligations amounted to €1,999 million as of December 31, 2016 (December 31, 2015: €1,709 million). The net financial debt fell to €2,625 million (previous year: €2,765 million).

Another financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA (after modifications) to financial result, which is used to determine the leverage factor and is supposed to be above 4. In the reporting period, the coverage ratio was 9.7 (previous year: 10.1). The Group's equity ratio was 41.6 percent (December 31, 2015: 41.2 percent), which remains significantly above the self-imposed minimum of 25 percent.

Financial Targets

	Target	2016	2015
Leverage factor: Economic debt/Operating EBITDA ¹⁾	≤ 2.5	2.5	2.4
Coverage ratio: Operating EBITDA/financial result ¹⁾	> 4.0	9.7	10.1
Equity ratio: Equity as a ratio to total assets (in percent)	≥ 25.0	41.6	41.2

1) After modifications.

Financing Activities

In April 2016, Bertelsmann placed a bond with a 10-year term and an issue volume of €500 million. The bond, which is listed in Luxembourg, has a fixed 1.125 percent coupon. In addition, Bertelsmann issued a promissory note in the amount of €200 million with a term of two years in a private placement in June 2016. The proceeds from the placements were used to repay the bond, which became due in September 2016. As of December 31, 2016, the carrying amounts of bonds and promissory notes totaled €3.7 billion compared to €3.8 billion as of December 31, 2015 (see also note 22 "Financial debt, bonds and promissory notes").

Rating

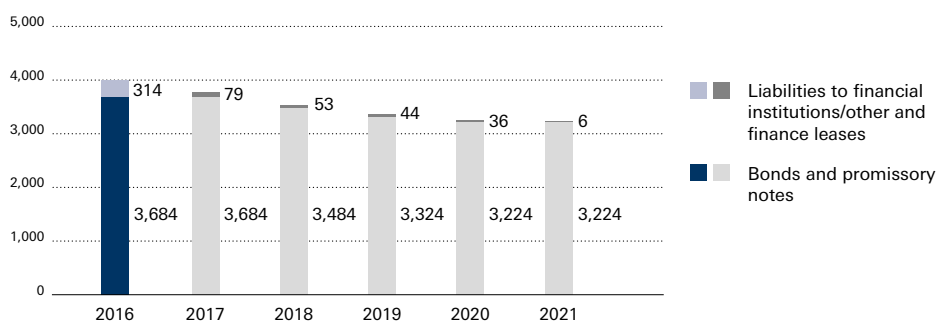
Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The agency ratings

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

Credit Facilities

As well as its existing liquidity, the Bertelsmann Group has access to liquidity via a syndicated loan with a term that in 2016 was extended by one year until 2021. This forms the backbone of the strategic credit reserve; Bertelsmann can utilize this to draw up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling.

Maturity Structure of Financial Debt in € millions



Consolidated Cash Flow Statement (Summary)

in € millions	2016	2015
Cash flow from operating activities	1,954	1,600
Cash flow from investing activities	(1,081)	(1,785)
Cash flow from financing activities	(793)	122
Change in cash and cash equivalents	80	(63)
Exchange rate effects and other changes in cash and cash equivalents	(14)	42
Cash and cash equivalents on 1/1	1,310	1,331
Cash and cash equivalents on 12/31	1,376	1,310
Less cash and cash equivalents included within assets held for sale	(3)	–
Cash and cash equivalents on 12/31 (according to the consolidated balance sheet)	1,373	1,310

Cash Flow Statement

In the reporting period, Bertelsmann generated net cash from operating activities of €1,954 million (previous year: €1,600 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,799 million (previous year: €1,559 million), and the cash conversion rate was 93 percent (previous year: 83 percent); see also "Broadly Defined Performance Indicators" section. The cash flow from investing activities was €-1,081 million (previous year: €-1,785 million). This included investments in intangible assets, property, plant and equipment and financial assets of €-962 million (previous year: €-1,093 million). The purchase price payments for consolidated investments (net of acquired cash and cash equivalents) were €-278 million (previous year: €-166 million). Proceeds from the sale of subsidiaries and other business units and disposal of other non-current assets were €192 million (previous year: €163 million). Cash flow from financing activities was €-793 million (previous year: €122 million). Dividends paid to the shareholders of Bertelsmann SE & Co. KGaA remained unchanged at €-180 million (previous year: €-180 million). Dividends to non-controlling interests and further payments to partners in partnerships came to €-388 million (previous year: €-450 million). As of December 31, 2016, Bertelsmann had cash and cash equivalents of €1.4 billion (previous year: €1.3 billion).

Off-Balance-Sheet Liabilities

The off-balance-sheet liabilities include contingent liabilities and other financial commitments, almost all of which result from operating activities conducted by the divisions. Off-balance-sheet liabilities increased year on year. The off-balance-sheet liabilities in place as of December 31, 2016, had no significant negative effects on the Group's net assets, financial position and results of operation for the past or the future financial year.

Investments

Total investments including financial debt acquired of €6 million (previous year: €41 million) amounted to €1,244 million in the financial year 2016 (previous year: €1,281 million). Investments according to the cash flow statement amounted to €1,240 million (previous year: €1,259 million). As in previous years, the majority of the €326 million investment in property, plant and equipment (previous year: €297 million) stemmed from Arvato. Investments in intangible assets came to €388 million (previous year: €349 million) and were primarily attributable to BMG for the acquisition of music catalogs and to RTL Group for investments in film rights. The sum of €248 million was invested in financial assets (previous year: €447 million). These include, in particular, the investments of Bertelsmann Investments. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €278 million in the reporting period (previous year: €166 million). These include, in particular, the acquisition of shares in Smartclip, APS and Groupe Cerise.

Investments by Division

in € millions	2016	2015
RTL Group	353	330
Penguin Random House	36	43
Gruner + Jahr	112	55
BMG	183	170
Arvato	167	176
Bertelsmann Printing Group	49	40
Bertelsmann Education Group	175	270
Bertelsmann Investments	147	171
Total investments by division	1,222	1,255
Corporate/Consolidation	18	4
Total investments	1,240	1,259

Balance Sheet

Total assets amounted to €23.8 billion as of December 31, 2016 (previous year: €22.9 billion). Cash and cash equivalents increased to €1.4 billion (previous year: €1.3 billion). Equity increased to €9.9 billion (previous year: €9.4 billion). This resulted in an equity ratio of 41.6 percent (previous year: 41.2 percent). Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €7.9 billion (previous year: €7.5 billion). Provisions for pensions and similar obligations increased to €1,999 million (previous year: €1,709 million) due to a reduction in the interest rate. Gross financial debt only changed slightly to €3,998 million compared to €4,075 million as of December 31, 2015, due to the taking up and repayment of long-term debt of a comparable amount as reported in the "Financing Activities" section. Apart from that, the balance sheet structure remained largely unchanged from the previous year.

Profit Participation Capital

Profit participation capital had a par value of €301 million as of December 31, 2016, which is unchanged from the previous year. If the effective interest method is applied, the carrying amount of profit participation capital was €413 million as of December 31, 2016 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of par value of profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock

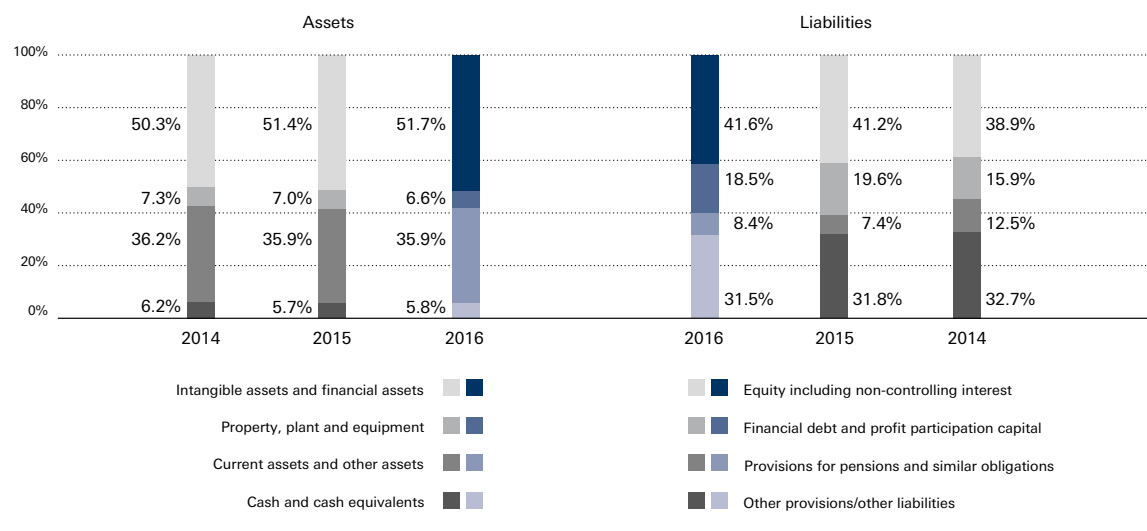
Exchange. Their price is listed as a percentage of par value. The lowest closing rate of the 2001 profit participation certificates in the financial year 2016 was 310.00 percent in January; their highest was 335.02 percent in April.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of par value, subject to the availability of sufficient Group profit and net income at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will be made for the financial year 2016.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, only have a limited cash trade due to their low volume. Payouts on the 1992 profit participation certificates are based on the Group's return on total assets. As the return on total assets for the financial year 2016 was 7.09 percent (previous year: 6.99 percent), the payout on the 1992 profit participation certificates for the financial year 2016 will be 8.09 percent of their notional value (previous year: 7.99 percent).

The payout distribution date for both profit participation certificates is expected to be May 15, 2017. Under the terms and conditions of the profit participation certificates, the auditors appointed by Bertelsmann SE & Co. KGaA are responsible for verifying whether amounts to be distributed have been calculated correctly. The auditors of both profit participation certificates provide confirmation of this.

Balance Sheet



Performance of the Group Divisions

RTL Group

RTL Group saw a positive business development, further growing its revenues and earnings. Sales rose by 3.5 percent to a new record level of €6.2 billion (previous year: €6.0 billion). This growth was fueled primarily by the fast-growing digital businesses, Mediengruppe RTL Deutschland and Groupe M6. Operating EBITDA also reached a new high, rising by 3.7 percent to €1.4 billion (previous year: €1.4 billion), driven by Groupe M6 and Mediengruppe RTL Deutschland. The increase at Groupe M6 was mainly due to a positive effect from the gradual phase-out of the M6 Mobile contract. RTL Group's overall EBITDA margin was 22.5 percent (previous year: 22.5 percent). Most of the relevant European TV advertising markets developed positively.

Mediengruppe RTL Deutschland once again generated record revenues and operating EBITDA. Higher advertising income from the TV and digital businesses, the expansion of the online video marketing sector and higher platform revenues contributed to this growth. Although UEFA Euro 2016 and the Olympics were aired by public broadcasters, Mediengruppe RTL Deutschland's family of channels recorded a stable collective audience share of 28.4 percent (previous year: 28.4 percent) in the main target group, simultaneously increasing the company's lead over the largest commercial competitor to 3.1 percentage points (previous year: 1.7 percentage points).

In France, Groupe M6 increased its revenues primarily through higher income from TV advertising. The flagship channel M6 improved its average audience share to 16.0 percent (previous year: 15.4 percent), boosted among other things by the broadcast of 11 European Soccer Championship matches. RTL Nederland generated higher revenues, largely thanks to increased distribution revenues; operating EBITDA was down due to lower TV advertising revenues and higher costs.

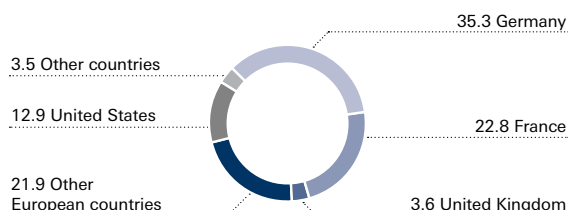
Fremantle Media recorded a slight revenue decline due to negative currency effects, but increased its operating result thanks to higher earnings contributions from Asia and Fremantle Media International. The game show "Family Feud" was a big hit with audiences in the United States.

In 2016, RTL Group continued to invest in its three strategic pillars of broadcasting, content and digital. RTLplus became the most successful channel launch in recent years. In December 2016, the channel already had a market share of 0.9 percent in the target group of viewers aged 14 to 59. Fremantle Media acquired a majority holding in the production company Abot Hameiri and also bought stakes in Eureka Productions, Dr Pluto, Wild Blue Media and Dancing Ledge. The UFA fiction series "Deutschland 83" continued its international success with audiences and critics, as did the Wildside

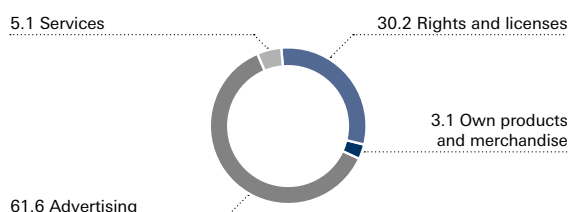
production "The Young Pope," which became the most popular premiere for a new series on Sky in Italy and launched on Canal+ as its number-one new international drama of 2016 in France.

Thanks to strong organic and acquisitive growth, the digital businesses for the first time contributed more than 10 percent to RTL Group's total revenues, having grown their revenues by 32 percent to €670 million. This was primarily due to BroadbandTV, StyleHaul and SpotX – the businesses bundled in the RTL Digital Hub – all of which saw dynamic growth. Mediengruppe RTL Deutschland strengthened its position in the digital advertising sector by acquiring a majority stake in the online video marketer Smartclip.

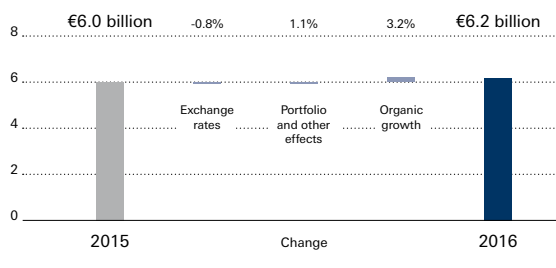
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Penguin Random House

Penguin Random House delivered a strong bestseller performance in 2016, led by the multimillion-selling Paula Hawkins's thriller "The Girl on the Train" and the Jojo Moyes novels "Me Before You" and "After You." The group's business performance was impacted by the expected decline in e-book sales in the United States and the United Kingdom due mostly to new retail sales terms.

Including Verlagsgruppe Random House, the German publishing group wholly owned by Bertelsmann, Penguin Random House achieved a turnover of €3.4 billion in 2016 (previous year: €3.7 billion), reflecting a year-on-year decline of 9.6 percent. The revenue decline was mainly due to negative currency effects and portfolio changes, as well as lower sales of print and e-books. It was partly offset by fewer returns and positive developments in the audio formats. The book group's operating EBITDA fell by 3.9 percent to €537 million (previous year: €557 million); higher savings from the integration process and lower other costs had a positive effect on earnings. The EBITDA margin was increased again to 16.0 percent (previous year: 15.0 percent).

In the United States, Penguin Random House publishers had 585 print and e-book titles in the "New York Times" bestseller lists last year, including 101 at number one. In addition to the novels by Hawkins and Moyes, the year's biggest sellers across print, audio and digital formats included John Grisham's "The Whistler," Colson Whitehead's "The Underground Railroad" and Paul Kalanithi's "When Breath Becomes Air." Multititle Dr. Seuss classics sold more than 11 million copies.

In the United Kingdom, Penguin Random House published 40 percent of all top 10 titles on the "Sunday Times" weekly bestseller lists. Top sellers included Lee Child's "Night School," the classic children's books "The BFG" and "Matilda" by Roald Dahl, Jeff Kinney's "Wimpy Kid" series and Jamie Oliver's cookbooks, as well as the Hawkins and Moyes titles.

Penguin Random House Grupo Editorial benefited from rising e-book sales, a strong new-title list, and net savings from its merger integration. In Spain, the Group grew its market share; in Latin America, the business outperformed the market in a challenging macro-economic environment.

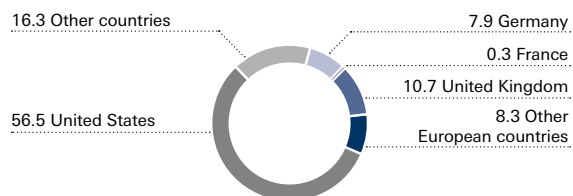
In Germany, Verlagsgruppe Random House maintained its market-leading position. The publishing group had 379 titles on the "Spiegel" bestseller lists, including 17 at number one. Its bestselling authors included Jonas Jonasson, Charlotte Link and Juli Zeh.

Numerous Penguin Random House authors won internationally renowned awards last year, including Pulitzer Prizes for

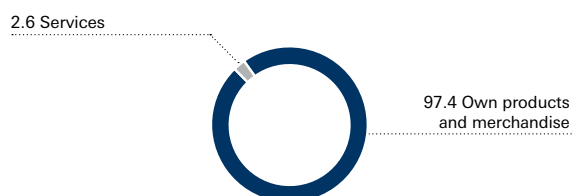
Fiction, History, and Autobiography and the National Book Award for Fiction.

Bertelsmann owns 53 percent of shares in Penguin Random House; Pearson 47 percent.

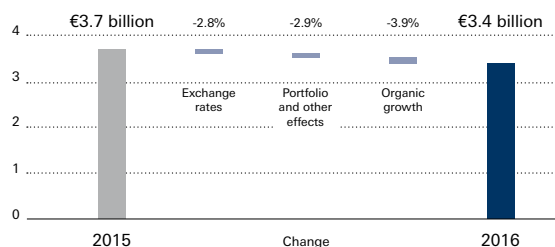
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

Despite expenditure on the transformation to digital, Gruner + Jahr achieved an earnings turnaround by improving its operating profit year on year. Revenues dipped 1.9 percent to €1.6 billion (previous year: €1.6 billion), impacted both by the general trend in the print advertising and sales market and by changes to the portfolio, including in Austria and Spain. However, the growth in digital revenues nearly compensated for these organic and portfolio-driven effects. Overall, the digital share of total revenues in the core markets of Germany and France increased strongly. Operating EBITDA improved by 4.6 percent to €137 million (previous year: €131 million), driven mainly by the businesses in Germany. Against this backdrop, the EBITDA margin rose to 8.7 percent (previous year: 8.1 percent).

Thanks to further investments, G+J improved its revenues as well as its results in Germany. Print advertising sales were nearly stable, while sales revenues rose slightly. G+J Germany's digital revenues saw strong growth. This dynamic development was fueled by significantly higher ad sales for the brand websites, as well as the performance marketer Ligatus. Beyond this, there were in-house developments – such as the AppLike marketing platform – as well as purchases, including Ligatus's acquisition of the tech company LiquidM. The three largest G+J websites – “Stern,” “Gala” and “Brigitte” – each achieved record reach. G+J Germany also launched the multichannel video network Club of Cooks and expanded its e-commerce activities with the “Schöner Wohnen” shop.

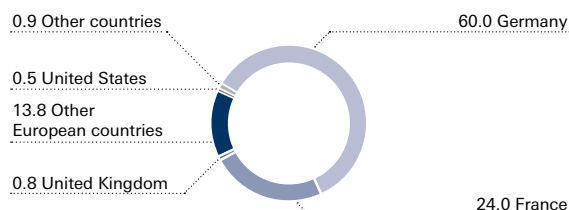
New titles launched during the last two years – including “Barbara” and “Stern Crime” – and the Deutsche Medien-Manufaktur offerings also contributed to the revenue growth. The subsidiary co-founded with the Landwirtschaftsverlag publishing company began its work and successfully launched two new magazines: “Essen & Trinken mit Thermomix” and “Wolf.”

During the reporting period, G+J formed Germany's largest content communication service provider: Territory. Through investments into ventures such as the Webguerillas digital agency, Territory contributed to G+J Germany's revenue growth, as did Deutscher Pressevertrieb, which consolidated its market position by acquiring Axel Springer Vertriebservice. The DDV Media Group also grew its revenues and results as it expanded its new businesses.

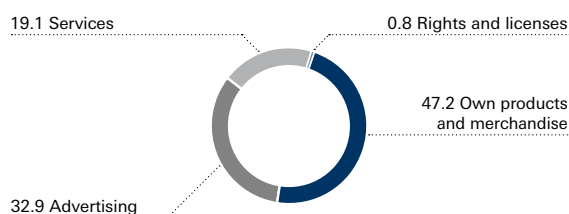
G+J EMS teamed up with the RTL subsidiary IP Deutschland to form the Ad Alliance. Under this umbrella, the marketing agents will develop cross-genre concepts, meaning that the two Bertelsmann subsidiaries now reach 99% of the German population in high-end journalistic environments with their portfolios.

In France, Prisma Media's revenues and earnings remained largely stable. Declines in the print division were nearly entirely offset by the digital business, which increased its revenues significantly. By acquiring Groupe Cerise, Prisma Media took over an international digital media company with high growth potential, while also securing the market leadership in terms of video reach among the country's publishing companies.

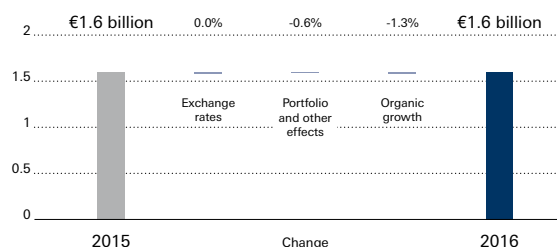
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



BMG

Bertelsmann's music subsidiary BMG saw sustained growth in the publishing and recorded music business and continued its internationalization. Revenues rose by 12.2 percent to €416 million (previous year: €371 million), both organic and acquisitive. This development was driven by the publishing business in the United Kingdom, Australia and continental Europe; a strong recorded music business in continental Europe, the United States and the United Kingdom; and the worldwide increase in revenue from streaming offerings. Operating EBITDA rose by 13.1 percent to €95 million (previous year: €84 million), thanks to the development in the United Kingdom and the United States. The EBITDA margin increased to 22.8 percent (previous year: 22.6 percent).

BMG strengthened its international presence, opening branches in Australia and Brazil. In all, BMG now has operations in countries that account for 75% of the global music market. Only a few months after its market entry in Australia, BMG concluded its takeover of the music operations of Alberts, one of the country's foremost music companies. In China, BMG expanded its collaboration with the Alibaba Music Group to make it easier for international artists to access to the country's digital music platforms.

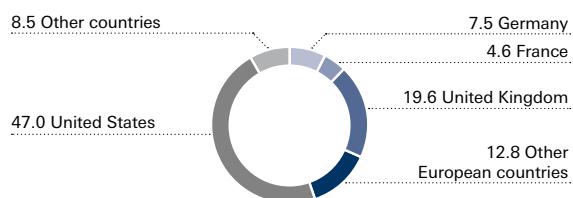
Among the most important clients newly signed to BMG during the fiscal year was Pink Floyd founder and songwriter Roger Waters. BMG now represents Waters's publishing interests in the Pink Floyd catalog, which includes the titles "Money," "Another Brick in the Wall" and "Comfortably Numb." Artists including Pitbull, Jamiroquai and Robin Schulz also chose to have BMG represent their publishing rights going forward. In the recorded music business, BMG signed artists including Blink-182, Nickelback, Rick Astley, A Perfect Circle and Max Giesinger.

Furthermore, BMG strengthened its portfolio through a series of acquisitions and catalog acquisitions. In the United Kingdom, for example, the acquisition of a majority stake in the ARC Music publishing catalog secured the rights to songs by artists including Chuck Berry, the Beach Boys and John Lee Hooker. Here, the company also expanded its business with the acquisition of Blondie's catalog and acquired a publishing catalog from the BBC. BMG also largely completed the consolidation of its worldwide distribution of digital and physical recorded music.

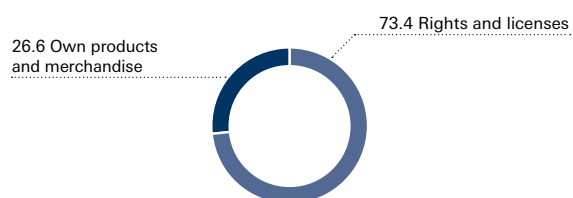
Many BMG contract partners celebrated creative successes in 2016. In publishing, BMG songwriters helped international artists like Beyoncé, Lady Gaga, Rihanna and David Guetta storm the charts. BMG also benefited from the success of its clients, including Frank Ocean, Robbie Williams, DJ Snake, Kings of Leon and Mick Jagger and Keith Richards from the

Rolling Stones. The company's continued expansion of its recorded music business was accompanied by chart-topping releases – BMG went to the top of the UK charts with Rick Astley's album "50" and to number one in both the United States and Britain with the album "California" by Blink-182.

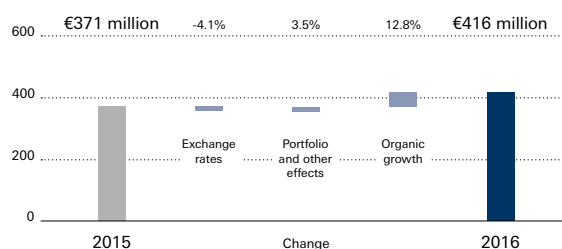
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Arvato

Arvato recorded a very positive business performance in 2016, with nearly all Solution Groups growing their revenues and results. Arvato's revenues rose by 1.4 percent to €3.8 billion (previous year: €3.8 billion). Despite economic challenges in a few markets, operating EBITDA increased by 14.7 percent to €359 million (previous year: €313 million); all Solution Groups contributed to this. The EBITDA margin improved to 9.3 percent, after 8.3 percent in the previous year.

Effective January 1, 2016, the printing and replication businesses that were previously part of Arvato were transferred to the newly created Bertelsmann Printing Group. At the same time, the communications agency Medienfabrik was assigned to Gruner + Jahr. The reorganization served to strengthen the focus on services within the Arvato Solution Groups, which first showed an impact in the 2016 reporting year.

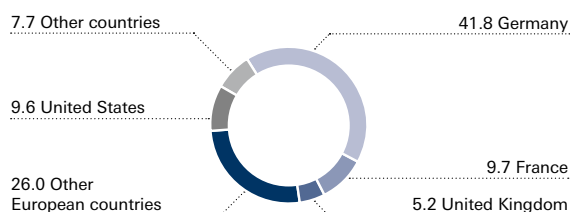
Arvato CRM Solutions significantly increased both its revenues and earnings in the 2016 financial year. This growth was fueled mainly by new customer acquisitions in the core business areas of IT/Internet and Tourism and the further internationalization of the business. A service center that can accommodate around 1,400 employees was opened in Gurgaon, India.

Arvato SCM Solutions massively expanded its European logistics network, reflecting its excellent order situation. Among other things, a new distribution center in Gennep, Netherlands, was put into operation, the cornerstone was laid for the building of a new site in Dorsten and the logistics site at the Gütersloh headquarters was expanded. Beyond this, the Solution Group expanded its services businesses in sectors such as e-commerce, fashion & beauty, and healthcare. Moreover, it significantly strengthened its North American business by taking over deliveries to the United States for a major high-tech client.

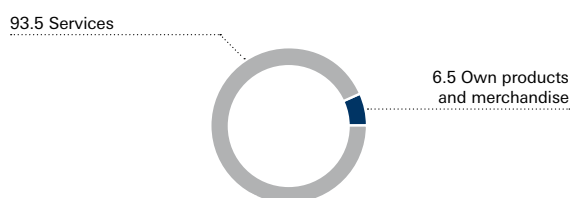
Arvato Financial Solutions, the financial services businesses arm, also reported positive revenues and earnings. This solid business performance was mainly due to the provision of Business Process Outsourcing (BPO) services for international customers, the further rollout of the subsidiary AfterPay in Europe and a steadily growing business in the core market of Germany. To further consolidate its power to innovate, Arvato Financial Solutions opened an IT development and innovation center in Tallinn, Estonia, and set up a robotics lab in Dublin, Ireland.

Arvato Systems generated a consistently high demand for IT services and further accelerated its specialization in the core industries of Commerce, Media and Utilities by optimizing the portfolio while also investing in emerging fields such as cloud infrastructure.

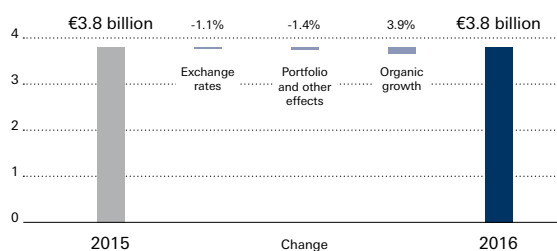
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Printing Group

Since January 1, 2016, all of Bertelsmann's global offset and gravure printing activities, and several other service and production businesses, have been grouped in the Bertelsmann Printing Group (BPG). The newly created division enjoyed a successful year in an overall challenging market and made progress on key integration issues.

In the 2016 financial year, the Group saw revenues fall by 6.9 percent to €1,624 million (previous year: €1,744 million). This is mainly attributable to the sale of the Spanish printing operations in April 2015 and the closure of Sonopress USA in February 2016. Owing to a persistently declining print market and as a result of divestments, operating EBITDA declined by 4.8 percent to €118 million (previous year: €124 million). At 7.3 percent, the Group's EBITDA margin remained near the previous year's level (previous year: 7.1 percent).

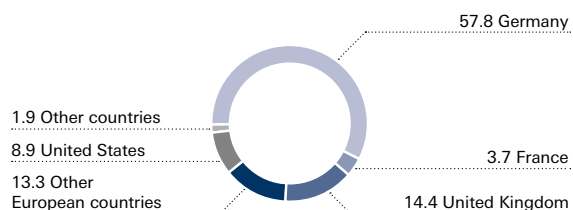
BPG's offset printing business remained virtually stable in financial year 2016, at a good earnings level. Mohn Media renewed important customer contracts in the retail segment during the year. GGP Media, a company that specializes in print solutions for book publishers, maintained its position in a competitive market environment, and Vogel Druck, a BPG subsidiary specializing in magazines and catalogs with small to medium-size print runs, won new reference customers.

The gravure printing activities bundled in the Prinovis Group developed positively overall. Two major new customers were attracted in the United Kingdom. These new orders will contribute to the long-term capacity utilization of the Liverpool site. Despite persistent price pressure, the German Prinovis sites recorded a solid business performance.

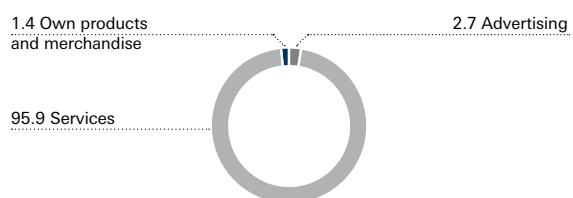
BPG's US printers continued to face an intensely competitive situation in the book-printing business. Declines in pocket book production were offset by the acquisition of a major customer in the publishing sector and by expanding the business to new sectors with innovative print products. The US printers' operating result was above the previous year's level.

Revenues at Sonopress declined as expected due to the closure of the US site in Weaverville, North Carolina. Meanwhile, at the Gütersloh headquarters, the company bucked the overall market trend by increasing its production volumes, revenues and earnings against the general market trend. In the spring, Sonopress became one of the first companies in the world to introduce fully automated production of UHD Blu-ray discs. By the end of 2016, it had produced more than two million copies of the high-resolution storage media.

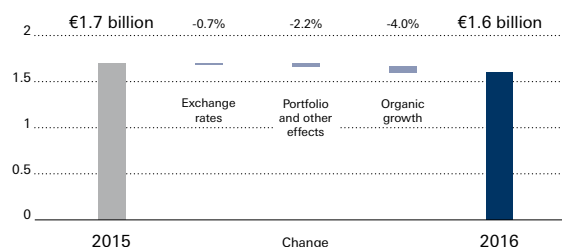
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Education Group

Bertelsmann's education holdings, grouped into the Bertelsmann Education Group, continued their expansion last year. The fully consolidated companies in the Education Group, which has been an independent business division since January 1, 2016, delivered a positive performance, generating a revenue increase of 28.9 percent to €142 million (previous year: €110 million). Operating EBITDA fell to €-17 million (previous year: €-5 million), mainly due to scheduled start-up losses for the further business expansion of the Group's holdings in the online education services provider HotChalk and the online learning provider Udacity, both acquired in late 2015.

The e-learning provider Relias Learning, currently Bertelsmann's most profitable education business, recorded significant growth, both organically and through acquisitions. The Bertelsmann subsidiary expanded its customer base from around 4,500 to more than 5,500 institutions, advanced various innovations to improve its products and expanded its business activities to new markets, including the United Kingdom, Germany and China. In addition, Relias made six acquisitions during the reporting period, among other things entering the market for acute care training by fully acquiring the US training companies Swank HealthCare and AHC Media.

Udacity expanded the internationalization of its business and is now active in Brazil, India and Germany. The company introduced five new "nanodegrees" during the reporting period, including its program for Self-Driving Car Engineers.

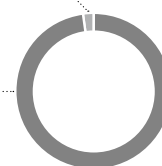
HotChalk continued its partnerships with universities in the United States, supporting them in offering their courses to the digital world. Several thousand students at seven universities are currently enrolled in programs supported by HotChalk.

Alliant International University, which specializes in psychology, recorded rising revenues in the 2016 financial year. The university continued its transformation and began building a range of digital courses.

Revenues by Region in percent (without intercompany revenues)

2.1 Other countries

97.9 United States

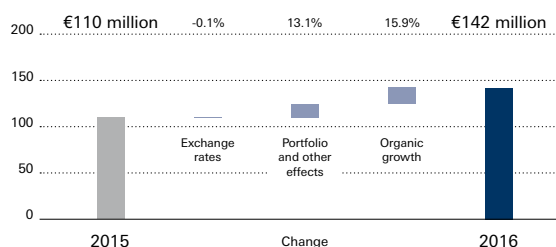


Revenues by Category in percent

100.0 Services



Revenue Breakdown



Bertelsmann Investments

The Group's four strategic investment funds, forming the division Bertelsmann Investments since January 1, 2016, further expanded their shareholdings in international start-ups during the year. Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI) made a total of 43 new investments, so that Bertelsmann held shares in 138 companies through the funds at the end of the year.

Across all countries, the focus was on investments in start-ups with innovative business models, for example, in the Fintech sector. All funds contributed to identifying digital trends that are important for the Group, supporting the portfolio companies with the further development of innovative business models and further strengthening Bertelsmann's position as an attractive partner. Since 2012, the four investment funds have collectively invested more than €500 million in international start-ups.

The business performance of Bertelsmann Investments is largely measured by EBIT, which increased to €35 million (previous year: €-14 million) in 2016. Capital gains from divestments – above all at BAI – made a positive contribution to Group profit.

In China, BAI made 27 new investments during the reporting period and several follow-up investments in existing portfolio

companies. Many of BAI's portfolio companies provide online services to the country's growing middle class, including the fitness app Keep, the dating platform Tantan, the bike-sharing app Mobike and the Fintech company Yixin Capital. For the first time since the fund was established, the 2016 exit proceeds exceeded the investments during the year.

In India, Bertelsmann also further expanded its activities. BII invested in the fashion network Roposo, the Fintech company Lendingkart and Treebo, a technology-enabled branded budget hotel chain. In addition, BII participated in follow-up investments for existing portfolio companies such as the university services provider iNurture and Pepperfry, an online marketplace for furniture.

In Brazil, BBI further pursued the Group's entry into the education business with a focus on healthcare. Together with its strategic partner Bozano Investimentos, the fund purchased stakes in NRE Education Group, a network of medical universities, and in Medcel, a provider of online preparatory courses for aspiring residents.

In the financial year 2016, BDMI invested, among other things, in the online video network FloSports. The fund focused on the virtual reality sector, where it invested in US companies such as 8i and Visionary VR, and German start-up Splash.

General Statement by Company Management on the Economic Situation

In 2016, Bertelsmann posted a positive operating performance. The Group achieved organic revenue growth, record operating earnings despite start-up losses for digital and new businesses, and once again a high Group profit. In addition, Bertelsmann made further progress in line with all of the strategic priorities. Consequently, Bertelsmann is increasingly becoming a faster-growing, more digital, more international and more diversified Group.

In the reporting period, Group revenues of €17.0 billion were 1.1 percent below the previous year's figure of €17.1 billion and thus fell short of expectations (outlook in 2015 Annual Report: slight increase in revenues). The revenue decline is due to exchange rate and portfolio effects. By contrast, organic growth was 0.9 percent. Operating EBITDA of €2,568 million (previous year: €2,485 million) recorded a positive deviation from outlook, which despite planned start-up losses for new and digital businesses was moderately above the previous year (outlook in 2015 Annual Report: stable operating EBITDA). At €147 million, the BVA used for Group management was considerably below the previous year's figure of €155 million (outlook in 2015 Annual Report: strongly declining BVA). The expected development reflects the increase in the average level of capital invested, which is primarily due to acquisitions; the deviation from outlook reflects the better operating earnings performance in the reporting period.

Bertelsmann's four strategic priorities – strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions – continued to be the focus of Group development in the financial year 2016. As well as the formation of the Ad Alliance as a cooperation in advertising marketing between Mediengruppe RTL Deutschland and Gruner + Jahr and the foundation of Deutsche Medien-Manufaktur by Gruner + Jahr in conjunction with Landwirtschaftsverlag, the recently implemented management structure at Bertelsmann Printing Group and the Group-wide earnings improvement program helped to strengthen the core businesses. As part of the digital transformation, RTL Group, among other things, took over the online video marketer Smartclip, Gruner + Jahr took over the digital video provider Groupe Cerise and Arvato generated growth through services for companies in the IT/high-tech sector and with e-commerce services. The growth platforms were further strengthened through organic and acquisitive expansion,

particularly in the music and education segments. As part of expanding the presence in the growth regions, Bertelsmann Investments made other new and follow-up investments and made a positive contribution to Group profit through gains from disposals of investments.

The net assets and financial position remained solid over the last financial year. The maturity profile of the capital market financings was further optimized through the issues made in the financial year 2016. As of December 31, 2016, the cash and cash equivalents reported at €1.4 billion (previous year: €1.3 billion) represent sufficient liquidity. The ratings agencies Moody's and S&P continued to rate Bertelsmann as "Baa1" and "BBB+," respectively, with a stable outlook. Overall, Bertelsmann ended the financial year 2016 with a successful performance and has a solid financial basis.

Alternative Performance Measures

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

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

Organic Revenue Growth

in percent	2016	2015
Organic revenue growth	0.9	0.4
Exchange rate effects	(1.3)	4.2
Portfolio and other effects	(0.7)	(1.8)
Reported revenue growth	(1.1)	2.8

Operating EBITDA

in € millions	2016	2015
EBIT (earnings before interest and taxes)	1,799	1,681
Amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment	632	616
Adjustments on amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment included in special items	(2)	(3)
Special items	139	191
attributable to: RTL Group	(7)	(13)
attributable to: Penguin Random House	38	66
attributable to: Gruner + Jahr	30	54
attributable to: BMG	8	18
attributable to: Arvato	51	56
attributable to: Bertelsmann Printing Group	7	13
attributable to: Bertelsmann Education Group	17	(44)
attributable to: Bertelsmann Investments	(35)	15
attributable to: Corporate	30	26
Operating EBITDA	2,568	2,485

Operating EBITDA

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

BVA

BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value

orientation is reflected in strategic investment, portfolio planning and the management of Group operations and, together with qualitative criteria, provides the basis for measuring the variable portion at the Group level. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. NOPAT, which is used to calculate BVA, is determined by deducting depreciation and amortization, provided that they are not included in special items, and a flat 33 percent tax. Cost of capital is the product of the weighted average cost of capital (WACC) and the average level of capital invested. The uniform WACC after taxes is 8 percent. The average invested capital is calculated quarterly on the basis of the Group's operating assets less non-interest-bearing operating liabilities. In addition, 66 percent of the net present value of operating leases is taken into account when calculating the invested capital.

BVA

in € millions	2016	2015
Operating EBITDA	2,568	2,485
Amortization, depreciation, impairment and reversals of intangible assets and property, plant and equipment not included in special items	(630)	(613)
Operating EBIT	1,938	1,872
Flat taxes (33 percent)	(640)	(618)
NOPAT (net operating profit after tax)	1,298	1,254
Average invested capital	14,383	13,746
Cost of capital (8 percent)	1,151	1,099
BVA	147	155

Cash Conversion Rate

in € millions	2016	2015
Cash flow from operating activities	1,954	1,600
Income taxes paid	234	286
Change in provisions for pensions and similar obligations	55	45
Investments in intangible assets and property, plant and equipment (less proceeds from the sale of non-current assets)	(610)	(588)
Further adjustments	166	216
Operating free cash flow	1,799	1,559
Operating EBITDA	2,568	2,485
Amortization, depreciation, impairment and reversals of intangible assets and property, plant and equipment not included in special items	630	613
Operating EBIT	1,938	1,872
Cash conversion rate (in percent)	93	83
Operating free cash flow / operating EBIT		

Cash Conversion Rate

The cash conversion rate serves as a measure of cash generated from business activities and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets and property, plant and equipment or, if applicable, increased by proceeds from the sale of non-current assets. Further adjustments are made in order to ensure an allocation of capital flows to the relevant periods and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with the operating EBITDA. Further adjustments in the financial year 2016 mainly reflected the impact of restructuring measures on payments.

The operating EBITDA is used to calculate the operating EBIT by deducting amortization and depreciation, provided that these are not included in special items. The Group aims to maintain a cash conversion rate of 90 to 100 percent as a long-term average.

Economic Debt

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

Economic Debt

in € millions	2016	2015
Gross financial debt	3,998	4,075
Less cash and cash equivalents	(1,373)	(1,310)
Net financial debt	2,625	2,765
Less 50 percent nominal capital hybrid bonds	(625)	(625)
Provisions for pensions	1,999	1,709
Profit participation capital	413	413
Net present value of operating leases	1,501	1,347
Economic debt	5,913	5,609

Leverage Factor

in € millions	2016	2015
Economic debt	5,913	5,609
Modifications	199	195
Economic debt ^{LF}	6,112	5,804
Operating EBITDA	2,568	2,485
Modifications	(101)	(75)
Operating EBITDA ^{LF}	2,467	2,410
Leverage factor: Economic debt^{LF}/ operating EBITDA^{LF}	2.5	2.4

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

Significant Events After the Balance Sheet Date

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

British education company Pearson, which holds an interest of 47 percent in Penguin Random House, informed Bertelsmann on February 1, 2017, of its intent to sell its shareholding and submitted an exit notice as required by contract. As of this date, the structured process begins during which Bertelsmann and Pearson will initially work together to determine the market value of Penguin Random House. Bertelsmann then has the option to accept, refuse or not to respond to the exit notice.

Risks and Opportunities

Risk Management System

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

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

meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

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

Accounting-Related Risk Management System and Internal Control System

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

The ICS for the accounting process consists of the following areas. The Group's internal rules for accounting and the preparation of financial statements (e.g., IFRS manual, guidelines and circulars) are made available without delay to all employees involved in the accounting process. The Group financial statements are prepared in a reporting system that is uniform throughout the Group. Extensive automatic system controls ensure the consistency of the data in the financial statements. The system is subject to ongoing development through a documented change process. Systematized processes for coordinating intercompany transactions serve to prepare the corresponding consolidation steps. Circumstances that could lead to significant misinformation in the Consolidated Financial Statements are monitored centrally by employees of Bertelsmann SE & Co. KGaA and by RTL Group

(for the preconsolidated subgroup) and then verified by external experts as required. Central contact persons from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with local subsidiaries to ensure IFRS-compliant accounting as well as compliance with reporting deadlines and obligations.

These preventive measures are supplemented by specific controls in the form of analyses by the Corporate Financial Reporting department of Bertelsmann SE & Co. KGaA and RTL Group (for the preconsolidated subgroup). The purpose of such analyses is to identify any remaining inconsistencies. The controlling departments at the Group and division levels are also integrated into the internal management reporting. Internal and external reporting are reconciled during the quarterly segment reconciliation process. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The findings of the external auditors, Corporate Audit and the internal auditing department of RTL Group are promptly discussed with the affected companies and solutions are developed. An annual self-assessment is conducted to establish reporting on the quality of the ICS in the key Group companies. The findings are discussed at the divisional level. Like the RMS, each ICS cannot guarantee with absolute certainty that significant misinformation in the accounting process can be prevented or identified.

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

Major Risks to the Group

Bertelsmann is exposed to a variety of risks. The major risks to Bertelsmann identified in the risk reporting are listed in order of priority in the table below. In line with the level of possible financial loss, the risks are classified as low, moderate, significant, considerable or endangering, for the purposes of risk tolerability. The risk inventory carried out did not identify any risks that would be classified as considerable or endangering.

Overview of Major Risks to the Group

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

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

■ Existing risks

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

Strategic and Operational Risks

In 2016, the global economy developed in line with the previous year's modest level of growth. In 2017, the global economic momentum is expected to accelerate slightly. In view of the ongoing uncertainty in the markets, Bertelsmann's business development is still subject to risks. Assuming a continuing normalization of the overall economic situation, Bertelsmann expects positive development of Group revenues for 2017. In the short to medium term, in addition to customer risks, other significant Group risks include pricing and discounting risks, risks from changes in the market environment, loss of audience and market share, supplier relationship risks and risks associated with economic development. How these risks develop depends, among other things, to a large extent on changes in customer behavior due to factors such as the continued digitization of media, the development and implementation of products and services by new or existing competitors, bad debt losses and default and interference along the production chains in individual sectors, such as IT. Employee-related risks and legal and regulatory risks are

moderate risks for Bertelsmann, while financial market risks and risks from future technological challenges in the three-year period under review are classified as low.

The ongoing digitization is resulting in an increasing fragmentation of RTL Group's markets as audiences will have more choice (for example, through online platforms) and, at the same time, the market-entry barriers are being lowered. The possible risks of this for RTL Group are decreasing audience and advertising market shares of its advertising-financed channels and therefore, ultimately, lower revenues. In order to counter these risks, RTL Group is continuously revising and developing the channels and program strategies – for example, by establishing complementary families of channels and constantly adapting these to international program trends. RTL Group is addressing the risks associated with digitization and is actively helping to shape this trend through a range of investments in the fast-growing online video advertising market. Increasing competition in the area of program acquisition and TV production and the growing dependence on individual production companies, coupled with the risk of potential cost increases, could also impact RTL Group's ability to generate revenues. This risk is being reduced by expanding the program share of own productions and signing long-term contracts with major content providers. Furthermore, economic development directly impacts the TV advertising markets and therefore RTL Group's revenue. This risk is being countered by focusing on developing non-advertising revenue streams, for example, distribution revenues from platform operators. To reduce the risk of customer losses, active customer relationship management is established.

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

For Gruner + Jahr, besides the risk of a deterioration of the overall market environment and the resulting declines in advertising and circulation revenues, supplier risks represent significant challenges. A changing market environment with price pressure and declining revenues as a result of further concentration in the agency market and more aggressive advertising conditions may lead to falling margins. Furthermore, there is the risk of losing key customers as advertising customers could switch to other media, notably digital media. The risks are being countered by active cost and customer management, the development of new, in particular digital, forms of offerings and product, price and quality improvements. Through association work, the Group is responding to the advertising restrictions discussed at the EU level (e.g., car advertising), which could lead to declining advertising revenues.

Risks that affect BMG primarily concern the business structure (including customer and supplier relations), corporate growth (including acquisitions and integrations) and the profitable scalability of the company (including technical platform and organization). Market risks are addressed through high revenue diversification (clients/catalogs, segments, regions) and contractual protection clauses (hedging the recouping of advances).

Arvato sees itself as particularly exposed to risks from customer and supplier relationships and from a changing market environment. The potential loss of key customers is being countered through contracts offering comprehensive service packages with simultaneously flexible cost structures. On the supplier side, a key risk is the quality of goods and services purchased.

The same applies to procurement and wage costs where these cannot be passed on to customers. Countermeasures include entering into long-term framework agreements, an active exchange with existing suppliers and monitoring the supplier market. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By developing the range of services, the aim is to improve the competitive position and to increase customer loyalty through integrated solutions. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. Broad diversification across customers, sectors and regions helps to reduce this risk. Digitization entails further risks for individual customer segments of Arvato, particularly in physical product distribution. These risks are being addressed, for example, by developing digital services. Furthermore, business segments that offer no strategic or economic prospects are being deliberately scaled back.

For Bertelsmann Printing Group, customer risks are the most significant risks. The aim is to minimize the risks through key account management, entering into more flexible customer contracts and by taking out credit insurance and utilizing active debtor management. Furthermore, deterioration in the economic environment also may lead to declining circulations with a negative impact on earnings. In addition, price and margin pressures result from a market environment that is characterized by overcapacity and existing trends toward consolidation. There are further risks on the supplier side associated with rising raw material prices – particularly for paper – that cannot be passed on to customers and with the quality of the raw materials purchased. Similarly, the increasing use of digital media is accelerating the decline in circulation. These risk minimization strategies are based, in particular, on constantly optimizing cost structures and making them more flexible, as well as using price adjustment clauses, developing new products and monitoring markets on an ongoing basis.

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

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

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

Acquisition-Related Risks

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

Information Security Risks

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

Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is exposed to a variety of legal and regulatory risks, for example, concerning

litigation or varying interpretations of tax assessment criteria. Bertelsmann has television and radio operations in several European countries that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to antitrust legislation. Moreover, the education activities are subject to regulatory provisions of government authorities and accreditation bodies. These risks are being continuously monitored by the relevant divisions within the Group.

In November 2008, RTL II filed legal actions against IP Deutschland, a wholly owned subsidiary of RTL Group, and Seven One Media (SOM) as a result of the 2007 proceedings of the German Federal Cartel Office against the discount scheme agreements ("share deals") offered by IP Deutschland and SOM. RTL II's claim is currently limited to access to information, on the basis of which the claimants want to prove that they suffered damages from these discount schemes. The court of first instance in Düsseldorf decided to order an expert report. Similar proceedings of other smaller broadcasters initiated in different courts were unsuccessful or have been withdrawn.

In June 2016, the main competitors of Fun Radio alleged that a host of the morning show had influenced Fun Radio's audience ratings by encouraging his listeners to give favorable treatment to Fun Radio in the Médiamétrie surveys. In response to these allegations, Médiamétrie called a special committee, which ultimately decided to remove Fun Radio from Médiamétrie's survey to be published in July 2016. Following a legal procedure initiated by Fun Radio, Médiamétrie was required to reinstate Fun Radio in the ratings surveys as from September 2016 but, since then, decided to lower Fun Radio's audience results, arguing a possible "halo effect." Thereafter, Fun Radio initiated a procedure to challenge the scientific reliability of the Médiamétrie calculation. In December 2016, the main competitors of Fun Radio also filed a claim for damages claiming unfair competition.

Foreign investments in the People's Republic of China are highly regulated. In view of this, in order to secure Bertelsmann's rights, it is standard market practice to invest through so-called VIE structures. However, there is the risk that it will not be possible to safeguard such structures through Chinese courts particularly if the People's Republic changes its policies toward foreign investments or if courts

and authorities change their case law or administrative practice. A draft of a revised "PRC Foreign Investment Law" is being discussed politically. It is not yet clear to what extent Chinese investment policy will change as a result of this. The draft stipulates a wide-reaching ban on trust structures in regulated markets. However, there is also no provision whatsoever for dealing with existing trust structures. In an extreme case, it is conceivable that the total investment could be lost. In the past, however, such measures have only been reported in exceptional cases. By contrast, observers are anticipating solutions that will only have a minor impact on the Chinese economy. These developments would affect BMG, Arvato, Gruner + Jahr and Bertelsmann Asia Investments (BAI).

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

Financial Market Risks

As an international corporation, Bertelsmann is exposed to various forms of financial market risk, especially interest rate and currency risks. These risks are largely controlled by the Central Financial Department on the basis of guidelines established by the Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann uses currency derivatives mainly to hedge recorded and future transactions involving foreign currency risk. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount increasing over time. A number of subsidiaries are based outside the eurozone. The resulting translation risk is managed based on economic debt in relation to operating EBITDA (leverage factor). Bertelsmann's long-term focus is on the maximum leverage factor permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. The cash flow risk from interest rate changes is centrally monitored and controlled as part of interest rate management. The aim is to achieve a balanced ratio of different fixed interest rates through the selection of appropriate maturity periods for the originated financial assets and liabilities affecting liquidity and through the ongoing use of interest rate derivatives. Liquidity risk is monitored on an ongoing basis with reference to the budget for current and future years. The syndicated loan and appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in an amount equivalent to the invested cash and cash equivalents and in the default of a counterparty in

derivatives transactions. Financial transactions and financial instruments are restricted to a rigidly defined group of banks with a high credit rating (Investment Grade). Within the guidelines, a risk limit specified by the Bertelsmann Executive Board has been issued for financial assets and derivatives for each counterparty. Compliance with this limit is regularly monitored by the Central Financial Department. The guidelines concerning the investment of cash and cash equivalents are continuously monitored and extended if necessary. The financial investments are generally made on a short-term basis so that the investment volume can be reduced if the credit rating changes. Overall, the financial market risks are estimated as low.

General Statement on the Risk Situation

The risks identified in the financial year 2016 are not endangering. Neither are there any substantial risks discernible that could threaten the existence of the Group.

The overall risk position has slightly reduced compared to December 31, 2015. The major risks to the Group have not changed compared to the previous year. In particular, pricing and discounting risks, customer and supplier relationship risks, a changing market environment and volatile economic development still constitute the key Group challenges. However, as a result of the diversification of Group businesses, there are no concentration risks stemming from dependency on individual business partners or products in either procurement or sales. The Group's financial position is solid, with liquidity needs covered by existing liquidity and available credit facilities.

Opportunity Management System

An efficient opportunity management system enables Bertelsmann to secure its corporate success in the long term and to exploit potential in an optimum way. Opportunities are possible future developments or events that could result in a positive deviation from outlook or objective for Bertelsmann. The opportunity management system, like the RMS, is an integral component of the business processes and company decisions. During the strategy and planning process, significant opportunities are determined each year from the profit center level upward, and then aggregated step by step at the division and Group levels. By systematically recording them on several reporting levels, opportunities that arise can be identified and exploited at an early stage. This also creates an

interdivisional overview of Bertelsmann's current opportunities. A review of major changes in opportunities is conducted at the divisional level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group in order to derive synergies through targeted cooperation in the individual divisions. The interdivisional experience transfer is reinforced by regular meetings of the GMC.

Opportunities

While the above-mentioned opportunities associated with positive development may be accompanied by corresponding risks, certain risks are entered into in order to be able to exploit potential opportunities. This link to the key Group risks offers strategic, operational, legal, regulatory and financial opportunities for Bertelsmann.

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

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

The combination of Penguin and Random House has enhanced the publishing opportunities for Penguin Random House. With market share gains, the publishing group could further increase its leading market position, attract new authors and publish the industry's most successful debut publications. Especially in emerging and multilingual markets, the publishing group could take advantage of the fast-growing demand and offer its products to the widest possible readership. Further acquisitions could also offer significant opportunities for growth. In this context, Penguin Random House could also generate greater synergies through the integration of the acquired businesses. The increasing digitization of the book markets offers opportunities for new product development and more efficient marketing channels. The development of new products and enhancements to existing offerings could make books more appealing to a wider audience and offer new experiences to readers. Moreover, building networks and tools could help authors to connect better with their readers.

For Gruner + Jahr, a better development of the advertising and sales markets represents significant opportunities. The transformation from magazine publisher to content house is providing further opportunities. The organizational structure of G+J Germany integrates the printing and digital businesses, thus allowing it to implement product innovations faster and more efficiently. Besides the expansion and development of existing media brands, there are opportunities for growth, particularly in the development and expansion of digital activities and in cooperation with other publishers and marketers. There are also opportunities for developing additional services, such as commerce and paid services. In terms of marketing, G+J could gain new customers through new forms of advertising in the online, mobile and video media channels. Developing new special advertising formats and implementing integrated campaigns could also help to attract potential new customers.

Further takeovers of music rights catalogs and additional signings of contracts with artists, which could be managed on the existing platform at marginal cost, offer growth opportunities for BMG. The accelerated market penetration of streaming offerings also offers the opportunity for expansion of the recorded music and music publishing markets at an international level.

At Arvato, interdivisional cooperation can provide additional opportunities for acquiring new customers, particularly key international customers. The global e-commerce market will continue its dynamic growth over the next few years as a result

of ongoing digitization. Arvato could benefit significantly from this growth, primarily through new services offered by the Solution Groups SCM and Financial Solutions. Further growth opportunities from the digital transformation lie in providing support to customers with CRM solutions via multiple digital channels and in developing and providing cloud-based IT services.

The Bertelsmann Printing Group businesses may decline less steeply through additional volumes of existing and new customers. This would provide opportunities from the targeted servicing of market segments that are still growing. Moreover, the prospect of further consolidation of the printing market could effectively strengthen Bertelsmann Printing Group's market position.

The education business is being developed as Bertelsmann's third earnings pillar, alongside the media and service businesses. Rapidly growing markets in online education, focusing on the healthcare and technology segments, offers further growth opportunities. The education business could benefit from a faster shift away from the traditional classroom-based delivery methods toward online and skill-based trainings, in addition to a general increase in the demand for training in the healthcare and technology segments. Businesses of Bertelsmann Education Group also have organic growth opportunities. Relias Learning has the potential to grow through further penetration in its core verticals, the development of employee assessments and data analytics products, and the expansion into global healthcare markets. Udacity benefits from the rapid obsolescence of content in the technology sector, which creates a steady demand for further education from the labor market. This, along with the shortage of qualified IT staff with the right skills, gives Udacity the opportunity to develop into a premium brand in the IT/technology training sector. Finally, HotChalk offers a range of services that are targeted at the growing number of universities that are increasingly offering university programs online and are looking to outsource selected services.

For the Bertelsmann Investments fund activities, there is the opportunity to realize higher-than-expected profits, thanks to increasing portfolio valuations or exit options.

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

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

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

Outlook

Anticipated Overall Economic Development

Bertelsmann anticipates that economic conditions will develop as follows in 2017. Overall, the global economy will expand slightly faster. The Kiel Institute for the World Economy (IfW) estimates that global production will increase by 3.5 percent in 2017, compared to 3.1 percent in 2016. The outlook for economic development on a global level continues to be overshadowed by a number of factors, including the adverse effects of low raw materials prices for raw material-exporting countries, the gradual realignment of the Chinese economy and a wide range of political uncertainties. By contrast, the continuing accommodative monetary policy overall will help to stimulate the economy.

In the eurozone, the economic recovery is set to continue even if downward risks remain. The IfW estimates real economic growth of 1.7 percent in 2017. The IfW also expects GDP for Germany to grow by 1.7 percent in real terms. It expects the growth rate in France to be 1.2 percent in real terms. For the United Kingdom, GDP is expected to rise at a lower pace by 1.2 percent in real terms in 2017. For the United States, real economic growth of 2.5 percent is expected, thanks to the continuing economic momentum.

Anticipated Development in Relevant Markets

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

aggregated and evaluated or that are strategically important from a Group perspective.

For 2017, with the exception of continued significant growth in Spain and a slightly declining development in the Netherlands and Hungary, the European TV advertising markets are expected to remain stable or to show slight growth. In the book markets, an overall stable development is expected. In the magazine business, the print advertising and circulation markets in Germany and France are expected to decline further in 2017, while continued growth is expected in the digital segment. For 2017, continuing moderate growth of the global music market is expected in the publishing and recording rights segments. In 2017, the services markets are expected to achieve growth similar to the previous year. The relevant European print markets and the North American book printing market are likely to show continued decline in 2017. For the US education markets, continuing strong growth is expected in the relevant segments overall.

Expected Business Development

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

For the financial year 2017, Bertelsmann anticipates that business development will be driven by the slightly positive market expectations for the European TV advertising markets, by stable book markets and by continuously growing service markets. The growth stimuli created through strategic portfolio expansions will continue to have a positive impact on Bertelsmann's growth profile.

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the basis of the expected business development. With revenue and earnings share within the eurozone expected at around two-thirds, the extent of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore assumes that GDP in the eurozone will increase by 3.2 percent in nominal terms and by 1.7 percent in real terms for 2017. The OECD predicts that GDP in the eurozone will increase by 2.8 percent in nominal terms and by 1.6 percent in real terms for 2017. In

view of these economic expectations, Bertelsmann expects Group revenues to increase slightly in the financial year 2017. Operating EBITDA is expected to show stable development in the financial year 2017. The average level of capital invested will continue to increase in the financial year 2017 as a result of ongoing acquisition activity. As a result of the growth profile of the acquired businesses, compensating effects from earnings contributions are not expected to materialize for some time. Consequently, a strong fall in BVA is expected for the Group.

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

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

These forecasts are based on Bertelsmann's business strategy, as outlined in the "Company Profile" section. In general, the forecasts reflect careful consideration of risks and opportunities and are based on operational planning and the medium-term outlook for the corporate divisions. All statements concerning potential economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying assumptions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

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

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

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

Results of Operations of Bertelsmann SE & Co. KGaA

As a result of the definition of revenues amended by the "Accounting Directive Implementation Act" (BilRUG), the format for the income statement and the reporting of particular types of expenses and income (including the previous year's amounts shown) were adapted. Accordingly, the income from services that are atypical for the business (including leasing and rental) will be reported under revenues, and the expenses that are directly attributable to this income will be reported under cost of materials.

The results of operations of Bertelsmann SE & Co. KGaA will continue to be significantly affected by the amount of income from other participations. With an increase in income from other participations, the fall in the net income of €88 million is primarily attributable to the increase in taxes on income of €98 million as a result of a corporate income tax loss carryforward that was fully used up.

The decrease in other operating income by €96 mainly results from a reduction in write-ups on shares in Bertelsmann Inc., Wilmington (2016: €53 million, previous year: €143 million).

The increase in the income from other participations in the reporting period is characterized in particular by the contrasting development of the net income of two key subsidiaries with which profit and loss transfer agreements exist. Income of €118 million was generated from the existing profit and loss transfer agreement with Reinhard Mohn GmbH, Gütersloh, in the financial year 2016. For the previous year, a loss of €146 million had to be assumed as a result of write-downs of investment carrying amount of a subsidiary of Reinhard Mohn GmbH, Gütersloh. The profits contributed by Bertelsmann Capital Holding GmbH, Gütersloh, declined year on year (2016: €691 million, previous year €863 million).

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

The increase in intangible and tangible assets to €359 million (previous year: €322 million) mainly resulted from the acquisition of land and buildings for leasing to subsidiaries. The increase in long-term financial assets of €358 million to €14,714 million primarily concerns the change in the carrying amount of shares in affiliated companies by €678 million in connection with the payment of contributions to subsidiaries. In the financial year 2016, the investment carrying amount of Bertelsmann Capital Holding GmbH, Gütersloh, increased by €422 million due to a payment made by Bertelsmann SE & Co. KGaA in connection with the profit and loss transfer agreement between Bertelsmann Capital Holding GmbH, Gütersloh, and RTL Group Deutschland GmbH, Cologne. The loans to affiliated companies fell by €500 million as a result of an intercompany disposal of a loan granted to

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

in € millions	2016	2015
Revenues	104	89
Other operating income	179	275
Cost of materials	(25)	(21)
Personnel costs	(134)	(159)
Amortization, depreciation and write-downs	(16)	(15)
Other operating expenses	(188)	(211)
Income from other participations	857	815
Interest income	(132)	(112)
Write-downs of long-term financial assets	(59)	(91)
Taxes on income	(130)	(32)
Earnings after taxes	456	538
Other taxes	(6)	-
Net income	450	538
Income brought forward from previous year	402	304
Transfer to retained earnings from net income	(210)	(260)
Unappropriated income	642	582

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

in € millions	12/31/2016	12/31/2015
Assets		
Fixed assets		
Intangible and tangible assets	359	322
Financial assets	14,714	14,356
	15,073	14,678
Current assets		
Receivables and other assets	4,067	3,082
Securities, cash and cash equivalents	326	500
	4,393	3,582
Deferred income	16	12
	19,482	18,272
Shareholders' equity and liabilities		
Shareholders' equity	9,322	9,052
Provisions	484	398
Liabilities	9,673	8,821
Deferred income	3	1
	19,482	18,272

RTL Group Deutschland GmbH, Cologne in the reporting period. The increase in receivables and other assets includes €1,031 million of receivables from affiliated companies. The increase primarily concerns the receivable from Reinhard Mohn GmbH, Gütersloh, in connection with the transfer of an intercompany financing function to a subsidiary of this company.

The equity of Bertelsmann SE & Co. KGaA increased to €9,322 million as a result of the net income of the reporting year by €450 million, less distributions to shareholders by €180 million. The increase in provisions to €484 million is mainly attributable to increased provisions for taxes. Of the liabilities, liabilities to affiliated companies account for €5,439 million, which increased by €923 million during the reporting period. The amount of the loan granted to subsidiaries of Bertelsmann SE & Co. KGaA is affected by the development of the business and financial position of these subsidiaries.

Risks and Opportunities for Bertelsmann SE & Co. KGaA

As Bertelsmann SE & Co. KGaA is largely linked to the Bertelsmann Group companies, among other things through the financing and guarantee commitments as well as through direct and indirect investments in the subsidiaries, the situation of Bertelsmann SE & Co. KGaA in terms of risks and opportunities is primarily dependent on the risks and opportunities of

the Bertelsmann Group. In this respect, the statements made by corporate management concerning the overall assessment of the risks and opportunities also constitute a summary of the risks and opportunities of Bertelsmann SE & Co. KGaA (see the "Risks and Opportunities" section).

Outlook for Bertelsmann SE & Co. KGaA

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

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

The Executive Board of Bertelsmann Management SE, as general partner of Bertelsmann SE & Co. KGaA, has submitted a voluntary report to the Supervisory Board of Bertelsmann SE & Co. KGaA in accordance with sections 278 (3) and 312 (1) of the German Stock Corporation Act, in which it outlines its relationships with affiliated companies for the financial year 2016. The Executive Board hereby declares that Bertelsmann SE & Co. KGaA received adequate consideration in return for each and every legal transaction under the circumstances known at the time that the transactions were undertaken.