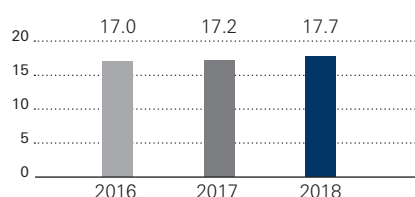


Combined Management Report

Financial Year 2018 in Review

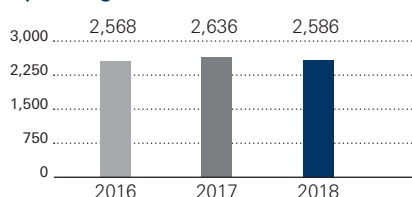
Bertelsmann can look back on a successful year in 2018. Group revenues rose by 2.8 percent to €17.7 billion (previous year: €17.2 billion). Organic growth increased to 2.7 percent (previous year: 1.7 percent) due to growth at RTL Group, Penguin Random House, BMG, Arvato and the Bertelsmann Education Group. The revenue share generated by the strategic growth businesses increased to 34 percent (previous year: 32 percent). At €2,586 million, operating EBITDA was once again at a high level. Operating EBITDA in the previous year was €2,636 million and included substantial capital gains from real estate transactions. Earnings growth at Penguin Random House, BMG, Arvato and the Bertelsmann Education Group was offset by declining earnings at Bertelsmann Printing Group in particular. The EBITDA margin went down from 15.3 percent in the previous year to 14.6 percent. Group profit was once again high, at €1,104 million, compared with €1,198 million in the same period in the previous year. For 2019, Bertelsmann again expects positive business performance.

Revenues in € billions



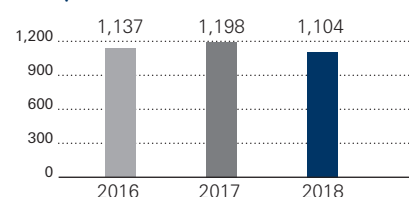
- Revenue growth of 2.8 percent, organic growth of 2.7 percent
- Revenue increases at RTL Group, Penguin Random House, BMG, Arvato and Bertelsmann Education Group
- Organic revenue growth in growth businesses

Operating EBITDA in € millions



- Decrease in operating EBITDA by 1.9 percent to €2,586 million
- Previous-year figure included capital gains from real estate transactions
- Decline in EBITDA margin to 14.6 percent compared with 15.3 percent in the same period in the previous year

Group Profit in € millions



- Group profit exceeds billion-euro mark for the fourth consecutive year
- Decline due to the lower operating result and greater impacts from special items
- Lower tax expense

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 Brazil, India and China. 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 publicly traded 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, eight video-on-demand platforms, 30 radio stations and content production throughout the world. The television portfolio includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as a stake in Atresmedia in Spain. Fremantle, the production unit of RTL Group, is one of the largest international creators, producers and distributors of a wide range of formats outside the United States. RTL Group is active in the area of online video with the on-demand services of its broadcasters; the multiplatform networks BroadbandTV, StyleHaul, Divimove and United Screens; and Fremantle's

over 300 YouTube channels. Furthermore, RTL Group owns SpotX, a programmatic video advertising platform. The publicly traded RTL Group S.A. is listed on the German MDAX index.

Penguin Random House is, based on revenue, the world's largest trade book publisher, with nearly 275 imprints across six continents. Its well-known book brands include Doubleday, Viking and Alfred A. Knopf (United States); Ebury, Hamish Hamilton and Jonathan Cape (United Kingdom); Plaza & Janés and Alfaguara (Spain); Sudamericana (Argentina); and the international imprint DK. Germany's Verlagsgruppe Random House, which includes illustrious publishing houses such as Goldmann and Heyne, is not part of Penguin Random House from a legal point of view, but is under the same corporate management and is part of the Penguin Random House division. Each year Penguin Random House publishes about 15,000 new titles and sells around 600 million print books, e-books and audiobooks.

Gruener + Jahr is one of Europe's leading premium magazine publishers. Its magazine portfolio includes established brands such as "Stern," "Brigitte" and "Geo"; young brands like "Barbara," "Guido" and "Chefkoch"; and the French magazine publisher Prisma Media. It also has products and licenses such as the "Schöner Wohnen" furniture collection and digital offerings in all publishing segments. In digital marketing G+J operates international platforms such as Applike. Territory, Germany's largest communication agency for brand content, is also part of G+J. In addition, G+J holds majority stakes in Motor Presse Stuttgart and in DDV Mediengruppe in Saxony, and holds a stake in Spiegel-Gruppe.

BMG is an international music company with 15 offices in 12 music markets, now representing more than three million songs and recordings, including the catalogs of Alberts Music, Broken Bow Music Group, Bug, Cherry Lane, Chrysalis, Mute, Primary Wave, Sanctuary and Trojan, among others.

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

The Bertelsmann Printing Group unites Bertelsmann's printing activities. This includes German offset printing companies such as Mohn Media, the Prinovis gravure printing operations in Germany and the United Kingdom, and the offset and digital printing plants in the United States. In addition, various digital marketing services are offered, with a focus on

data-driven multichannel marketing, campaign management and customer loyalty. The Bertelsmann Printing Group also includes 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, as well as in the university education area. The education activities include the online education providers Relias and Udacity, as well as the US university services provider HotChalk.

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

Regulatory Environment

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, 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 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 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, sustainable business models, high market-entry barriers and scalability. The rapidly expanding education business is being developed into the third earnings pillar alongside the media and service businesses. The Group strategy comprises four strategic priorities: strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions. In the financial year 2018, steady efforts continued to focus on implementing the strategy in line with these priorities.

As part of strengthening core businesses, RTL Group invested in local and exclusive content that enhances both linear and non-linear services, and intensified its focus on own productions. "Becoming" by Michelle Obama was the most important publication of the year for Penguin Random House, published simultaneously in all of its markets. With new magazines such as "Guido," "JWD" and "Dr. v. Hirschhausen's Stern Gesund Leben," Gruner + Jahr continued to build media products around famous personalities. In the reporting period, Gruner + Jahr completed its focus on the core markets of Germany and France. The successful merging as of 2019 of CRM activities at Bertelsmann and the Saham Group continues the strategic development of Arvato's CRM businesses. The new group, Majorel, will push the continued expansion of the global presence and digital transformation of the service portfolio in coming years.

As part of the digital transformation, RTL Group expanded its video-on-demand offerings, for example with the relaunch of TV Now in Germany, and merged the online advertising marketers SpotX and SmartClip. In France, Groupe M6, together with partners, plans to create a joint online video platform, which aims to provide French television programming of all formats and all genres, live or on demand. Germany's Verlagsgruppe Random House acquired the audiobook publisher DAV, thereby strengthening its offerings in the growing audiobook market. Gruner + Jahr continued to expand the app discovery platform AppLike, and Arvato grew its service business with customers from the IT and tech industries.

In the area of growth platforms, the RTL Group production unit Fremantle profited from the return of "American Idol," and produced new series such as "My Brilliant Friend" and "Deutschland 86." BMG's acquisitions included the world music label World Circuit Records, and BMG signed a global publishing agreement with former Beatles drummer Ringo Starr. Arvato continued to organically expand its logistics and financial services activities. In addition, Arvato invested in the Israeli fintech start-up Secured Touch. The education

business bundled in the Bertelsmann Education Group was further strengthened by the acquisition of the US online education provider OnCourse Learning. The company provides digital corporate and advanced training courses, particularly to clients in the healthcare sector. The Bertelsmann Education Group also acquired a majority stake in the US university services provider HotChalk.

In the growth regions, Bertelsmann further expanded its global network of investments in digital companies, making multiple new and follow-on investments worldwide through the funds grouped under Bertelsmann Investments. For example, Bertelsmann Asia Investments (BAI) invested in the Chinese music streaming platform NetEase Cloud Music and increased its investments in the financial service provider Linklogis and the e-commerce platform Club Factory. At the same time, BAI successfully divested a number of stakes, including shares in the dating app Tantan. Bertelsmann Brazil Investments (BBI) successfully acquired a majority stake in Afferolab, a corporate training service provider in Brazil. In addition, Penguin Random House announced the increase of its stake in the Brazilian publisher Companhia das Letras. In India, Bertelsmann India Investments (BII) invested in the direct-to-consumer food platform Licious and increased its investment in the social media portal Roposo. Furthermore, Penguin Random House expanded its local offerings in India by acquiring the publisher Hind Pocket Books.

Bertelsmann will continue to push ahead with its ongoing transformation in 2019 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 and regions and select Group-wide functions.

The Group's content-based and entrepreneurial creativity is also very important for the implementation of its strategy. Bertelsmann will therefore continue to invest in the creative core of its businesses. Simultaneously, innovation competence is very important for Bertelsmann and is a key strategic component (see the section "Innovations").

Value-Oriented Management System

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. To manage the Group, Bertelsmann has been using a value-oriented management system for many years, which focuses on revenues, operating earnings and optimal capital investment. For formal reasons, Bertelsmann makes a distinction between strictly defined and broadly defined operational performance indicators.

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

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

Strictly Defined Operational Performance Indicators

To control and manage the Group, Bertelsmann uses revenues, operating EBITDA and BVA as performance indicators. Revenue is used as a growth indicator of businesses. Group revenues in the financial year 2018 rose by 2.8 percent to €17.7 billion (previous year: €17.2 billion). The organic growth was 2.7 percent.

A key performance indicator for measuring the profitability of the Bertelsmann Group and the divisions is the operating EBITDA. Operating EBITDA increased to €2,586 million (previous year: €2,636 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. At €121 million, BVA in the financial year 2018 was below the previous year's figure of €163 million. This trend

was caused by a lower operating result and the impact of above-average invested capital.

Broadly Defined Performance Indicators

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

The cash conversion rate serves as a measure of cash generated from business activities, which should be between 90 percent and 100 percent as a long-term average. In the financial year 2018, the Cash Conversion Rate was 91 percent (previous year: 92 percent).

The EBITDA margin is used as an additional criterion for assessing business performance. In the financial year 2018, the EBITDA margin of 14.6 percent was below the previous year's level of 15.3 percent.

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

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

Non-Financial Performance Indicators

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

Employees

At the end of the financial year 2018, the Group had 117,220 employees worldwide. In 2018, there were

1,279 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 2018, the main focus was again on the further development and training of employees. This included a comprehensive adaptation of the central talent management processes and tools, including the expansion of talent pools and digital learning.

Continuous employee training is the basis of a company's future economic success. In view of this, the training courses offered by Bertelsmann University have been further digitized and expanded. Furthermore, at the end of 2018, over 92,000 employees in 48 countries were able to access training courses on the Group-wide digital "peoplenet" HR IT platform.

Supporting dialogue between the employee representatives and dialogue with Bertelsmann management is also very important. At the Group Dialogue Conference in December 2018, future work developments were discussed. In addition, together with the disabled persons councils, an Inclusion Action Plan was prepared to improve participation of disabled persons in the working environment, and is slated to be adopted in 2019.

Continuing to develop the corporate culture is another priority of the HR strategy. In 2018, the Group continued to revise the Bertelsmann Essentials (company values) in accordance with the Sense of Purpose.

Bertelsmann has been one of the pioneers in profit sharing since 1970. Accordingly, in 2018, a total of €105 million of the 2017 profit was distributed to employees across the Group (previous year: €105 million).

Corporate Responsibility

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

In view of this, the Bertelsmann CR Council continued its cross-divisional dialogue and the strategic further development of significant Group-wide CR topics in 2018. The focus was on topics of particular relevance relating to employee and social concerns, respect for human rights, the fight against corruption and bribery, and environmental concerns. Bertelsmann made donations and was involved in funding initiatives in the areas of education, culture, science and creativity.

Innovations

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

Bertelsmann relies on innovation and growth in core operations and new business fields. The key success factors of Bertelsmann's innovation management include continuously following cross-industry trends and observing new markets. At the Group level, Bertelsmann works with the divisions to continuously identify and implement innovative business strategies. Alongside market-oriented activities, support is given to Group-wide initiatives that actively promote knowledge transfer and collaboration. At regular innovation forums, executives meet with internal and external experts to examine success factors for innovation and creativity. Furthermore, cooperation is strengthened with increased collaboration among the divisions. The marketer IP Deutschland and G+J eMS have combined their capabilities into the "Ad Alliance" and have been providing them to advertising clients and media agencies since 2017. In addition, on February 1, 2019, Bertelsmann launched the new "Bertelsmann Content Alliance" in Germany, a cooperation between all content businesses in the Group for developing and marketing mutual formats across divisions.

The innovations at RTL Group focus on three core topics: continuously developing new, high-quality TV formats; using all digital means of distribution; and expanding diverse forms of advertising sales and monetization. RTL Group's "New Frontiers" transformation process introduced in 2018 is aimed at fostering organic growth, thereby fostering creativity and innovative strength. Mediengruppe RTL Deutschland relaunched its video-on-demand platform TV Now in 2018. This relaunch comprises a new platform and additional exclusive content, such as Online First formats. One example of a fictional "TV Now Original" is "M – Eine Stadt sucht einen Mörder" ("M – A City Hunts a Murderer"). Furthermore, RTL Group established the "Creative Reality Fund," an innovation competition within the company for tapping additional potential in virtual and augmented reality technologies

for its own media services. Synergy committees are used for regularly exchanging information and knowledge within RTL Group.

Innovation at Penguin Random House is intended on the one hand to extend the reach of its books and create a relationship with readers at scale, and on the other hand, to utilize modern technologies and introduce new formats. One example of innovative reader involvement is the partnership between Penguin Random House and Inception, a virtual reality and augmented reality (AR) specialist. As part of this partnership, the Bookful app was developed for accessing classic children's books and nonfiction for young readers and bringing illustrations to life for selected titles with the assistance of AR technologies. Young readers can interact with the figures in a story, and in so doing, intensify their learning and comprehension. Penguin Random House also launched a voice skill called Good Vibes, which Amazon Alexa builds on with inspirational short excerpts from popular books and quotes from bestselling authors. The company is also targeting new audiences in other innovative ways, such as the "Penguin Minis" series format – pocket-sized, full-length books that can easily fit in the palm of a hand – introduced to the American market with titles by bestselling author John Green.

The innovations at Gruner + Jahr included developing new magazines and expanding the brand business. Positive business performance of the marketing platform AppLike and increased digital offerings of the classic magazine brands of Prisma Media contributed to additional growth in the digital business. G+J also launched innovative magazines. In addition to the gourmet magazine "B-Eat," G+J created the personality magazine genre with "Boa," "Guido," "JWD" and "Dr. v. Hirschhausen's Stern Gesund Leben." G+J further expanded its brands with the opening of the first "Beef!" restaurant, the expansion of the "Schöner Wohnen" licensing business and further development of "Eat the World," a culinary-cultural city tour operator.

Innovation at BMG is based on the company's five strategic pillars: focusing on growth markets; expanding and diversifying its repertoire; expanding global presence; and relentlessly delivering on its core values of fairness, transparency and service while retaining its competitive approach to costs. A key innovation in 2018 was the expansion of the royalties app myBMG, which is now available not only to songwriters but also to artists represented by BMG. Further innovations included the historic blues project "Confessin' The Blues" created together with the Rolling Stones, the 50-year anniversary celebration for Trojan Records and the Joan Jett documentary "Bad Reputation."

All four business areas at Arvato introduced innovations, with a strong focus on the use of innovative technologies and on design, as well as creating new services or enhancing existing solutions. Among others, analytics, machine learning and chatbots were used to continue automation of customer communication processes and to optimize end-customer service. Its acquisition of 3C Deutschland GmbH has enabled Arvato Financial Solutions to offer a fully automated and digitalized claims management process for car insurance. Solution Group SCM Solutions has continued to develop business intelligence solutions along the supply chain, and Arvato Systems has expanded its innovative cloud services and cloud management portfolio.

Innovations at the Bertelsmann Printing Group included the optimization of existing processes with new technologies and creating innovative products and services. For example, in gravure printing technical innovations were integrated into the production process, making one-step manufacture of products with a wrapper possible. GGP Media expanded its innovative online platform P3, which is used for ordering small printings, to include a completely digital process. Offset printing continued to expand its 3D scanning products and launched a division-spanning project to automate and standardize internal processes with the help of IT. Furthermore, an innovation board was launched in mid-2018 to coordinate innovation topics across divisions.

The innovations at Bertelsmann Education Group mainly consist of the further development of digital and customized education offerings and the expansion of existing business areas. Relias continued to strengthen teaching products for medical personnel in emergency care by acquiring the US online education provider OnCourse Learning. At the same time, Relias developed solutions for providing more data-based support to customers in the healthcare sector in improving performance within companies. Udacity developed new Nanodegree programs, also in the area of artificial intelligence, thus setting further standards in student qualifications for future technology jobs.

Report on Economic Position

Corporate Environment

Overall Economic Developments

In 2018 the global economy maintained its economic momentum from the previous year, yet the pace slowed somewhat. Real GDP increased by 3.7 percent compared to 3.8 percent

in 2017. However, differences between countries in terms of economic growth increased in 2018. Monetary tightening in the United States affected international capital flows, which dampened economic expansion in emerging countries.

The eurozone was not able to maintain the previous year's high growth rate. Real GDP grew by 1.8 percent in 2018 compared to 2.4 percent in the previous year. A drop in demand from abroad as well as several country- and sector-specific factors had the greatest negative impact on GDP.

The expansion of the German economy was weaker in 2018. Real GDP grew by 1.4 percent compared to 2.2 percent in the previous year. The economic upswing also slowed down in France. Real GDP growth was 1.5 percent in 2018 compared to 2.3 percent in 2017. The UK economy grew only slightly against the backdrop of Brexit negotiations. Real GDP grew by 1.4 percent compared to 1.8 percent in the previous year.

In the United States, the economy expanded more rapidly. Real GDP growth was 2.9 percent in 2018 compared to 2.2 percent in 2017. Major contributors to this growth were the positive employment situation and its impact on consumer expenditures.

Developments in Relevant Markets

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

Growth in European TV advertising markets was mixed in 2018. TV advertising markets grew slightly in France and moderately in the Netherlands, whereas the German market showed a slight decrease and Belgium showed a moderate drop. Spanish and Hungarian TV advertising markets were stable.

The markets for printed books achieved slightly positive growth overall in 2018. Sales of printed books in the United States showed moderate growth and in the United Kingdom sales grew slightly, while the Spanish-language market and the German market for printed books were stable. Publisher sales of e-books declined moderately in the United States and in the United Kingdom. The market for audiobooks continued to grow strongly in the United States and the United Kingdom.

The magazine markets in Germany and France in 2018 were characterized by strongly declining print advertising business and significantly declining circulation business, while the digital business in Germany posted strong growth.

The global music markets in 2018 reported moderate growth in the publishing rights segment. The recording rights market segment grew significantly.

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

The European offset printing markets declined moderately in 2018, while the European gravure printing markets declined significantly. The development of the North American book printing market was stable over the same period.

The education markets in the United States continued to grow strongly overall in 2018 in the market segments where Bertelsmann is involved – namely, e-learning in the areas of healthcare and technology, and university education in the university and services areas.

Significant Events in the Financial Year

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

On July 9, 2018, Günter Göbel was appointed as Employee Representative to the Supervisory Board of Bertelsmann SE & Co. KGaA with immediate effect. As the new Chairman of the Corporate Works Council, he replaced Helmut Gettkant, who left the Supervisory Board at the end of the ordinary Annual General Meeting.

In September 2018, Bertelsmann and the Saham Group in Morocco announced the merger of their global CRM businesses. This merger serves to promote the development of Arvato's CRM business.

In November 2018, the Bertelsmann Education Group acquired full ownership of the US online education provider OnCourse Learning from the private equity company CIP Capital. The company provides digital corporate and advanced training courses to clients in the healthcare and financial services sectors. The acquisition of OnCourse Learning serves the further expansion of the education business and in particular strengthens the activities of Relias, a business of the Bertelsmann Education Group.

In late 2018, Groupe M6 (part of RTL Group) sold its majority stake in the French soccer club Girondins de Bordeaux to GACP, a US investment fund.

Anke Schäferkordt resigned from the Executive Board of Bertelsmann Management SE effective December 31, 2018.

Results of Operations

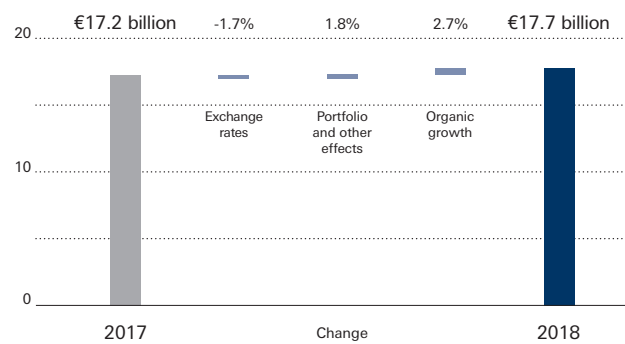
The following analysis of earnings performance relates to continuing operations as of December 31, 2018. Please refer to the section "Performance of the Group Divisions" for a more detailed picture of the results of operations.

Revenue Development

Group revenues in the financial year 2018 rose by 2.8 percent to €17.7 billion (previous year: €17.2 billion). Revenue increases were recorded by RTL Group, Penguin Random House, BMG, Arvato and Bertelsmann Education Group. The Group achieved organic growth of 2.7 percent, adjusted for exchange rate, portfolio and other effects. Exchange rate effects were -1.7 percent; portfolio and other effects were 1.8 percent. Other effects were largely changes in reported revenue due to the new IFRS 15 (further details are presented in the notes to the Consolidated Financial Statements in the section "Impact of New Financial Reporting Standards").

Revenues at RTL Group rose 2.1 percent to €6,505 million (previous year: €6,373 million). The organic growth was 3.1 percent. The primary growth contributors were the rapidly growing digital business, the content production arm Fremantle and RTL Nederland. Revenues at Penguin Random House rose 1.9 percent to €3,424 million (previous year: €3,359 million). The organic growth was 1.3 percent. Exchange rate effects had a negative impact, while changes in revenue reporting had a beneficial impact on revenues.

Revenue Breakdown



Revenues by Division

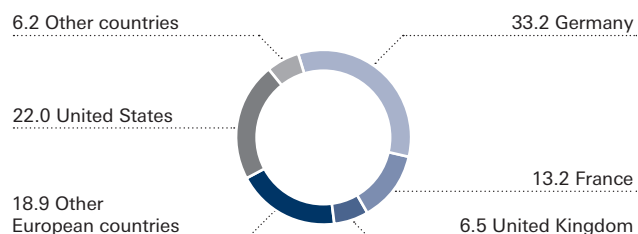
| in € millions | 2018 | | | 2017 | | |
|----------------------------------|--------------|-----------------|---------------|--------------|-----------------|---------------|
| | Germany | Other countries | Total | Germany | Other countries | Total |
| RTL Group | 2,168 | 4,337 | 6,505 | 2,266 | 4,107 | 6,373 |
| Penguin Random House | 257 | 3,167 | 3,424 | 250 | 3,109 | 3,359 |
| Gruner + Jahr | 948 | 492 | 1,440 | 964 | 549 | 1,513 |
| BMG | 34 | 511 | 545 | 33 | 474 | 507 |
| Arvato | 1,630 | 2,470 | 4,100 | 1,521 | 2,302 | 3,823 |
| Bertelsmann Printing Group | 966 | 673 | 1,639 | 957 | 724 | 1,681 |
| Bertelsmann Education Group | 1 | 257 | 258 | 1 | 188 | 189 |
| Bertelsmann Investments | 0 | 12 | 12 | – | – | – |
| Total divisional revenues | 6,004 | 11,919 | 17,923 | 5,992 | 11,453 | 17,445 |
| Corporate/Consolidation | (145) | (105) | (250) | (152) | (103) | (255) |
| Continuing operations | 5,859 | 11,814 | 17,673 | 5,840 | 11,350 | 17,190 |

At €1,440 million, Gruner + Jahr's revenues were down 4.8 percent year on year (previous year: €1,513 million). The organic growth was 0.4 percent. The lower revenue level is largely attributable to portfolio adjustments, which have in the meantime been completed. This was offset by revenue growth of the digital, agency and press distribution businesses. BMG revenues increased by 7.5 percent to €545 million (previous year: €507 million) due to continued expansion of business. The organic growth was 7.8 percent. Revenues at Arvato rose 7.2 percent to €4,100 million (previous year: €3,823 million). The organic growth was 5.6 percent. The increase stemmed in particular from positive business development in the SCM and Financial Solutions divisions and from changes in reporting revenue. Revenues at Bertelsmann Printing Group fell 2.5 percent to €1,639 million (previous year: €1,681 million) due to market effects. The organic growth was -4.2 percent. Bertelsmann Education Group increased its revenues by 36.4 percent to €258 million (previous year: €189 million). The organic growth was 13.9 percent. The rise was primarily the result of the first-time consolidation of HotChalk and the organic expansion of Relias. Bertelsmann Investments' stakes are generally not consolidated, so there is usually no revenue reported for this division.

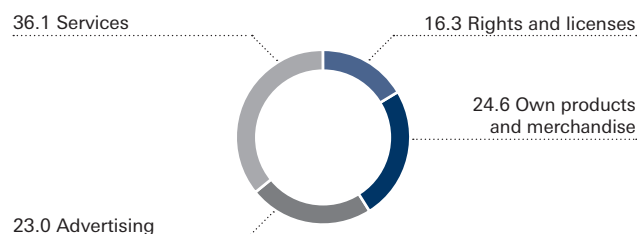
The revenue share generated by the growth businesses increased to 34 percent overall (previous year: 32 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses remained stable at 4 percent (previous year: 4 percent). The growth businesses comprise those activities that post continuous revenue increases due to sustained positive market factors and that have been identified as growth priorities as part of Group strategy. These include the digital businesses of RTL Group and Gruner + Jahr; the TV production, music business and service businesses in the Arvato divisions of SCM Solutions and Financial Solutions and Systems; and the education business. 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.

There were only minor changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 33.2 percent compared to 34.0 percent in the previous year. The revenue share

Consolidated Revenues by Region in percent



Consolidated Revenues by Category in percent



Results Breakdown

| in € millions | 2018 | 2017 |
|---------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| Operating EBITDA by division | | |
| RTL Group | 1,402 | 1,478 |
| Penguin Random House | 528 | 521 |
| Gruner + Jahr | 140 | 145 |
| BMG | 122 | 104 |
| Arvato | 377 | 320 |
| Bertelsmann Printing Group | 85 | 118 |
| Bertelsmann Education Group | 37 | 3 |
| Bertelsmann Investments | (3) | (3) |
| Total operating EBITDA by division | 2,688 | 2,686 |
| Corporate/Consolidation | (102) | (50) |
| Operating EBITDA from continuing operations | 2,586 | 2,636 |
| Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items | (670) | (657) |
| Special items | (296) | (83) |
| EBIT (earnings before interest and taxes) | 1,620 | 1,896 |
| Financial result | (216) | (219) |
| Earnings before taxes from continuing operations | 1,404 | 1,677 |
| Income tax expense | (301) | (472) |
| Earnings after taxes from continuing operations | 1,103 | 1,205 |
| Earnings after taxes from discontinued operations | 1 | (7) |
| Group profit or loss | 1,104 | 1,198 |
| attributable to: Earnings attributable to Bertelsmann shareholders | 753 | 776 |
| attributable to: Earnings attributable to non-controlling interests | 351 | 422 |

generated by France amounted to 13.2 percent (previous year: 13.4 percent). In the United Kingdom, the revenue share was 6.5 percent (previous year: 6.8 percent). The share of total revenues generated by the other European countries amounted to 18.9 percent compared to 18.7 percent in the previous year. The revenue share generated by the United States was 22.0 percent (previous year: 20.5 percent), and the other countries achieved a revenue share of 6.2 percent (previous year: 6.6 percent). This means that the share of total revenues generated by foreign business was 66.8 percent (previous year: 66.0 percent). Year on year, there was a slight change in the ratio of the four revenue sources (own products and merchandise, services, advertising, rights and licenses) to overall revenue.

Operating EBITDA

Bertelsmann achieved operating EBITDA of €2,586 million in the financial year 2018 (previous year: €2,636 million). The 1.9 percent drop is attributable to negative exchange rate effects and capital gains for real estate sales realized in the previous year. BMG, Arvato and Bertelsmann Education Group posted substantially improved earnings. The EBITDA margin decreased to 14.6 percent (previous year: 15.3 percent).

Operating EBITDA at RTL Group was down 5.1 percent to €1,402 million (previous year: €1,478 million). The previous year's value included a high capital gain from the sale of commercial buildings. Without this effect, the increase was 1.3 percent, driven by higher contributions from RTL Belgium, Groupe M6 and Fremantle. Operating EBITDA at Penguin Random House rose by 1.3 percent to €528 million (previous year: €521 million). Gruner + Jahr's operating EBITDA decreased by 3.4 percent to €140 million (previous year: €145 million) due to declining advertising and circulation revenues in the core businesses in Germany and France. BMG's operating EBITDA increased by 17.3 percent to €122 million (previous year: €104 million), attributable to continued business expansion. Arvato achieved operating EBITDA of €377 million (previous year: €320 million). The strong increase of 17.8 percent reflects improved earnings in all four business areas. Operating EBITDA at Bertelsmann Printing Group declined by 28.0 percent to €85 million (previous year: €118 million) due to declining volumes and the persistent pressure on prices. Operating EBITDA at Bertelsmann Education Group increased significantly to €37 million (previous year: €3 million). Relias in particular posted high earnings growth. Bertelsmann Investments' stakes are generally not consolidated, so that in most cases no operating results are disclosed for this division.

Special Items

Special items in the financial year 2018 totaled €-296 million compared to €-83 million in the previous year. They consist of impairment losses amounting to €-175 million (previous year: €-100 million), results from disposals of investments and remeasurements totaling €157 million (previous year: €193 million), as well as restructuring expenses and other adjustments totaling €-278 million (previous year: €-176 million). The increase in restructuring expenses is due primarily to adjustments related to strategic reorientation of the CRM activities (see also the reconciliation of EBIT to operating EBITDA in the notes to the Consolidated Financial Statements).

EBIT

EBIT amounted to €1,620 million in the financial year 2018 (previous year: €1,896 million) after adjusting operating EBITDA for special items totaling €-296 million (previous year: €-83 million), and the amortization, depreciation, impairments and reversals of impairments on intangible assets and property, plant and equipment totaling €-670 million (previous year: €-657 million), which were not included in adjustments.

Group Profit or Loss

The financial result was €-216 million, compared with the previous year's amount of €-219 million. The decrease in income tax expense from €-472 million in the previous year to €-301 million was basically the result of the lower earnings before taxes and the measurement of deferred taxes. This produced earnings after taxes from continuing operations of €1,103 million (previous year: €1,205 million). Taking into account the earnings after taxes from discontinued operations of €1 million (previous year: €-7 million), this resulted in Group profit of €1,104 million (previous year: €1,198 million). The share of Group profit attributable to non-controlling interests came to €351 million (previous year: €422 million). The share of Group profit attributable to Bertelsmann shareholders was €753 million (previous year: €776 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 2018 (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, 2018, the leverage factor of Bertelsmann was 2.7, higher than the previous year's level (December 31, 2017: 2.5). This was attributable mainly to an increase in net financial debt due to the acquisition of the US online education provider OnCourse Learning in the fourth quarter of 2018 (see further explanation in the section "Alternative Performance Measures").

As of December 31, 2018, economic debt increased to €6,619 million from €6,213 million in the previous year due to an increase in net financial debt to €3,932 million (December 31, 2017: €3,479 million). In contrast, the present value of obligations from operating leases decreased to €1,161 million (December 31, 2017: €1,261 million), particularly due to the sale of the French soccer club Girondins de Bordeaux. Provisions for pensions and similar obligations rose to €1,738 million as of December 31, 2018 (December 31, 2017: €1,685 million), primarily due to a decrease in the measurement of plan assets.

Another financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA, used to determine the leverage factor, to financial result and should exceed four. In the reporting period, the coverage ratio was 11.1 (previous year: 11.2).

Financial Targets

| | Target | 2018 | 2017 |
|------------------------------------------------------------------------|--------|------|------|
| Leverage Factor: Economic debt/Operating EBITDA ¹⁾ | ≤ 2.5 | 2.7 | 2.5 |
| Coverage ratio: Operating EBITDA/Financial result ¹⁾ | > 4.0 | 11.1 | 11.2 |
| Equity ratio: Equity as a ratio to total assets (in percent) | ≥ 25.0 | 38.8 | 38.5 |

1) After modifications.

The Group's equity ratio rose to 38.8 percent (December 31, 2017: 38.5 percent), which remains significantly above the self-imposed minimum of 25 percent.

Financing Activities

In the reporting period a promissory note was repaid that was due in June. Furthermore, in September 2018, Bertelsmann placed a bond with a seven-year term and an issue volume of €750 million. The bond, which is listed in Luxembourg, has a fixed 1.25 percent coupon. The proceeds from the bond were primarily used to finance the acquisition of OnCourse Learning, the US online education provider.

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.

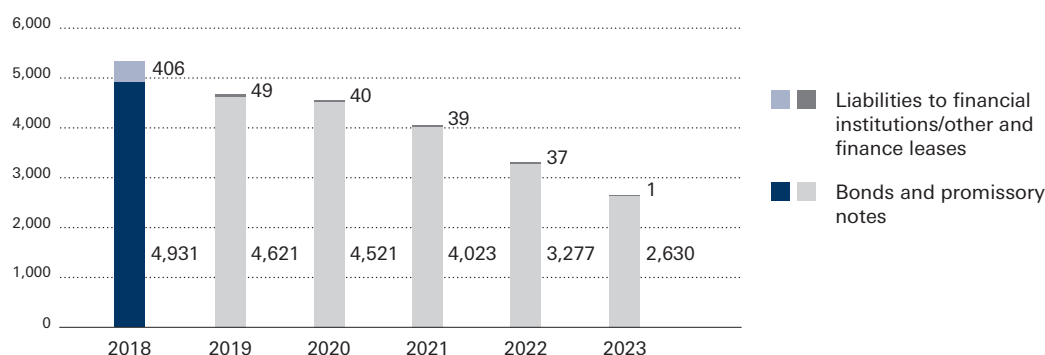
Credit Facilities

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

Cash Flow Statement

In the reporting period, Bertelsmann generated net cash from operating activities of €1,437 million (previous year: €1,605 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,753 million (previous year: €1,822 million), and the cash conversion rate

Maturity Structure of Financial Debt in € millions



Consolidated Cash Flow Statement (Summary)

| in € millions | 2018 | 2017 |
|----------------------------------------------------------------------------------|---------|-------|
| Cash flow from operating activities | 1,437 | 1,605 |
| Cash flow from investing activities | (1,130) | (760) |
| Cash flow from financing activities | (372) | (755) |
| Change in cash and cash equivalents | (65) | 90 |
| Exchange rate effects and other changes in cash and cash equivalents | 28 | (24) |
| Cash and cash equivalents on 1/1 | 1,442 | 1,376 |
| Cash and cash equivalents on 12/31 | 1,405 | 1,442 |
| Less cash and cash equivalents included within assets held for sale | – | (2) |
| Cash and cash equivalents on 12/31 (according to the consolidated balance sheet) | 1,405 | 1,440 |

was 91 percent (previous year: 92 percent); see also the section “Broadly Defined Performance Indicators.” The cash flow from investing activities was €-1,130 million (previous year: €-760 million). This included investments in intangible assets, property, plant and equipment, and financial assets of €-878 million (previous year: €-890 million). The purchase price payments for consolidated investments (net of acquired cash and cash equivalents) were €-556 million (previous year: €-213 million). Proceeds from the sale of subsidiaries and other business units and from the disposal of other non-current assets were €304 million (previous year: €343 million). Cash flow from financing activities was €-372 million (previous year: €-755 million). Dividends paid to 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 €-356 million (previous year: €-743 million). This includes a special dividend of €57 million (previous year: €373 million) as part of the increase of the shareholding in Penguin Random House. As of December 31, 2018, Bertelsmann had cash and cash equivalents of €1.4 billion (previous year: €1.4 billion).

Off-Balance-Sheet Liabilities

The off-balance-sheet liabilities include contingent liabilities and other financial commitments, almost all of which result from operating activities conducted by the divisions. Off-balance-sheet liabilities declined moderately year on year. The existing off-balance-sheet liabilities as of December 31, 2018, had no significant negative effects on the Group’s net assets, financial position and results of operation for the past or future financial year.

Investments

Total investments including financial debt acquired of €27 million (previous year: €14 million) amounted to €1,461 million in the financial year 2018 (previous year: €1,117 million).

Investments according to the cash flow statement amounted to €1,434 million (previous year: €1,103 million). As in previous years, the majority of the €325 million investment in property, plant and equipment (previous year: €360 million) stemmed from Arvato. Investments in intangible assets came to €295 million (previous year: €319 million) and were primarily attributable to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. The sum of €258 million was invested in financial assets (previous year: €211 million). These include, in particular, the investments of Bertelsmann Investments. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €556 million in the reporting period (previous year: €213 million) and were attributable, among other things, to the acquisition of the US online education provider OnCourse Learning.

Balance Sheet

Total assets amounted to €25.3 billion as of December 31, 2018 (previous year: €23.7 billion). Cash and cash equivalents amounted to €1.4 billion (previous year: €1.4 billion).

Investments by Division

| in € millions | 2018 | 2017 |
|-------------------------------|-------|-------|
| RTL Group | 262 | 308 |
| Penguin Random House | 43 | 80 |
| Gruener + Jahr | 54 | 38 |
| BMG | 107 | 157 |
| Arvato | 233 | 285 |
| Bertelsmann Printing Group | 36 | 40 |
| Bertelsmann Education Group | 484 | 78 |
| Bertelsmann Investments | 202 | 114 |
| Total investments by division | 1,421 | 1,100 |
| Corporate/Consolidation | 13 | 3 |
| Total investments | 1,434 | 1,103 |

Equity increased to €9.8 billion (previous year: €9.1 billion). This resulted in an increase of the equity ratio to 38.8 percent (previous year: 38.5 percent). Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €8.5 billion (previous year: €7.8 billion). Provisions for pensions and similar obligations increased slightly to €1,738 million (December 31, 2017: €1,685 million). Gross financial debt increased to €5,337 million compared to €4,919 million as of December 31, 2017, due to the taking up of financial debt as reported in the section "Financing Activities." 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, 2018, 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, 2018 (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

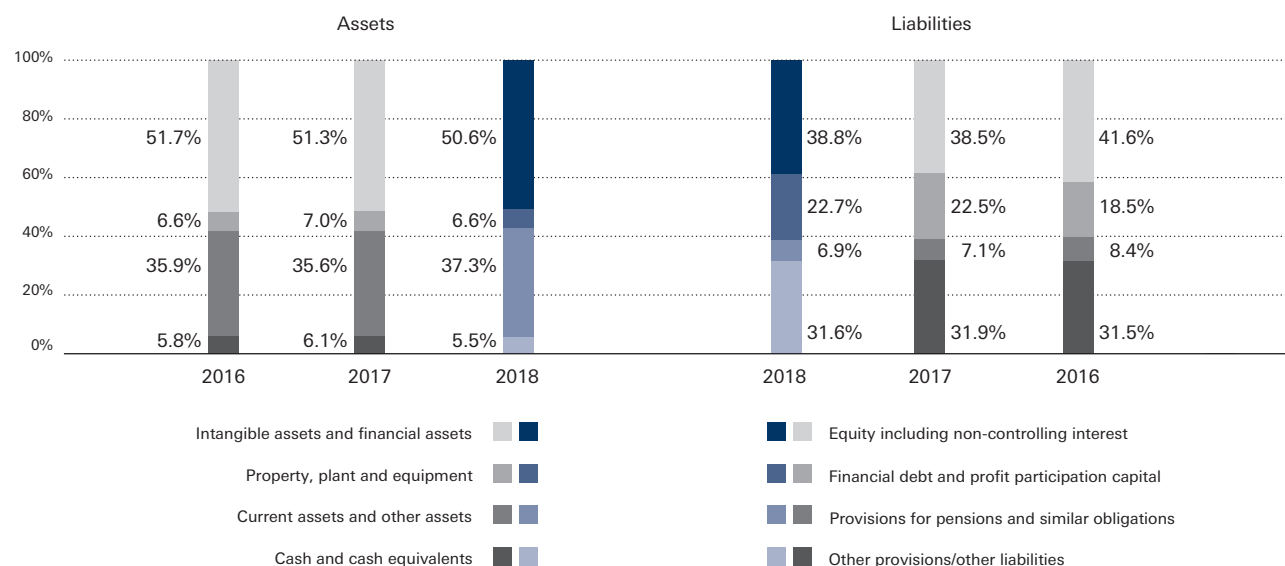
certificates in the financial year 2018 was 316.00 percent in October; their highest was 352.85 percent in January.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of par value, subject to the availability of sufficient Group profit and net income at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will also be made for the financial year 2018.

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 2018 was 6.83 percent (previous year: 7.73 percent), the payout on the 1992 profit participation certificates for the financial year 2018 will be 7.83 percent of their notional value (previous year: 8.73 percent).

The payout distribution date for both profit participation certificates is expected to be May 22, 2019. 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

In 2018, RTL Group once again achieved record-level revenues; operating EBITDA decreased against the backdrop of high gains from disposals of buildings in the previous year, but increased on a comparable basis. As part of its Total Video strategy, RTL Group expanded its video-on-demand (VOD) services, primarily in Germany, France and the Netherlands, and saw a significant increase in subscriber numbers. At the same time, the group invested more in in-house productions and high-quality content for international distribution. Online video views on RTL Group's various digital platforms increased markedly in the year under review, to a total of 497 billion (previous year: 420 billion).

Despite negative exchange-rate effects, RTL Group's revenues rose by 2.1 percent to a new record level of €6.5 billion (previous year: €6.4 billion). The rapidly growing digital business, the content production arm Fremantle and RTL Nederland were the primary growth contributors. Digital revenues, which mainly comprise revenues from multi-platform networks, VOD offerings and ad-tech businesses, increased to €985 million in the year under review (previous year: €826 million) and thus contributed 15.1 percent (previous year: 13.0 percent) to RTL Group's total revenues. Operating EBITDA fell by 5.1 percent to €1.4 billion in 2018, after €1.5 billion in the previous year. Excluding the previous year's capital gain on disposal, the increase was 1.3 percent. The EBITDA margin was 21.5 percent, following 23.2 percent in the previous year.

Mediengruppe RTL Deutschland's revenues and earnings remained on a high level, although they slightly softened over the previous year. The declining German TV advertising market, but also major sports events such as the soccer World Cup and the Olympic Winter Games, all of which were broadcast on public television, contributed to this development. The family of channels' combined average audience share in the main target group was 27.5 percent (previous year: 28.9 percent). At the end of 2018, Mediengruppe RTL relaunched its VOD service TV Now, which increasingly offers local, exclusive content and online-first formats. Mediengruppe RTL Deutschland teamed up with partners to launch the European NetID Foundation and with it a single log-in standard.

In France, Groupe M6's revenues were down slightly on the previous year, while operating EBITDA increased. In particular, M6 Web and a capital gain from the transfer of Girondins de Bordeaux players contributed to the increase in earnings. The soccer club was sold at the end of the year. Groupe M6 achieved a combined TV audience share of 21.4 percent in the main target group (previous year: 22.3 percent). In

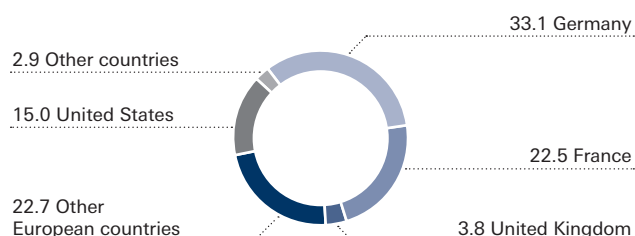
the summer of 2018, Groupe M6, together with partners, announced a joint online video platform called Salto.

RTL Nederland recorded higher advertising revenues in 2018, as well as growth in its subscription VOD platform Videoland and other digital businesses. Revenues and earnings of RTL Nederland increased.

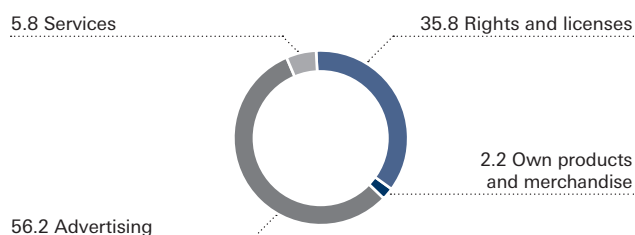
Fremantle reported substantial growth for 2018, driven by strong business performance in North America and Germany. The company was successful with numerous drama series such as "My Brilliant Friend" and "Deutschland 86," which met with great interest from international audiences.

On January 1, 2018, Bert Habets took over as sole CEO of RTL Group.

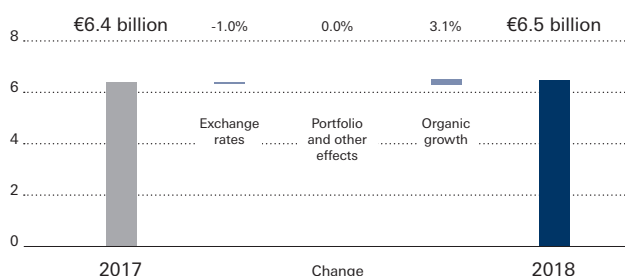
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Penguin Random House

Penguin Random House recorded organic revenue growth of 1.3 percent in the 2018 financial year. Negative exchange rates effects were more than offset by a strong bestseller performance, acquisitions and growth in digital audio downloads.

Including Verlagsgruppe Random House, the German publishing group wholly owned by Bertelsmann, the division increased its revenues by 1.9 percent to €3.4 billion in 2018 (previous year: €3.4 billion). The book group's operating EBITDA increased by 1.3 percent to €528 million (previous year: €521 million). The EBITDA margin was once again high, at 15.4 percent (previous year: 15.5 percent).

The strongest growth drivers were audiobooks, which grew substantially in all the core markets, as well as the publication of former US First Lady Michelle Obama's memoir "Becoming." The book, which was launched simultaneously in 31 languages in mid-November 2018 under the direction of Crown Publishing, stormed the bestseller lists and sold more than seven million copies across all formats in the six weeks to the end of the year.

Penguin Random House announced the increase of its stake in the Brazilian publishing house Companhia das Letras to 70 percent. The publishing portfolio was also expanded with the acquisition of the nonfiction publisher Rodale Books in the United States and the Hindi-language paperback publisher Hind Pocket Books in India. In Singapore, the group established its new Penguin Random House South East Asia unit. Penguin Random House also invested in the expansion of direct relationships with readers and continued to optimize its retail supply chain.

In the United States, the book publishing group placed 481 titles on the "New York Times" bestseller lists last year, 69 at number one. Besides the top title, "Becoming" by Michelle Obama, major sellers included "The President Is Missing" by Bill Clinton and James Patterson, "12 Rules for Life" by Jordan B. Peterson and "The Reckoning" by John Grisham. More than 11 million copies of children's book classics by Dr. Seuss were sold.

Penguin Random House UK recorded stable revenues in 2018, with growth in digital formats and license revenues. The group's British imprints published 39 percent of the Top 10 titles on the "Sunday Times" weekly bestseller lists. The year's bestsellers included "Becoming" by Michelle Obama and "12 Rules for Life" by Jordan B. Peterson, as well as "Jamie Cooks Italy" by Jamie Oliver and "Diary of a Wimpy Kid: The Meltdown" by Jeff Kinney.

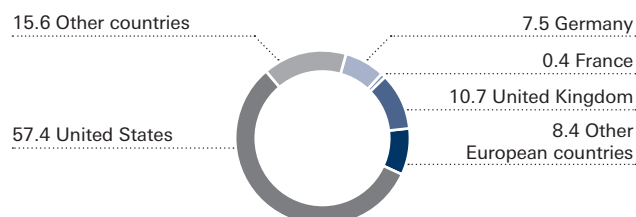
Penguin Random House Grupo Editorial increased its revenues in 2018 and expanded its children's book and audiobook offering for the Spanish-speaking world. Its bestselling titles

were "La desaparición de Stephanie Mailer" by Joël Dicker, "Tú no matarás" by Julia Navarro and "Sabotaje" by Arturo Pérez Reverte.

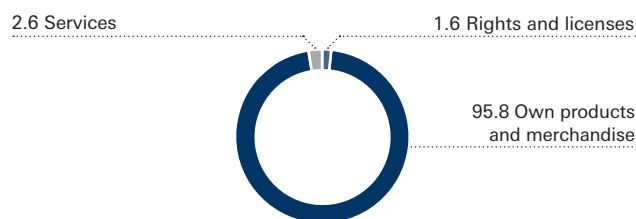
In Germany, Verlagsgruppe Random House maintained its market-leading position, growing both its revenues and earnings. The publishing group had 386 titles on the "Spiegel" bestseller lists, including 20 at number one. Their top-selling title was Michelle Obama's memoir, "Becoming." In 2018, the publishing group purchased Der Audio Verlag, thereby expanding its audiobook publishing program.

Numerous Penguin Random authors won prestigious awards, including Michael Ondaatje, who received the Golden Man Booker Prize for "The English Patient" as the best work of fiction among the 50 Man Booker Prize winners through five decades.

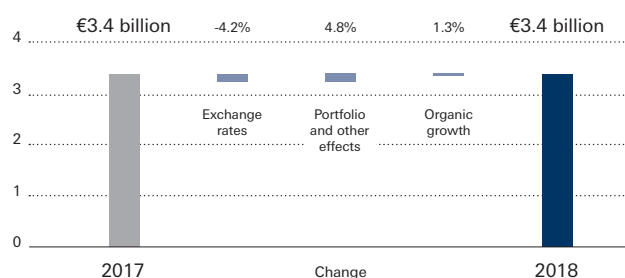
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

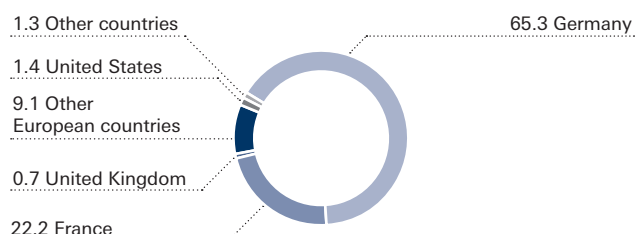
Gruner + Jahr continued its transformation. Revenues declined to €1.4 billion (previous year: €1.5 billion) due to portfolio adjustments; organically, revenues remained stable at the previous year's level. The digital revenue share was further expanded in the core countries. At €140 million (previous year: €145 million), operating EBITDA was moderately below the previous year. The EBITDA margin improved to 9.7 percent (previous year: 9.6 percent).

G+J once again grew both its revenues and earnings in Germany. The decline in the print advertising business and newsstand sales, which was moderate compared to the rest of the market, was offset by strong digital growth, the expansion of the licensing business and new magazine businesses. Territory, the agency for content-driven communications, strongly increased its revenues and earnings.

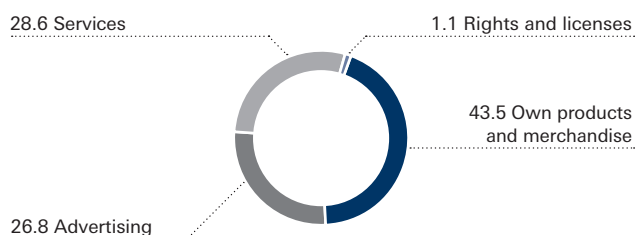
The growing digital business also made a major contribution to the good business performance in Germany. In the German core market, the digital share of total revenues rose to around 29 percent. This increase was mainly driven by the strong performance of the AppLike marketing platform, which more than doubled its revenues. Other positive contributors were the expansion of the licensing business, including at "Schöner Wohnen," and the growth of "Eat the World." In addition, G+J launched several innovative new magazines in 2018. Along with the gourmet magazine "B-Eat," G+J shaped and enriched the personality magazine genre with the addition of "Guido" and "Dr. v. Hirschhausen's Stern Gesund Leben." DDV Mediengruppe generated revenues on par with the previous year.

G+J France's business recorded a sharp drop in overall revenues and earnings. Besides the sale of the title "VSD," this was primarily due to the digital marketing platforms. The brand business, on the other hand, increased its earnings considerably despite declining print revenues. The digital offerings of the classic magazine brands – for example, "Voici," "Gala" and "Télé Loisirs" – again recorded high growth in revenues and earnings.

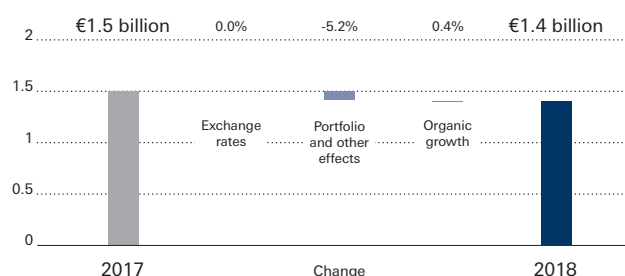
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



BMG

In 2018, 10 years after the new BMG opened for business, Bertelsmann's music subsidiary continued to see significant growth in its revenues and results, especially in its core markets: the United States, the United Kingdom and Germany. After years of growth mainly through acquisition, the focus increasingly shifted to organic growth. BMG benefited in particular from the expansion of its recordings business, which grew strongly during the reporting year; the music publishing business also recorded continuing growth. BMG artists and songwriters had numerous hits in the single and album charts in 2018.

Despite negative exchange rate effects, BMG's revenues increased by 7.5 percent to €545 million (previous year: €507 million). This was mainly due to organic growth. Operating EBITDA rose disproportionately by 17.3 percent to €122 million (previous year: €104 million), boosted by the increase in revenues and economies of scale. The EBITDA margin rose to 22.5 percent (previous year: 20.5 percent).

In the recordings business, where market growth is being driven by streaming, BMG was successful with artists including Lil Dicky, Jason Aldean, Kylie Minogue, The Prodigy and Kontra K, all with number-one albums or singles. BMG signed new contracts with artists including Dido, Marianne Faithfull, Lenny Kravitz and Adel Tawil. Keith Richards, whose publishing interests have been represented by BMG since 2013 along with Mick Jagger's, additionally signed a worldwide contract for his solo recordings. BMG acquired the world music label World Circuit Records and the US hip-hop and rap label RBC Records.

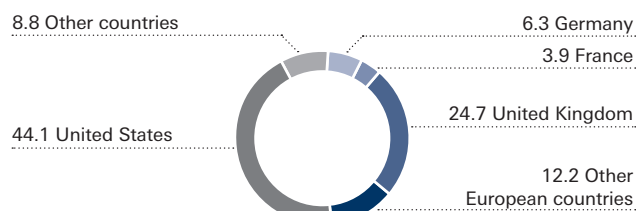
In the music publishing business, world tours by artists including Roger Waters and The Rolling Stones contributed to higher collections, as did BMG's administration of the Fremantle music catalog. Successful releases of works by songwriters including Jason Evigan, Bebe Rexha, George Ezra, Jess Glynne and The BossHoss added to business growth. Among the most prominent music publishing signings were Ringo Starr and JuiceWRLD. Lenny Kravitz and Yusuf a.k.a. Cat Stevens renewed their contracts with the company. BMG songwriters contributed to three of the five biggest summer hits on US radio.

BMG Production Music, which provides music specifically for movies, video games and advertising, was expanded and now has a presence in eight territories thanks to new offices in Singapore and Hong Kong.

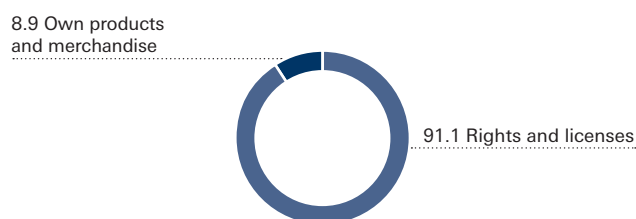
BMG's growing films business developed successfully with highlights including US distributor Magnolia Pictures acquiring North American rights to BMG's first major film

production, a documentary about rock singer Joan Jett ("Bad Reputation"). In the books business, the number of titles published by BMG doubled compared to 2017, and included the illustrated books "Johnny Cash at Folsom and San Quentin" and "Dreaming of Dylan."

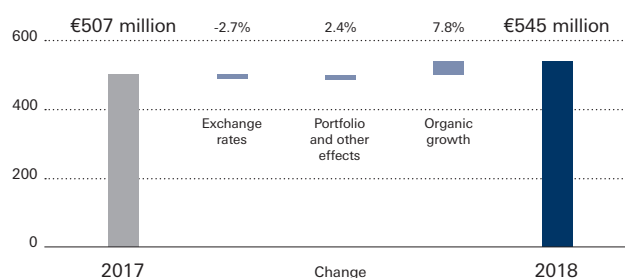
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Arvato

Arvato recorded a very strong business performance in 2018. Revenues from Bertelsmann's service businesses rose by 7.2 percent to €4.1 billion (previous year: €3.8 billion), and operating EBITDA improved by 17.8 percent to €377 million (previous year: €320 million). In particular, the drivers behind this extremely positive performance were the services provided for customers in high-tech and fashion by Arvato SCM Solutions, Arvato Financial Solutions' financial services businesses and Arvato Systems' innovative IT solutions. Arvato's EBITDA margin improved to 9.2 percent from 8.4 percent in the previous year.

After Bertelsmann had indicated at the end of January 2018 that it was reviewing strategic options for Arvato's CRM business, in September 2018 it was announced that Bertelsmann and Morocco's Saham Group were planning to merge their global CRM businesses. The new group of companies, Majorel, which took up operations on January 4, 2019, is one of the market leaders in Europe, Africa and the Middle East, and has a strong presence in America and Asia.

Arvato CRM Solutions' service businesses delivered a satisfactory overall performance in 2018, contributing to Arvato's revenue and earnings growth. The main growth driver was the expansion of the business with large, international clients in the high-tech and e-commerce sectors. In Germany, the contract with a large mobile service provider was renewed, and the global site network was built up and expanded.

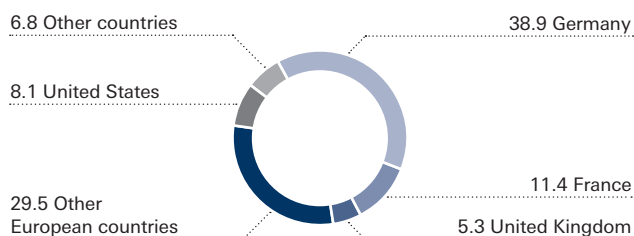
The logistics services business within the SCM Solution Group experienced strong organic growth during the reporting period – especially as a result of new orders and clients gained in the fashion, high-tech and healthcare sectors in the previous year. In addition, important master contracts with customers were renewed. The existing worldwide network of locations was enhanced with the opening of new distribution centers and the expansion of existing ones.

The financial services businesses bundled in Arvato Financial Solutions also developed positively during the reporting period. Revenues and earnings were up year on year. This was mainly supported by a good business performance in the GSA region. 3C Deutschland GmbH was acquired in the first half of 2018 with the aim of expanding and further automating the existing range of solutions for the German automotive insurance industry.

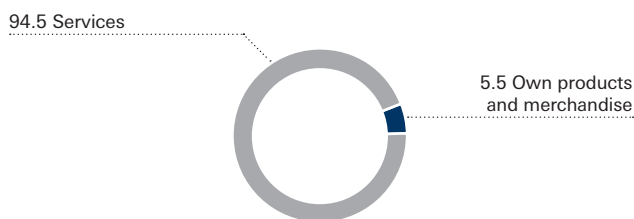
The IT services provider Arvato Systems grew organically and profitably in the reporting period. Business with its proprietary software solutions was successfully expanded and further developed, among other things with the addition of a major client from the United States. The IT services provider also

made significant progress in transforming its existing business models, and was able to win numerous customer orders, especially in the fast-growing cloud business.

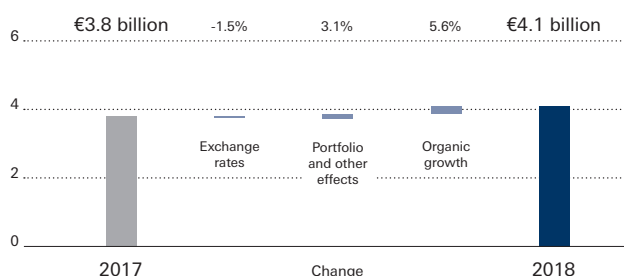
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Printing Group

The Bertelsmann Printing Group faced a very challenging market environment in the 2018 financial year: Paper price increases in particular led to restraint on the part of many customers. Against this backdrop, the Group recorded a -2.5 percent decline in revenues to €1,639 million (previous year: €1,681 million). Operating EBITDA shrank to €85 million (previous year: €118 million). The EBITDA margin amounted to 5.2 percent (previous year: 7.0 percent).

The Bertelsmann Printing Group's offset printing business did well in the 2018 financial year, despite a declining market. In the course of the year, Mohn Media was able to renew important customer contracts. GGP Media, the company specializing in print solutions for book publishers, posted slightly lower revenues than in the previous year due to weaker demand from several key customers. The BPG subsidiary Vogel Druck, which specializes in magazines and catalogs with small to medium-size print runs, was able to win new reference customers.

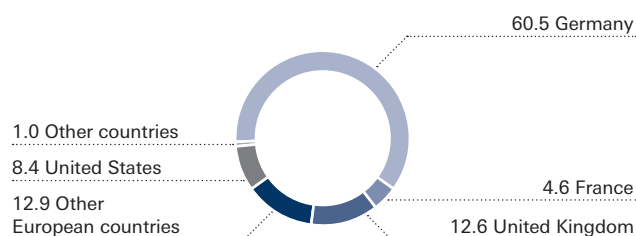
The gravure printing activities bundled in the Prinovis Group declined sharply in Germany during the reporting period, due to significantly lower volumes in mail-order and magazine publishing, and its revenues and EBITDA were significantly lower than in the previous year. The Group's gravure printing business in the United Kingdom developed as expected, despite challenging market conditions.

Demand in the US market was likewise subdued, especially in the first half of 2018; as a result, the business activities of the Bertelsmann Printing Group's US printing plants also declined. Contracts with two important major customers were secured long-term.

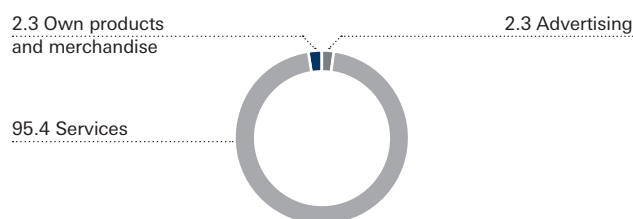
As expected, revenues in storage media replication fell against the backdrop of a declining market. Sonopress was able to gain market share with the acquisition of two major customers.

The print-related marketing services businesses assigned to the Bertelsmann Printing Group offer cross-channel communication services, in particular for the retail, e-commerce and advertising sectors. These businesses developed positively; among other things, new customers were acquired and important contracts renewed in the business segments of campaign management and the DeutschlandCard multipartner program. DeutschlandCard celebrated its 10th anniversary in the first half of 2018.

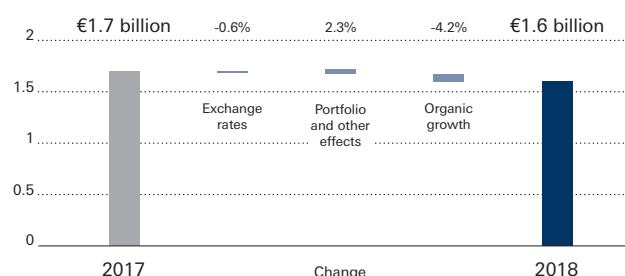
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Education Group

Driven by the rising demand for educational services, the Bertelsmann Education Group's activities saw continued growth in 2018. The Group markedly increased its revenues and operating result, and all of the division's companies continued the strategic development of their educational and service offerings.

Revenues from education businesses grew significantly in the 2018 financial year, rising by 36.4 percent to €258 million (previous year: €189 million). The full consolidation of the university services provider HotChalk, the continued growth of the e-learning provider Relias and the acquisition of the US education company OnCourse Learning were major contributors to this. As a result, the Bertelsmann Education Group's operating EBITDA improved significantly to €37 million (previous year: €3 million). The EBITDA margin was 14.5 percent (previous year: 1.8 percent).

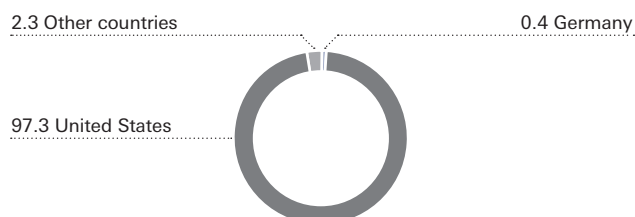
The Bertelsmann subsidiary Relias achieved double-digit organic growth during the reporting period and expanded its client base to more than 8.400 institutions whose employees enrolled in about 37.2 million online courses in 2018. In November, Bertelsmann acquired full ownership of the US online education provider OnCourse Learning from the private equity firm CIP Capital. It integrated the firm's healthcare training division into Relias, thereby significantly expanding the latter's acute-care activities.

The online learning provider Udacity further developed its range of courses and introduced new Nanodegree programs in fields including artificial intelligence. It also continued expanding its B2B business; at the end of 2018, more than 50 corporate clients were using Udacity services. Bertelsmann owns a significant stake in the Silicon Valley-based company.

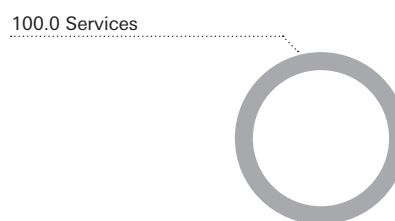
During the period under review, the Bertelsmann Education Group also acquired a majority stake in HotChalk, a US provider of education technology services. The company recorded a significant increase in earnings and significantly expanded its partnership with its largest customer. The number of students enrolled in courses supported by HotChalk also rose.

Alliant International University, which specializes in psychology and education, recorded an increase in the number of students in the past year and continued building its digital learning portfolio.

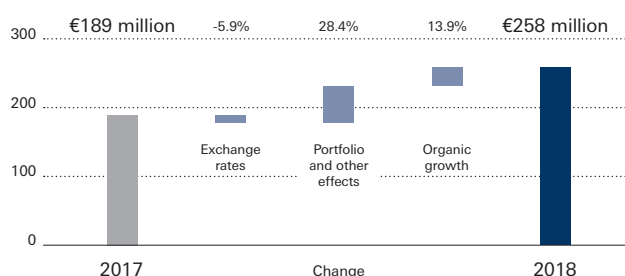
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Investments

In the 2018 financial year, Bertelsmann Investments once again expanded its global network of shareholdings in innovative start-ups. Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI) made approximately 60 new and follow-on investments during the reporting period. At the same time, the funds exited from several shareholdings. As a result, at year-end Bertelsmann held shares in 189 companies through its corporate funds.

Bertelsmann Investments once again made a significant positive contribution to Group profit in the year under review, primarily due to increases in the value of investments and gains on disposals. EBIT amounted to €96 million (previous year: €141 million).

BAI made 23 new investments, including in the Chinese music streaming platform NetEase Cloud Music. Follow-on investments were made in 16 companies, including the fitness app Keep and the supply chain financing service provider Linklogis. As in 2017, four BAI holdings went public in the period under review: the used-car portal Tuanche, the discount platform Meituan Dianping, the fashion e-commerce platform Mogu, and the tech company Xiaomi, in which the fund owns an indirect stake. In the 10 years of its existence, BAI has supported the IPOs of 10 shareholdings.

In Brazil, additional investments were made in the focus area of education. In April, Bertelsmann acquired a majority stake in Afferolab, one of the country's leading providers of corporate training, through BBI and further increased this shareholding in December. The group also expanded its education network in the healthcare sector in partnership with Crescera Investimentos.

During the reporting period, BII acquired stakes in the Indian company Licious, a direct-to-consumer food platform, and in the logistics platform Lets Transport. Follow-on investments were also made in the social media portal Roposo and in Eruditus Executive Education, a continuing training company that develops courses in partnership with international Ivy League colleges. In addition, BII successfully managed its first two divestments, from Saavn and IndiaProperty.

BDMI made 17 new and follow-on investments, including in the network FloSports, which specializes in live broadcasts of sporting events.

Since 2012, the four funds have invested nearly €800 million in digital companies. Returns from the disposal of investments amounted to more than €400 million in the same period.

General Statement by Company Management on the Economic Situation

Over the financial year 2018, Bertelsmann's businesses posted overall positive development. The Group improved its growth profile with the continuing organic and acquisitive expansion of its growth platforms. Bertelsmann also systematically continued its transformation into a faster-growing, more digital, more international and more diversified Group.

Group revenues in the reporting period rose moderately by 2.8 percent to €17.7 billion from €17.2 billion in the previous year and were therefore in line with estimates (outlook in 2017 Annual Report: moderate increase in revenues). Organic growth was 2.7 percent. Operating EBITDA at €2,586 million was only slightly below (by 1.9 percent) the previous year's high figure of €2,636 million, which included material capital gains resulting from strategic real estate transactions (outlook in the 2017 Annual Report: moderate decline in operating EBITDA). At €121 million, the BVA used for Group management was strongly below the previous year's figure of €163 million (outlook in 2017 Annual Report: strongly declining BVA). The development reflects the increase in the average level of capital invested and the lower operating result.

In the financial year 2018, steady efforts continued to focus on implementing the strategy. In addition to the focus at RTL Group on local content and in-house productions and on new magazines at Gruner + Jahr, the merging of CRM businesses at Bertelsmann and the Saham Group, effective as of 2019, made a contribution to strengthening core businesses. As part of the digital transformation, RTL Group continued to expand its video-on-demand offerings and also merged the online advertising marketers SpotX and SmartClip. Verlagsgruppe Random House strengthened its offerings in the audio market with the acquisition of the audiobook publisher DAV, and Gruner + Jahr continued to develop the app discovery platform AppLike. Growth platforms were expanded, especially in the area of education with the acquisition of the US online education provider OnCourse Learning and the acquisition of a majority stake in the US university services provider HotChalk. Bertelsmann also made progress in China, India and Brazil with a number of new and follow-on investments through the funds grouped under Bertelsmann Investments.

Net assets and financial position remain solid despite the increased economic debt. As a result of the acquisition of OnCourse Learning in the fourth quarter of 2018, the leverage factor during the reporting period was 2.7, above the previous year's level. The maturity profile of the capital market financings was further optimized through the issue made in the financial year 2018. As of December 31, 2018,

the cash and cash equivalents reported at €1.4 billion (December 31, 2017: €1.4 billion) represent sufficient liquidity. The ratings agencies Moody's and S&P continued to rate Bertelsmann as "Baa1" and "BBB+," respectively, with a stable outlook.

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, corporate acquisitions and disposals as well as other effects. When determining the exchange rate effects, the functional currency that is valid in the respective country is used. The other effects include changes in methods and reporting, for example. These chiefly involve changes in presentation in the income statement due to application of the new IFRS 15 (further details are presented in the notes to the Consolidated Financial Statements in the section "Impact of New Financial Reporting Standards").

Operating EBITDA

Operating EBITDA is determined as earnings before interest, tax, depreciation, amortization and impairment losses and is adjusted for special items. The adjustments for special items serve to determine a sustainable operating result that could be repeated under normal economic circumstances and is not affected by special factors or structural distortions. These special items primarily include impairment losses and reversals

Organic Revenue Growth

| in percent | 2018 | 2017 |
|---------------------------------|-------|-------|
| Organic revenue growth | 2.7 | 1.7 |
| Exchange rate effects | (1.7) | (1.0) |
| Portfolio and other effects | 1.8 | 0.7 |
| Reported organic revenue growth | 2.8 | 1.4 |

Operating EBITDA

| in € millions | 2018 | 2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| EBIT (profit or loss before interest and taxes) | 1,620 | 1,896 |
| Special items | 296 | 83 |
| attributable to: RTL Group | 107 | 10 |
| attributable to: Penguin Random House | 44 | 39 |
| attributable to: Gruner + Jahr | 77 | 48 |
| attributable to: BMG | 12 | 10 |
| attributable to: Arvato | 95 | 28 |
| attributable to: Bertelsmann Printing Group | 5 | 5 |
| attributable to: Bertelsmann Education Group | 50 | 50 |
| attributable to: Bertelsmann Investments | (101) | (144) |
| attributable to: Corporate/Consolidation | 7 | 37 |
| Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment | 847 | 691 |
| Adjustments on amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment included in special items | (177) | (34) |
| Operating EBITDA | 2,586 | 2,636 |

of impairment losses, fair value measurements, restructuring expenses and/or results from disposals of investments. This means that operating EBITDA is a meaningful performance indicator. Disposal effects of strategic real estate transactions are not included in the special items.

BVA

BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value orientation is reflected in strategic investment, portfolio planning and the management of Group operations and, together with qualitative criteria, provides the basis for measuring the variable portion of management remuneration. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. NOPAT, 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 the operating leases plus other commitments from technical broadcasting facilities are included in the calculation of invested capital. BVA is determined without taking into account the Bertelsmann Investments division since business performance is represented primarily on the basis of EBIT. Accordingly, the method does not include a NOPAT contribution from this division. To maintain consistency, the invested capital will be adjusted for the Bertelsmann Investment division; hence, capital costs will be neutralized.

BVA

| in € millions | 2018 | 2017 |
|---------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Operating EBITDA | 2,586 | 2,636 |
| Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items | (670) | (657) |
| Operating EBIT | 1,916 | 1,979 |
| Flat taxes (33 percent) | (632) | (653) |
| NOPAT (Net Operating Profit After Tax) | 1,284 | 1,326 |
| Average invested capital | 15,296 | 15,063 |
| Cost of capital (8 percent) | 1,224 | 1,205 |
| Correction Bertelsmann Investments | 61 | 42 |
| BVA | 121 | 163 |

Cash Conversion Rate

| in € millions | 2018 | 2017 |
|---------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| Cash flow from operating activities | 1,437 | 1,605 |
| Income taxes paid | 534 | 434 |
| Change in provisions for pensions and similar obligations | 113 | 121 |
| Investments in intangible assets and property, plant and equipment (less proceeds from the sale of non-current assets) | (529) | (489) |
| Further adjustments | 198 | 151 |
| Operating free cash flow | 1,753 | 1,822 |
| Operating EBITDA | 2,586 | 2,636 |
| Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items | (670) | (657) |
| Operating EBIT | 1,916 | 1,979 |
| Cash Conversion Rate (in percent) | | |
| Operating free cash flow / Operating EBIT | 91 | 92 |

Cash Conversion Rate

The cash conversion rate serves as a measure of cash generated from business activities and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets and property, plant and equipment or, if applicable, increased by proceeds from the sale of non-current assets. Further adjustments are made to ensure an allocation of capital flows to the relevant periods and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with the operating EBITDA. Further adjustments in the financial year 2018 mainly reflected the impact of restructuring

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

Economic Debt

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

Economic Debt

| in € millions | 2018 | 2017 |
|------------------------------------------------------|---------|---------|
| Gross financial debt | 5,337 | 4,919 |
| Less cash and cash equivalents | (1,405) | (1,440) |
| Net financial debt | 3,932 | 3,479 |
| Less 50 percent of the par value of the hybrid bonds | (625) | (625) |
| Provisions for pensions | 1,738 | 1,685 |
| Profit participation capital | 413 | 413 |
| Net present value of operating leases | 1,161 | 1,261 |
| Economic debt | 6,619 | 6,213 |

Leverage Factor

| in € millions | 2018 | 2017 |
|--------------------------------------------------------------|-------|-------|
| Economic debt | 6,619 | 6,213 |
| Modifications | 136 | 125 |
| Economic debt ^{LF} | 6,755 | 6,338 |
| Operating EBITDA | 2,586 | 2,636 |
| Modifications | (108) | (99) |
| Operating EBITDA ^{LF} | 2,478 | 2,537 |
| Leverage Factor: | | |
| Economic debt ^{LF} / Operating EBITDA ^{LF} | 2.7 | 2.5 |

Leverage Factor

One of the financial targets is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA; this factor should not regularly exceed the defined maximum of 2.5. In determining the leverage factor, the economic debt and the operating EBITDA are modified to enable financial management that corresponds to the Group's structure and its tolerable indebtedness. The modifications in regard to the economic debt largely relate to cash and cash equivalents, which are tied up in the Group while the modifications in regard to the operating EBITDA address the Group's structure and its co-shareholder shares. The leverage factor determined in this way is thus always more conservative than the figure that would be obtained using only the items recognized in the balance sheet.

Significant Events after the Balance Sheet Date

Effective January 4, 2019, all worldwide Customer Relationship Management businesses at Bertelsmann and the Saham Group in Morocco were merged. Each partner holds 50 percent of the shares in the new company Majorel, which is one of the market leaders in Europe, Africa and the Middle East, and has a strong presence in America and Asia. The contribution of the CRM businesses from Saham is recognized in the Bertelsmann Consolidated Financial Statements as a business combination within the meaning of IFRS 3 and will be fully consolidated by Bertelsmann Group from the financial year 2019 onward.

On February 1, 2019, Groupe M6 (part of RTL Group) announced its plans to acquire the TV activities of Groupe Lagardère. The two French companies are conducting exclusive negotiations. As a result of this transaction, Groupe M6 would expand its family of channels with the market leader in French children's television, Gulli, among other things.

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 the outlook or objectives for Bertelsmann. In addition, risks can negatively affect the achievement of the Group's strategic, operational, reporting and compliance-related objectives and its reputation.

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

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

Accounting-Related Risk Management System and Internal Control System

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

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

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

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

Major Risks to the Group

Bertelsmann is exposed to a variety of risks. The major risks to Bertelsmann identified in the risk reporting are listed in order of priority in the table below. Details on information security risks can be found in a separate chapter further 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.

Given the diversity of the businesses in which Bertelsmann is active and the corresponding diversity of risks to which the various divisions are exposed, the key strategic and operational risks to the Group that have been identified are specified below. Risks from acquisitions and information

Overview of Major Risks to the Group

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

security risks were identified as the primary risks and are therefore described separately. This is followed by an outline of legal and regulatory risks and financial market risks. These risks are largely managed at the corporate level.

Strategic and Operational Risks

The expansion of the global economy slowed somewhat in 2018. Looking forward it is expected that economic growth will return to normal. Nonetheless, Bertelsmann's business development is still subject to certain risks. In particular, a disorderly withdrawal of the United Kingdom from the EU or further escalation of international trade conflicts could adversely impact Bertelsmann's economic environment and thus increase the risk from economic developments. Since the Brexit decision, Bertelsmann has been continuously monitoring the exit process to identify any risks at an early stage. A Group-wide Brexit Taskforce was established to coordinate information. In the short to medium term, other significant Group risks include loss of audience and market share, customer risks, changes in the market environment, pricing and margin risks, supplier relationship risks and risks associated with economic development. How these risks develop depends 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 competitors, bad debt losses, and default and interference along the production chains in individual sectors, such as IT. Legal and regulatory risks as well as employee-related risks are moderate risks for Bertelsmann, while financial market

risks and risks from future technological challenges in the three-year period under review are classified as low.

Increasing competition and constant change, particularly in the digital environment, are resulting in a stronger fragmentation of RTL Group's markets as audiences will have more choice (e.g., through online platforms) and, at the same time, the market-entry barriers are being lowered. The possible risks of this for RTL Group are decreasing audience and advertising market shares of its advertising-financed channels and therefore, ultimately, lower revenues. To counter these risks, RTL Group is continuously revising and developing the channels and program strategies. By linking traditional, linear offerings with new digital business models and by strengthening existing investments in the online video market and in advertising technologies, RTL Group counters risks from digitization while actively influencing this development. 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 in-house productions – in particular local content. 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, the aim is to establish long-term customer relationships.

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

The risk of a deterioration of the overall economic environment and the resulting declines in advertising and circulation revenues, as well as the continuously changing conditions in the digital business, represent significant challenges for Gruner + Jahr. A changing market environment, marked by product innovations and increased consolidation of agencies and marketers, is confronted with a widespread decrease in demand for print products, which as a result of pressure on prices and conditions can lead to lower 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 cost and customer management; the development of new, in particular digital, forms of offerings; and product, price and quality improvements.

Risks that affect BMG primarily concern the client portfolio (extending contracts with artists/authors and distribution partners), its monetization (physical and digital distribution partners), corporate growth (integration of acquisitions) and the scalability of the company (including technical platform and organization). Market risks are addressed through high revenue diversification (clients/catalogs, business segments, regions) and contractual protection clauses (securing the recouping of advances).

Arvato sees itself as particularly exposed to risks from customer and supplier relationships. The potential loss of key customers is being countered through contracts offering comprehensive service packages with simultaneously flexible cost structures. On the supplier side there are risks associated with the availability of services. Countermeasures include an active exchange with existing suppliers and entering into long-term framework agreements. Technological trends

arising from digitization and ongoing automation could in some cases damage the business model and competitiveness in individual customer segments. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By developing the range of services, the aim is to improve the competitive position and to increase customer loyalty through integrated solutions. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. Broad diversification across regions and sectors helps to reduce this risk.

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

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

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

The increasing pace of change in the markets and in Bertelsmann's business segments means that employees will need to be more willing and able to adapt in the future. There are also continuing demographic risks that impact the recruitment, development and retention of talent as a result of shifts in the age distribution of the workforce. To counteract this, employees are being offered further individual education, comprehensive health programs, a competitive salary and flexible working models. Bertelsmann is also enhancing its talent management by pushing forward on digitization of the recruiting process 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 Bertelsmann, the ability to provide information in a timely, complete, error-free and confidential way, and to process it without disruptions, is crucial to its success, and is becoming increasingly important. The hurdles to this ability are internal processes that are often not yet standardized, comparatively fragmented IT system landscapes and, as digitization of business progresses, a bigger playing field for cybercrime whose players are becoming more and more professional. Bertelsmann has addressed this tougher operating environment at the management level by operating an Information Security Management System (ISMS, based on ISO 27001) for structured management of cyber risks across the Group and to monitor compliance with minimum Group standards. In order to have access both to modern cybersecurity technologies and to specialist expertise in emergencies, Bertelsmann maintains a network of external partners and is a member of the German Cyber Security Organization (Deutsche Cyber-Sicherheitsorganisation: DCSO). Furthermore, Bertelsmann has also responded to the increased threat by introducing specific measures, such as a Group-wide platform to identify gaps and security issues in all systems worldwide that are connected to the Internet. An indicative assessment of risks to information security was conducted in the fiscal year 2018 on the basis of the method used to assess operative Group risks. The results indicate that information security risks are moderate, analogous to the categorization of major Group risks.

Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is exposed to a variety of legal and regulatory risks concerning, for example, litigation or varying interpretations of tax assessment criteria. Bertelsmann has television and radio operations in several European countries that are subject to regulation. In

Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to antitrust legislation. Moreover, the education activities are subject to regulatory provisions of government authorities and accreditation bodies. Other risks include litigation relating to company acquisitions and disposals, which mainly relate to different interpretations of contract components, as well as increased data protection regulations leading to growing challenges, especially for data-based business models. These risks are being continuously monitored by the relevant divisions within the Group.

Several subsidiaries of RTL Group are being sued by the broadcaster RTL 2 Fernsehen GmbH & Co. KG and its sales house El Cartel Media GmbH & Co. KG before the regional court in Düsseldorf, Germany, seeking disclosure of information to substantiate a possible claim for damages. The proceedings follow the imposition of a fine in 2007 by the German Federal Cartel Office for abuse of market dominance with regard to discount scheme agreements ("share deals") granted by IP Deutschland GmbH and SevenOne Media GmbH to media agencies. The German Federal Cartel Office argued that these discounts would foreclose the advertising market for small broadcasters. In 2014, the district court of Düsseldorf decided to order an expert report. The expert concluded in February 2018 that the likelihood of damages cannot be proven with certainty. In July 2018, RTL II filed a motion claiming that the expert was not impartial. IP Deutschland has rejected the motion for lack of impartiality as unfounded. The court has not made a decision. Similar proceedings from other small broadcasters, initiated in different courts, were unsuccessful or have been withdrawn.

In June 2016, the main competitors of Fun Radio alleged that a host of the morning show had influenced Fun Radio's results by encouraging his listeners to give favorable treatment to Fun Radio in the Médiamétrie surveys. In response to these allegations, Médiamétrie decided to remove Fun Radio from its surveys. Following a legal procedure initiated by Fun Radio, Médiamétrie was required to reinstate Fun Radio in the audience results surveys as of September 2016. Nevertheless, Médiamétrie decided to lower Fun Radio's audience results in its published surveys, alleging the existence of a "halo effect." Following a procedure initiated by Fun Radio, a judicial expert was appointed in December 2017 to examine Médiamétrie's assessment of the alleged halo effect, and the judicial expert's final report is expected in the second quarter of 2019. As of September 2017, Médiamétrie has again

published the full audience results for Fun Radio. In parallel to the above procedure, the main competitors of Fun Radio also filed, in December 2016, a claim for damages, claiming unfair competition, but this procedure is suspended until the end of the judicial expertise. In the meantime, four of the six claimants withdrew their claim from the proceedings.

On February 22, 2018, the Spanish Competition Authority (CNMC) communicated to Atresmedia the opening of a proceeding for sanctions in relation to possible practices restricting competition prohibited by article 1 of the Spanish Competition Act. On February 6, 2019, the CNMC notified the Statement of Objections in which it assumes proven that specific commercial practices by Atresmedia are restrictive of competition. The directors of Atresmedia and their legal advisors take the view that the aforesaid Statement of Objections is not sufficiently founded and have confidence in a positive outcome for Atresmedia, either during the administrative proceeding or in court proceeding in the event that the CNMC will take a decision imposing sanctions.

Foreign direct investments in the People's Republic of China are subject to a number of regulatory restrictions. To satisfy local requirements, some of Bertelsmann's activities in China are held as so-called VIE structures. These types of arrangements are standard market practice for investments in China. However, these structures are rarely the subject of legal disputes in China, which means that there is a certain risk that it will not be possible to safeguard VIE structures through the courts, particularly if the People's Republic changes its policies toward investments by foreigners (particularly in respect to VIE structures) or if courts and authorities change their case law or administrative practice. The draft "PRC Foreign Investment Law" of 2015 was reworked in December 2018 by the Chinese Ministry of Commerce in view of the US-China trade conflict and equal treatment of foreign investors in China. In contrast to the draft of 2015, this version no longer refers to VIE structures, and some commentators assume that VIE structures will accordingly continue to be unregulated. If provisions of this law are infringed, all income could be seized from forbidden or also only restricted investments. Other commentators presume that the Chinese government would treat (only) Chinese companies in critical industries as foreign companies, despite their VIE structure. Further developments in this legislative process are being keenly observed by local Bertelsmann lawyers and their advisors in cooperation with the Corporate Legal Department in order to anticipate the effects of the law as early as possible. This affects companies within Fremantle, BMG, Arvato and the Bertelsmann Education Group, as well as investments by Bertelsmann Asia Investments (BAI).

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

Financial Market Risks

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

General Statement on the Risk Situation

The risks identified in the financial year 2018 are not endangering. Neither are there any substantial risks discernible that could threaten the existence of the Group.

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

Opportunity Management System

An efficient opportunity management system enables Bertelsmann to secure its corporate success in the long term and to exploit potential in an optimal way. Opportunities are possible future developments or events that could result in a positive deviation from outlook or objective for Bertelsmann. The opportunity management system, like the RMS, is an integral component of the business processes and company decisions. During the strategy and planning process, significant opportunities are determined each year from the profit center level upward, and then aggregated step by step at the division and Group levels. By systematically recording them on several reporting levels, opportunities that arise can be identified and exploited at an early stage. This also creates an interdivisional overview of Bertelsmann's current opportunities. A review of major changes in opportunities is conducted at the divisional level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group 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 section "Strategy"). In particular, there are opportunities in some cases for exploiting synergies as a result of the strategic portfolio expansions. There are individual operating opportunities in the individual divisions in addition to the possibility of more favorable economic development.

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

Penguin Random House is the world's largest trade book publisher. Its position enables the publishing group to attract new authors and book projects to potentially grow its market share. The group is well positioned to invest in new markets and diverse content worldwide to take advantage of increasing interest in long-form reading, and to thereby offer its content to the widest possible readership. The digital evolution transforming book markets offers the potential for new product development and for broader and more efficient marketing channels. Digital audiobooks are experiencing growth worldwide, while new technologies could make books more appealing and bring book content to wider audiences. New online tools and platforms are expanding opportunities for author engagement with readers.

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

BMG's focus is on organic growth through the signing of additional songwriter and artist clients. There may also be opportunities for selective acquisitions of music rights catalogs. The growing market penetration of subscription-based music streaming services offers significant opportunities to expand the recorded music and music publishing market internationally.

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

The Bertelsmann Printing Group businesses may decline less steeply through additional volumes of existing and new customers. There could also be a further consolidation of competitors, which could result in an additional strengthening of Bertelsmann Printing Group's own market position.

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

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

The current innovation efforts detailed in the section "Innovations" 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 2019. The global economy is expected to continue to grow in 2019, although less strongly than in the previous year. Due to the higher utilization of overall capacities in most economies, slower growth is anticipated. The Kiel Institute for the World Economy (IfW) estimates that global production will increase by 3.4 percent in 2019, compared to 3.7 percent in 2018. Risks to economic development are present especially in the eurozone, due to the looming disorderly withdrawal of the United Kingdom from the EU. In addition, the insecurity caused by a possible escalation of international trade conflicts impacts the outlook.

In the eurozone, the economic upturn will probably continue, although somewhat less dynamically. The IfW estimates real economic growth of 1.7 percent in 2019. The IfW also expects GDP for Germany to grow by 1.7 percent in real terms. The growth rate in France is expected to be 1.4 percent in real terms. For the United Kingdom, GDP is expected to rise at a slower pace: by 1.0 percent in real terms in 2019. For the United States, real economic growth of 2.5 percent is expected, thanks to the continuing solid 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 2019, the European TV advertising markets are expected to remain stable or to grow slightly. In the book markets, an overall stable development is expected. In the magazine business, the strong decline in the print advertising and the significant decline in circulation markets in Germany and France will persist in 2019, while continued strong growth is expected in the digital segment in Germany. For 2019, continuing moderate growth of the global music market is expected in the publishing rights segment. At the same time, significant growth is anticipated in the recording rights segment. In 2019, the services markets are demonstrating growth similar to the previous year, as expected. The gravure printing market in 2019 is likely to show an ongoing significant decline. Continued moderate decline is expected for the offset market in Europe, while the book printing market in North America is expected to continue its stable development. Overall, sustained strong growth is anticipated for the relevant US education markets.

Expected Business Development

The following expectations are based on the assumption of a gradual normalization of the overall economic situation and an assumption that most of the forecasted market developments and the economic predictions of the research institutions will be realized.

For the financial year 2019, Bertelsmann anticipates that business development will be driven by the stable European TV advertising and book markets, and by growing service and music markets. The growth stimuli created through strategic portfolio expansions will continue to have a positive impact on Bertelsmann's growth profile.

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the

basis of the expected business development. With revenue and earnings share within the eurozone currently expected at around two-thirds, the extent of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore predicts that GDP in the eurozone will increase by 1.7 percent in real terms and that the International Monetary Fund will increase by 1.6 percent for 2019. In view of these economic expectations, Bertelsmann expects Group revenues to show a moderate increase in the financial year 2019. Operating EBITDA is expected to grow strongly in the financial year 2019. Application of the new IFRS 16 Leases will have a substantial effect on EBITDA (further details are presented in the notes to the Consolidated Financial Statements in the section "Impact of New Financial Reporting Standards"). Excluding this effect, a stable to slightly increasing performance is expected for the operating EBITDA. The average level of capital invested will continue to increase in the financial year 2019 as a result of acquisitions made, the organic expansion of growth businesses and the effects of the new IFRS 16. Compensating effects from earnings contributions are not expected to materialize for some time. Consequently, a strong fall in BVA is still expected for the Group. These expectations are based on operational planning and the medium-term outlook for the corporate divisions, assuming that exchange rates remain constant.

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

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

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

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

In addition to the Group reporting, the business development of Bertelsmann SE & Co. KGaA is outlined below. Bertelsmann SE & Co. KGaA is the parent company and group holding company of the Bertelsmann Group. As a group holding company, it exercises key corporate functions such as the definition and further development of group strategy, capital allocation, financing and management. There are also service functions for individual divisions within the Corporate Center. Furthermore, it is the controlling company of the tax group for most of the domestic subsidiaries. The position of Bertelsmann SE & Co. KGaA is essentially determined by the business success of the Bertelsmann Group.

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

Results of Operations of Bertelsmann SE & Co. KGaA

The results of operations of Bertelsmann SE & Co. KGaA will continue to be significantly affected by the amount of

income from other participations, due to Bertelsmann SE & Co. KGaA's role as the parent company of the Bertelsmann Group. The decrease in net income to €306 million (previous year: €363 million) is primarily attributable to lower other operating income and higher write-downs of long-term financial assets. In contrast, higher income from other participations and lower taxes on income impacted net income favorably.

Other operating income decreased by €109 million as a result of lower write-ups recognized on the shares in Bertelsmann Inc., Wilmington, and lower currency gains. The increase of €194 million in other operating expenses to €245 million is primarily attributable to higher currency losses.

Given that expenses from loss assumption have increased, the trend in the income from participations from €687 million in the previous year to €759 million in 2018 is primarily attributable to higher income from profit and loss transfer agreements. Firstly, these changes are related to changes in the income from participations recognized by subsidiaries. Secondly, the income from subsidiaries is negatively impacted by non-recurring expenses in the 2018 financial year.

The higher write-downs of long-term financial assets mainly pertain to write-downs of shares in Media Communication S.A.S., Vendin-Le-Vieil.

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

| in € millions | 2018 | 2017 |
|-----------------------------------------------|-------|-------|
| Revenues | 115 | 105 |
| Other operating income | 202 | 311 |
| Cost of materials | (30) | (28) |
| Personnel costs | (175) | (143) |
| Amortization, depreciation and write-downs | (20) | (17) |
| Other operating expenses | (245) | (194) |
| Income from other participations | 759 | 687 |
| Interest income | (58) | (80) |
| Write-downs of long-term financial assets | (128) | (79) |
| Taxes on income | (111) | (198) |
| Earnings after taxes | 309 | 364 |
| Other taxes | (3) | (1) |
| Net income | 306 | 363 |
| Income brought forward from previous year | 485 | 462 |
| Transfer to retained earnings from net income | (150) | (160) |
| Unappropriated income | 641 | 665 |

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

| in € millions | 12/31/2018 | 12/31/2017 |
|----------------------------------------------|------------|------------|
| Assets | | |
| Fixed assets | | |
| Intangible and tangible assets | 388 | 377 |
| Long-term financial assets | 16,998 | 16,702 |
| | 17,386 | 17,079 |
| Current assets | | |
| Receivables and other assets | 4,234 | 3,562 |
| Securities, cash and cash equivalents | 230 | 520 |
| | 4,464 | 4,082 |
| Prepaid expenses and deferred charges | 21 | 21 |
| | 21,871 | 21,182 |
| Shareholders' equity and liabilities | | |
| Shareholders' equity | 9,631 | 9,505 |
| | | |
| Provisions | 470 | 498 |
| | | |
| Liabilities | 11,767 | 11,177 |
| Deferred income | 3 | 2 |
| | 21,871 | 21,182 |

The taxes on income decreased to €-111 million in the 2018 financial year (previous year: €-198 million) as a result of lower taxable income of the tax group.

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

The total assets of Bertelsmann SE & Co. KGaA increased slightly from €21,182 million to €21,871 million. A high ratio of equity (44 percent) and long-term financial assets (78 percent) to total assets continues to dictate the performance of the net assets and financial position.

The increase in long-term financial assets is due in part to contributions paid to subsidiaries in the amount of €514 million, which are primarily related to Bertelsmann Capital Holding GmbH, Gütersloh. This was partly offset by the repayment of a loan in the amount of €142 million by Bertelsmann, Inc., Wilmington. The increase in receivables and other assets is related to the financing of capital contributions to subsidiaries by Reinhard Mohn GmbH, Gütersloh.

The equity increased as a result of the net income of the reporting year by €306 million and decreased by €180 million as a result of distributions to shareholders. The increase in liabilities to €11,767 million (previous year: €11,177 million) includes €550 million from bonds and promissory notes as

a result of issuing one new bond and the repayment of a promissory note.

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 section "Risks and Opportunities").

Outlook for Bertelsmann SE & Co. KGaA

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

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 2018. 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 the transactions were undertaken.

Combined Non-Financial Statement

The following information relates to Bertelsmann SE & Co. KGaA and the Bertelsmann Group ("Bertelsmann") with its incorporated, fully consolidated subsidiaries ("subsidiaries") in accordance with sections 315b and 315c of the HGB in conjunction with sections 289b to 289e of the HGB.

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

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

Company Principles and Guidelines

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

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

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

Corporate Responsibility Management Organization

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

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

Topics

To identify key CR topics, Bertelsmann carries out regular CR relevance analyses. The current analysis was finalized in early 2018. For this analysis, the company conducted a survey of internal and external stakeholders. The external stakeholders estimated the impact of Bertelsmann's business activity on the topics, while the internal stakeholders assessed their business relevance. This made it possible to identify topics of relevance to Bertelsmann relating to environmental, social and employee matters, and respect

for human rights, anti-corruption and bribery matters. These topics are analyzed within the company boundaries, unless otherwise stated.

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

Risks

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

For the non-financial matters defined in the German Commercial Code – social and employee matters, anti-corruption and bribery matters, respect for human rights and environmental matters – no significant risks were identifiable as part of the 2018 reporting.

For more information on the relevant risks, please see the section "Risks and Opportunities."

Employee Matters

Motivated employees ensure long-term quality, innovation and growth. HR work at Bertelsmann is therefore based on the company's cooperative identity as codified in the corporate constitution and the Bertelsmann Essentials. Supplementary regulations are specified in the Bertelsmann Code of Conduct and the Executive Board guidelines on HR work. The CHRO is primarily responsible for dealing with employee matters within the company. He works closely with the HR managers from the corporate divisions who report directly to him via a dotted-line concept. The focus of his work includes setting the strategic HR agenda, continual development of company partnerships, aligning management development with the Group's strategic priorities, managing recruitment and compensation processes for key Group positions, and standardizing and providing IT support for important HR processes. In 2018, measures were taken to address the following topics.

Participation

Bertelsmann sees continual dialogue between employees and company management as a fundamental prerequisite to the company's success. Although Bertelsmann, as a media company, is free to determine its political direction as defined in the German Works Constitutions Act (Tendenzschutz) and therefore is not subject to statutory co-determination in the Supervisory Board, company employees nevertheless nominate five members to serve on the Supervisory Board of Bertelsmann SE & Co. KGaA on a voluntary basis: four of these are works council members and one is a member of the Bertelsmann Management Representative Committee. In addition, managers, general workforce, employees with disabilities and trainees all have platforms for exchanging ideas, advancing topics and voicing their concerns. The Bertelsmann Group Dialogue Conference is an event where the CEO, CHRO and members of the Corporate Works Council can exchange ideas. Employees are also involved in the development and improvement of working conditions through standardized HR interview tools (Performance and Development Dialogue, Agreements on Objectives, Team Talk), as well as Group-wide employee surveys. In 2018 the company pressed ahead on digitization and focus of employee surveys and made preparations for the next survey in 2019.

Learning

Highly trained employees are needed to overcome major challenges such as the Group's increasingly international focus, the digital transformation of media and services, and demographic change. By providing opportunities for lifelong learning, Bertelsmann helps to secure the long-term employability of its employees. With four different campuses – Strategy, Leadership, Function and Individual – Bertelsmann University is the central learning organization within the company. The most important measures implemented in 2018 included the further development of international programs in the areas of leadership, strategy and transformation, and formats on the topics of creativity and entrepreneurship. In addition to developing new HR programs, an international scholarship program in data science was introduced in 2018. Content of the training and courses offered by Bertelsmann in Germany was expanded to include new challenges in the workplace.

Diversity

For Bertelsmann, diversity of its workforce is a prerequisite for creativity, innovation and long-term business success. The Bertelsmann Diversity Statement adopted in 2018

also emphasized this stance. The diversity strategy is implemented by the Corporate Responsibility & Diversity Management department with support from a Group-wide working group. The focus is on “Gender,” “Generations” and “Nationality.” The Group Management Committee, which currently consists of 18 members (previous year: 17), includes 6 women (previous year: 6) and 7 nationalities (previous year: 6). To further increase diversity at the management levels, Bertelsmann has sought since 2017 to increase the percentage of women in the talent pools to one-third (Top Management Pool, Senior Management Pool, Career Development Pool). Additional topics are inclusion and sexual orientation and identity. As part of this initiative, work began in 2018 to create a Bertelsmann Inclusion Action Plan and to roll out diversity training courses.

Health

With a view to designing a health-promoting work environment and preventing work-related risks of disease, Bertelsmann is expanding a systematic health management system at German locations. Bertelsmann Health Management has been put in charge of supervising and coordinating the Germany-wide health strategy and associated activities, in conjunction with a cross-functional strategy group. The cross-divisional “Health Community,” which is comprised of health experts, works council chairs, Supervisory Board members, HR managers and representatives for employees with disabilities, plays a key role here. Through targeted networking, it also helps to reinforce uniform standards for all German locations. In 2018, another working group was created to accelerate the implementation of health management in the companies.

Fair Working Conditions

At Bertelsmann, remuneration issues are an essential part of the topic of fair working conditions. The policy is to establish consistent and transparent remuneration structures in the Group. The design of the compensation system is intended to ensure that remuneration is driven by market, function and performance, taking into account business-specific characteristics. Employee profit sharing in Germany is based on the same criteria as those used to calculate variable remuneration components for Executive Board members and executives. This includes Bertelsmann and subsidiaries based in Germany, with the exception of RTL Group and Gruner + Jahr. These and many foreign subsidiaries have similar success and profit-sharing models adapted to local requirements. In 2018, a total of €105 million of the 2017 profit was distributed as part of such schemes.

Social Matters

Corporate citizenship is one of the Bertelsmann Essentials and is thus firmly anchored in Bertelsmann’s corporate culture. As a good corporate citizen, Bertelsmann is committed to contributing to society and implemented measures in the following areas in 2018.

Creative Independence

Bertelsmann stands for editorial and journalistic independence as well as for freedom of the press and artistic license. Bertelsmann publishes a wide variety of opinions and positions. These basic principles for business activities are set forth in the Bertelsmann Code of Conduct. Bertelsmann interprets this independence in two directions: Inside the company, it means that our management does not attempt to influence the decisions of artists, editors and program managers, or to restrict their artistic or editorial freedom. In accordance with the Bertelsmann “Editor-in-chief Principle,” editorial decisions are the sole responsibility of the content managers. To the outside, this means that the company does not capitulate to political or economic influence in its coverage, and complies with existing laws regarding the separation of editorial content and commercial advertising. The result is that the company expects careful research and qualitative reporting, unaffected by fake news and online disinformation. In addition to the Bertelsmann Code of Conduct, many subsidiaries and their editors and creative departments in 2018 continued to implement their own statutes and rules to safeguard editorial and artistic independence in their day-to-day business and to develop these further where necessary. These statutes focus primarily on duties of care, respect for privacy, and dealing with the representation of violence and the protection of minors.

Content Responsibility

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

the responsibility for media content lies solely with the content managers in the local editorial teams and creative departments.

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

Customer Data Protection

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

The Executive Board Guideline on Data Protection addresses the data protection framework conditions at Bertelsmann Group based on the European Union's General Data Protection Regulation (GDPR), which went into effect on May 25, 2018, and is designed to ensure consistent data protection management across the Bertelsmann Group. A data protection management system has been in place since 2017. It addresses in particular implementation of the documentation and accountability obligations under GDPR, as well as regulations concerning governance obligations.

Responsibility for customer data protection is decentralized and rests with the management of the individual subsidiaries. To ensure compliance with local laws governing customer data protection, the subsidiaries in Germany have a data protection organization consisting of central data protection officers and local data protection coordinators. The latter report to the local management, as well as annually or on an

event-driven basis to the central data protection officers, who in turn report to the Bertelsmann Executive Board. A similar organization exists in subsidiaries outside Germany. An information security management system (ISMS) based on industry-standard ISO 27001 creates the technical framework for confidential data processing. The ISMS features a regular and structured survey to ensure compliance with statutory information security requirements, a systematic recording of risks and the derivation of related mitigation measures.

Protecting Intellectual Property

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

Respect for Human Rights

Through its corporate principles and its voluntary commitment to external guidelines, Bertelsmann is committed to respecting and protecting human rights within the company and in its business relationships. For this reason, the Bertelsmann Executive Board established an Integrity & Compliance program and appointed a Corporate Compliance Committee (CCC). The CCC submits an annual Compliance Report to the Bertelsmann Executive Board and the Audit and Finance Committee. The Integrity & Compliance (I&C) department was created to manage the ongoing day-to-day work and is subordinated to the CCC in the organization. I&C supports the CCC in fulfilling its tasks and makes suggestions for necessary improvements to the I&C program. I&C ensures that employees worldwide are made aware of the key legal provisions and internal company guidelines, including those concerning the respect for human rights, and it implemented the training and communication measures necessary for this in 2018.

Respect for human rights, also within the supply chain, is expressly stipulated by the Bertelsmann Code of Conduct and the Supplier Code of Conduct. This includes the ban on child and coercive labor and the ban on discrimination and intimidation, and it reaffirms the right to freedom of association and the right to engage in collective bargaining. In

addition, individual subsidiaries and Bertelsmann itself issued statements in 2018 in accordance with the “UK Modern Slavery Act” that condemn all forms of modern slavery, coercive and child labor, and exploitation and discrimination, and present measures to prevent these human rights violations. These statements are revised each year (if required). At Bertelsmann, violations of this principle may be reported by employees and by third parties via the reporting channels within the existing compliance management system.

In terms of anti-discrimination, contact persons for Germany’s “General Equal Treatment Act” (AGG) have been appointed at all German locations. Employees can contact them in the event of suspected breaches of said act. The employees are informed of their rights under the AGG and given corresponding training through a wide range of communication channels. The topic of anti-discrimination was addressed in a Group-wide e-learning program designed to build employee awareness of the issue and advise them of their rights. These activities were continually refined and expanded in 2018.

Anti-Corruption and Bribery Matters

Both the Bertelsmann Code of Conduct and the Bertelsmann Executive Board Guideline on Anti-corruption and Integrity expressly prohibit all forms of corruption and bribery. This prohibition also applies to all third parties that work for, with or on behalf of Bertelsmann, as stipulated in the Supplier Code of Conduct. Along with instructions for dealing with officials, and guidelines for the granting or accepting of gifts in the context of business relations, the Anti-corruption and Integrity Guideline prescribes appropriate due diligence processes in dealing with third parties. An appropriate due diligence review is carried out for each individual risk profile through a corresponding risk classification. This Executive Board guideline also describes the channels for reporting suspected violations and seeking advice, as well as other prevention and control measures. The Executive Board guideline for dealing with alleged compliance violations anchors an obligation to report suspected violations of the prohibition of corruption to the Bertelsmann Corporate Center. The topic of corruption prevention is globally managed and further developed by the I&C department. One of the most important measures in 2018 was advising and training executives and employees on anti-corruption and the continued Group-wide rollout of the new e-learning program on this topic conceived in 2017.

Fair Competition and Antitrust Law

Bertelsmann is committed to the principle of fair competition and condemns antitrust violations and anticompetitive behavior. The company acts against any contravention and consults internal or external experts on antitrust and competition issues. The Bertelsmann Executive Board has approved a “Group Guideline for Compliance with Antitrust Regulations.” There is an obligation to report any antitrust violations. The Corporate Legal Department offers antitrust training programs to corporate divisions and the management and employees of these divisions. A comprehensive compulsory training program for employees working in antitrust-related areas, which was also implemented in 2018, is intended to identify antitrust risks at an early stage and to prevent antitrust violations.

Environmental Matters

The Bertelsmann Environmental Policy and the Bertelsmann Paper Policy provide guidelines for Group-wide responsible use of natural resources and environmentally friendly energy and material procurement. The environmental commitment extends beyond the individual locations to the supply chain, in particular by selecting and influencing paper suppliers and energy firms. Operational responsibility for energy and environmental management, as well as for implementing measures, is decentralized and rests with the management of the individual companies. The international “be green” Working Group with representatives from the Bertelsmann corporate divisions again provided a platform for cross-divisional exchange on environmental topics in 2018. The cooperation will focus on increasing the use of paper from certified or recycled sources and reducing greenhouse gas emissions from the consumption of energy, heat and fuels. Experts from the “be green” Working Group also coordinate the annual collection of key environmental figures, which creates transparency about impacts on the environment and climate and Bertelsmann’s environmental performance, and enable the management to derive measures for improvement. In 2018, in parts of the Group, the annual environmental data collection was conducted for the first time with an IT-supported environmental platform, and preparations were made for a rollout in other divisions. The Group-wide environmental key figures are published on the Bertelsmann website.