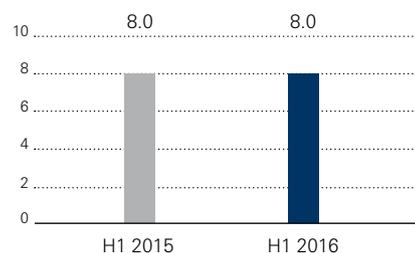


# Group Interim Management Report

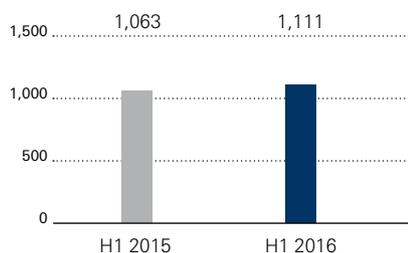
In the first half of 2016, Bertelsmann achieved a record operating performance. Progress in all four strategic priorities had a positive effect on business development in the reporting period. Organic revenue growth of 1.3 percent almost fully offset portfolio effects and the impact of exchange rate effects. Group revenues declined by 0.9 percent to €7,966 million (H1 2015: €8,040 million). In contrast, operating EBITDA improved by 4.5 percent to the record level of €1,111 million (H1 2015: €1,063 million). The EBITDA margin increased to 13.9 percent (H1 2015: 13.2 percent). The primary contributors to the improved earnings were the French and German businesses of RTL Group, the Arvato service businesses, and the printing businesses that were combined at the beginning of the year. This was counteracted by start-up losses for digital and new businesses, which, for Bertelsmann Education Group and RTL Group alone, amounted to €-44 million (H1 2015: €-27 million). Additional costs for the digital transformation were incurred in particular by Gruner + Jahr. As a result of the positive earnings performance, lower special items and disposal gains from Bertelsmann Investments, Group profit increased to €482 million compared to €398 million in the same period last year. For the second half of 2016, Bertelsmann expects a continuation of the positive performance.

**Revenues** in € billions



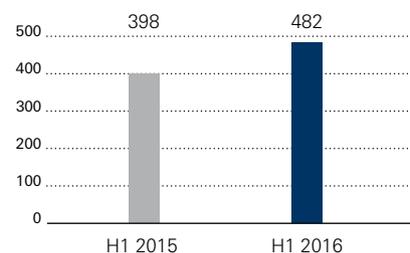
- Group revenues 0.9 percent below the previous year
- Organic revenue growth of 1.3 percent nearly offsets portfolio and exchange rate effects
- Revenue growth at RTL Group, Arvato, Bertelsmann Education Group and BMG

**Operating EBITDA** in € millions



- Increase in operating EBITDA of 4.5 percent to record level of €1,111 million
- EBITDA margin of 13.9 percent, up 0.7 percentage points compared to same period last year
- Positive development, especially at RTL Group and Arvato

**Group Profit** in € millions



- Increase in Group profit by 21.1 percent to €482 million
- Improved operating result
- Lower impact from scale-back of businesses
- Gains on disposals at Bertelsmann Investments

## Fundamental Information about the Group

### Corporate Profile

Bertelsmann is a media, services and education company that operates in about 50 countries worldwide. The geographic core markets are Western Europe – in particular, Germany, France and the UK – 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 TV broadcaster RTL Group, the book publishing group 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 the international digital fund Bertelsmann Investments.

Bertelsmann SE & Co. KGaA is a capital market-oriented but unlisted partnership limited by shares. As a Group holding company, it exercises central corporate functions. 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.

### 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 and more international Group portfolio. The Group strategy comprises four strategic priorities: strengthening the core businesses, driving the digital transformation, developing growth platforms, and expanding into growth regions.

Since January 1, 2016, the strategic transformation of Bertelsmann has been reflected even more strongly in the company structure. At the beginning of the current financial year, three additional independent divisions were formed from the former operating activities of Corporate Investments. These are BMG, Bertelsmann Education Group and Bertelsmann

Investments. In addition, the Group's offset and gravure printing activities and some other production-related businesses were combined into the Bertelsmann Printing Group division as of January 1, 2016. The new Bertelsmann, consisting of eight divisions, is now based on three pillars: media, services and education.

In the first half of 2016, further progress was made in the four strategic priorities of the Group and in all the Group divisions. Mediengruppe RTL Deutschland further expanded its families of channels and, with the acquisition of Smartclip, it extended its digital advertising marketing. Penguin Random House recorded a strong bestseller performance. Gruner + Jahr increased its stake in the marketing services provider Trnd and also established Territory, Germany's largest provider in the content communication market. The French G+J subsidiary Prisma Media acquired Group Cerise, one of the leading digital video providers in France. BMG acquired a majority stake in the ARC music catalog and signed amongst others a new contract with Pink Floyd founder and songwriter Roger Waters. The development of a new logistics center in the northern Ruhr area will enable Arvato to further expand its e-commerce services. The printing businesses were bundled into the newly-formed Bertelsmann Printing Group. Bertelsmann Education Group continued to expand its educational activities in the e-learning and online services sector; and with its online education provider Relias Learning, it entered the European market. The strategic investment platforms bundled in the Bertelsmann Investments division also expanded their activities. Bertelsmann Asia Investments (BAI) made acquisitions which included a stake in the Chinese e-commerce company Xian Life; Bertelsmann India Investments (BII) invested in the fashion network Roposo, the fintech company Lendingkart and the e-commerce service provider KartRocket.

### Value-Oriented Management System

In order to manage the Group, Bertelsmann uses revenues, operating EBITDA and Bertelsmann Value Added (BVA) as strictly defined key performance indicators to directly assess business performance; accordingly, these form the basis of the outlook.

Group revenues as a growth indicator of the businesses decreased in the first half of 2016 by 0.9 percent to €7,966 million (H1 2015: €8,040 million) due to portfolio and exchange rate effects. The organic growth was 1.3 percent. Operating EBITDA is determined as earnings before interest, tax, depreciation and amortization and is adjusted for special items. This makes it a meaningful key performance

indicator for determining a sustainable operating result. During the reporting period, operating EBITDA increased to €1,111 million (H1 2015: €1,063 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 is the basis for 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. Depreciation, amortization and impairment losses are deducted from EBITDA, and adjustments are made for special items. Then, after further modifications and deduction of a flat 33 percent tax, the resulting NOPAT is used to calculate BVA. Cost of capital is the product of the weighted average cost of capital (WACC) and the average level of capital invested. The uniform WACC after taxes is 8 percent. Invested capital is calculated on the basis of the Group's operating assets less non-interest-bearing operating liabilities. The present value of operating leases is also taken into account when calculating the invested capital. In the first half of 2016, BVA decreased to €-26 million (H1 2015: €-21 million) despite the overall improvement in the operating results. This development is primarily due to acquisitions made in the context of the portfolio transformation, which led to an increase in the average invested capital.

Bertelsmann's financial management system is defined by the internal financial targets outlined in the "Net Assets and Financial Position" section. The Group is managed and controlled on the basis of these financing principles; they form part of the value-oriented management system in the broader sense of the term, along with the EBITDA margin, the cash conversion rate and non-financial performance indicators.

## Report on Economic Position

### Corporate Environment

#### Overall Economic Developments

The global economy recorded limited growth in the first half of 2016. The recovery in the advanced economies was moderate, and the growth momentum in many emerging countries declined significantly.

The overall moderate economic recovery in the eurozone continued during the reporting period. According to Eurostat, the statistical office of the European Union, real gross domestic

product (GDP) in the eurozone rose by 0.6 percent in the first quarter of 2016 compared to the previous quarter and by 0.3 percent in the second quarter.

The continued recovery in Germany was primarily driven by strong domestic economic activity. According to the Federal Statistical Office, real GDP rose by 0.7 percent in the first quarter of 2016 compared to the previous quarter and by 0.4 percent in the second quarter.

Following a solid beginning to the year, the French economy stagnated over the remainder of the reporting period. According to Insee, the French National Institute for Statistics and Economic Studies, real GDP rose by 0.7 percent in the first quarter of 2016 but stagnated in the second quarter.

Since the UK's referendum result in favor of leaving the EU only occurred halfway through the year, it did not have any concrete quantifiable effects on real GDP. Real GDP rose by 0.4 percent in the first quarter of 2016 and by 0.6 percent in the second quarter.

In the first few months of the current financial year, growth in the United States was weaker than originally expected. Real GDP rose in the first quarter of 2016 at a projected annual rate of 0.8 percent. In the second quarter, real GDP increased by a projected annual rate of 1.2 percent according to initial calculations by the Bureau of Economic Analysis.

So far, the overall economic developments are slightly below the current-year trend anticipated in the 2015 Combined Management Report.

#### Developments in Relevant Markets

The European TV advertising markets experienced primarily positive growth in the first six months of 2016. The TV advertising markets in Germany, France, the Netherlands, Belgium and Croatia showed slight to moderate growth, while the TV advertising market in Spain once again reported strong growth. The Hungarian TV advertising market, in contrast, declined.

The physical book markets experienced mostly positive growth in the first six months of 2016. The physical book markets in the United States and the UK recorded significant to strong growth, whereas these markets in Spain and Germany reported little change.

The magazine markets in Germany and France were characterized by moderate to strongly falling print advertising business and declining circulation business during the reporting period, whereas the digital markets recorded strong growth.

The global music publishing and recorded music markets experienced moderate growth.

The service markets relevant to Arvato showed moderate to significant growth in the first half of 2016.

The relevant European print markets in Germany, France and the UK declined in the first six months of 2016, while the offset market showed much more stable development than the gravure printing market. The North American book printing market saw a moderate decline over the same period.

As expected, the education markets in the United States grew strongly in the first half of 2016 in the market segments where Bertelsmann is involved – namely, e-learning in the healthcare and technology sectors, online services and university education.

So far, the developments in the relevant markets are mainly within the current-year trend anticipated in the 2015 Combined Management Report.

## Significant Events in the Current Financial Year

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

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

At the end of May 2016, the French G+J subsidiary Prisma Media fully acquired Groupe Cerise, a digital media company in the video sector in France. Cerise develops its own technologies to produce and distribute content and thus reaches a wide audience with its brands.

## Results of Operations

### Revenue Development

Group revenues in the first half of 2016 of €7,966 million were 0.9 percent below the previous year's figure (H1 2015: €8,040 million). Adjusted for exchange rate effects of

-1.1 percent and portfolio and other effects of -1.1 percent, organic revenue growth amounted to 1.3 percent.

In the first half of 2016, RTL Group achieved revenue growth primarily due to the positive development of Groupe M6, Mediengruppe RTL Deutschland and the digital activities. Penguin Random House recorded a decline in revenues, attributable primarily to divestments, exchange rate effects and new sales terms for e-books in the United States and the UK which led to lower sales. At Gruner + Jahr, revenues decreased due to a decline in advertising and circulation revenues and also due to divestments. On the other hand, revenues from digital businesses continued to increase. BMG continued to grow, aided by its acquisition of additional music companies and rights catalogs. Arvato grew its revenues, in particular in the CRM Solutions and Financial Solutions business units. Revenue development at Bertelsmann Printing Group was affected primarily by the sale of printing activities in Southern Europe which were included for part of the same period last year. Bertelsmann Education Group pressed ahead with the expansion of the education business and increased its revenues. The fund activities combined in the Bertelsmann Investments division are not consolidated and, for this reason, no revenue is reported for this segment.

There were moderate changes in the geographical breakdown of revenues compared to the same period in the previous year. The revenue share in Germany increased to 35.2 percent, compared to 34.0 percent in the first half of 2015. The revenue share generated by France amounted to 14.2 percent (H1 2015: 14.0 percent). In the UK, revenue share was 5.7 percent (H1 2015: 5.9 percent), while other European countries achieved a revenue share of 18.5 percent (H1 2015: 17.8 percent). The share of total revenues generated in the United States was 20.4 percent (H1 2015: 21.5 percent); other countries accounted for a share of 6.0 percent (H1 2015: 6.8 percent). In total, these figures show that the total share of revenues represented by foreign business decreased slightly, from 66.0 percent in the first half of 2015 to 64.8 percent. The ratio of the four revenue streams (products and merchandise, advertising, services, and rights and licenses) to one another remained mostly unchanged compared to the first half of 2015.

### Operating EBITDA

Bertelsmann achieved operating EBITDA of €1,111 million during the reporting period (H1 2015: €1,063 million). The EBITDA margin of 13.9 percent was above the level of 13.2 percent in the same period last year. The operating earnings of RTL Group improved compared to the first half of 2015.

The increase was mainly attributable to higher earnings contributions from Groupe M6 and Mediengruppe RTL Deutschland. The decline in revenues at Penguin Random House also impacted operating EBITDA. As a result of lower revenues in the advertising business, and start-up losses for digital businesses, operating earnings at Gruner + Jahr decreased. Operating EBITDA at BMG was higher than the previous year's figure. Operating earnings at Arvato increased across all business units. Due to improved utilization of production capacity as a result of the acquisition of new customers and further cost savings, operating EBITDA for Bertelsmann Printing Group increased. As a result of start-up losses in connection with business expansion and transformation costs, operating earnings at Bertelsmann Education Group decreased in the reporting period. Since the fund activities combined in the Bertelsmann Investments division are not fully consolidated, operating results are not generally reported.

### Special Items

Special items offset each other in the reporting period compared to €-101 million in the same period last year. They consisted of impairments on other financial assets totaling €-5 million (H1 2015: €-5 million), results from disposals of investments of €56 million (H1 2015: €17 million), and restructuring expenses and other special items totaling €-51 million (H1 2015: €-118 million). The result from disposals of investments was particularly affected by gains on disposals in the Bertelsmann Investments division. In the reporting period there was no fair value remeasurement of investments following €5 million in the same period last year.

### EBIT

Taking into account adjusted operating EBITDA for special items totaling €0 million (H1 2015: €-101 million) and the amortization, depreciation, impairments and reversals of impairments on intangible assets and property, plant and equipment totaling €-306 million (H1 2015: €-292 million), which were not included in special items, EBIT amounted to €805 million in the reporting period (H1 2015: €670 million).

### Group Profit or Loss

The financial result was €-117 million (H1 2015: €-119 million). Tax expenses amounted to €-206 million compared to €-156 million in the same period last year, in particular due to the improved earnings before taxes from continuing operations. In addition, the positive special effects included in tax expenses decreased compared to the same period

in the previous year. Earnings after taxes from continuing operations were thus €482 million (H1 2015: €395 million). Since no companies were classified as discontinued operations during the reporting period, Group profit was also €482 million (H1 2015: €398 million). The share of Group profit held by Bertelsmann shareholders was €288 million (H1 2015: €217 million). The non-controlling interests in Group profit came to €194 million (H1 2015: €181 million).

## Net Assets and Financial Position

### Financing Guidelines

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

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

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One key financial target is a dynamic leverage factor, calculated as the ratio of economic debt to operating EBITDA over a twelve-month period and limited to a maximum of 2.5. Economic debt is defined as net financial debt less 50 percent of the nominal capital of the hybrid bonds plus provisions for pensions, profit participation capital and the net present value of operating leases. Like operating EBITDA, economic debt is modified for calculation purposes. As of June 30, 2016, economic debt was €6,274 million (December 31, 2015: €5,609 million). The increase is primarily attributable to the significantly higher pension provisions and similar obligations as a result of the significant reduction in the interest rate. As of June 30, 2016, the leverage factor was 2.7 (December 31, 2015: 2.4).

Due to seasonal influences, net financial debt increased to €2,954 million compared to €2,765 million as of December 31, 2015. The increase is partly attributable to dividend payments to shareholders and non-controlling interests, most of which were made during the first half of the year.

## Financing Activities

With a view to the pending maturities in the second half of 2016, Bertelsmann placed a ten-year benchmark bond in April 2016 with an issue volume of €500 million. The bond is listed in Luxembourg and has a fixed coupon of 1.125 percent. Furthermore, in June 2016, as part of a private placement, Bertelsmann also issued a promissory note in the amount of €200 million with a two-year term.

## Rating

Bertelsmann has issuer ratings from Moody's and S&P. 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.

## Cash Flow Statement

In the reporting period, Bertelsmann generated cash flow from operating activities of €751 million (H1 2015: €343 million). The Group's long-term operating free cash flow, adjusted for special items, was €718 million (H1 2015: €434 million). The cash flow from investing activities was €-502 million compared to €-817 million in the same period last year. The deviation results primarily from the funding in the same period last year of the plan assets held under the trusteeship of Bertelsmann Pension Trust e.V. which amounted to €400 million. At €276 million, cash flow from financing activities was below the high level of the previous year (H1 2015: €595 million). Cash and cash equivalents increased to €1,811 million as of June 30, 2016 (December 31, 2015: €1,310 million), primarily as a result of the issuing of bonds.

## Group Cash Flow Statement (Summary)

in € millions	H1 2016	H1 2015
Cash flow from operating activities	751	343
Cash flow from investing activities	(502)	(817)
Cash flow from financing activities	276	595
Change in cash and cash equivalents	525	121
Exchange rate effects and other changes in cash and cash equivalents	(24)	55
Cash and cash equivalents on 1/1	1,310	1,331
Cash and cash equivalents on 6/30	1,811	1,507
Less cash and cash equivalents included within assets held for sale	—	—
Cash and cash equivalents on 6/30 (as per consolidated balance sheet)	1,811	1,507

## Investments

In the first half of 2016, according to the cash flow statement, investments totaled €603 million (H1 2015: €514 million). Investments in intangible assets came to €212 million (H1 2015: €126 million) and were attributable primarily to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. As in the same period last year, a large portion of the investments in property, plant and equipment, totaling €129 million (H1 2015: €150 million), stemmed from Arvato. The sum of €134 million was invested in financial assets (H1 2015: €165 million). Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €128 million in the reporting period (H1 2015: €73 million) and were primarily attributable to investments in Smartclip and Groupe Cerise.

## Balance Sheet

Total assets came to €23.4 billion as of June 30, 2016 (December 31, 2015: €22.9 billion). The increase is primarily attributable to the increase in financial liabilities. Due to reduced interest rates, pension provisions increased significantly to €2.3 billion (December 31, 2015: €1.7 billion). Equity was €9.0 billion compared to €9.4 billion as of December 31, 2015. This resulted in an equity ratio of 38.4 percent (December 31, 2015: 41.2 percent). Due to the interest rate related revaluation of the provisions for defined benefit pension plans, equity declined to €9.0 billion compared to €9.4 billion as of December 31, 2015. This resulted in an equity ratio of 38.4 percent (December 31, 2015: 41.2 percent). Cash and cash equivalents increased to €1,811 million as of June 30, 2016, compared to €1,310 million as of December 31, 2015.

## Employees

As of June 30, 2016, Bertelsmann had 114,710 employees worldwide.

## Performance of the Group Divisions

### RTL Group

RTL Group saw positive business development in the first half of the year, growing both its revenues and earnings. First-half revenues increased 3.2 percent year on year to €2.9 billion (H1 2015: €2.8 billion). Key contributors to this were Mediengruppe RTL Deutschland, the further expansion of the international digital businesses, and the TV activities in France. Operating EBITDA grew by 8.2 percent to €676 million (H1 2015: €625 million). This significant earnings improvement was primarily fueled by Groupe M6 and Mediengruppe RTL Deutschland. The increase at Groupe M6 was mainly driven by a positive effect associated with the gradual phase-out of the M6 Mobile contract. Mediengruppe RTL Deutschland once again generated record earnings.

Overall, RTL Group's families of channels developed positively in a favorable market environment, with all relevant European TV advertising markets except Hungary showing growth. As the live matches of the European soccer championships were aired by the public broadcasters, Mediengruppe RTL Deutschland's combined audience share in the main target group decreased slightly. However, its lead over the largest commercial competitor grew to three percentage points. In addition, Mediengruppe RTL Deutschland launched two new TV channels and secured the broadcasting rights for 28 more matches of Germany's national soccer team. In France, Groupe M6 achieved significant audience share gains in the commercial target group; its flagship channel M6 benefited from the broadcast of eight European soccer championship matches in June.

Fremantle Media generated lower first-half revenues year on year, mainly due to declines in North America. However, the revenue decrease was more than offset on the earnings side. At the same time, the production company strengthened its position with further acquisitions, including in the UK and Israel.

RTL Group's digital businesses continued their dynamic growth, increasing their first-half revenue by 20.5 percent from €219 million in the first half of 2015 to €264 million in the first half of 2016. The online video sites generated a total of 123.1 billion views, up 190 percent year on year. Mediengruppe RTL Deutschland strengthened its digital portfolio by acquiring a majority stake in the online video advertising sales house SmartClip.

### Penguin Random House

The world's leading trade book publisher Penguin Random House delivered a strong bestseller-sales performance that was impacted by an expected decline in e-book sales in the United States and UK due in part to new retail sales terms, leading to a decrease in revenues and operating EBITDA during the reporting period. The publishing group's first-half revenues, inclusive of Verlagsgruppe Random House, which is wholly owned by Bertelsmann, declined 10.7 percent year on year to €1.5 billion (H1 2015: €1.7 billion). The financial impact on revenues from portfolio changes and negative currency effects were partly offset by steady physical book sales, and growth in the audio format. Savings from the now-completed integration contributed significantly to operating EBITDA, which was down by 10.6 percent to €185 million (H1 2015: €207 million).

In the United States, Penguin Random House had 316 "New York Times" bestsellers in the first six months of the year, 59 at number one. Its top-selling titles were the novels "Me Before You" and "After You" by Jojo Moyes, with 2.4 million copies sold. "The Girl on the Train" by Paula Hawkins remained a number-one bestseller for much of the period, selling over 800,000 print, audio and e-books. Multi-title Dr. Seuss classics sold more than three million books.

In the UK, Penguin Random House published more than half of the "Sunday Times" weekly top-ten bestseller list titles, 113 books. Together with the novels by Hawkins and Moyes, top sellers included Bill Bryson's "The Road to Little Dribbling" and Roald Dahl's children's book "The BFG."

In Spain and Latin America, Penguin Random House Grupo Editorial expanded its Spanish- and Portuguese-language publishing activities, with higher sales and increased market share in Spain, offset by worsening economic conditions in Latin America.

Verlagsgruppe Random House in Germany had a stable first six months, placing 236 titles on the "Spiegel" bestseller lists.

Many of the publishing group's authors won prestigious awards during the reporting period, including US Pulitzer Prizes for General Nonfiction, History, and Autobiography.

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

## Gruner + Jahr

Gruner + Jahr continued its strategic transformation. The first half of the year saw acquisitions and cooperation agreements in all key markets. Revenues remained near-stable at €777 million (H1 2015: €785 million), reflecting a year-on-year decline of 1.0 percent. The main revenue-reducing effects were overall developments in the print advertising market and changes to the portfolio – e.g., the sale of Motor Presse Stuttgart in France. These declines were nearly entirely compensated by steep growth in digital revenues in Germany and France. Revenues from G+J's digital businesses in the core markets grew by 31 percent. Operating EBITDA decreased by 7.1 percent to €52 million (H1 2015: €56 million). This was due in particular to high expenses for digital businesses, especially at G+J Germany. G+J France's businesses and Deutsche Presse Vertrieb (DPV) contributed higher results than in the first half of 2015.

G+J Germany increased its first-half revenues year on year. This was driven largely by organic and acquisitive expansion of the digital businesses both in the growth areas of Content, Community and Commerce, and in the digital marketing business. The acquired companies Trnd, Danato, Delinero and Employour contributed additional revenues. Thanks to the successful launch of new magazine titles, G+J Germany was also able to keep its circulation revenues nearly stable. During the reporting period, G+J formed Germany's largest content communication service provider: Territory. Dresdner Druck- und Verlagshaus and DPV both generated higher revenues than in the same period last year.

In France, Prisma Media increased its revenues and earnings. The continued strong growth of the digital businesses more than compensated for market-related declines in the print advertising business. Prisma Media also acquired Groupe Cerise, one of the country's leading digital video providers.

## BMG

The Bertelsmann music subsidiary BMG, which has operated as an independent division since January 1, 2016, further consolidated its market position in publishing and recorded music rights while continuing to grow its business. Revenues increased 4.6 percent to €182 million (H1 2015: €174 million), driven by growth in the publishing business in the UK and continental Europe as well as the recorded music business in the United States and continental Europe. Operating EBITDA

amounted to €32 million, up by 6.7 percent year on year (H1 2015: €30 million).

BMG strengthened its portfolio through a series of acquisitions and catalog purchases in the first half of the year. The acquisition of a majority stake in the ARC music publishing catalog secured the company the rights to songs by artists including Chuck Berry, the Beach Boys and John Lee Hooker. BMG has also made progress implementing key strategic initiatives such as consolidating its worldwide recorded music distribution, and entering the markets in Australia and Brazil. Just a few months after entering the market in Australia, BMG announced it would take over Alberts, one of the country's most historic independent music companies.

Among the most important clients newly signed to BMG during the first half of the year was Pink Floyd founder and songwriter Roger Waters. BMG now represents Roger Waters' publishing interests in the Pink Floyd catalog, which include the titles "Money," "Another Brick in the Wall" and "Comfortably Numb." Numerous BMG clients achieved success in the period, among them Rick Astley, whose new album went to number one in the UK charts. In total, BMG-signed musicians and songwriters were involved in 19 Grammy awards in the United States, 19 Echo awards in Germany, and twelve Bumax in the Netherlands.

## Arvato

Arvato recorded a positive first-half business performance, growing both its revenues and earnings. Revenues increased by 3.6 percent to €1.9 billion (H1 2015: €1.8 billion). The three biggest Solution Groups CRM, SCM and Financial Solutions all achieved organic growth. Operating EBITDA grew by 26.8 percent to €180 million (H1 2015: €142 million); all Solution Groups contributed to this increase.

The services businesses grouped in Arvato CRM posted a powerful performance in the first half of 2016 and contributed significantly to Arvato's revenue and earnings growth. Besides traditional customer service by phone, the focus was on developing alternative customer communication channels, such as social media and (video) chat. In addition, new international customers were won in the IT/Internet and tourism sectors. A new service center with space for around 1,400 employees was opened in Gurgaon, India.

Arvato SCM Solutions further expanded its existing national and international customer relationships during the reporting period, and implemented projects with new clients. It also

expanded its network of European logistics sites, including by commissioning a new distribution center in Gennepe, the Netherlands.

The financial services businesses also developed positively in the first half of 2016. Beyond stable growth in business in Germany, this development was fueled in particular by an excellent performance in the business with BPO services for major international clients. To further strengthen innovation, an IT development and innovation center was opened in Tallinn, and a robotics lab established in Dublin.

The IT services provider Arvato Systems recorded a constantly high demand for solutions related to application development and digital transformation. All of the digital marketing business units developed positively; the DeutschlandCard multi-partner program in particular showed profitable growth.

### **Bertelsmann Printing Group**

Since January 1, 2016, all of Bertelsmann's global offset and gravure printing operations, and several other service and production businesses, have been grouped in a new division: the Bertelsmann Printing Group. The group was able to make important progress on its integration during the first half of the year and successfully stood its ground in a challenging market environment. Its revenues declined by 5.3 percent to €774 million (H1 2015: €817 million), mainly due to the sale of the Spanish operations completed in 2015. Adjusted for portfolio changes and exchange rate effects, revenues were roughly on par with the previous year. The group's operating EBITDA increased significantly by 17.5 percent to €47 million (H1 2015: €40 million), thanks to improved utilization of production capacity as a result of the acquisition of new customers and to successful cost-cutting measures.

The Bertelsmann Printing Group's offset printing businesses remained stable at a good earnings level in the first six months. Europe's leading offset printing company, Mohn Media, upheld the good revenues and profitability of the previous year.

The gravure printing operations pooled in the Prinovis group developed positively and contributed higher revenue and earnings than in the first half of 2015. In the UK, efforts to acquire new customers were successful. This will contribute to long-term capacity utilization at the Liverpool site and will also benefit the Prinovis printing plants in Germany.

Despite continued intense competition in the field of letterpress printing, the Bertelsmann Printing Group's US printers were able to increase both their revenues and earnings.

Declines in paperback production were compensated by expanding the business with innovative print products to new industries.

As expected, revenues in storage media replication declined due to the closure of the US site in Weaverville at the beginning of 2016. The businesses at the group's primary location in Gütersloh bucked the general market trend, increasing their production volumes, revenues and earnings. This development was due among other things to the UHD production business launched in spring.

### **Bertelsmann Education Group**

During the reporting period, Bertelsmann continued the expansion of its education-related activities in the e-learning (health and technology) and online services sectors. In September 2015, these businesses were merged into the Bertelsmann Education Group, which has operated as an independent division since January 1, 2016.

In the first six months of the year, those businesses, which Bertelsmann has fully consolidated, saw a 28 percent increase in revenues to €64 million (H1 2015: €50 million). The division's operating EBITDA, meanwhile, declined to €-13 million (H1 2015: €-3 million), primarily due to scheduled start-up losses for further business expansion, transformation costs at Alliant International University and equity pickup of HotChalk losses.

In particular, the e-learning provider Relias Learning recorded a positive performance, growing both organically and through acquisitions. The Bertelsmann subsidiary added new customers, whose employees completed approximately 15 million online courses in the first six months of the current year. During the reporting period, the company also took over Assessment & Intelligence Systems, a Canadian company specializing in training for homecare, and started up operations in the UK.

The online learning provider Udacity, in which Bertelsmann owns a stake, also expanded its business internationally and recently began offering its Nanodegree range in China, India and Germany.

The online education platform HotChalk grew with existing and new partner universities. There are some 6,600 students currently enrolled at seven universities in programs supported by HotChalk.

Alliant International University, which specializes in psychology, continued its transformation; around 3,500 students are currently studying at the university's eleven campuses.

## Bertelsmann Investments

Bertelsmann's four digital funds, grouped into the new division Bertelsmann Investments since the beginning of this year, have further expanded their portfolios of startups around the world. Through Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII), and Bertelsmann Digital Media Investments (BDMI), Bertelsmann is invested in 125 companies as of June 30, 2016. The business development of Bertelsmann Investments is determined mainly on the basis of EBIT, which increased to €42 million (H1 2015: €-7 million). Capital gains from exits of Bertelsmann Investments shareholdings – primarily at BAI – thus contributed significantly to the Group's earnings.

In China, BAI invested in ten new companies during the reporting period, and also participated in follow-on financing rounds for companies including the fitness app Keep and the dating platform Tantan.

In India, Bertelsmann strengthened its activities in strategically relevant business segments by acquiring stakes in the e-commerce enabler KartRocket, the social fashion network Roposo, and the fintech company Lendingkart. BII also made follow-on investments in existing companies such as Pepperfry, WizIQ and iNurture.

In Brazil, BBI together with its strategic partner Bozano Investimentos advanced the Group's expansion in higher education through its investment in the online education business Medcel, which provides preparation courses for medical students.

During the reporting period, BDMI's investments included the acquisition of stakes in the video platform Vemba, the next-generation publisher Inverse, the VR startup Visionary VR in the United States, and the VR startup Splash in Germany, amongst others.

All platforms contributed to identifying digital trends and supporting innovative portfolio companies in their development.

## Significant Events After the Balance Sheet Date

No reportable events occurred.

## Risks and Opportunities

### Risk Management System

Please refer to the 2015 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 Since the 2015 Combined Management Report

Please refer to the 2015 Combined Management Report for a presentation of the key risks to the Bertelsmann Group. The following significant changes have been identified as part of the risk report as of June 30, 2016. Overall, after the first half-year 2016, the same Group risks are considered material as those existing as of December 31, 2015. However, the significance of individual types of risk in terms of Bertelsmann's future business development has changed. The customer risks that were classified as moderate as of December 31, 2015, have increased in significance. This is primarily attributable to the increase in individual risk positions at Arvato and Penguin Random House. The most significant risk in the Group 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 2015 Combined Management Report.

Expectations of a moderate economic recovery in the eurozone remain unchanged. However, the risks for the world economy are now greater, especially following the Brexit referendum. The long-term effects on economic development, in particular in the UK and in the eurozone, will depend greatly on the framework conditions for the UK's exit from the EU. For Bertelsmann, this could result primarily in risks to businesses that depend on the advertising markets.

### Legal and Regulatory Risks

Please refer to the 2015 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 2015 Combined Management Report, the financial market risks remain at a moderate level.

### Overall Risk

The overall risk position has increased slightly compared with the previous year. No going concern risks were identified for Bertelsmann as of June 30, 2016. There are also no substantial going concern risks discernible from the current perspective that could threaten the continued existence of the Group.

## Opportunities

The assessment of opportunities has not changed substantially compared to the information presented in the 2015 Combined Management Report.

## Outlook

With a view to the whole of 2016, the global economy is expected to continue to grow at a moderate pace. The prospects for the advanced economies will be boosted by the favorable financing conditions and the continuing growth in employment. In contrast, the outlook for the emerging economies remains subject to greater uncertainty. The economic estimates by the Kiel Institute for the World Economy (IfW) concerning global development are 3.1 percent for 2016, which is slightly below previous expectations. In addition, the risks for the world economy have increased following the Brexit referendum.

Expectations of a moderate economic recovery in the eurozone remain unchanged. The IfW expects real GDP growth of 1.7 percent in 2016. In Germany, moderate economic growth is expected to continue; the IfW's estimates for growth in real GDP for 2016 are slightly below previous expectations at 1.9 percent. Economic expansion in France is expected to accelerate slightly in 2016 with real growth of 1.6 percent. On the other hand, expectations for economic recovery in the UK have been lowered; this year, the IfW expects real GDP to grow by only 1.8 percent. For the United States, the IfW also expects real GDP to grow by 2.0 percent in 2016, which is lower than previous expectations.

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, government deficits, currency turbulence or the high rates of unemployment in some developed countries could interfere with economic development. In addition, high 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 forecast. On a comparable basis with the forecast details from the Annual Report 2015, Bertelsmann still expects slightly increasing revenues and stable operating EBITDA for the current financial year. Also, due to increased invested capital, expectations of strongly declining BVA in the financial year 2016 remain unchanged.

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