



# BERTELSMANN

## At a Glance

### Key Figures (IFRS)

in € millions	H1 2018	H1 2017
<b>Business Development</b>		
Group revenues	8,237	8,134
Operating EBITDA	1,071	1,099
EBITDA margin in percent <sup>1)</sup>	13.0	13.5
Group profit	501	502
Investments <sup>2)</sup>	476	636
<b>Consolidated Balance Sheet</b>	<b>6/30/2018</b>	<b>12/31/2017</b>
Equity	9,349	9,119
Equity ratio in percent	39.6	38.5
Total assets	23,612	23,705
Economic debt <sup>3)</sup>	6,794	6,213

Due to rounding, there may be slight variances in the percentages calculated in this report.

The new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time in the first half of 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

1) Operating EBITDA as a percentage of revenues.

2) Taking into account the financial debt assumed, investments amounted to €497 million (H1 2017: €643 million).

3) Net financial debt less 50 percent of the par value of the hybrid bonds plus pension provisions, profit participation capital and present value of operating leases.

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## Interactive Interim Report

The Bertelsmann Interim Report 2018 can also be accessed online at [ir2018.bertelsmann.com](http://ir2018.bertelsmann.com)

# Highlights of the First Six Months



- Focus on local, original productions: in the first half of 2018, around 70 new productions are on air at Mediengruppe RTL Deutschland, and the German broadcasting family is planning more than 100 new formats for the upcoming 2018/2019 TV season.
- Alliance in France: Groupe M6, France Télévisions and TF1 are planning to set up a video-on-demand platform that offers a broad variety of broadcast inventory and local exclusive content – live and on demand.
- Successful comeback of “American Idol”: the latest season of Fremantle Media’s hit show attracts an average of 8.7 million viewers on the US network ABC.
- Bill Clinton and James Patterson top the bestseller lists with their thriller, “The President Is Missing.”
- The publishing portfolio expands with acquisitions in the United States and India.
- Forbes List ranks Penguin Random House as America’s Best Midsize Employer.

[www.rtlgroup.com](http://www.rtlgroup.com)

[www.penguinrandomhouse.com](http://www.penguinrandomhouse.com)



- Arvato SCM Solutions intensifies its cooperation with a US manufacturer of medical technology products. Arvato SCM develops a full order-to-cash solution for 83 countries.
- Following the acquisition of 3C Deutschland GmbH, Arvato Financial Solutions can now provide a complete, fully automated and digital claims management process for the automotive insurance industry in Germany.
- Arvato Systems expands its position as a multi-cloud service integrator. The data centers of various customers are transferred to the Arvato Systems Private Cloud, and various platform services are successfully launched in the market.
- DeutschlandCard celebrates its 10th anniversary in March. With more than 20 million participants, the company has developed into Germany’s second largest multi-partner rewards program.
- The Bertelsmann Printing Group launches a cross-divisional initiative to promote innovation. As a result, Mohn Media in Gütersloh successfully and profitably builds a new line of business: 3D scanning services.
- Sonopress wins another major customer in the United States and expands its services for US games customers through a partnership with the Canadian distribution services provider Solutions 2 GO.

[www.arvato.com](http://www.arvato.com)

[www.bertelsmann-printing-group.com](http://www.bertelsmann-printing-group.com)



- Successful launch of new magazines: “Dr. v. Hirschhausen’s Stern Gesund Leben” sells more than 200,000 issues at launch, and “JWD,” in cooperation with Joko Winterscheidt, establishes itself successfully in the market.
- Prisma Media continues to expand its audiovisual business. More than 5,000 videos per month now appear on the French publisher’s websites. The number of video views rises to around 200 million per month.
- With a mindfulness app called “Balloon,” “Greenhouse” launches another digital product. This is the sixth start-up to emerge from the innovation lab in Hamburg’s Schanzenviertel district.

[www.guj.com](http://www.guj.com)



- BMG continues on its expansionist course and increases all key indicators.
- BMG artists and songwriters – from Jason Aldean and Kylie Minogue to George Ezra – celebrate number-one chart successes.
- New contracts are signed with stars including Lenny Kravitz, Ringo Starr and Yusuf/Cat Stevens.

[www.bmg.com](http://www.bmg.com)



- Revenues and operating results are up year on year as Bertelsmann Education Group continues on its growth path.
- The online training provider Relias records double-digit organic growth and expands its client base to more than 6,750 institutions.
- The online learning platform Udacity launches several new Nanodegree programs on topics such as artificial intelligence and blockchain technology.

[www.bertelsmann-education-group.com](http://www.bertelsmann-education-group.com)



- Bertelsmann expands its global network of investments in start-ups, and through its four funds now owns shareholdings in more than 175 innovative companies and funds.
- IPO at Bertelsmann Asia Investments: the tech company Xiaomi, in which the fund holds an indirect interest, goes public in Hong Kong.
- Bertelsmann acquires a majority stake in the corporate training provider Affero Lab through Bertelsmann Brazil Investments.

[www.bertelsmann-investments.com](http://www.bertelsmann-investments.com)



**Thomas Rabe**  
Chairman and CEO of Bertelsmann

## Dear Readers, Dear Friends of Bertelsmann,

The first half of 2018 went well for Bertelsmann. We generated our highest first-half revenues in 11 years, further improved our organic growth and again realized Group profit of over half-a-billion euros, as documented in this report.

These pleasing developments were driven by the growth businesses we have built and expanded in recent years. Together, they achieved an organic revenue increase of 9.2 percent, to €2.9 billion. The Group's organic growth improved to 2.4 percent. Revenues rose by 1.3 percent to €8.2 billion despite significant negative exchange rate effects, particularly from the US dollar.

Operating EBITDA was €1.07 billion, which – before exchange rate effects – puts it on par with the previous year's high level. RTL Group, BMG, Arvato and the Bertelsmann Education Group all recorded growth.

At €501 million, Group profit once again surpassed the half-billion-euro mark, despite negative exchange rate effects and lower positive special items.

Our positive business performance confirms the success of our growth strategy. In these past months, we have made further progress on all four strategic priorities:

**Strengthening the core:** RTL Group largely maintained its position in TV advertising revenues in its core markets of Germany, France and the Netherlands, even though this year's World Cup matches were broadcast by competitors. Penguin Random House placed 178 titles on the "New York Times" bestseller lists, 25 of them at number one. Gruner + Jahr continued its strategy of building media products around well-known personalities with the launches of the new magazines "JWD" and "Dr. v. Hirschhausen's Stern Gesund Leben." Arvato renewed master agreements with key customers and successfully launched various IT services on the market. The Bertelsmann Printing Group extended several print contracts, including for "Spiegel" magazine.

**Digital transformation:** RTL Group increased its digital revenues in the first half of the year by 9 percent to €424 million. Penguin Random House expanded its e-book offerings and generated growing revenues with audio downloads. Gruner + Jahr's digital revenues increased once again, and now contribute 26 percent to total revenue in its core markets of Germany and France. The company also further expanded the AppLike app-discovery platform. In all, Bertelsmann's companies now reach more than 2.6 billion followers with their social media activities.

**Expansion of growth platforms:** RTL Group's production arm, Fremantle Media, benefited from the successful return of the "American Idol" format. Production also began on new series such as "The New Pope." BMG acquired, among other things, the Australian production music company Big Bang & Fuzz, and signed an exclusive worldwide publishing agreement with former Beatles drummer Ringo Starr. Arvato continued the organic expansion of its logistics and financial services activities. Our education activities also saw positive developments. The Bertelsmann Education Group acquired a majority stake in the US university services provider HotChalk. Our e-learning subsidiary, Relias, expanded its customer base to more than 6,750 institutions, and the online learning platform Udacity introduced new Nanodegrees for subjects including artificial intelligence and blockchain technology.

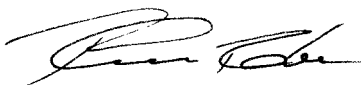
**Expansion in growth regions:** Through the funds grouped in our Bertelsmann Investments division, we own stakes in approximately 175 innovative companies around the world, roughly half of them in China. In the first half of the year, our four funds made a total of 31 new and follow-up investments, and completed three successful exits. In Brazil, we acquired a majority stake in Affero Lab, one of the country's largest providers of corporate training. Penguin Random House expanded its local-language offering in India by acquiring Hind Pocket Books.

These achievements in the first half of 2018 will help make Bertelsmann stronger, more digital, more international and more diversified.

We are confident of achieving our expectations for the full year: higher revenues, continued high profitability and Group profit of more than €1 billion. In 2018, we will again invest several billion euros in our businesses, especially in creative content. By doing so, we create the necessary conditions for continuing on our successful path.

I am delighted by your continued interest in our company – and would like to thank all of my colleagues for their commitment, entrepreneurship and creativity in these past months.

Yours sincerely,

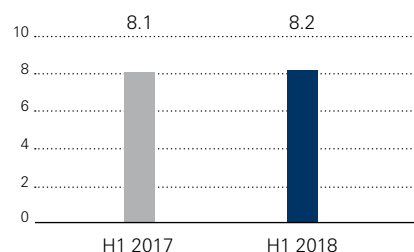


Thomas Rabe

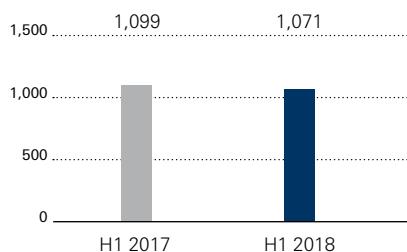
# Group Interim Management Report

Bertelsmann recorded a positive first half of 2018, once again seeing improved organic revenue growth. Group revenues rose 1.3 percent to €8.2 billion (H1 2017: €8.1 billion) despite negative exchange rate effects. Organic revenue growth of 2.4 percent was mainly driven by the growth businesses, in particular the digital and production operations of RTL Group and the music, services and education businesses. Operating EBITDA amounted to €1,071 million and was below the previous year's figure of €1,099 million. The decrease was mainly attributable to negative exchange rate effects, particularly from the US dollar. The EBITDA margin was 13.0 percent (H1 2017: 13.5 percent). Group profit amounted to €501 million after €502 million in the same period last year. For 2018, Bertelsmann anticipates continued positive business performance.

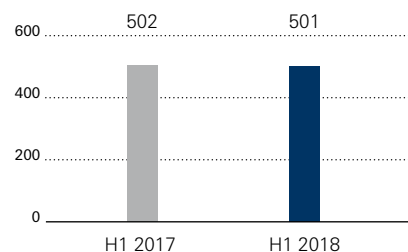
**Revenues** in € billions



**Operating EBITDA** in € millions



**Group Profit** in € millions



- Revenue growth of 1.3 percent, improved organic growth of 2.4 percent
- Organic revenue growth particularly in growth businesses

- Decline in operating EBITDA of 2.6 percent to €1,071 million primarily attributable to exchange rate effects
- EBITDA margin of 13.0 percent compared to 13.5 percent during the same period last year

- Group profit once again at a high level
- Lower tax expense



## Fundamental Information about the Group

### Corporate Profile

Bertelsmann is a media, services and education company and operates in about 50 countries worldwide. The geographic core markets are Western Europe – in particular, Germany, France and the United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth regions such as Brazil, China and India. The Bertelsmann divisions include the broadcaster RTL Group, the trade book publisher Penguin Random House, the magazine publisher Gruner + Jahr, the music company BMG, the service provider Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments, an international network of funds.

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

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

### Strategy

Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability (see the "Value-Oriented Management System" section). Bertelsmann aims to achieve a faster-growing, more digital, more international and more diversified Group portfolio. 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 first half of 2018, Bertelsmann made further progress in line with the strategic priorities. The core businesses were further strengthened, among other things as a result of increased investments by Mediengruppe RTL Deutschland in own productions. In addition, Penguin Random House expanded its publishing portfolio by acquiring nonfiction publisher Rodale Books in

the United States and achieved publishing successes such as "The President Is Missing" by Bill Clinton and James Patterson. Gruner + Jahr published new magazines, and Arvato renewed key customer framework agreements. The ongoing digital transformation was supported through the continual expansion of the digital businesses. This is also reflected in ever-increasing digital revenues at RTL Group and Gruner + Jahr. In addition, the growth platforms were expanded further. In April, BMG acquired the Australian company Big Bang & Fuzz, which operates in the field of production music and signed new contracts, or renewed existing ones, with artists such as Lenny Kravitz, Ringo Starr and Yusuf/Cat Stevens. Arvato Financial Solutions took over 3C Deutschland GmbH and acquired a stake in the cybersecurity company SecuredTouch from Israel, a company specializing in behavioral biometrics. In the education sector, Bertelsmann Education Group took over a majority share in the US university services provider HotChalk. Relias expanded its customer base, and Udacity began offering new Nanodegrees in areas such as artificial intelligence. The company's presence in the growth regions was also expanded. Among other things, Bertelsmann Asia Investments (BAI) invested in the Chinese car-sharing provider Dadao and made additional investments in financial services provider Linklogis and the e-commerce platform Club Factory. Bertelsmann Brazil Investments (BBI) acquired additional shares in the learning provider Affero Lab in Brazil, gaining a majority stake. Penguin Random House expanded the local range of services in India by acquiring Hind Pocket Books.

### Value-Oriented Management System

Revenue, operating EBITDA and Bertelsmann Value Added (BVA) are strictly defined key performance indicators used to directly assess business development; accordingly, these form the basis of the outlook. Broadly defined performance indicators include the EBITDA margin as an additional criterion for assessing operating business development and the cash conversion rate as a measure of cash generated from business activities. Some of the key performance indicators are determined on the basis of so-called Alternative Performance Measures, which are not defined under International Financial Reporting Standards (IFRS). These should not be considered in isolation but as complementary information for evaluating Bertelsmann's business performance. For detailed information on this, please refer to the "Alternative performance measures" section in the 2017 Combined Management Report.

Revenues as a growth indicator of the businesses increased in the first half of 2018 by 1.3 percent to €8,237 million (H1 2017: €8,134 million). Organic growth improved to 2.4 percent. Operating EBITDA is determined as earnings before interest,

tax, depreciation, amortization and impairment losses and is adjusted for special items. The adjustment for special items serves to determine a sustainable operating result that could be repeated under normal economic circumstances, which is not affected by special factors or structural distortions. These special items primarily include impairment losses and reversals of impairment losses, fair value measurements, restructuring expenses and/or results from disposals of investments. This means that operating EBITDA is a meaningful performance indicator. During the reporting period, operating EBITDA amounted to €1,071 million (H1 2017: €1,099 million).

The central performance indicator for assessing the profitability from operations and return on invested capital is 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, serves as the basis for measuring the variable portion of management compensation. 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. Amortization, depreciation, impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment, which were not included in special items totaling €310 million (H1 2017: €309 million), are deducted in order to determine operating EBIT. A flat tax rate of 33 percent was assumed in order to calculate NOPAT of €510 million (H1 2017: €529 million), which is used to calculate BVA. Cost of capital is the product of the average level of capital invested on a pro rata basis and the weighted average cost of capital (WACC). The average level of capital invested on a pro rata basis totaled €15,000 million as of June 30, 2018 (H1 2017: €15,025 million). The uniform WACC after taxes is 8 percent, resulting in cost of capital of €600 million (H1 2017: €601 million) in the half-year reporting period. Average invested capital is calculated each quarter on the basis of the Group's operating assets less those liabilities that do not bear interest. The present value of operating leases is also taken into account when calculating the invested capital. Beginning with financial year 2018, the calculation for BVA excludes the division Bertelsmann Investments; the prior year period was adjusted accordingly. In the first half of 2018, BVA decreased to €-63 million (H1 2017: €-51 million).

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

## Report on Economic Position

### Corporate Environment

#### Overall Economic Developments

The pace of global economic growth slowed in the first half of 2018. The slowdown was particularly apparent in the advanced economies, while the growth rate of developing economies was relatively less affected.

The economic upswing in the eurozone slowed somewhat. According to Eurostat, the statistical office of the European Union, real gross domestic product (GDP) in the eurozone increased by 0.4 percent in the first quarter of 2018 compared to the previous quarter; in the second quarter 2018, it rose by 0.3 percent.

In Germany, the economy continued to grow, albeit at a slower rate than at the end of 2017. Domestic demand drove this growth. According to the German Federal Statistical Office, real GDP rose by 0.4 percent in the first quarter of 2018 compared to the previous quarter and by 0.5 percent in the second quarter of 2018.

The French economy reported weaker growth. According to INSEE, the French National Institute of Statistics and Economic Studies, real GDP rose by only 0.2 percent in the first and second quarters of 2018.

The planned exit from the European Union slowed economic growth in the United Kingdom. Uncertainty about future development curbed investments and raised pressure on the exchange rate of the pound sterling. Real GDP rose by 0.2 percent in the first and by 0.4 percent in the second quarter of 2018.

The growth trend in the United States continued. Real GDP rose in the first quarter of 2018 at an annualized rate of 2.2 percent. In the second quarter of 2018, real GDP increased by an annualized rate of 4.1 percent, according to initial calculations by the Bureau of Economic Analysis.

So far, the overall economic developments are in the range of the current-year trend anticipated in the 2017 Combined Management Report.

#### Developments in Relevant Markets

The European TV advertising markets experienced mixed growth in the first six months of 2018. While the TV advertising markets in Germany and Spain remained stable,

the markets grew slightly in France and Hungary, and saw moderate growth in the Netherlands and Croatia. The Belgian TV advertising market fell slightly.

The markets for printed books achieved slight growth in the first six months of 2018. While revenue from sales of printed books increased slightly in the United States and the United Kingdom, the German market remained virtually unchanged and the Spanish-speaking market declined somewhat. Publishing sales of e-books declined moderately in the United States while e-book sales increased significantly in the United Kingdom. The markets for audiobooks in the United States and the United Kingdom continued to see strong growth.

During the reporting period, the magazine markets in Germany and France were characterized by strongly declining print advertising revenues and moderately to significantly declining circulation revenues. In contrast, the digital markets achieved strong growth.

The global music publishing markets reported moderate growth, while the global markets for recorded music grew significantly.

The service markets relevant to Arvato showed moderate to strong growth in the first half of 2018.

The gravure print markets in Germany, France and the United Kingdom relevant for the Bertelsmann Printing Group declined significantly in the first six months of 2018, while the corresponding offset markets remained stable. Over the same period, the North American book printing market showed a slight decline.

As expected, the education markets in the United States grew strongly in the first half of 2018 in the market segments where Bertelsmann is involved: e-learning in the healthcare and technology sectors and higher education in the university and services sectors.

So far, the developments in the relevant markets are mainly within the current-year trend anticipated in the 2017 Combined Management Report.

## Significant Events in the Current 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.

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

In February 2018, Bertelsmann Education Group took over additional shares in HotChalk and since then has held a majority share in the US university services provider.

## Results of Operations

### Revenue Development

Group revenues increased in the first half of 2018 by 1.3 percent to €8,237 million (H1 2017: €8,134 million). Adjusted for exchange rate effects of -3.1 percent (H1 2017: 0.0 percent) and portfolio and other effects of 2.0 percent (H1 2017: 0.7 percent), organic revenue growth amounted to 2.4 percent (H1 2017: 1.4 percent).

RTL Group achieved higher revenues in the first half of 2018 mainly due to the positive performance at Fremantle Media and RTL Nederland and the growing digital business. Penguin Random House reported lower revenues due, among other things, to negative exchange rate effects. Revenues at Gruner + Jahr decreased mainly due to the declining print advertising business and ongoing portfolio adjustments. In contrast, the revenues from digital businesses continued to grow slightly. Revenues at BMG increased as a result of continual organic and acquisitive business expansion. Arvato generated organic revenue growth in all Solutions Groups. The revenue development of the Bertelsmann Printing Group was characterized by the ongoing decline of the gravure printing market in Europe and falling revenues in the United States. The higher revenue of the Bertelsmann Education Group was attributable mainly to the first-time consolidation of university services provider HotChalk and growth of the online education provider Relias. Virtually none of the investments of Bertelsmann Investments are consolidated; therefore, in most cases, revenue is not disclosed for this division.

Viewed over a rolling 12-month period, the revenue share generated by the growth businesses increased to 32 percent overall (H1 2017: 31 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses remained stable at 4 percent (H1 2017: 4 percent). The growth businesses comprise those activities for which continuous revenue increases are expected due to sustained

## Operating EBITDA

in € millions	H1 2018	H1 2017
EBIT (earnings before interest and taxes)	769	805
Amortization/depreciation, impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment	311	311
Adjustments on amortization/depreciation, impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment included in special items	(1)	(2)
Special items	(8)	(15)
attributable to: RTL Group	–	(10)
attributable to: Penguin Random House	3	7
attributable to: Gruner + Jahr	6	3
attributable to: BMG	6	5
attributable to: Arvato	8	8
attributable to: Bertelsmann Printing Group	1	2
attributable to: Bertelsmann Education Group	9	(1)
attributable to: Bertelsmann Investments	(46)	(42)
attributable to: Corporate	5	13
<b>Operating EBITDA</b>	<b>1,071</b>	<b>1,099</b>

positive market factors and which have been identified under the Group strategy as growth priorities.

There were minor changes in the geographical breakdown of revenues compared to the same period last year. The revenue share in Germany amounted to 34.5 percent compared to 33.7 percent in the first half of 2017. The revenue share generated by businesses in France amounted to 13.6 percent (H1 2017: 13.7 percent). In the United Kingdom, the revenue share was 6.1 percent (H1 2017: 6.1 percent), while the other European countries achieved a revenue share of 18.8 percent (H1 2017: 19.2 percent). The share of total revenues generated in the United States rose to 20.8 percent (H1 2017: 20.7 percent); other countries accounted for a share of 6.2 percent (H1 2017: 6.6 percent). Overall, these figures show that the total share of revenues represented by foreign business of 65.5 percent (H1 2017: 66.3 percent) remained virtually unchanged. The ratio of the four revenue streams (own products and merchandise, advertising, services, and rights and licenses) to one another remained mostly unchanged compared to the first half of 2017.

### Operating EBITDA

Bertelsmann achieved an operating EBITDA of €1,071 million during the reporting period (H1 2017: €1,099 million). The EBITDA margin of 13.0 percent was below the level of

13.5 percent in the same period last year. Operating EBITDA of RTL Group was up compared to the same period last year. The increase was mainly attributable to significant earnings improvements at RTL Nederland. Lower revenues at Penguin Random House also negatively impacted operating EBITDA. Operating EBITDA at Gruner + Jahr decreased as a result of lower revenues in advertising and start-up losses for digital business. Operating EBITDA at BMG increased further as a result of the continued organic and acquisitive expansion of business. Operating EBITDA of Arvato increased across all Solutions Groups. Decreasing volumes and persistent price pressure resulted in lower earnings at the Bertelsmann Printing Group. Operating EBITDA at Bertelsmann Education Group improved compared to the same period in the previous year. Virtually none of the investments of Bertelsmann Investments are consolidated; therefore, in most cases, no operating results are disclosed for this division.

### Special Items

Special items totaled €8 million (H1 2017: €15 million). They consisted of impairments and reversals of impairment losses on investments accounted for using the equity method totaling €-2 million (H1 2017: €-2 million), impairment losses on other financial assets carried at amortized cost of €-1 million (H1 2017: €-7 million), adjustments of carrying amounts of assets held for sale of €-3 million (H1 2017: €-3 million),

results from disposals of investments of €19 million (H1 2017: €68 million), fair value measurement of investments of €44 million (H1 2017: €13 million), and restructuring expenses and other adjustments totaling €-49 million (H1 2017: €-54 million).

## EBIT

After adjusting operating EBITDA for special items totaling €8 million (H1 2017: €15 million) and the amortization, depreciation, impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment totaling €-310 million (H1 2017: €-309 million), which were not included in special items, EBIT amounted to €769 million in the reporting period (H1 2017: €805 million).

## Group Profit or Loss

The financial result was €-106 million (H1 2017: €-105 million). The tax expense was €-162 million compared to €-197 million in the same period last year. Earnings after taxes from continuing operations thus amounted to €501 million (H1 2017: €503 million). Since no companies are classified as discontinued operations, Group profit also amounted to €501 million (H1 2017: €502 million). The share of Group profit held by Bertelsmann shareholders was €349 million (H1 2017: €308 million). The non-controlling interests in Group profit came to €152 million (H1 2017: €194 million).

## Net Assets and Financial Position

### Financing Guidelines

Bertelsmann's overall financial policy target is to ensure a balanced relationship of financing security, return on equity and growth. For this purpose, 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 key financial target is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA over a 12-month period and limited to the defined long-term maximum of 2.5. As of June 30, 2018, operating EBITDA (12 months) amounted to €2,502 million. Economic debt is defined as net financial debt less 50 percent of the nominal capital of the hybrid bonds amounting to €625 million (December 31, 2017: €625 million) plus provisions for pensions amounting to €1,683 million (December 31, 2017: €1,685 million), profit participation capital amounting to €413 million (December 31, 2017: €413 million) and the present value of operating leases amounting to €1,224 million (December 31, 2017: €1,261 million). As of June 30, 2018, economic debt was €6,794 million (December 31, 2017: €6,213 million). In determining the leverage factor, the economic debt and the 12-month operating EBITDA are modified to enable financial management that corresponds to the Group's structure and its manageable indebtedness. Economic debt was therefore increased by €112 million (December 31, 2017: €125 million), and operating EBITDA decreased by €-45 million (December 31, 2017: €-99 million). This gives a leverage factor of 2.8 as of June 30, 2018 (December 31, 2017: 2.5).

Owing to seasonal influences, net financial debt increased to €4,099 million compared to €3,479 million as of December 31, 2017. The increase is attributable, among other things, to dividend payments to shareholders and non-controlling interests, most of which were made during the first half of the year.

### Financing Activities

A promissory note for €200 million due in June 2018 was repaid in the reporting period. In July 2018, Bertelsmann issued a floating rate note with a term of up to two years in the amount of €200 million in a private placement.

### Rating

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.

## Consolidated Cash Flow Statement (Summary)

in € millions	H1 2018	H1 2017
Cash flow from operating activities	309	390
Cash flow from investing activities	(354)	(563)
Cash flow from financing activities	(459)	128
Change in cash and cash equivalents	(504)	(45)
Exchange rate effects and other changes in cash and cash equivalents	9	(21)
Cash and cash equivalents on 1/1	1,442	1,376
Cash and cash equivalents on 6/30	947	1,310
Less cash and cash equivalents included within assets held for sale	–	(5)
Cash and cash equivalents on 6/30 (according to the consolidated balance sheet)	947	1,305

### Cash Flow Statement

In the reporting period, Bertelsmann generated cash flow from operating activities of €309 million (H1 2017: €390 million). The cash flow from investing activities was €-354 million compared to €-563 million in the same period last year. The cash flow from financing activities was €-459 million (H1 2017: €128 million). The difference is mainly attributable to bonds issued in the same period last year. Cash and cash equivalents fell to €947 million as of June 30, 2018 (December 31, 2017: €1,440 million).

### Investments

According to the cash flow statement, investments in the first half of 2018 amounted to €476 million (H1 2017: €636 million). Investments in intangible assets came to €145 million (H1 2017: €159 million) and were attributable primarily to BMG for the acquisition of music catalogs and to RTL Group for investments in film rights. As in the same period last year, the majority of investments in property, plant and equipment, totaling €143 million (H1 2017: €210 million),

was attributable to Arvato. The sum of €120 million was invested in financial assets (H1 2017: €112 million). Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €68 million in the reporting period (H1 2017: €155 million).

### Balance Sheet

Total assets came to €23.6 billion as of June 30, 2018 (December 31, 2017: €23.7 billion). Pension provisions remained virtually unchanged at €1.7 billion (December 31, 2017: €1.7 billion). Equity amounted to €9.3 billion compared to €9.1 billion as of December 31, 2017. This resulted in an equity ratio of 39.6 percent (December 31, 2017: 38.5 percent). Cash and cash equivalents decreased to €947 million as of June 30, 2018, from €1,440 million as of December 31, 2017.

### Employees

As of June 30, 2018, Bertelsmann had 120,807 employees worldwide.



## Performance of the Group Divisions

### RTL Group

RTL Group recorded a positive business performance with revenue and earnings growth in the first half of 2018. RTL Group revenues increased by 2.3 percent to €3.0 billion (H1 2017: €3.0 billion). This was driven by the growing digital businesses, rising platform revenues and, in particular, the positive performance of Fremantle Media and RTL Nederland. RTL Group's Operating EBITDA improved by 3.0 percent to €643 million (H1 2017: €624 million). Alongside a significant improvement in earnings at RTL Nederland, the two largest business units – Mediengruppe RTL Deutschland and Groupe M6 – also recorded higher earnings.

Despite the FIFA World Cup 2018 being broadcast by competitors, the families of channels in the core markets of Germany, France and the Netherlands were largely able to maintain their position in the net TV advertising markets. In Germany, the flagship channel RTL Television once again was the only channel to attract a double-digit audience share in its core target demographic; the channels RTL Plus and Super RTL both achieved higher ratings in the first half of 2018. In France, the Groupe M6 family of channels largely maintained its audience share in its core target group. The Dutch family of channels led by the flagship RTL 4 remained number one among young audiences in the Netherlands.

Fremantle Media recorded a significant rise in revenues despite negative exchange rate effects. The upturn is mainly due to the positive performance of Fremantle Media North America, driven by the return of "American Idol" and UFA.

RTL Group's digital businesses, including its multi-platform networks and ad-tech businesses, continued their dynamic growth. In the period under review, digital revenues increased by 9.0 percent to €424 million (H1 2017: €389 million).

### Penguin Random House

Penguin Random House recorded declines in sales and earnings due to exchange rate effects, among other factors. Including Germany's Verlagsgruppe Random House, which is wholly owned by Bertelsmann, revenues amounted to nearly €1.5 billion, 3.3 percent down from just over €1.5 billion in the first half of the prior year. Strong growth in audio formats, and numerous bestsellers such as "The President Is Missing" by Bill Clinton and James Patterson and "12 Rules for Life" by Jordan B. Peterson were offset mainly by negative exchange rate effects. Operating EBITDA fell by 17.0 percent to €171 million (H1 2017: €206 million).

Penguin Random House invested in the expansion of its direct-to-reader relationships and continued to optimize its retail supply chains. During the reporting period, the publishing portfolio was expanded with the acquisition of the non-fiction publisher Rodale Books in the United States and the paperback publisher Hind Pocket Books in India.

In the United States, Penguin Random House had 178 titles on the "New York Times" bestseller lists in the first half of the year, 25 of them at number one. The biggest bestsellers of the reporting period were "The President Is Missing" and "12 Rules for Life," as well as Ernest Cline's novel "Ready Player One," which served as the basis for the eponymous Steven Spielberg movie, and was also very successful as an audiobook.

In the United Kingdom, 41 percent of all books on the "Sunday Times" bestseller lists were Penguin Random House titles. In addition to the above-mentioned works that were successful in the United States, "Sapiens" by Yuval Noah Harari and "Still Me" by Jojo Moyes sold particularly well in the United Kingdom.

At Penguin Random House Grupo Editorial, the progressive integration of the Ediciones B publishing group and growth across print and audio resulted in higher revenues. This compensated for countervailing effects arising from difficult conditions in some Latin American markets.

In Germany, Verlagsgruppe Random House had 251 titles on the "Spiegel" bestseller lists, 11 of them at number one. The publishing group maintained its market-leading position despite lower year-on-year sales figures.

Multiple Penguin Random House authors won prestigious awards, including a Golden Man Booker Prize for Michael Ondaatje's "The English Patient" as the best work among the 50 Man Booker Prize winners to date.

### Gruener + Jahr

The publishing subsidiary Gruener + Jahr continued its strategic transformation in the first half of 2018. Its digital business grew once again. In Germany, new businesses increased their revenues and results, such as the newly launched magazines and the in-house start-up Applike. Revenues declined by 5.6 percent to €701 million in the first half of 2018 (H1 2017: €743 million), due in particular to continuing portfolio measures, including the sale of the

magazines business in the Netherlands and the sale of "Grazia" in Germany, as well as to advertising restraint in certain industries. Operating EBITDA amounted to €51 million (H1 2017: €59 million).

Revenues at G+J Germany were stable. The print ad business and newsstand sales declined due to market conditions. In sum, the newly launched magazines had a positive impact on the overall results; the most recent additions were "Dr. v. Hirschhausen's Stern Gesund Leben" and "JWD."

G+J's digital business grew again in the first half of 2018. The digital advertising business in particular had a positive impact, and AppLike recorded strong growth again. The share of digital business in the core markets of Germany and France increased again and now stands at 26 percent.

G+J France recorded declines in its revenues and earnings. This was mainly due to the print advertising business. By contrast, the digital advertising business on the brand sites grew strongly, surging by more than 30 percent. The business with web videos delivered a particularly strong performance. Prisma Media continues to be the leading digital publisher in France.

Revenues at Dresden-based DDV Mediengruppe remained stable, and earnings were moderately below the previous year's level. The content communication agency Territory recorded a slightly positive business development.

## BMG

Bertelsmann's music subsidiary, BMG, saw sustained growth and further enhanced its market position in the first six months of the 2018 financial year. Despite negative exchange rate effects, sales increased by 3.3 percent to €241 million (H1 2017: €233 million). This was due to organic growth in its recorded music and production music businesses. The music publishing business proved stable. Operating EBITDA rose by 5.0 percent to €42 million in the reporting period, compared with €40 million in the same period of the previous year. This was based on strong performance in US and UK frontline and catalog recordings.

The company continued to pursue its distinctive repertoire strategy, which focuses on established artists, and took on the administration of the publishing rights of Ringo Starr, Lenny Kravitz and Yusuf/Cat Stevens in the first half of the year. Artists including Dido, Lenny Kravitz, Good Charlotte, Alice in Chains and Gabrielle also signed with BMG for upcoming album releases.

BMG artists and songwriters achieved significant chart successes in the reporting period. In the recorded music business, this included number-one albums for country star Jason Aldean (United States) and Australian-British singer Kylie Minogue (United Kingdom). In the publishing business, singer/songwriter George Ezra topped the UK album charts, and songwriters signed with the company were involved in three of the five biggest radio hits of the first half of the year in the United States, among other successes.

In April, the company acquired Big Bang & Fuzz, one of the leading production music firms in the Asia-Pacific region. In June, BMG took over the catalog of the legendary French singer/songwriter Michel Polnareff, whose publishing rights it was already managing. In addition, it took over the name rights and selected audio and video material from the 1960s British TV program "Ready Steady Go!" Following BMG's entry into the audiovisual segment, in February the company successfully licensed rights to its first major production to a well-known US distributor: Magnolia Pictures acquired regional rights to "Bad Reputation," a documentary about the rock singer Joan Jett.

At mid-year, BMG expanded its management team. This is to ensure that the sustained growth of the music company established 10 years ago is also reflected in its structure.

## Arvato

Arvato's services businesses delivered a positive performance in the first half of 2018. Arvato increased both its revenues and its operating result. Revenues grew by 7.5 percent to €2.0 billion (H1 2017: €1.9 billion) and operating EBITDA improved by 21.1 percent to €175 million (H1 2017: €145 million).

The service center business of Arvato CRM Solutions developed positively and contributed to Arvato's revenue and earnings growth. The main growth driver was the expansion of business with large, international clients in the IT high-tech and Internet sectors. At the end of January, Bertelsmann announced that the Group was reviewing strategic options for Arvato's CRM business. This process is ongoing.

The logistics services business within the Solution Group SCM experienced strong organic growth during the reporting period – particularly as a result of new orders and clients in the fashion, IT high-tech and healthcare sectors gained in 2017. In addition, the existing worldwide network of locations was extended by the opening of new distribution centers and the expansion of existing ones.



Arvato Financial Solutions' business also continued to develop positively in the reporting period. First-half revenues and earnings increased year on year, a development supported primarily by strong business performance in the German-speaking territories (GSA). With the aim of expanding and further automating the existing solution offerings, 3C Deutschland GmbH was acquired, as well as a shareholding in the Israeli cybersecurity company SecuredTouch, which specializes in behavioral biometrics.

The IT services provider Arvato Systems grew organically and profitably in the reporting period. This positive development was due in particular to a major order from a company in the energy sector. The IT services provider also made significant progress in transforming its existing business models, and saw increasing demand for cloud-based solutions. In the attractive business with its proprietary software solutions, Arvato Systems was able to win a major client from the United States.

### **Bertelsmann Printing Group**

The Bertelsmann Printing Group faced a very challenging market environment in the first half of 2018 as paper price increases of up to 20 percent within the past 18 months were met with customer restraint. As a result, the Bertelsmann Printing Group recorded a decline in revenues and operating profit in the first six months of FY 2018. The group's revenues were down 5.3 percent year on year to €768 million (H1 2017: €811 million). Operating EBITDA fell by 39.8 percent to €28 million (H1 2017: €47 million).

The Bertelsmann Printing Group's offset printing businesses remained stable at a good earnings level in the first six months. Europe's leading offset printer, Mohn Media, made a good start to the 2018 financial year and is on target overall. GGP Media, which specializes in print solutions for book publishers, fell slightly short of expectations due to weaker demand from some major customers. The BPG subsidiary Vogel Druck, which specializes in small- to medium-circulation periodicals and catalogs, won new key customers.

The gravure printing activities bundled in the Prinovis Group in Germany declined in the reporting period, due to significantly lower volumes in the retail, mail-order and magazine-publishing sectors, and were well below schedule in terms of revenues and EBITDA. Against this trend, the group's gravure activities in the United Kingdom and at the Liverpool site were stable and above target.

Demand was weak in the US market as well; the business activities of Bertelsmann Printing Group's US printing plants declined as a result.

Against the backdrop of the declining market, revenues in storage media replication developed according to plan, decreasing as expected. Another major customer was successfully acquired in the United States.

### **Bertelsmann Education Group**

The education activities united in the Bertelsmann Education Group delivered a positive performance in the first six months of the present year. The division's revenues and operating profit increased, and all of its companies strategically developed their range of courses or service offerings.

Together, Bertelsmann's education businesses achieved significant revenue growth of 21.3 percent, to €111 million (H1 2017: €92 million). Besides the first-time full consolidation of the university services provider HotChalk, the continued growth of the online education provider Relias contributed significantly to this development. The group improved its operating EBITDA year on year to €10 million (H1 2017: €-4 million).

The Bertelsmann subsidiary Relias continued its expansion and achieved double-digit organic growth in the reporting period. The company expanded its customer base to more than 6,750 institutions whose employees completed around 21.1 million online courses in the first half of 2018. Relias also strengthened its activities in the hospital and analytics segments, in part by advancing the integration of WhiteCloud Analytics, which was acquired in 2017.

The online lifelong learning platform Udacity, in which Bertelsmann owns a significant stake, further expanded its range of courses and introduced several new Nanodegrees on topics such as artificial intelligence. Udacity further expanded its business with corporate clients, including Audi, AT&T and Credit Suisse.

### **Bertelsmann Investments**

Bertelsmann further expanded its global network of shareholdings in start-ups during the reporting period. In total, the four funds – Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI) – made 31 new and follow-on investments in the first half of 2018, while also completing several successful exits. As of June 30, 2018, Bertelsmann had stakes in 176 international start-ups through its corporate funds, more than half of them through BAI.

The focus across all funds was on investments in young companies with innovative business models, such as digital

media, e-commerce, fintech and education. All four funds helped to scout digital trends for Bertelsmann and strengthen its activities in the growth regions of China, India and Brazil, as well as in North America.

The division's business performance is presented on the basis of EBIT, which was €45 million (H1 2017: €41 million); the difference compared to the same period last year is mainly a consequence of new IFRS 9 regulations governing the valuation of financial instruments, the effects of which are mainly reflected in profit or loss (see further remarks in the Interim Consolidated Financial Statements, p. 25). Positive effects from the measurement of Bertelsmann Investments' holdings at fair value, as well as dilution gains resulting from investments in companies affiliated with the division, again made a positive contribution to Group profit.

During the reporting period, BAI invested in 11 new start-ups and emphasized its commitment to the development of its portfolio companies with 11 follow-on investments. The fund made its initial investment in the Chinese car-sharing service provider Dadao, and follow-on investments in the fitness app Keep, e-commerce platform Club Factory and financial services provider Linklogis. The tech company Xiaomi, in which BAI is indirectly invested via the fund Morningside, listed in Hong Kong.

In India, BII supported its portfolio companies in the further expansion of their businesses. It also managed to partially divest itself of a stake in Saavn, a music streaming service.

Bertelsmann strengthened its educational activities in Brazil, acquiring a majority stake in Affero Lab via BBI. Affero Lab is one of the largest providers of corporate training in the Brazilian market, with approximately 800,000 people impacted by its services every year. Following its full consolidation, the holding's revenues and operating EBITDA are now reported in the Bertelsmann Investments financials.

BDMI invested in eight companies during the reporting period, among them the start-up Boost, which operates in the software-as-a-service (SaaS) sector.

## Significant Events after the Balance Sheet Date

On July 9, 2018, Günter Göbel was elected to the Supervisory Board of Bertelsmann SE & Co. KGaA as employee representative. As the new Chairman of the Corporate

Works Council of Bertelsmann SE & Co. KGaA, he succeeds Helmut Gettkant, who resigned from the Supervisory Board effective at the end of the ordinary Annual General Meeting.

In July 2018, Groupe M6, which belongs to RTL Group, announced that it had entered into exclusive negotiations with the US-based investment fund GACP, with a view to selling its entire shareholding in the Football Club Girondins de Bordeaux.

## Risks and Opportunities

### Risk Management System

Please refer to the 2017 Combined Management Report for a description of Bertelsmann's risk management system (RMS) and the accounting-related RMS and internal control system (ICS).

### Significant Changes in Risks Compared to the 2017 Combined Management Report

Please refer to the respective disclosures in the 2017 Combined Management Report for a description of the key risks to the Bertelsmann Group. Overall, as of June 30, 2018, the same Group risks are considered material as those existing as of December 31, 2017. However, the significance of individual types of risk in terms of Bertelsmann's future business development has changed. This is attributable in particular to the increase in customer risks as well as to the risks from changes in the market environment and the legal environment. The Group's most significant risk remains the pricing and discounting risk.

### Strategic and Operational Risks

The strategic and operational risk position for the Group remains essentially unchanged from that depicted in the 2017 Combined Management Report.

The growth dynamic in the eurozone is expected to be subdued but to remain solid. Nonetheless, there are a number of risks associated with global political uncertainties such as the potential expansion of protectionist measures and the uncertain long-term impact of the United Kingdom's exit from the European Union. For Bertelsmann, this could result primarily in indirect risks to businesses that depend on the advertising markets.

## Legal and Regulatory Risks

Please refer to the 2017 Combined Management Report for details of the legal and regulatory risks. No significant changes have been identified.

## Financial Market Risks

Compared to the situation in the 2017 Combined Management Report, the financial market risks have remained unchanged at a low level.

## Overall Risk

The overall risk position has increased slightly overall compared with the previous year. No going concern risks were identified for Bertelsmann as of June 30, 2018.

## Opportunities

The assessment of opportunities has not changed substantially compared to the information presented in the Combined Management Report 2017.

## Outlook

The global economic outlook for the full year 2018 remains robust. Private consumer spending will continue to be boosted by sustained employment growth, and corporate investments are aided by favorable financing conditions. However, the focus is increasingly shifting to global political uncertainties such as the potential expansion of protectionist measures and the uncertain long-term impact of the United Kingdom's exit from the European Union. The economic estimates by the Kiel Institute for the World Economy (IfW) concerning global development are 3.8 percent for 2018, which is slightly below the previous expectations.

The growth dynamic in the eurozone is expected to be subdued but to remain solid. The IfW expects real GDP growth of 2.1 percent in 2018. Growth expectations for Germany were lowered after the economy slowed at the beginning of the year. In the IfW's view, real GDP will increase by only 2.0 percent in 2018. Real GDP in France is predicted to grow by a similarly low 1.7 percent in 2018. The IfW estimates the real growth rate in the United Kingdom to be a mere 1.2 percent. The economic outlook for the United States remains positive. The IfW expects real GDP to increase by a stronger 2.8 percent in 2018.

These expectations remain subject to a high level of uncertainty due to difficulties in forecasting economic developments. Certain risks remain for the global recovery. Geopolitical crises, national deficits, currency turbulence or the introduction of higher tariffs could interfere with economic performance. In addition, volatility in the financial markets is creating uncertainty. The resulting developments could adversely affect the economic situation, which is a key factor influencing Bertelsmann's business development.

Bertelsmann confirms the outlook for revenues, operating EBITDA and BVA as presented in the 2017 Combined Management Report.

These forecasts are based on Bertelsmann's current business strategy, as outlined in the "Corporate Profile" section. In general, the forecasts reflect careful consideration of risks and opportunities and are based on operational planning and the medium-term outlook for the corporate divisions. All statements concerning potential economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying suppositions 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.



# Condensed Interim Consolidated Financial Statements

## Consolidated Income Statement

in € millions	H1 2018	H1 2017
Revenues	8,237	8,134
– thereof revenues from contracts with customers	8,127	n/a
– thereof revenues from financial services	110	n/a
Other operating income	184	248
Cost of materials	(2,568)	(2,575)
Royalty and license fees	(661)	(681)
Personnel costs	(2,761)	(2,747)
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	(311)	(311)
Other operating expenses	(1,400)	(1,356)
Results from investments accounted for using the equity method	27	26
Impairment losses and reversals on investments accounted for using the equity method	(2)	(2)
Results from financial assets	5	1
Results from disposals of investments	19	68
EBIT (earnings before interest and taxes)	769	805
Interest income	9	8
Interest expenses	(55)	(65)
Other financial income	4	12
Other financial expenses	(64)	(60)
Financial result	(106)	(105)
Earnings before taxes from continuing operations	663	700
Income tax expense	(162)	(197)
Earnings after taxes from continuing operations	501	503
Earnings after taxes from discontinued operations	–	(1)
Group profit or loss	501	502
attributable to:		
Bertelsmann shareholders		
Earnings from continuing operations	349	309
Earnings from discontinued operations	–	(1)
Earnings attributable to Bertelsmann shareholders	349	308
Non-controlling interests		
Earnings from continuing operations	152	194
Earnings from discontinued operations	–	–
Earnings attributable to non-controlling interests	152	194

The new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time in the first half of 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section “Impact of New Financial Reporting Standards.”

## Consolidated Statement of Comprehensive Income

in € millions	H1 2018	H1 2017
Group profit or loss	501	502
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Remeasurement component of defined benefit plans	7	161
Fair value reserve of equity instruments	1	n/a
Share of other comprehensive income of investments accounted for using the equity method	–	–
<b>Items that will be reclassified subsequently to profit or loss when specific conditions are met</b>		
Currency translation differences		
– changes recognized in equity	54	(283)
– reclassification adjustments for gains (losses) included in profit or loss	20	(2)
Available-for-sale financial assets		
– changes in fair value recognized in equity	n/a	(2)
– reclassification adjustments for gains (losses) included in profit or loss	n/a	(36)
Cash flow hedges		
– changes in fair value recognized in equity	20	(35)
– reclassification adjustments for gains (losses) included in profit or loss	2	(13)
Share of other comprehensive income of investments accounted for using the equity method	(11)	(6)
Other comprehensive income net of tax	93	(216)
Group total comprehensive income	594	286
attributable to:		
Bertelsmann shareholders	430	151
Non-controlling interests	164	135

The new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time in the first half of 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

## Consolidated Balance Sheet

in € millions	6/30/2018	12/31/2017
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	8,217	8,084
Other intangible assets	2,586	2,478
Property, plant and equipment	1,654	1,658
Investments accounted for using the equity method	834	952
Other financial assets	681	644
Trade and other receivables	81	87
Other non-financial assets	789	710
Deferred tax assets	942	920
	15,784	15,533
<b>Current assets</b>		
Inventories	1,735	1,664
Trade and other receivables	3,917	4,010
Other financial assets	116	67
Other non-financial assets	972	868
Current income tax receivables	122	120
Cash and cash equivalents	947	1,440
	7,809	8,169
Assets held for sale	19	3
	23,612	23,705
<b>Equity and liabilities</b>		
<b>Equity</b>		
Subscribed capital	1,000	1,000
Capital reserve	2,345	2,345
Retained earnings	4,740	4,491
Bertelsmann shareholders' equity	8,085	7,836
Non-controlling interests	1,264	1,283
	9,349	9,119
<b>Non-current liabilities</b>		
Provisions for pensions and similar obligations	1,683	1,685
Other provisions	133	126
Deferred tax liabilities	134	124
Profit participation capital	413	413
Financial debt	4,034	4,251
Trade and other payables	322	366
Other non-financial liabilities	373	391
	7,092	7,356
<b>Current liabilities</b>		
Other provisions	287	323
Financial debt	1,012	668
Trade and other payables	4,103	4,313
Other non-financial liabilities	1,670	1,709
Current income tax payables	91	214
	7,163	7,227
Liabilities related to assets held for sale	8	3
	23,612	23,705

The new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time in the first half of 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

## Consolidated Cash Flow Statement

in € millions	H1 2018	H1 2017
Group earnings before interest and taxes	769	804
Taxes paid	(283)	(232)
Depreciation and write-ups of non-current assets	317	323
Results from disposals of investments	(19)	(67)
Gains/losses from disposals of non-current assets	(23)	(4)
Change in provisions for pensions and similar obligations	(46)	(39)
Change in other provisions	(36)	(22)
Change in net working capital	(334)	(388)
Fair value measurements of investments	(44)	(13)
Other effects	8	28
<b>Cash flow from operating activities</b>	<b>309</b>	<b>390</b>
– thereof discontinued operations	–	–
Investments in:		
– intangible assets	(145)	(159)
– property, plant and equipment	(143)	(210)
– financial assets	(120)	(112)
– purchase prices for consolidated investments (net of acquired cash)	(68)	(155)
Disposals of subsidiaries and other business units	11	(3)
Disposals of other fixed assets	111	76
<b>Cash flow from investing activities</b>	<b>(354)</b>	<b>(563)</b>
– thereof discontinued operations	–	–
Issues of bonds and promissory notes	–	497
Redemption of bonds and promissory notes	(200)	–
Proceeds from/redemption of other financial debt	294	167
Interest paid	(116)	(116)
Interest received	8	7
Dividends to Bertelsmann shareholders	(180)	(180)
Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))	(262)	(247)
Change in equity	(3)	–
<b>Cash flow from financing activities</b>	<b>(459)</b>	<b>128</b>
– thereof discontinued operations	–	–
<b>Change in cash and cash equivalents</b>	<b>(504)</b>	<b>(45)</b>
Exchange rate effects and other changes in cash and cash equivalents	9	(21)
Cash and cash equivalents 1/1	1,442	1,376
Cash and cash equivalents 6/30	947	1,310
Less cash and cash equivalents included within assets held for sale	–	(5)
<b>Cash and cash equivalents 6/30 (according to the consolidated balance sheet)</b>	<b>947</b>	<b>1,305</b>

The new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time in the first half of 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

## Change in Net Financial Debt

in € millions	H1 2018	H1 2017
Net financial debt at 1/1	(3,479)	(2,625)
Cash flow from operating activities	309	390
Cash flow from investing activities	(354)	(563)
Interest, dividends and changes in equity, additional payments (IAS 32.18(b))	(553)	(536)
Exchange rate effects and other changes in net financial debt	(22)	25
<b>Net financial debt at 6/30</b>	<b>(4,099)</b>	<b>(3,309)</b>

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



## Consolidated Statement of Changes in Equity

	Subscribed capital	Capital reserve <sup>1)</sup>	Retained earnings						Bertelsmann shareholders' equity	Non-controlling interests	Total
			Other retained earnings	Accumulated other comprehensive income <sup>2)</sup>							
				Currency translation differences	Available-for-sale financial assets	Fair value reserve	Cash flow hedges	Share of other comprehensive income of investments accounted for using the equity method			
in € millions											
Balance as of 1/1/2017	1,000	2,345	4,276	113	85	n/a	32	21	7,872	2,023	9,895
Group profit or loss	-	-	308	-	-	n/a	-	-	308	194	502
Other comprehensive income	-	-	151	(229)	(38)	n/a	(36)	(5)	(157)	(59)	(216)
Group total comprehensive income	-	-	459	(229)	(38)	n/a	(36)	(5)	151	135	286
Dividend distributions	-	-	(180)	-	-	n/a	-	-	(180)	(258)	(438)
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	1	-	-	n/a	-	-	1	-	1
Equity transactions with shareholders	-	-	(179)	-	-	n/a	-	-	(179)	(258)	(437)
Other changes	-	-	(5)	-	-	n/a	-	-	(5)	1	(4)
Balance as of 6/30/2017	1,000	2,345	4,551	(116)	47	n/a	(4)	16	7,839	1,901	9,740
Balance as of 1/1/2018	1,000	2,345	4,631	(196)	69	n/a	(28)	15	7,836	1,283	9,119
Adjustment	-	-	60	-	(69)	10	-	(8)	(7)	(2)	(9)
Balance as of 1/1/2018 <sup>3)</sup>	1,000	2,345	4,691	(196)	n/a	10	(28)	7	7,829	1,281	9,110
Group profit or loss	-	-	349	-	n/a	-	-	-	349	152	501
Other comprehensive income	-	-	1	73	n/a	1	17	(11)	81	12	93
Group total comprehensive income	-	-	350	73	n/a	1	17	(11)	430	164	594
Dividend distributions	-	-	(180)	-	n/a	-	-	-	(180)	(198)	(378)
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	7	-	n/a	-	-	-	7	(3)	4
Equity transactions with shareholders	-	-	(173)	-	n/a	-	-	-	(173)	(201)	(374)
Other changes	-	-	-	-	n/a	(1)	-	-	(1)	20	19
Balance as of 6/30/2018	1,000	2,345	4,868	(123)	n/a	10	(11)	(4)	8,085	1,264	9,349

1) The capital reserve mainly includes share premiums received from the issue of ordinary shares in excess of their par values.

2) Thereof, as of June 30, 2018, no amounts relate to assets classified as held for sale in accordance with IFRS 5 (H1 2017: €-12 million).

3) The adjustments result from the first-time application of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

## Segment Information (Continuing Operations)

in € millions	Penguin									
	RTL Group		Random House		Gruner + Jahr		BMG		Arvato	
	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
Revenues from external customers	3,040	2,975	1,482	1,532	690	731	240	232	1,968	1,829
Intersegment revenues	6	3	–	–	11	12	1	1	34	33
Divisional revenues	3,046	2,978	1,482	1,532	701	743	241	233	2,002	1,862
Operating EBITDA	643	624	171	206	51	59	42	40	175	145
EBITDA margin <sup>1)</sup>	21.1%	20.9%	11.5%	13.5%	7.3%	7.9%	17.3%	17.0%	8.8%	7.8%
Impairment (-)/reversals (+) on intangible assets and property, plant and equipment	1	(1)	–	–	–	–	–	–	–	(1)
Results from investments accounted for using the equity method	26	32	(1)	–	5	4	–	–	4	4

The new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time in the first half of 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior-year figures have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

1) Operating EBITDA as a percentage of revenues.

2) The business development of Bertelsmann Investments is determined primarily on the basis of EBIT. EBIT totaled €45 million (H1 2017: €41 million).

## Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	H1 2018	H1 2017
EBIT from continuing operations	769	805
Special items		
– adjustment to carrying amounts on assets held for sale	3	3
– impairment on other financial assets at amortized cost	1	7
– impairment losses and reversals on investments accounted for using the equity method	2	2
– results from disposals of investments	(19)	(68)
– fair value measurements of investments	(44)	(13)
– restructuring and other special items	49	54
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	311	311
Adjustments on amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment included in special items	(1)	(2)
Operating EBITDA from continuing operations	1,071	1,099

Bertelsmann Printing Group		Bertelsmann Education Group		Bertelsmann Investments <sup>2)</sup>		Total divisions		Corporate		Consolidation		Continuing operations	
H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
689	718	111	92	5	–	8,225	8,109	12	25	–	–	8,237	8,134
79	93	–	–	–	–	131	142	16	21	(147)	(163)	–	–
768	811	111	92	5	–	8,356	8,251	28	46	(147)	(163)	8,237	8,134
							–						–
28	47	10	(4)	–	(1)	1,120	1,116	(44)	(18)	(5)	1	1,071	1,099
3.7%	5.7%	8.9%	-4.4%	-2.1%	n/a	13.4%	13.5%	n/a	n/a	n/a	n/a	13.0%	13.5%
–	–	–	–	–	–	1	(2)	–	–	–	–	1	(2)
–	–	3	(4)	(10)	(9)	27	27	–	–	–	(1)	27	26

## Selected Explanatory Notes

### Accounting Principles

The Interim Financial Report for Bertelsmann SE & Co. KGaA has been prepared according to Section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and has been subject to a limited review by the Group’s auditor. It complies with International Financial Reporting Standards (IFRS) and the related interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) applicable in the European Union (EU-IFRS) and contains Condensed Interim Consolidated Financial Statements prepared in accordance

with IAS 34 Interim Financial Reporting, including selected explanatory notes. This report was prepared – with the exception of the financial reporting standards applied for the first time in the current financial year – using fundamentally the same accounting and measurement policies as in the Consolidated Financial Statements of December 31, 2017. A detailed description of these policies is presented in the notes to the Consolidated Financial Statements in the 2017 Annual Report.

### Impact of New Financial Reporting Standards

In terms of the merits and the amount, the effects from the first-time application of the new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers essentially meet the expectations presented in the 2017 Consolidated Financial Statements.

The following sections provide explanations of the new accounting and measurement policies applied since January 1, 2018, with regard to the financial instruments and revenues from contracts with customers where they differ from those applied as of December 31, 2017.

#### IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 – the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets, and hedge accounting. IFRS 9 introduces new rules for classifying and measuring financial assets and includes new rules for impairment of financial instruments. A detailed description of the new impairment model can be found in the 2017 Annual Report in the section “Impact of Issued Financial Reporting Standards That Are Not Yet Effective” on page 53. Bertelsmann makes use of the exception and does not adjust comparative information from the prior period. As a result, only the opening balance as of January 1, 2018, has been adjusted.

The following table presents the classification and measurement categories for financial assets in accordance with IAS 39, the reconciliation to the new classification and

measurement categories in accordance with IFRS 9 and the respective carrying amounts as of January 1, 2018.

### Reconciliation of the Classes and Measurement Categories of Financial Assets from IAS 39 to IFRS 9 as of January 1, 2018

in € millions	Category in accordance with IAS 39						Balance as of 12/31/2017
	Loans and receivables	Available-for-sale		Financial assets initially rec- ognized at fair value through profit or loss	Financial assets held for trading	Derivatives with hedge relation	
		At amortized cost	At cost				
Measurement							
Loans	63	-	-	-	-	-	63
Investments in affiliates	-	3	15	-	-	-	18
Other investments	-	25	491	-	-	-	516
Securities and financial assets	-	1	3	19	-	-	23
Equity instru- ments and debt instruments (IFRS 9)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Derivative finan- cial instruments	-	-	-	-	87	4	91
Trade receivables	3,317	-	-	-	-	-	3,317
Receivables from participations	25	-	-	-	-	-	25
Sundry financial receivables	755	-	-	-	-	-	755
Cash	1,384	-	-	-	-	-	1,384
Other securities < 3 months	56	-	-	-	-	-	56
	5,600	29	509	19	87	4	6,248

Reclassifications	Change in measurement IFRS 9	Change in presentation IFRS 15	Balance as of 1/1/2018	Category in accordance with IFRS 9			Derivatives with hedge relation
				At amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	
-	-	-	63	50	-	13	-
(18)	-	-	n/a	n/a	n/a	n/a	n/a
(516)	-	-	n/a	n/a	n/a	n/a	n/a
(23)	-	-	n/a	n/a	n/a	n/a	n/a
557	-	-	557	-	53	504	-
-	-	-	91	-	-	87	4
-	(11)	371	3,677	3,677	-	-	-
-	-	-	25	25	-	-	-
-	1	-	756	740	-	16	-
-	-	-	1,384	1,384	-	-	-
-	-	-	56	56	-	-	-
-	(10)	371	6,609	5,932	53	620	4

In accordance with the IFRS 9 classification and measurement approach for financial assets, there are three classification categories for financial assets in the Bertelsmann Group:

- at amortized cost,
- at fair value with changes in fair value through profit or loss (FVTPL) and
- at fair value with changes in fair value through other comprehensive income (FVOCI).

In accordance with IFRS 9, equity instruments where the Bertelsmann Group has neither control nor significant influence are classified as a rule at fair value through profit or loss. Bertelsmann exercises the option granted by IFRS 9 to measure at fair value through other comprehensive income mainly for individual immaterial investments. These equity instruments were already measured at fair value in accordance with IAS 39, so that as of January 1, 2018, there was no financial impact from the measurement of these financial instruments. As of January 1, 2018, and at the end of the reporting period of these Condensed Interim Consolidated Financial Statements, the Bertelsmann Group held no debt instruments measured at fair value through other comprehensive income. Certain investments in debt instruments, primarily so-called fund-of-fund investments purchased by the Bertelsmann Investments division, were reclassified into the category of fair value through profit or loss because their contractual cash flows did not represent solely principal and interest payments. The revised method for determining impairment results in an increase of impairment by €9 million.

The first-time application of IFRS 9 had no impact on the classification and measurement of financial liabilities. Within the class of derivative financial instruments in hedge relationships, there were no reclassifications from or to other classes due to IFRS 9.

#### **IFRS 15 Revenue from Contracts with Customers**

The modified retrospective method was used for the transition to IFRS 15. The immaterial cumulative effect of the first-time application as of January 1, 2018, was recognized in retained earnings. Prior-year comparative figures were not adjusted. The accounting treatment of expected returns that are no longer offset with the receivables resulted in an increase of total assets as of January 1, 2018, of €371 million. The corresponding effects on the balance sheet position "Trade receivables" as of January 1, 2018, are shown in the table "Reconciliation of the Classes and Measurement

Categories of Financial Assets from IAS 39 to IFRS 9 as of January 1, 2018" presented in the section "IFRS 9 Financial Instruments."

Under IFRS 15, the former risk and reward approach has been replaced by a contract-based five-step model, which serves as the basis for initially identifying and distinguishing the relevant contracts with customers in the Bertelsmann Group. In a next step, the separate performance obligations explicitly or implicitly stipulated in the contract are identified, and the contract is examined for fixed and variable consideration in order to use this as a basis for determining the respective transaction price. In doing so, constraining estimates of variable consideration are adequately taken into account. If more than one separate performance obligation is identified in a contract, the transaction price is then allocated to the identified performance obligations using the method of relative stand-alone selling prices, which are generally determined as prices on the markets relevant for the respective customers. Revenue recognition occurs upon satisfaction of the performance obligation either at a point in time or over time, depending on the underlying business model. If necessary, principal-agent considerations are also taken into account in analyzing the contracts.

The prioritization of the five steps depends on the design of the underlying business model. Based on the underlying revenue sources in the Bertelsmann Group, the following key aspects are taken into consideration for accounting and measurement:

- Own products and merchandise: As a rule, the revenues resulting from these contracts are recognized at a point in time when control is transferred. Expected returns from sales of products, mainly from physical books and magazines, are shown as liabilities in the balance sheet position "Trade and other payables."
- Services: Services are generally rendered over a period of time, and the revenue is recognized based on an appropriate output- or input-based method for measuring progress. If permissible, revenues are recognized in the amount of the invoice if this amount corresponds to the value of the performance provided.
- Advertising: Advertising services are generally rendered over a period of time, and revenue is recognized on the basis of an appropriate output-based measure of progress.
- Rights and licenses: The timing of revenue recognition for business models generating revenue from licenses

depend on whether the license represents a right to access the intellectual property through the entire licensing period or a right to use when the license is granted. In particular, the underlying contracts are analyzed to determine whether the licensee is exposed to significant changes to the intellectual property or whether the intellectual property remains in the condition defined upon entering into the contract throughout the term of the contract with regard to its content and scope. While revenues from licenses granted for a right to use are realized at the date of the transfer of control, revenues from licenses for rights to access are realized over a period of time throughout the term of the contract. The majority of licenses granted in the TV business represents a right to use of intellectual

property at the date the license is granted, and as a result, revenue is recognized at the point in time the license is granted to the licensee. Rights to access are extensively used in the music business, and the revenues for these are recognized throughout the term of the contract.

IFRS 15 stipulates some practical expedients of which the following are applied in the Bertelsmann Group:

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

### Impact of Issued Financial Reporting Standards that Are Not Yet Effective

The Bertelsmann Group has not opted for early adoption of any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases, issued in January 2016, sets out principles for recognition, measurement, presentation and disclosure requirements for leases. Application of the standard is mandatory for financial years beginning on or after January 1, 2019. Due to the recognition of the right-of-use of the underlying leased objects and due to the recognition of the lease liability, the application of IFRS 16 will have a material impact

on the consolidated balance sheet of the Bertelsmann Group. Concerning the consolidated income statement, under IFRS 16, the depreciation of the right-of-use assets and the interest expense for the lease liabilities will be recognized in place of other operating expenses for operating leases. With regard to the assessment of the expected impacts of IFRS 16, which has not yet been applied, there were no material changes in the first half of 2018 compared to the expectations presented in the 2017 Consolidated Financial Statements. Further information on this topic is presented in the 2017 Annual Report.

### Scope of Consolidation

The Condensed Interim Consolidated Financial Statements as of June 30, 2018, include Bertelsmann SE & Co. KGaA and all material subsidiaries over which Bertelsmann SE & Co. KGaA is able to exercise control in accordance with IFRS 10. Joint ventures and associates are accounted for using the equity method in accordance with IAS 28. As of June 30, 2018, the scope of consolidation including Bertelsmann SE & Co. KGaA consists of 1,003 companies (December 31, 2017: 970) with 53 entries and 20 exits in the first half of 2018. This includes

909 (December 31, 2017: 879) consolidated companies. In addition, investments in 27 (December 31, 2017: 28) joint ventures and 67 (December 31, 2017: 63) associates are accounted for using the equity method in the Consolidated Financial Statements. A total of 185 (December 31, 2017: 213) companies without significant business operations is excluded from the scope of consolidation due to their negligible importance for the financial position and financial performance of the Bertelsmann Group.

## Acquisitions and Disposals

In the first half of 2018, the cash flow from acquisition activities totaled €-68 million, of which, after consideration of cash and cash equivalents acquired, €-31 million relates to new acquisitions during the first half of the year. The consideration transferred amounted to €68 million taking into account contingent consideration totaling €4 million.

In February 2018, Bertelsmann Education Group increased its interest in the US university services provider HotChalk by 36 percent through the conversion of a loan granted, the conversion of previously held shares into newly issued shares and the direct acquisition of additional shares. The acquisition of the majority interest in HotChalk strengthens Bertelsmann Education Group's position in the services segment of the US education market. As a result of obtaining control, the investment previously accounted for using the equity method is fully consolidated from the date of acquisition. The consideration transferred was €28 million, of which a cash contribution to HotChalk amounted to €11 million. Obtaining control led to a derecognition of the investment previously accounted for using the equity method, whose fair value amounted to €127 million immediately before the acquisition date, and to a reclassification of the associated share of other comprehensive income of investments accounted for using the equity method amounting to €-13 million in profit or loss in the item "Results from disposals of investments." The remeasurement of the investment already held resulted in other operating income of €2 million. Non-tax-deductible goodwill from the purchase price allocation amounted to €71 million and resulted primarily from synergies, employees taken over and new customer potential. The initial consolidation led to

an immaterial increase in Group revenues and an immaterial reduction in Group profit or loss. Consolidation of HotChalk from January 1, 2018, would have also resulted in an immaterial increase in the Group revenues and an immaterial reduction in Group profit or loss. Transaction-related costs were not material in the first half of 2018 and have been recognized in profit or loss.

In addition, the Bertelsmann Group made several acquisitions in the first half of 2018, none of which was material on a stand-alone basis. Payments net of acquired cash and cash equivalents amounted to €-33 million; the consideration transferred in accordance with IFRS 3 for these acquisitions amounted to €40 million taking into account contingent consideration of €4 million. The other acquisitions resulted in goodwill totaling €35 million, which reflects synergy potential and is not tax deductible. Transaction-related costs were not material in the first half of 2018 and have been recognized in profit or loss.

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

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



## Effects of Acquisitions

in € millions	HotChalk	Other	Total
<b>Non-current assets</b>			
Goodwill	71	35	106
Other intangible assets	89	22	111
Property, plant and equipment	1	–	1
Trade and other receivables	–	3	3
Other non-current assets	37	2	39
<b>Current assets</b>			
Inventories	–	1	1
Trade and other receivables	2	4	6
Other current assets	1	2	3
Cash and cash equivalents	13	3	16
<b>Liabilities</b>			
Financial debt	20	1	21
Other financial and non-financial liabilities	22	17	39
Fair value of pre-existing interests	127	12	139
Non-controlling interests	17	2	19

Since initial consolidation, all new acquisitions in accordance with IFRS 3 in the first half of 2018 have contributed €25 million to revenue and €-11 million to Group profit or loss. If consolidated as of January 1, 2018, these would have contributed €41 million to revenue and €-8 million to Group profit or loss.

After considering the cash and cash equivalents disposed of, the Bertelsmann Group generated cash flows totaling €11 million from disposals in the first half of 2018. The disposals led to income from deconsolidation of €5 million, which is recognized in “Results from disposals of investments.”

## Currency Translation

The following euro exchange rates were used to translate the currencies most significant to the Bertelsmann Group.

Foreign currency unit per €1		Average rates		Closing rates		
		H1 2018	H1 2017	6/30/2018	12/31/2017	6/30/2017
Australian dollar	AUD	1.5691	1.4360	1.5787	1.5346	1.4851
Canadian dollar	CAD	1.5463	1.4452	1.5442	1.5039	1.4785
Chinese renminbi	CNY	7.7092	7.4442	7.7170	7.8044	7.7385
British pound	GBP	0.8798	0.8606	0.8861	0.8872	0.8793
US dollar	USD	1.2108	1.0832	1.1658	1.1993	1.1412

## Additional Disclosures on Revenues

Group revenues are primarily generated from contracts with customers in accordance with IFRS 15. Other revenues not in the scope of IFRS 15 result from financial services in the Arvato division.

The following table shows the revenues from contracts with customers in accordance with IFRS 15 by division and broken down by the revenue sources and primary geographical areas:

### Revenue from Contracts with Customers

in € millions	RTL Group	Penguin Random House	Gruener + Jahr	BMG	Arvato	Bertels- mann Printing Group	Bertels- mann Education Group	Total divisions <sup>1)</sup>
<b>Revenue Sources</b>								
Own products and merchandise	72	1,415	309	20	106	15	–	1,937
Services	187	40	196	–	1,752	657	111	2,943
Advertising	1,760	–	178	–	–	17	–	1,955
Rights and licenses	1,021	27	7	220	–	–	–	1,275
	3,040	1,482	690	240	1,858	689	111	8,110
<b>Geographical Areas</b>								
Germany	1,019	104	447	17	752	425	1	2,765
France	723	6	154	10	195	32	–	1,120
United Kingdom	106	152	4	59	102	81	–	504
Other European countries	669	125	67	28	518	92	–	1,499
United States	441	853	9	98	154	51	108	1,714
Other countries	82	242	9	28	137	8	2	508
	3,040	1,482	690	240	1,858	689	111	8,110

As prior-year figures have not been adjusted in accordance with the transitional provisions of IFRS 15, they are not included in this table.

1) Excluding Bertelsmann Investments.

The revenues reported by source of revenue and geographical areas reflect exclusively the revenues in accordance with IFRS 15 and consequently differ from the breakdown of revenues in segment reporting.

point in time of €3,124 million and performance obligations fulfilled over a certain period of time of €4,986 million. They are mainly attributable to the following divisions:

The revenues from contracts with customers comprise in the reporting period performance obligations fulfilled at a certain

## Timing of Revenue Recognition from Contracts with Customers

in € millions	Point in time	Over time	Total divisions <sup>1)</sup>
RTL Group	910	2,130	3,040
Penguin Random House	1,432	50	1,482
Gruner + Jahr	438	252	690
BMG	68	172	240
Arvato	197	1,661	1,858
Bertelsmann Printing Group	78	611	689
Bertelsmann Education Group	1	110	111
	3,124	4,986	8,110

As prior-year figures have not been adjusted in accordance with the transitional provisions of IFRS 15, they are not included in this table.

1) Excluding Bertelsmann Investments.

## Additional Disclosures on Financial Instruments

The principles and methods used for the fair value measurement remain unchanged compared to those used in the previous year. Only disclosures on financial instruments that are significant to an understanding of the changes in financial position and financial performance since the end of the last annual reporting period are explained below.

The following hierarchy is used to determine the fair value of financial instruments.

### Level 1:

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

### Level 2:

For measuring the fair value of unlisted derivatives, Bertelsmann uses various financial methods reflecting the prevailing market conditions and risks at the respective balance sheet dates. Irrespective of the type of financial instrument, future cash flows are discounted at the end of the reporting period based on the respective market interest rates and yield curves at the end of the reporting period.

The fair value of forward exchange transactions is calculated using the average spot prices at the end of the reporting

period and taking into account forward markdowns and markups for the remaining term of the transactions. The fair value of interest rate derivatives is calculated on the basis of the respective market rates and yield curves at the end of the reporting period. The fair value of forward commodity transactions is derived from the stock exchange listings published at the end of the reporting period. Any incongruities to the standardized stock exchange contracts are reflected through interpolation or additions.

### Level 3:

If no observable market data is available, fair value measurement is based primarily on cash flow-based valuation techniques. As a rule, qualified financing rounds are used for minority stakes in the Bertelsmann Investments division.

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

The option offered in IFRS 13.48 (net risk position) is used for measuring the fair value of financial derivatives. To identify the credit exposure from financial derivatives, the respective net position of the fair values with the contractual partners is used as a basis, as these are managed based on a net position in view of their market or credit default risks.

The measurement category “fair value through profit or loss” mainly includes the minority stakes in other entities and so-called fund-of-fund investments purchased by the Bertelsmann Investments division. With deferred taxes taken into consideration, the gains and losses resulting from fluctuations in the fair value are recognized in profit or loss. As a rule, the fair value measurement of fund-of-fund investments is based on the valuations of the external management as presented in regular reporting and taking into account a fungibility discount. The fair value of listed minority stakes is based on quoted (unadjusted) market prices at the end of the reporting period. When possible, measuring fair value of minority stakes in other entities is based on observable prices obtained as part of the most recently implemented qualified financing rounds, taking into account the life and development cycle of the entity.

The market value of the 2001 profit participation certificates with a closing rate of 336.00 percent on the last day of trading in the first half of 2018 on the Frankfurt Stock Exchange was €955 million (December 31, 2017: €950 million with a rate of 334.00 percent) and, correspondingly, €33 million for the 1992 profit participation certificates with a rate of 195.00 percent (December 31, 2017: €34 million with a rate of 199.00 percent). The market values are based on level 1 of the fair value hierarchy.

In June 2018, a fixed interest promissory note in the amount of €200 million was repaid on time.

On June 30, 2018, the cumulative market value of the listed bonds totaled €3,600 million (December 31, 2017: €3,695 million) with a nominal volume of €3,500 million (December 31, 2017: €3,500 million) and a carrying amount of €3,477 million (December 31, 2017: €3,476 million). The stock market prices are based on level 1 of the fair value hierarchy. On June 30, 2018, the total carrying amount of the private placements and promissory notes totaled €709 million (December 31, 2017: €908 million), and the total market value amounted to €749 million (December 31, 2017: €949 million). The fair values of private placements and promissory notes are determined using actuarial methods based on yield curves adjusted for the Group’s credit margin. This credit margin results from the market price for credit default swaps at the end of the respective reporting periods. Fair value is measured on the basis of discount rates ranging from -0.32 percent to 1.82 percent. The fair values of the private placements and promissory notes are based on level 2 of the fair value hierarchy.

The allocation to measurement levels as of June 30, 2018, take into account the reclassification of financial instruments carried out during the first-time application of IFRS 9 and described in the section “Impact of New Financial Reporting Standards.”

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

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 6/30/2018
Financial assets recognized at fair value	131	10	536	677
Primary and derivative financial assets held for trading	–	66	–	66
Derivatives with hedge relation	–	17	–	17
	131	93	536	760

### Financial Assets Measured at Fair Value Based on Level 3

in € millions	Financial assets recognized at fair value	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2018	428	–	428
Total gain (+) or loss (-)	74	–	74
– in profit or loss	70	–	70
– in other comprehensive income	4	–	4
Purchases	106	–	106
Sales/settlements	(80)	–	(80)
Transfers out of/into level 3	8	–	8
Balance as of 6/30/2018	536	–	536
Gain (+) or loss (-) for assets still held at the end of the reporting period	49	–	49

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

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 6/30/2018
Financial liabilities recognized at fair value through profit or loss	–	–	38	38
Primary and derivative financial liabilities held for trading	–	19	–	19
Derivatives with hedge relation	–	12	–	12
	–	31	38	69

### Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial liabilities recognized at fair value through profit or loss	Total
Balance as of 1/1/2018	44	44
Total gain (-) or loss (+)	1	1
– in profit or loss	1	1
– in other comprehensive income	–	–
Purchases	4	4
Settlements	(11)	(11)
Transfers out of/into level 3	–	–
Balance as of 6/30/2018	38	38
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	1	1

## Income Taxes

The tax expense for the first half of 2018 was calculated in accordance with IAS 34 using the average annual tax rate expected for the whole of 2018, which is calculated at 33.1 percent according to Bertelsmann management's current estimation. In addition, non-recurring tax items have been recognized in current tax and deferred tax, which resulted in a lower tax rate in the income statement.

The tax expense for the first half of 2018 was lower than in the same period of the previous year, in particular due to lower earnings before taxes and higher positive non-recurring items in the tax result.

## Other Information

As a result of seasonal influences on the divisions, higher revenues and a higher operating result tend to be expected in the second half of the year compared to the first half of the year. The higher revenues in the second half of the year are primarily due to the increasing demand during the year-end holiday season, in particular in advertising-driven businesses and in the publishing business, as well as to the customary seasonality in the music business.

Within the Consolidated Cash Flow Statement, the item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €440 million and payments in the amount of €-146 million. The receipts include net inflows from a bank loan in order to finance a short-term funding requirement of €400 million. Payments include the repayment of €-52 million by Penguin Random House of a loan from Pearson and the repayment of €-20 million by HotChalk of a loan from Pinnacle Bank.

## Notes on Segment Reporting

Segment reporting continues to reflect eight operating reportable segments (RTL Group, Penguin Random House, Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments).

## Reconciliation of Segment Information to Group Profit or Loss

in € millions	H1 2018	H1 2017
Operating EBITDA from continuing operations	1,071	1,099
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	311	311
Adjustments on amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment included in special items	(1)	(2)
Special items	(8)	(15)
EBIT from continuing operations	769	805
Financial result	(106)	(105)
Earnings before taxes from continuing operations	663	700
Income tax expense	(162)	(197)
Earnings after taxes from continuing operations	501	503
Earnings after taxes from discontinued operations	–	(1)
Group profit or loss	501	502

## Events after the Reporting Period

In July 2018, Bertelsmann issued a floating rate note with a volume of €200 million and a term of up to two years as part of a private placement.

In July 2018, Groupe M6, which belongs to RTL Group, announced that it had entered into exclusive negotiations with the US-based investment fund GACP, with a view to

selling its entire shareholding in the Football Club Girondins de Bordeaux (FCGB). Completion of the transaction remains subject to finalization of the negotiations, consultation with employee representative bodies and approval from the Bordeaux Métropole Council regarding the guarantees offered by GACP in relation to the lease payments owed by FCGB for use of the stadium.

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the Condensed Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the interim management

report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Gütersloh, August 28, 2018

Bertelsmann SE & Co. KGaA

represented by:

Bertelsmann Management SE, the personally liable partner

The Executive Board

Dr. Thomas Rabe

Markus Dohle

Dr. Immanuel Hermreck

Bernd Hirsch

Anke Schäferkordt



# Auditor's Review Report

To Bertelsmann SE & Co. KGaA

We have reviewed the condensed consolidated interim financial statements – comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and selected explanatory notes – and the interim group management report of Bertelsmann SE & Co. KGaA, Gütersloh, for the period from January 1 to June 30, 2018, which are part of the half-year financial report pursuant to § (Article) 115 WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the Executive Board of the personally liable partner Bertelsmann Management SE. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated

by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Bielefeld, August 29, 2018

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The Interim Report is also available in German.

# Production Credits

## Publisher

Bertelsmann SE & Co. KGaA  
Carl-Bertelsmann-Strasse 270  
33311 Gütersloh  
Germany

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## Design and Production

Territory CTR GmbH, Gütersloh

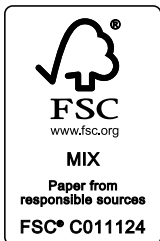
## Photography

Sebastian Pfütze, Berlin

## Print Services

Mohn Media Mohndruck GmbH, Gütersloh

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