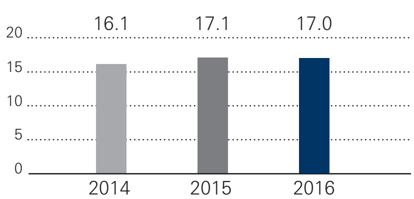
Financial Information

Combined Management Report

Financial Year 2016 in Review

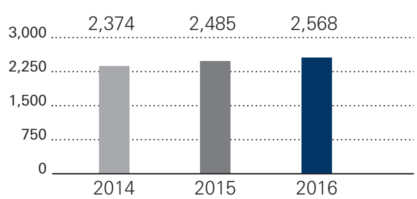
In 2016, Bertelsmann continued its successful operating business performance and made further progress with the implementation of its strategy. Despite some adverse exchange rate and portfolio effects, Group revenues were €17.0 billion (previous year: €17.1 billion), thanks to increased organic growth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

Revenues in € billions



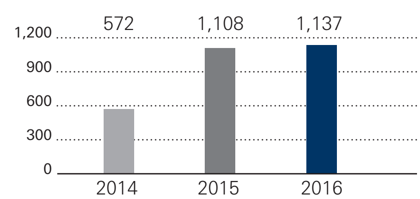
- Organic growth of 0.9 percent
- Revenue decline of 1.1 percent as a result of exchange rate and portfolio effects

Operating EBITDA in € millions



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

Group Profit in € millions



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

Fundamental Information about the Group

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

Corporate Profile

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

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

RTL Group is, based on revenue, one of the leading television groups in the broadcasting, content and digital business with interests in 60 television channels, 31 radio stations and content production throughout the world. The television portfolio of RTL Group includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as investments in Atresmedia in Spain and RTL CBS Asia Entertainment Network in Southeast Asia. Fremantle Media is one of the largest international creators, producers and distributors of a wide range of formats outside the United States. Combining the catch-up TV services of its broadcasters, the multichannel networks BroadbandTV, StyleHaul and Divimove and Fremantle Media's 260 YouTube channels, RTL Group has become the leading European media company based on online video views. Furthermore, RTL Group owns a majority stake in SpotX, a programmatic video advertising platform. The publicly traded RTL Group S.A. is listed on the German MDAX index.

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

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

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

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

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

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

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

Regulatory Environment

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

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

Shareholder Structure

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

Strategy

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

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

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

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

The growth platforms were strengthened through the acquisition of a majority share in the ARC Music publishing catalog and signing contracts with many new artists at BMG – including Pink Floyd founding member and songwriter Roger Waters. BMG also entered the Australian market and took over the Australian music publisher Alberts. Arvato created the conditions for the further expansion of its SCM services by developing a new logistics center in the Eastern Ruhr region and also commissioning a distribution center in Gennep, Netherlands. In addition, Arvato posted further sales successes in the Financial Solutions division. The education business was further reinforced by, among other things, the continued organic and acquisitive expansion of the activities of Relias Learning. For example, Relias Learning expanded internationally and took over the US companies CMT, AHC Media and Swank Healthcare, among others. The e-learning provider Udacity also continued to expand its business internationally and is now also operating in Brazil, China, India and Germany with its Nanodegree offerings.

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

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

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

Value-Oriented Management System

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

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

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

Strictly Defined Operational Performance Indicators

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

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

Bertelsmann uses BVA for assessing the profitability of operations and return on invested capital. BVA measures the profit realized above and beyond the appropriate return on invested capital. BVA in the financial year 2016 was €147 million compared to the previous year's figure of €155 million. The impact of the increase in average invested capital could only partially be offset by the improved year-on-year operating earnings.

Broadly Defined Performance Indicators

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

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

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

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

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

Non-Financial Performance Indicators

Employees

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

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

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

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

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

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

Corporate Responsibility

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

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

In 2016, Bertelsmann reported on its activities in these areas in the magazine "24/7 Responsibility." The Group also published an online index on its website in accordance with the guidelines of the Global Reporting Initiative (GRI G4) and Bertelsmann's fifth annual Carbon Footprint report with extensive details regarding greenhouse gas emissions and further environmental data.

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

Innovations

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

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

The innovations at RTL Group are focused on three core topics – developing and acquiring new, high-quality TV content and formats, using all digital means of distribution, and expanding diverse forms of advertising sales and monetization. The new innovative TV formats include "The Young Pope," a production by the Italian Fremantle Media subsidiary Wildside, and the adaptation of the novel "American Gods" by Fremantle Media North America that is currently in production. RTL Group also expanded its position in the marketing of online videos. In particular, the takeover of Smartclip by Mediengruppe RTL Deutschland reinforced the technological competence of RTL Group and offers global innovation opportunities in cooperation with SpotX. Synergy Committees are used for exchanging information and knowledge within RTL Group. As a result of the growing significance of big data and the provision and use of data, the position of Head of Smart Data was created at Mediengruppe RTL Deutschland in 2016.

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

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

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

The innovations at Arvato were driven forward in a number of different areas. These include promoting internal dialogue on innovation topics, analyzing the use of innovative technologies, investing in innovative projects in the area of cloud infrastructure, creating innovation partnerships with companies such as IBM Watson, developing new products and solutions in the area of fraud prevention, and investing in innovative companies.

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

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

Report on Economic Position

Corporate Environment

Overall Economic Developments

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

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

The German economy proved to be robust, particularly as a result of strong domestic demand. Real GDP grew by 1.9 percent compared to 1.7 percent in the previous year. In France, too, the economic growth continued. Real GDP growth was 1.1 percent in 2016 compared to 1.2 percent in 2015. In the United Kingdom, economic activity slowed, with an increase in real GDP of 2.0 percent compared to a rise of 2.4 percent in the previous year.

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

Developments in Relevant Markets

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

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

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

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

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

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

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

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

Significant Events in the Financial Year

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

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

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

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

Results of Operations

The following analysis of earnings performance relates to continuing operations as of December 31, 2016. Please refer to the "Performance of the Group Divisions" section for a more detailed picture of the results of operations.

Revenue Development

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

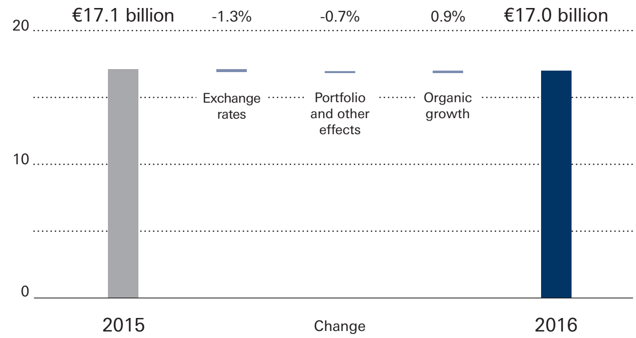
Revenues at RTL Group rose 3.5 percent to €6,237 million (previous year: €6,029 million). The organic growth was 3.2 percent. This was mainly attributable to the fast-growing digital activities and positive developments in the French and German television businesses. Revenues at Penguin Random House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

Revenues by Division

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

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

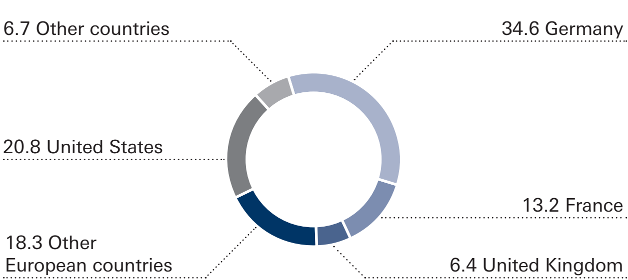
Revenue Breakdown



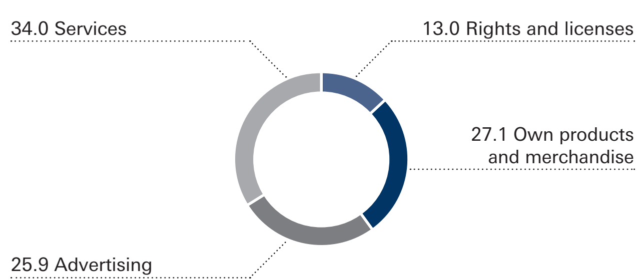
There were changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 34.6 percent compared to 33.9 percent in the previous year. The revenue share generated by France amounted to 13.2 percent (previous year: 13.2 percent). In the United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

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

Consolidated Revenues by Region in percent



Revenues by Category in percent



Results Breakdown

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

Operating EBITDA

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

Operating EBITDA at RTL Group rose 3.7 percent to €1,405 million (previous year: €1,355 million). The increase was primarily attributable to higher earnings contributions from the French and German television businesses. The French television businesses profited above all from a positive effect in connection with the gradual phase-out of the M6 Mobile contract. Penguin Random House posted lower earnings due to lower revenues. The operating EBITDA declined by 3.6 percent to €537 million (previous year: €557 million). Gruner + Jahr's operating EBITDA increased by 4.6 percent to €137 million (previous year: €131 million), in particular thanks to a higher contribution to earnings by G+J Germany. BMG's operating EBITDA rose by 13.1 percent to €95 million (previous year: €84 million), thanks to the continued development of the business. At Arvato, operating EBITDA grew by 14.7 percent to €359 million (previous year: €313 million). All Solution Groups posted improved earnings, particularly the service businesses for IT and SCM. Operating EBITDA at Bertelsmann Printing Group declined by 4.8 percent to €118 million (previous year: €124 million) due to the persistently declining print market and as a result of divestments. Operating EBITDA at Bertelsmann Education Group amounted to €-17 million (previous year: €-5 million). This was mainly due to planned start-up losses for further business expansion of the investments in the online education platform HotChalk and the online learning provider Udacity, both of which were acquired in the previous year. None of the investments in the fund activities grouped under Bertelsmann Investments are fully consolidated, therefore in most cases no operating results are disclosed for this segment.

Special Items

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

EBIT

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

Group Profit or Loss

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

Net Assets and Financial Position

Financing Guidelines

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

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

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

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

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

Financial Targets

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

1) After modifications.

Financing Activities

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

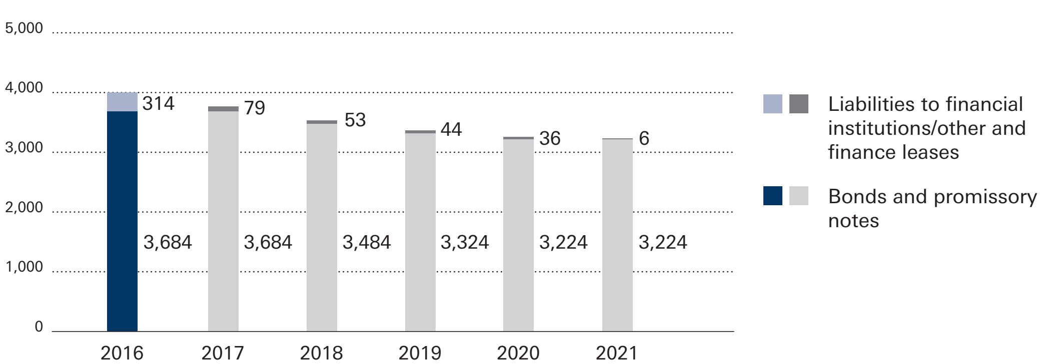
Rating

Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The agency ratings facilitate access to the international capital markets and are therefore a key element of Bertelsmann's financial security. Bertelsmann is rated by Moody's as "Baa1" (outlook: stable) and by S&P as "BBB+" (outlook: stable). Both credit ratings are in the investment-grade category and meet Bertelsmann's target rating. Bertelsmann's short-term credit quality rating is "P-2" from Moody's and "A-2" from S&P.

Credit Facilities

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

Maturity Structure of Financial Debt in € millions



Consolidated Cash Flow Statement (Summary)

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

Cash Flow Statement

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

Off-Balance-Sheet Liabilities

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

Investments

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

Investments by Division

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

Balance Sheet

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

Profit Participation Capital

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

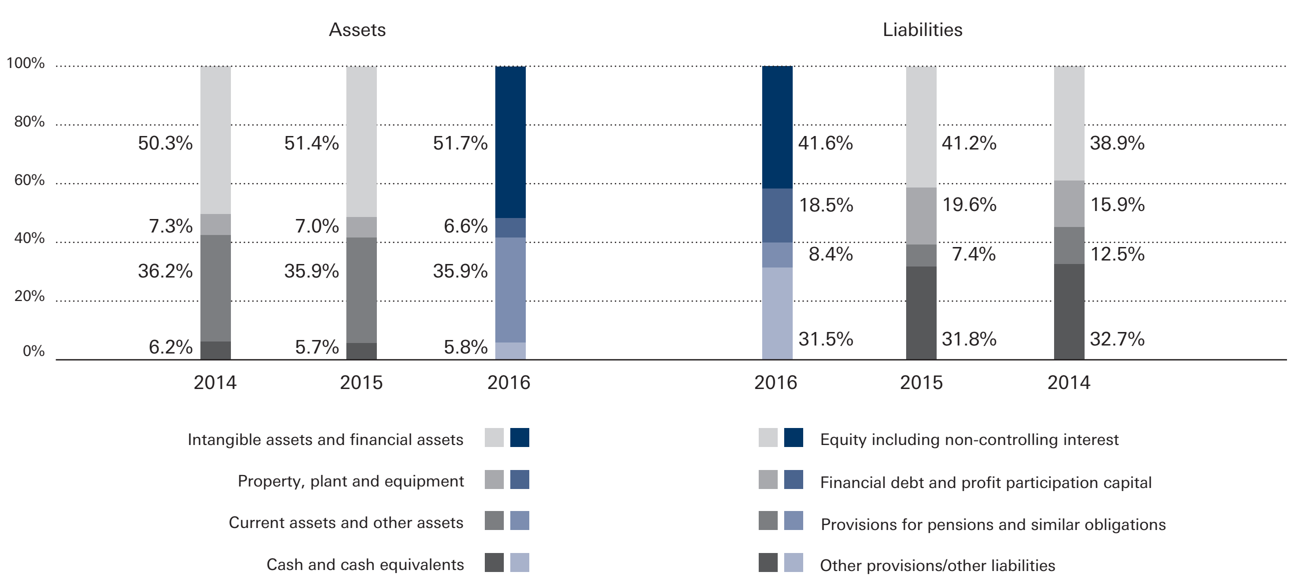
The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of par value. The lowest closing rate of the 2001 profit participation certificates in the financial year 2016 was 310.00 percent in January; their highest was 335.02 percent in April.

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

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

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

Balance Sheet



Performance of the Group Divisions

RTL Group

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

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

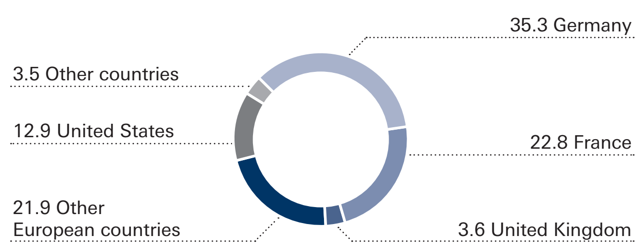
In France, Groupe M6 increased its revenues primarily through higher income from TV advertising. The flagship channel M6 improved its average audience share to 16.0 percent (previous year: 15.4 percent), boosted among other things by the broadcast of 11 European Soccer Championship matches. RTL Nederland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

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

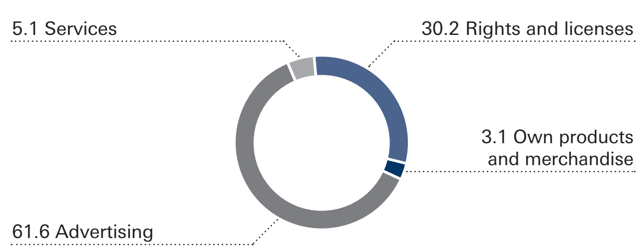
In 2016, RTL Group continued to invest in its three strategic pillars of broadcasting, content and digital. RTLplus became the most successful channel launch in recent years. In December 2016, the channel already had a market share of 0.9 percent in the target group of viewers aged 14 to 59. Fremantle Media acquired a majority holding in the production company Abot Hameiri and also bought stakes in Eureka Productions, Dr Pluto, Wild Blue Media and Dancing Ledge. The UFA Fiction series "Deutschland 83" continued its international success with audiences and critics, as did the Wildside production "The Young Pope," which became the most popular premiere for a new series on Sky in Italy and launched on Canal+ as its number-one new international drama of 2016 in France.

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

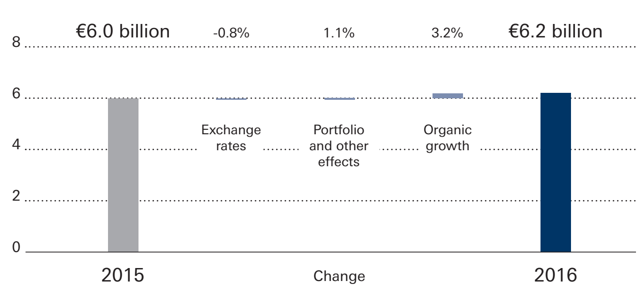
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Penguin Random House

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

Including Verlagsgruppe Random House, the German publishing group wholly owned by Bertelsmann, Penguin Random House achieved a turnover of €3.4 billion in 2016 (previous year: €3.7 billion), reflecting a year-on-year decline of 9.6 percent. The revenue decline was mainly due to negative currency effects and portfolio changes, as well as lower sales of print and e-books. It was partly offset by fewer returns and positive developments in the audio formats. The book group's operating EBITDA fell by 3.6 percent to €537 million (previous year: €557 million); higher savings from the integration process and lower other costs had a positive effect on earnings. The EBITDA margin was increased again to 16.0 percent (previous year: 15.0 percent).

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

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

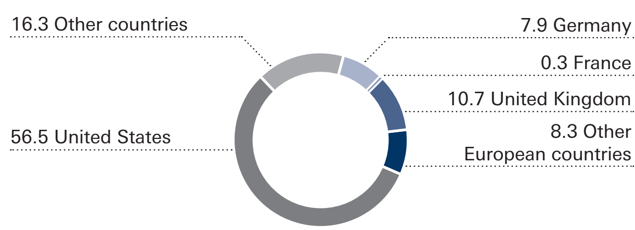
Penguin Random House Grupo Editorial benefited from rising e-book sales, a strong new-title list, and net savings from its merger integration. In Spain, the Group grew its market share; in Latin America, the business outperformed the market in a challenging macro-economic environment.

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

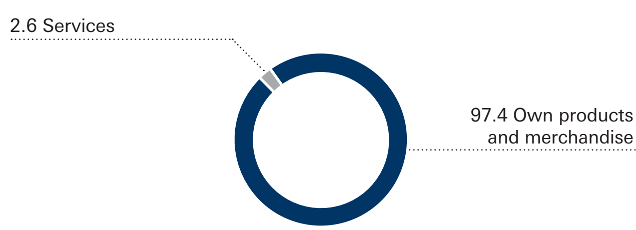
Numerous Penguin Random House authors won internationally renowned awards last year, including Pulitzer Prizes for General Nonfiction, History and Autobiography and the National Book Award for Fiction.

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

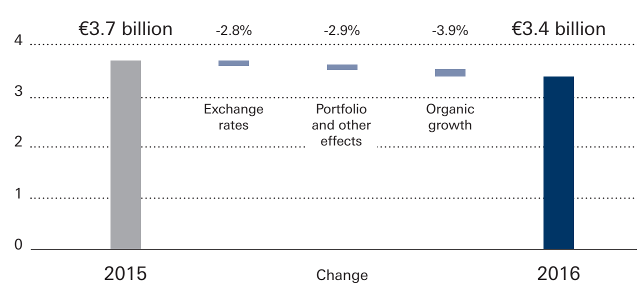
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

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

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

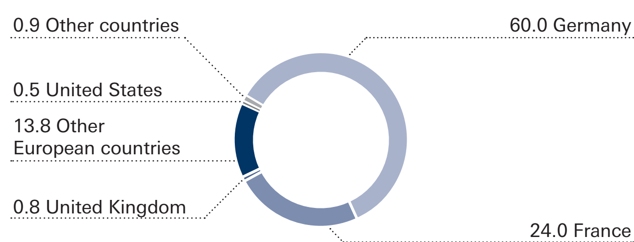
New titles launched during the last two years – including "Barbara" and "Stern Crime" – and the Deutsche Medien-Manufaktur offerings also contributed to the revenue growth. The subsidiary cofounded with the Landwirtschaftsverlag publishing company began its work and successfully launched two new magazines: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

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

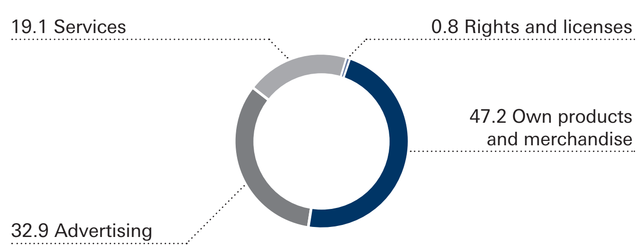
G+J EMS teamed up with the RTL subsidiary IP Deutschland to form the Ad Alliance. Under this umbrella, the marketing agents will develop cross-genre concepts, meaning that the two Bertelsmann subsidiaries now reach 99 percent of the German population in high-end journalistic environments with their portfolios.

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

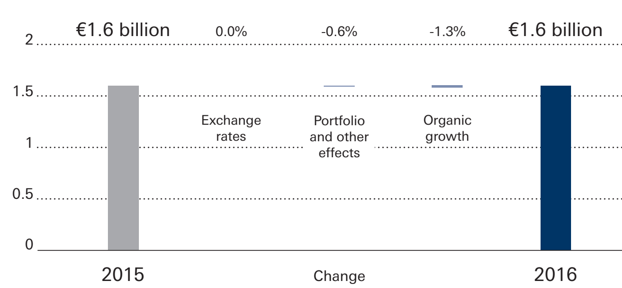
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



BMG

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

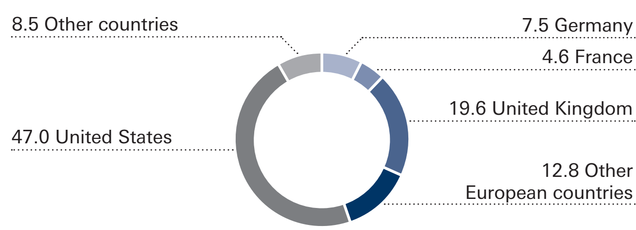
BMG strengthened its international presence, opening branches in Australia and Brazil. In all, BMG now has operations in countries that account for 75 percent of the global music market. Only a few months after its market entry in Australia, BMG concluded its takeover of the music operations of Alberts,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

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

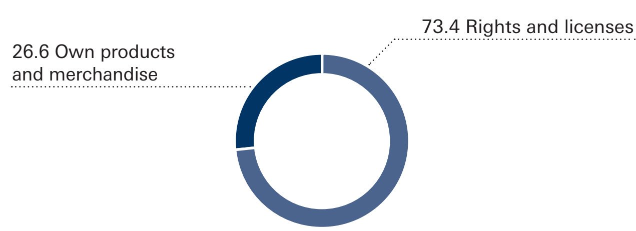
Furthermore, BMG strengthened its portfolio through a series of acquisitions and catalog acquisitions. In the United Kingdom, for example, the acquisition of a majority stake in the ARC Music publishing catalog secured the rights to songs by artists including Chuck Berry, the Beach Boys and John Lee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

Many BMG contract partners celebrated creative successes in 2016. In publishing, BMG songwriters helped international artists like Beyoncé, Lady Gaga, Rihanna and David Guetta storm the charts. BMG also benefited from the success of its clients, including Frank Ocean, Robbie Williams, DJ Snake, Kings of Leon and Mick Jagger and Keith Richards from the Rolling Stones. The company's continued expansion of its recorded music business was accompanied by chart-topping releases – BMG went to the top of the UK charts with Rick Astley's album "50" and to number one in both the United States and Britain with the album "California" by Blink-182.

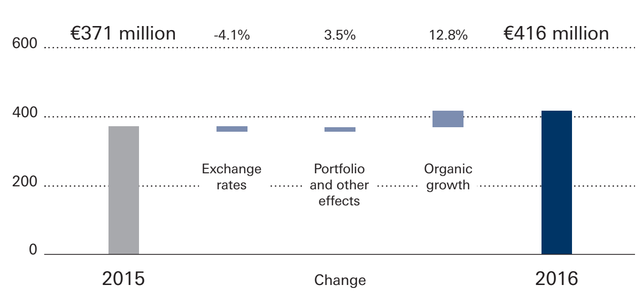
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Arvato

Arvato recorded a very positive business performance in 2016, with nearly all Solution Groups growing their revenues and results. Arvato's revenues rose by 1.4 percent to €3.8 billion (previous year: €3.8 billion). Despite economic challenges in a few markets, operating EBITDA increased by 14.7 percent to €359 million (previous year: €313 million); all Solution Groups contributed to this. The EBITDA margin improved to 9.4 percent, after 8.3 percent in the previous year.

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

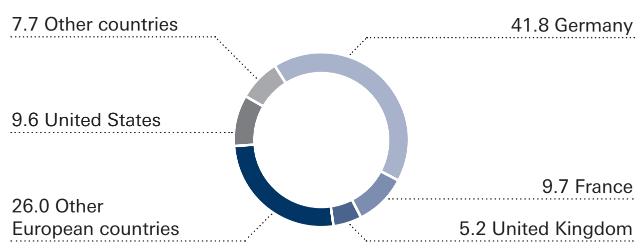
Arvato CRM Solutions significantly increased both its revenues and earnings in the 2016 financial year. This growth was fueled mainly by new customer acquisitions in the core business areas of IT/Internet and Tourism and the further internationalization of the business. A service center that can accommodate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

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

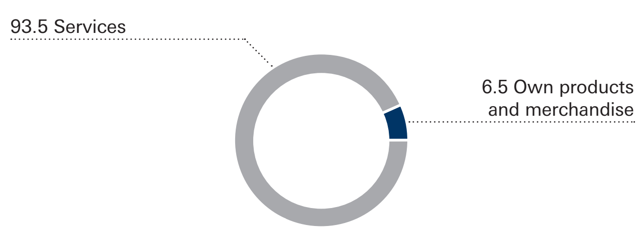
Arvato Financial Solutions, the financial services businesses arm, also reported positive revenues and earnings. This solid business performance was mainly due to the provision of Business Process Outsourcing (BPO) services for international customers, the further rollout of the subsidiary AfterPay in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

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

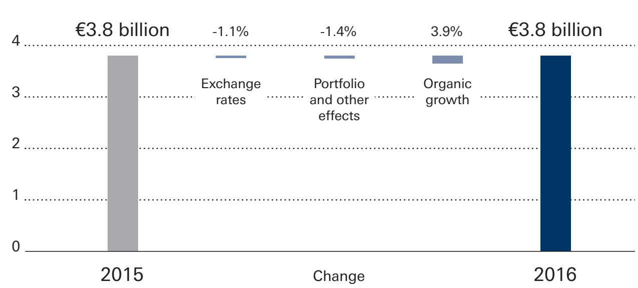
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Printing Group

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

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

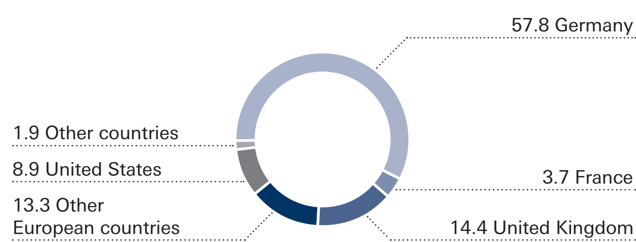
BPG's offset printing business remained virtually stable in financial year 2016, at a good earnings level. Mohn Media renewed important customer contracts in the retail segment during the year. GGP Media, a company that specializes in print solutions for book publishers, maintained its position in a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

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

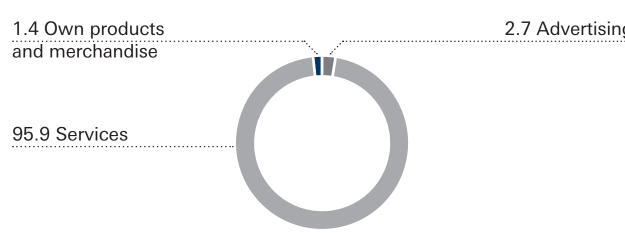
BPG's US printers continued to face an intensely competitive situation in the book printing business. Declines in pocket book production were offset by the acquisition of a major customer in the publishing sector and by expanding the business to new sectors with innovative print products. The US printers'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

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

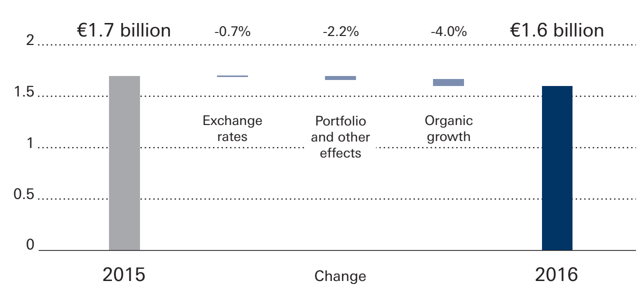
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Education Group

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

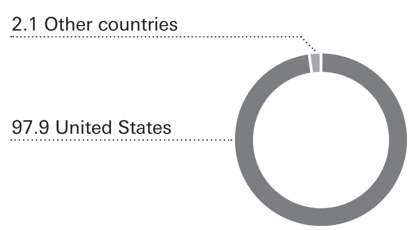
The e-learning provider Relias Learning, currently Bertelsmann's most profitable education business, recorded significant growth, both organically and through acquisitions. The Bertelsmann subsidiary expanded its customer base from around 4,500 to more than 5,500 institutions, advanced various innovations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

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

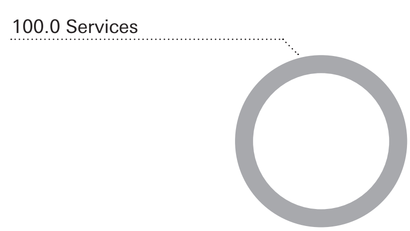
HotChalk continued its partnerships with universities in the United States, supporting them in offering their courses to the digital world. Several thousand students at seven universities are currently enrolled in programs supported by HotChalk.

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

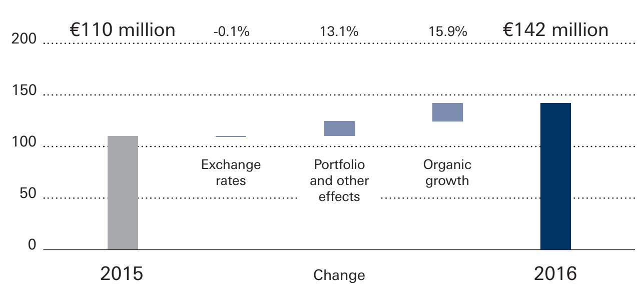
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Investments

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

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

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

In China, BAI made 27 new investments during the reporting period and several follow-up investments in existing portfolio companies. Many of BAI's portfolio companies provide online services to the country's growing middle class, including the fitness app Keep, the dating platform Tantan, the bike-sharing app Mobike and the Fintech company Yixin Capital. For the first time since the fund was established, the 2016 exit proceeds exceeded the investments during the year.

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

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

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

General Statement by Company Management on the Economic Situation

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

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

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

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

Alternative Performance Measures

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

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

Organic Revenue Growth

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

Operating EBITDA

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

Operating EBITDA

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

BVA

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

BVA

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

Cash Conversion Rate

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

Cash Conversion Rate

The cash conversion rate serves as a measure of cash generated from business activities and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets and property, plant and equipment or, if applicable, increased by proceeds from the sale of non-current assets. Further adjustments are made in order to ensure an allocation of capital flows to the relevant periods and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with the operating EBITDA. Further adjustments in the financial year 2016 mainly reflected the impact of restructuring measures on payments. The operating EBITDA is used to calculate the operating EBIT by deducting amortization and depreciation, provided that these are not included in special items. The Group aims to maintain a cash conversion rate of 90 to 100 percent as a long-term average.

Economic Debt

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

Economic Debt

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

Leverage Factor

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

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

Significant Events After the Balance Sheet Date

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

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

Risks and Opportunities

Risk Management System

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

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

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

Accounting-Related Risk Management System and Internal Control System

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

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

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

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

Major Risks to the Group

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

Overview of Major Risks to the Group

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

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

■ Existing risks

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

Strategic and Operational Risks

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

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

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

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

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

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

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

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

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

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

Acquisition-Related Risks

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

Information Security Risks

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

Legal and Regulatory Risks

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

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

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

Foreign investments in the People's Republic of China are highly regulated. In view of this, in order to secure Bertelsmann's rights, it is standard market practice to invest through so-called VIE structures. However, there is the risk that it will not be possible to safeguard such structures through Chinese courts particularly if the People's Republic changes its policies toward foreign investments or if courts and authorities change their case law or administrative practice. A draft of a revised "PRC Foreign Investment Law" is being discussed politically. It is not yet clear to what extent Chinese investment policy will change as a result of this. The draft stipulates a wide-reaching ban on trust structures in regulated markets. However, there is also no provision whatsoever for dealing with existing trust structures. In an extreme case, it is conceivable that the total investment could be lost. In the past, however, such measures have only been reported in exceptional cases. By contrast, observers are anticipating solutions that will only have a minor impact on the Chinese economy. These developments would affect BMG, Arvato, Gruner + Jahr and Bertelsmann Asia Investments (BAI).

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

Financial Market Risks

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

General Statement on the Risk Situation

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

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

Opportunity Management System

An efficient opportunity management system enables Bertelsmann to secure its corporate success in the long term and to exploit potential in an optimum way. Opportunities are possible future developments or events that could result in a positive deviation from outlook or objective for Bertelsmann. The opportunity management system, like the RMS, is an integral component of the business processes and company decisions. During the strategy and planning process, significant opportunities are determined each year from the profit center level upward, and then aggregated step by step at the division and Group levels. By systematically recording them on several reporting levels, opportunities that arise can be identified and exploited at an early stage. This also creates an interdivisional overview of Bertelsmann's current opportunities. A review of major changes in opportunities is conducted at the divisional level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group in order to derive synergies through targeted cooperation in the individual divisions. The interdivisional experience transfer is reinforced by regular meetings of the GMC.

Opportunities

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

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

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

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

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

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

At Arvato, interdivisional cooperation can provide additional opportunities for acquiring new customers, particularly key international customers. The global e-commerce market will continue its dynamic growth over the next few years as a result of ongoing digitization. Arvato could benefit significantly from this growth, primarily through new services offered by the Solution Groups SCM and Financial Solutions. Further growth opportunities from the digital transformation lie in providing support to customers with CRM solutions via multiple digital channels and in developing and providing cloud-based IT services.

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

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

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

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

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

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

Outlook

Anticipated Overall Economic Development

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

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

Anticipated Development in Relevant Markets

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

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

Expected Business Development

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

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

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the basis of the expected business development. With revenue and earnings share within the eurozone expected at around two-thirds, the extent of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore assumes that GDP in the eurozone will increase by 3.2 percent in nominal terms and by 1.7 percent in real terms for 2017. The OECD predicts that GDP in the eurozone will increase by 2.8 percent in nominal terms and by 1.6 percent in real terms for 2017. In view of these economic expectations, Bertelsmann expects Group revenues to increase slightly in the financial year 2017. Operating EBITDA is expected to show stable development in the financial year 2017. The average level of capital invested will continue to increase in the financial year 2017 as a result of ongoing acquisition activity. As a result of the growth profile of the acquired businesses, compensating effects from earnings contributions are not expected to materialize for some time. Consequently, a strong fall in BVA is expected for the Group.

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

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

These forecasts are based on Bertelsmann's business strategy, as outlined in the "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 assumptions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

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

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

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

Results of Operations of Bertelsmann SE & Co. KGaA

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

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

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

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

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

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

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

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

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

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

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

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

Risks and Opportunities for Bertelsmann SE & Co. KGaA

As Bertelsmann SE & Co. KGaA is largely linked to the Bertelsmann Group companies, among other things through the financing and guarantee commitments as well as through direct and indirect investments in the subsidiaries, the situation of Bertelsmann SE & Co. KGaA in terms of risks and opportunities is primarily dependent on the risks and opportunities of the Bertelsmann Group. In this respect, the statements made by corporate management concerning the overall assessment of the risks and opportunities also constitute a summary of the risks and opportunities of Bertelsmann SE & Co. KGaA (see the "Risks and Opportunities" section).

Outlook for Bertelsmann SE & Co. KGaA

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

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

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

Consolidated Financial Statements

Consolidated Income Statement

in € millions	Notes	2016	2015
Revenues	1	16,950	17,141
Other operating income	2	613	575
Changes in inventories		248	258
Own costs capitalized		34	31
Cost of materials		(5,769)	(5,730)
Royalty and license fees		(1,462)	(1,513)
Personnel costs	3	(5,375)	(5,430)
Amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment	4	(632)	(616)
Other operating expenses	5	(2,866)	(3,064)
Results from investments accounted for using the equity method	12	29	28
Impairment losses and reversals on investments accounted for using the equity method		(4)	(23)
Results from financial assets	6	(8)	–
Results from disposals of investments	13	41	24
EBIT (earnings before interest and taxes)		1,799	1,681
Interest income	7	13	20
Interest expenses	7	(146)	(142)
Other financial income	8	14	22
Other financial expenses	8	(125)	(130)
Financial result		(244)	(230)
Earnings before taxes from continuing operations		1,555	1,451
Income tax expense	9	(419)	(346)
Earnings after taxes from continuing operations		1,136	1,105
Earnings after taxes from discontinued operations		1	3
Group profit or loss		1,137	1,108
attributable to:			
Bertelsmann shareholders			
Earnings from continuing operations		685	674
Earnings from discontinued operations		1	3
Earnings attributable to Bertelsmann shareholders		686	677
Non-controlling interests			
Earnings from continuing operations		451	431
Earnings from discontinued operations		–	–
Earnings attributable to non-controlling interests		451	431

Consolidated Statement of Comprehensive Income

in € millions	Notes	2016	2015
Group profit or loss		1,137	1,108
Items that will not be reclassified subsequently to profit or loss			
Remeasurement component of defined benefit plans		(242)	282
Share of other comprehensive income of investments accounted for using the equity method		–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Currency translation differences			
– changes recognized in equity		32	276
– reclassification adjustments for gains (losses) included in profit or loss		(4)	(2)
Available-for-sale financial assets			
– changes in fair value recognized in equity		73	(4)
– reclassification adjustments for gains (losses) included in profit or loss		–	–
Cash flow hedges			
– changes in fair value recognized in equity		26	23
– reclassification adjustments for gains (losses) included in profit or loss		(22)	(17)
Share of other comprehensive income of investments accounted for using the equity method		11	–
Other comprehensive income net of tax	18	(126)	558
Group total comprehensive income		1,011	1,666
attributable to:			
Bertelsmann shareholders		554	1,164
Non-controlling interests		457	502

Consolidated Balance Sheet

in € millions	Notes	12/31/2016	12/31/2015
Assets			
Non-current assets			
Goodwill	10	8,174	7,895
Other intangible assets	10	2,544	2,522
Property, plant and equipment	11	1,564	1,605
Investments accounted for using the equity method	12	1,041	945
Other financial assets	13	542	405
Trade and other receivables	15	76	146
Other non-financial assets	16	704	640
Deferred tax assets	9	1,007	961
		15,652	15,119
Current assets			
Inventories	14	1,685	1,661
Trade and other receivables	15	3,853	3,707
Other financial assets	13	112	113
Other non-financial assets	16	953	858
Current income tax receivables		66	140
Cash and cash equivalents	17	1,373	1,310
		8,042	7,789
Assets held for sale		100	–
		23,794	22,908
Equity and liabilities			
Equity	18		
Subscribed capital		1,000	1,000
Capital reserve		2,345	2,345
Retained earnings		4,527	4,146
Bertelsmann shareholders' equity		7,872	7,491
Non-controlling interests		2,023	1,943
		9,895	9,434
Non-current liabilities			
Provisions for pensions and similar obligations	19	1,999	1,709
Other provisions	20	136	122
Deferred tax liabilities	9	146	160
Profit participation capital	21	413	413
Financial debt	22	3,763	3,075
Trade and other payables	23	392	375
Other non-financial liabilities	23	362	375
		7,211	6,229
Current liabilities			
Other provisions	20	315	346
Financial debt	22	235	1,000
Trade and other payables	23	4,307	4,276
Other non-financial liabilities	23	1,657	1,529
Current income tax payables		166	94
		6,680	7,245
Liabilities related to assets held for sale		8	–
		23,794	22,908

Consolidated Cash Flow Statement

in € millions	2016	2015
Group earnings before interest and taxes	1,800	1,684
Taxes paid	(234)	(286)
Depreciation and write-ups of non-current assets	672	656
Results from disposals of investments	(42)	(27)
Change in provisions for pensions and similar obligations	(55)	(45)
Change in other provisions	(20)	(104)
Change in net working capital	(175)	(201)
Fair value remeasurement of investments	(12)	(82)
Other effects	20	5
Cash flow from operating activities	1,954	1,600
– thereof discontinued operations	–	–
Investments in:		
– intangible assets	(388)	(349)
– property, plant and equipment	(326)	(297)
– financial assets	(248)	(447)
– purchase prices for consolidated investments (net of acquired cash)	(278)	(166)
Cash receipts for disposal of subsidiaries and other business units	(28)	2
Cash receipts from disposal of other fixed assets	220	161
Contribution to/withdrawals from defined benefit plans	(33)	(689)
Cash flow from investing activities	(1,081)	(1,785)
– thereof discontinued operations	–	–
Proceeds from bonds and promissory notes	694	1,490
Redemption of bonds and promissory notes	(786)	(430)
Proceeds from/redemption of other financial debt	59	(155)
Interest paid	(190)	(156)
Interest received	16	11
Dividends to Bertelsmann shareholders	(180)	(180)
Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18b)	(388)	(450)
Change in equity	(18)	(8)
Cash flow from financing activities	(793)	122
– thereof discontinued operations	–	–
Change in cash and cash equivalents	80	(63)
Exchange rate effects and other changes in cash and cash equivalents	(14)	42
Cash and cash equivalents 1/1	1,310	1,331
Cash and cash equivalents 12/31	1,376	1,310
Less cash and cash equivalents included within assets held for sale	(3)	–
Cash and cash equivalents 12/31 (according to the consolidated balance sheet)	1,373	1,310

Details on the cash flow statement are presented in note 26 “Cash Flow Statement.”

Change in Net Financial Debt

in € millions	2016	2015
Net financial debt at 1/1	(2,765)	(1,689)
Cash flow from operating activities	1,954	1,600
Cash flow from investing activities	(1,081)	(1,785)
Interest, dividends and changes in equity, additional payments (IAS 32.18b)	(760)	(783)
Exchange rate effects and other changes in net financial debt	27	(108)
Net financial debt at 12/31	(2,625)	(2,765)

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

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital	Capital reserve[1]	Retained earnings					Bertelsmann shareholders' equity	Non-controlling interests	Total
			Other retained earnings	Cumulated other comprehensive income[2]						
				Currency translation differences	Available-for-sale financial assets	Cash flow hedges	Share of other comprehensive income of investments accounted for using the equity method			
Balance as of 1/1/2015	1,000	2,345	3,256	(117)	16	21	13	6,534	1,846	8,380
Group profit or loss	–	–	677	–	–	–	–	677	431	1,108
Other comprehensive income	–	–	269	213	(3)	6	2	487	71	558
Group total comprehensive income	–	–	946	213	(3)	6	2	1,164	502	1,666
Dividend distributions	–	–	(180)	–	–	–	–	(180)	(440)	(620)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(26)	–	–	2	–	(24)	20	(4)
Equity transactions with shareholders	–	–	(206)	–	–	2	–	(204)	(420)	(624)
Other changes	–	–	(3)	–	–	–	–	(3)	15	12
Balance as of 12/31/2015	1,000	2,345	3,993	96	13	29	15	7,491	1,943	9,434
Balance as of 1/1/2016	1,000	2,345	3,993	96	13	29	15	7,491	1,943	9,434
Group profit or loss	–	–	686	–	–	–	–	686	451	1,137
Other comprehensive income	–	–	(230)	17	72	3	6	(132)	6	(126)
Group total comprehensive income	–	–	456	17	72	3	6	554	457	1,011
Dividend distributions	–	–	(180)	–	–	–	–	(180)	(376)	(556)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	16	–	–	–	–	16	9	25
Equity transactions with shareholders	–	–	(164)	–	–	–	–	(164)	(367)	(531)
Other changes	–	–	(9)	–	–	–	–	(9)	(10)	(19)
Balance as of 12/31/2016	1,000	2,345	4,276	113	85	32	21	7,872	2,023	9,895

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 December 31, 2016, a total of €3 million relates to assets classified as held for sale in accordance with IFRS 5. As of December 31, 2015, no significant amounts relate to assets classified as held for sale in accordance with IFRS 5.

Notes

Segment Information (Continuing Operations)

in € millions	RTL Group 2016	RTL Group 2015	Penguin Random House 2016	Penguin Random House 2015	Gruner + Jahr 2016	Gruner + Jahr 2015 (adjusted)	BMG 2016	BMG 2015 (adjusted)	Arvato 2016	Arvato 2015 (adjusted)
Revenues from external customers	6,228	6,020	3,360	3,715	1,554	1,585	413	369	3,777	3,711
Intersegment revenues	9	9	1	2	26	26	3	2	61	72
Divisional revenues	6,237	6,029	3,361	3,717	1,580	1,611	416	371	3,838	3,783
Operating EBITDA	1,405	1,355	537	557	137	131	95	84	359	313
EBITDA margin[1]	22.5%	22.5%	16.0%	15.0%	8.7%	8.1%	22.8%	22.6%	9.4%	8.3%
Impairment (-)/reversals (+) on intangible assets and property, plant and equipment	(3)	3	–	–	–	–	–	–	(9)	(4)
Results from investments accounted for using the equity method	67	57	–	(1)	4	5	–	–	9	10
Invested capital	6,649	6,483	2,431	2,356	724	602	1,864	1,792	1,374	1,342

The figures from the previous year have been adjusted. Further details on the adjustment to previously published information are presented in note 27 "Segment Reporting."
1) Operating EBITDA as a percentage of revenues.
2) The business development of Bertelsmann Investments is determined primarily on the basis of EBIT. EBIT amounted to €35 million (previous year: €-14 million).

Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	2016	2015
EBIT from continuing operations	1,799	1,681
Special items		
– impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations	–	–
– adjustment to carrying amounts on assets held for sale	14	–
– impairment on other financial assets	22	17
– impairment losses and reversals on investments accounted for using the equity method	4	23
– results from disposals of investments	(41)	(24)
– fair value remeasurement of investments	(12)	(82)
– restructuring and other special items	152	257
Amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment	632	616
Adjustments on amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment included in special items	(2)	(3)
Operating EBITDA from continuing operations	2,568	2,485

	Bertelsmann Printing Group		Bertelsmann Education Group		Bertelsmann Investments[2]		Total divisions		Corporate		Consolidation		Continuing operations	
	2016	2015 (adjusted)	2016	2015 (adjusted)	2016	2015 (adjusted)	2016	2015 (adjusted)	2016	2015 (adjusted)	2016	2015 (adjusted)	2016	2015
	1,426	1,514	142	110	–	–	16,900	17,024	50	117	–	–	16,950	17,141
	198	230	–	–	–	1	298	342	31	30	(329)	(372)	–	–
	1,624	1,744	142	110	–	1	17,198	17,366	81	147	(329)	(372)	16,950	17,141
	118	124	(17)	(5)	–	1	2,634	2,560	(62)	(76)	(4)	1	2,568	2,485
	7.3%	7.1%	-11.6%	-4.1%	n/a	n/a	15.3%	14.7%	n/a	n/a	n/a	n/a	15.1%	14.5%
	(1)	(2)	–	–	–	–	(13)	(3)	–	–	–	(1)	(13)	(4)
	–	–	(32)	(23)	(18)	(21)	30	27	–	–	(1)	1	29	28
	279	272	1,053	905	466	367	14,840	14,119	115	82	(19)	(24)	14,936	14,177

Information about Geographical Areas (Continuing Operations)

in € millions	Germany		France		United Kingdom		Other European countries		United States		Other countries		Continuing operations	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues from external customers	5,858	5,817	2,242	2,260	1,078	1,143	3,102	3,041	3,532	3,700	1,138	1,180	16,950	17,141
Non-current assets[1]	3,175	3,031	1,204	1,131	1,343	1,441	3,159	3,196	3,177	3,017	224	206	12,282	12,022

1) Non-current assets comprise property, plant and equipment and intangible assets (including goodwill).
Details on segment reporting are presented in note 27 "Segment Reporting."

Information on Revenue Sources (Continuing Operations)

in € millions	Own products and merchandise		Advertising		Services		Rights and licenses		Continuing operations	
	2016	2015 (adjusted)	2016	2015	2016	2015 (adjusted)	2016	2015	2016	2015
Revenues from external customers	4,602	4,990	4,384	4,237	5,767	5,774	2,197	2,140	16,950	17,141

The figures from the previous year have been adjusted. Further details on the adjustment to previously published information and other details on segment reporting are presented in note 27 "Segment Reporting."

General Principles

The Bertelsmann SE & Co. KGaA Consolidated Financial Statements as of December 31, 2016, were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) that are applicable in the European Union (EU-IFRS). The supplementary requirements set out in section 315a of the German Commercial Code (HGB) were met as well. The Consolidated Financial Statements are prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million). For the sake of clarity, certain items in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet are combined. These items are disclosed and explained in greater detail in the notes.

Bertelsmann SE & Co. KGaA is a partnership limited by shares with its registered office in Gütersloh, Germany. The address of the company's registered headquarters is Carl-Bertelsmann-Strasse 270, 33311 Gütersloh.

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 United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as China, India and Brazil. The Bertelsmann divisions are RTL Group (television), Penguin Random House (books), Gruner + Jahr (magazines), BMG (music), Arvato (services), Bertelsmann Printing Group (printing), Bertelsmann Education Group (education) and Bertelsmann Investments (funds). Further information on the main activities of Bertelsmann SE & Co. KGaA and its subsidiaries is presented in detail in the Combined Management Report.

Impact of New Financial Reporting Standards

With the exception of the amendments to IAS 1, the first-time application of new financial reporting standards and interpretations had no material impact on the Bertelsmann Group. The amendments to IAS 1 are intended to clarify the disclosure requirements. They relate to materiality, line-item aggregation, subtotals, structure of the notes, significant accounting policies and separate disclosure of the other comprehensive income of associates and joint ventures. Application of this amended standard resulted in changes to the structure and presentation of the notes.

Impact of Issued Financial Reporting Standards that Are Not Yet Effective

The Bertelsmann Group has not opted for early adoption of any additional standards, interpretations or amendments that have been issued by the IASB or the IFRS IC but are not yet mandatory. Financial reporting standards that are not yet effective that will have a material impact on Bertelsmann are IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014. The new version contains revised regulations for the classification and measurement of financial assets, new requirements for impairment of financial instruments and new requirements for hedge accounting. In 2016, an analysis was conducted to determine the extent to which the Bertelsmann Group is impacted by the new regulations of IFRS 9. In particular, the new regulations on classification of debt instruments require analysis of certain business models in the Group. As a result of the review of business models, financial assets previously measured at amortized cost could in the future be measured at fair value through other comprehensive income, at fair value through profit or loss or continue to be measured at amortized cost. In the future, all equity instruments are to be measured at fair value through profit or loss or at fair value through other comprehensive income. If changes in carrying amounts are recognized in other comprehensive income, they are no longer to be reclassified to profit or loss when these instruments are sold. Possible effects can be seen in sharp fluctuations in carrying amounts and fluctuations in the income statement and/or the statement of other comprehensive income. In the

Bertelsmann Group, the new requirements for impairment of financial assets primarily concern the impairment of trade receivables. The new IFRS 9 regulations require that expected credit losses are also taken into consideration in the future for the measurement of the impairment. At this time, the effects of first-time application of IFRS 9 on the measurement of financial assets and the measurement of impairment of financial instruments cannot be conclusively assessed by the Bertelsmann Group. No material impacts are anticipated for the Consolidated Financial Statements from the new regulations for hedge accounting. For the Bertelsmann Group, IFRS 9 will be applied for the first time in the financial year 2018. Application of IFRS 9 must be generally retrospective, but various exceptions are granted, particularly in the area of hedge accounting.

IFRS 15 includes new comprehensive regulations for the recognition of revenue that are independent of a specific industry or transaction and replaces the current regulations in IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenues – Barter Transactions Involving Advertising Services. The new standard replaces the current risk and reward approach with a contract-based five-step model. In addition to substantially more extensive application guidance for the accounting treatment of revenue from contracts with customers, there are more detailed disclosure requirements. Upon endorsement, application of the standard is mandatory for financial years beginning on or after January 1, 2018, even though the endorsement is still outstanding for the clarifications to IFRS 15 issued in April 2016. Initial application must be generally retrospective, but various practical expedients are allowed. Bertelsmann has opted to apply the modified retrospective approach for its initial application of IFRS 15, according to which IFRS 15 will be applied prospectively on a Group-wide basis from January 1, 2018, recognizing the cumulative effect of first-time application in retained earnings. As part of the implementation of IFRS 15, Bertelsmann initiated a Group-wide project tailored to the individual needs of the respective divisions. According to the current status of the project, initial application of IFRS 15 is expected to have no material effects overall for the Bertelsmann Group regarding timing and measurement of revenue recognition. The effects of the implementation of IFRS 15 for licenses at RTL and BMG are currently being analyzed, while no material effects to timing and measurement of revenue recognition are expected overall at Arvato, due to the service character of its operations, and also at the Bertelsmann Printing Group. Anticipated returns at Penguin Random House and Gruner + Jahr are no longer to be offset against receivables but disclosed as return liabilities. Reviews are currently ongoing to assess whether the implementation of IFRS 15 is expected to have any effects on the Bertelsmann Education Group. In addition, analyses are currently ongoing to determine how the more specific definitions of "principal" and "agent" in terms of the control principle could influence the assessment of individual business models within the Bertelsmann Group. Effects could occur from the application of IFRS 9 regarding measurement of contract assets; in this context, IFRS 9 requires the application of the expected loss model instead of the previously applied incurred loss approach. As a result of expanded disclosure requirements for the balance sheet, income statement and the notes, corresponding adaptations are being prepared for the reporting system, the chart of accounts and disclosures schedules. Furthermore, through variance analyses conducted in the revenue-related processes of each of the divisions, the potential need for further adaptations is being assessed; this will be the basis for ensuring fulfillment of the process-related requirements of IFRS 15.

IFRS 16, issued in January 2016, sets out principles for recognition, measurement, presentation and disclosure requirements for leases. IFRS 16 replaces the current standards and interpretations of IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The changes mainly affect lessee accounting and generally require lessees to recognize contractual rights and obligations on the lessee's balance sheet. The standard replaces the straight-line recognition of operating lease expense for those leases applying IAS 17 with the recognition of depreciation expenses for the right-of-use asset and interest expenses on the lease liability (included within the financial result). In addition, IFRS 16 includes more extensive disclosures in the notes for lessees. Compared to the current accounting rules under IAS 17, the IFRS 16 regulations for lessors are mostly unchanged. The standard is to be applied for the first time from 2019. The standard has not yet been endorsed by the European Union. IFRS 16 will be introduced in the Bertelsmann Group as part of a Group-wide transformation project. Under this project, the Bertelsmann Group's material leases in which Bertelsmann is the lessee were identified. The material leases are mainly for the rental of property, buildings and technical broadcasting facilities. The analysis of material leases has not been completed. Under IFRS 16, the rental of technical broadcasting facilities classified as a service contract will not be in the scope of IFRS 16 in the future. The effects on the Consolidated Financial Statements will be quantified as part of the advanced analysis. Furthermore, the effects on the accounting processes are being analyzed in order to ensure consistent application of accounting policies for all leases. In particular, the accounting processes are also affected in regard to the treatment of intercompany leases and their consolidation and the treatment within segment reporting. In addition, the Bertelsmann Group is currently considering the introduction of IT-based solutions for the future treatment of leases in the Consolidated Financial Statements. No decision has been made within the Bertelsmann Group concerning the election to exercise the accounting options for short-term leases with a lease term of up to one year and for leases for low-value assets.

The Bertelsmann Group has not opted for early application of the standards of IFRS 9, IFRS 15 and IFRS 16.

Consolidation

Principles of Consolidation

The Bertelsmann Consolidated Financial Statements include the financial statements of the parent company and its subsidiaries, joint ventures and associates.

Subsidiaries are companies controlled by Bertelsmann SE & Co. KGaA in accordance with IFRS 10. Consolidation begins on the date on which the ability to exercise control exists and ends when Bertelsmann loses the ability to exercise control. Profit or loss and each component of total comprehensive income are attributed to the shareholders of the parent company and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.
In accordance with IFRS 3, business combinations are accounted for using the acquisition method. Non-controlling interests are measured at the proportionate fair value of the assets and liabilities. If the consideration transferred for the business combination or the fair values attributable to the identifiable assets and liabilities of the company acquired can only be provisionally identified on the date of initial accounting, the business combination is carried using these provisional values. Initial accounting is completed in accordance with IFRS 3.45, taking into account the one-year measurement period. Comparative information for reporting periods prior to the completion of initial accounting is presented as if it had already been completed on the acquisition date.
Changes in the parent's ownership interest in a subsidiary that do not lead to a loss of control are accounted for as equity transactions. After the loss of control of a subsidiary, it is deconsolidated in accordance with the requirements of IFRS 10. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for in accordance with the applicable IFRSs from the date when control is lost.

Joint ventures in accordance with IFRS 11 and associates are included in the Consolidated Financial Statements using the equity method in accordance with IAS 28. Associates are companies over which Bertelsmann exercises a significant influence. This is generally the case for voting rights between 20 and 50 percent. Smaller shareholdings are accounted for using the equity method if there is a significant influence in accordance with IAS 28.6.

When changing the accounting treatment of investments to the equity method, IFRS 3 is applied correspondingly so that the fair value of the previously held interest is used in determining the cost of the investment accounted for using the equity method on the transition date. The difference between the fair value and the carrying amount of the previously held interest is recognized in profit or loss. When applying the equity method to an associate or a joint venture that is an investment entity, Bertelsmann, which is a non-investment entity, generally retains as investor the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

The Bertelsmann Group recognizes immaterial investments in accordance with IAS 39.

Scope of Consolidation

Bertelsmann is the majority shareholder of RTL Group with an interest of 75.1 percent and Penguin Random House with an interest of 53 percent. Gruner + Jahr, BMG, Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments are each wholly owned by Bertelsmann.

Composition of Scope of Consolidation

	Subsidiaries		Joint ventures		Associates		Total	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
RTL Group	272	268	12	14	28	21	312	303
Penguin Random House	90	95	–	–	1	1	91	96
Gruner + Jahr	133	131	8	8	2	3	143	142
BMG	72	69	1	1	–	–	73	70
Arvato	192	205	5	5	1	1	198	211
Bertelsmann Printing Group	32	34	–	–	–	–	32	34
Bertelsmann Education Group	23	17	–	–	5	6	28	23
Bertelsmann Investments	9	8	–	–	15	10	24	18
Corporate[1)]	51	56	–	1	–	–	51	57
Total	874	883	26	29	52	42	952	954

1) Including Bertelsmann SE & Co. KGaA.

Development of Scope of Consolidation

	Germany	France	United Kingdom	Other European countries	United States	Other countries	Total
Consolidated as of 12/31/2015	292	113	138	201	84	126	954
Additions	26	11	9	10	8	18	82
Disposals	22	9	15	25	5	8	84
Consolidated as of 12/31/2016	296	115	132	186	87	136	952

A total of 227 (previous year: 224) companies without significant business operations were excluded from the scope of consolidation due to their negligible importance for the financial position and financial performance of the Bertelsmann Group. The complete list of the Bertelsmann Group's shareholdings will be published in the "Bundesanzeiger" ("Federal Gazette") as an annex to these Consolidated Financial Statements in accordance with section 313 (2) of the German Commercial Code and will be presented at the General Meeting.

Acquisitions and Disposals

In the financial year 2016, the cash flow from acquisition activities totaled €278 million (previous year: €166 million), of which €250 million (previous year: €151 million) related to new acquisitions during the reporting period less cash and cash equivalents acquired. The consideration transferred in accordance with IFRS 3 amounted to €354 million (previous year: €172 million) taking into account contingent consideration of €21 million (previous year: €8 million). In addition, put options in the amount of €18 million (previous year: €9 million) related to the acquisitions were accounted for.

In March 2016, RTL Group acquired an interest of 93.75 percent in Smartclip Holding AG including its five subsidiaries. Smartclip bundles the online video advertising inventory of 700 publishers worldwide and manages the integration and serving of video advertising to all Internet-connected screens. The company complements RTL Group's investments in digital advertising sales. The German Federal Cartel Office approved the transaction in April 2016. The consideration transferred amounted to €48 million and was fully paid in cash. The purchase price allocation resulted in non-tax-deductible goodwill in the amount of €38 million resulting from the skills and market competence of Smartclip's workforce and the synergies expected. RTL Group holds a put and call option for the remaining non-controlling interests of 6.25 percent exercisable in 2017. The exercise price of the put option is based on a variable component and capped at €200 million on a 100 percent basis. The corresponding amount has been initially recognized as a financial liability at the present value of the redemption amount totaling €4 million with a corresponding reduction in equity. The financial liability subsequently measured at amortized cost amounts to €6 million as of December 31, 2016. Remeasurements of the liability will be recognized in the income statement. Transaction-related costs amounted to less than €1 million and have been recognized in profit or loss.

In May 2016, Gruner + Jahr's French subsidiary Prisma Media acquired an interest of 100 percent in Groupe Cerise. The company is one of France's leading digital video providers, primarily due to its video offers. With the acquisition, Gruner + Jahr reinforces the position of Prisma Media in the areas that are strategically important for digital development: video, mobile, technology and social networks. The preliminary consideration transferred amounted to €42 million and was paid completely in cash. The purchase price allocation resulted in non-tax-deductible goodwill amounting to €32 million, mainly representing synergy potential to be realized by combining existing brands and businesses and strengthening the position in digital advertising markets. Transaction-related costs amounted to less than €1 million and have been recognized in profit or loss.

In December 2016, Bertelsmann Education Group fully acquired Advanced Practice Strategies (APS), a provider of e-learning products for clinical assessments and performance improvement for US hospitals. The product portfolio contains courses for performance improvement and hiring assessments. With the acquisition the Bertelsmann Education Group expands its product offering toward acute care in the healthcare sector and strengthens its service portfolio in terms of targeted online learning and assessment solutions. The preliminary consideration transferred in accordance with IFRS 3 amounted to €79 million including a contingent consideration of €9 million. As part of the acquisition, a potential earn-out of a maximum of US$40 million was agreed. The achievement of the earn-out is based on a defined threshold regarding newly concluded, annualized customer contracts at the end of 2016 and at the end of the first quarter 2017. The preliminary purchase price allocation resulted in non-tax-deductible goodwill of €67 million, which mainly reflects synergy potentials, which are – in addition to cost synergies – expected to be realized by better market access to acute care offerings and the expansion of the product portfolio of Relias Learning. Due to the proximity to the end of the reporting period, the purchase price allocation is preliminary. The transaction-related costs amounted to €1 million and have been recognized in profit or loss.

In addition, the Bertelsmann Group made several acquisitions in the financial year 2016, none of which was material on a stand-alone basis. Payments net of acquired cash and cash equivalents amounted to €105 million; the consideration transferred in accordance with IFRS 3 for these acquisitions amounted to €185 million taking into account contingent consideration of €12 million. The acquisitions resulted in goodwill totaling €118 million, which reflects synergy potential and is tax deductible in the amount of €46 million. The transaction-related costs amounted to €4 million 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 the 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 purchase price allocations, some of which are currently preliminary:

Effects of Acquisitions

in € millions	Smartclip	Groupe Cerise	Advanced Practice Strategies	Other	Total
Non-current assets					
Goodwill	38	32	67	118	255
Other intangible assets	9	13	19	68	109
Property, plant and equipment	–	–	–	2	2
Trade and other receivables	–	–	–	6	6
Other non-current assets	1	–	–	5	6
Current assets					
Inventories	–	–	–	8	8
Trade and other receivables	9	2	5	32	48
Other current assets	3	–	1	–	4
Cash and cash equivalents	11	1	3	31	46
Liabilities					
Provisions for pensions and similar obligations	–	–	–	2	2
Financial debt	–	1	–	5	6
Other financial and non-financial liabilities	22	5	16	69	112
Non-controlling interests	1	–	–	9	10

Since initial consolidation, all acquisitions in accordance with IFRS 3 in the financial year 2016 have contributed €128 million to revenues and €3 million to Group profit or loss. If consolidated as of January 1, 2016, these would have contributed €261 million to revenues and €9 million to Group profit or loss. The fair value of the acquired receivables amounts to €54 million at the acquisition date. Thereof, €38 million is attributable to trade receivables and €16 million is attributable to other receivables. Trade receivables are impaired only to a minor extent, resulting in a gross amount of trade receivables of €38 million. The other receivables are impaired only to a minor extent as well, so that the fair value equals the gross amount.

The fair values of the identifiable assets, liabilities and contingent liabilities acquired are measured in accordance with IFRS 3, primarily using the market price-oriented method. According to this method, assets and liabilities are measured at prices observed in active markets. If measurement using the market price-oriented method is not feasible, the capital value-oriented method is to be applied. Accordingly, the fair value of an asset or a liability is the present value of the future cash inflows or outflows (cash flows).

After considering the cash and cash equivalents disposed of, the Bertelsmann Group made cash flows in the amount of €-28 million (previous year: €2 million) from disposals, which are mainly attributable to the Gruner + Jahr and Arvato divisions. The disposals led to a loss from deconsolidation of €-33 million (previous year: €-10 million), which is recognized in the item "Results from disposals of investments." The following table shows their impact on the Bertelsmann Group's assets and liabilities at the time of deconsolidation:

Effects of Disposals

in € millions	Total
Non-current assets	
Goodwill	2
Other intangible assets	7
Property, plant and equipment	8
Other non-current assets	5
Current assets	
Inventories	6
Other current assets	49
Cash and cash equivalents	12
Liabilities	
Provisions for pensions and similar obligations	27
Financial debt	–
Other financial and non-financial liabilities	72

Discontinued Operations

Earnings after taxes from discontinued operations of €1 million (previous year: €3 million) comprise follow-on effects related to the disposal of companies of the former Direct Group division.

Assets Held for Sale and Liabilities Related to Assets Held for Sale

The carrying amounts of the assets classified as held for sale and related liabilities, which are mainly attributable to the RTL Group division ("RTL City") in the reporting period, are presented in the following table:

Assets Held for Sale and Related Liabilities

in € millions	Total
Assets	
Non-current assets	
Goodwill	2
Other intangible assets	3
Property, plant and equipment	87
Investments accounted for using the equity method	2
Other non-current assets	1
Current assets	
Inventories	6
Other current assets	10
Cash and cash equivalents	3
Impairment on assets held for sale	(14)
Assets held for sale	100
Equity and liabilities	
Current liabilities	
Trade payables	5
Other current liabilities	3
Liabilities related to assets held for sale	8

In October 2016, RTL Group entered into an agreement with a third party to sell Media Properties Sàrl. Media Properties Sàrl owns RTL Group's new buildings ("RTL City") in Luxembourg. These buildings, which RTL Group will leaseback, host the Corporate Center and the other operations of the RTL Group in Luxembourg. The disposal is expected to be completed during the second quarter of 2017. The sale proceeds of Media Properties amount to €154 million and are expected to generate an operating capital gain of €60 million.

For disposal groups, which are measured at fair value less costs to sell, impairment losses were recognized in the amount of €14 million, which are mainly attributable to a planned sale in the Arvato division. The fair values are based on level 3 of the hierarchy of non-recurring fair values. Valuations for level 3 are based on information from the contract negotiations. The impairment losses are recognized in profit or loss under "Other operating expenses."

As of December 31, 2015, no significant amounts related to assets classified as held for sale and related liabilities in accordance with IFRS 5.

Foreign Currency Valuation

Transactions denominated in a currency other than a subsidiary's functional currency are recorded in the functional currency at the exchange rate on the day of their initial accounting. As of the end of the reporting period, monetary assets and liabilities denominated in foreign currency are revalued in the functional currency using the applicable closing rate. Gains and losses from these currency translations are recognized in profit or loss. Non-monetary balance sheet items in foreign currency are carried at the exchange rate applicable on the date of initial recognition.

Foreign Currency Translation

The financial statements of subsidiaries, joint ventures and associates that were prepared in foreign currencies are translated into euros using the functional currency concept set out in IAS 21 before they are included in the Consolidated Financial Statements. Assets and liabilities are translated into the reporting currency at the closing rate at the end of the reporting period, while income statement items are translated at the average rate for the financial year. Currency translation differences are recognized in other comprehensive income. Such differences arise from translating items in the balance sheet at a closing rate that differs from the previous closing rate and from using the average rate from the period and the closing rate at the end of the reporting period to translate the Group profit or loss. At the time of deconsolidation of Group companies, the respective accumulated currency translation differences recognized in other comprehensive income and accumulated in a separate component of equity are reclassified from equity to the income statement. The following euro exchange rates were used to translate the currencies that are most significant to the Bertelsmann Group:

Euro Exchange Rates for Major Foreign Currencies

		Average rate		Closing rate	
Foreign currency unit per €1		2016	2015	12/31/2016	12/31/2015
Australian dollar	AUD	1.4881	1.4771	1.4596	1.4897
Canadian dollar	CAD	1.4660	1.4178	1.4188	1.5116
Chinese renminbi	CNY	7.3510	6.9701	7.3202	7.0608
British pound	GBP	0.8196	0.7256	0.8562	0.7340
US dollar	USD	1.1072	1.1089	1.0541	1.0887

Accounting and Measurement Policies

Recognition of Income and Expense

Revenues are measured in accordance with IAS 18. They are measured at the fair value of the consideration received or receivable and reduced by anticipated reductions in price, trade discounts and similar other deductions.

Revenues from the sale of goods are recognized when the Bertelsmann Group has transferred the significant risks and rewards associated with ownership of the goods to the purchaser and the amount of revenue can be reliably measured. Revenues from advertising are recognized when the corresponding advertisement or commercial appears in the respective medium. Income from royalties (licenses) is recognized on an accrual basis in line with the provisions of the underlying contract. Revenues from services rendered are recognized based on their percentage of completion.

Interest income and expenses are recognized on an accrual basis using the effective interest method in accordance with IAS 39. Dividends are only recognized in profit or loss when the shareholder's legal entitlement to payment is established. Other income is recognized when the economic benefits are probable and the amount can be measured reliably. Expenses are deferred on the basis of underlying facts or the period of time to which they relate.

Goodwill

In accordance with IFRS 3, goodwill resulting from a business combination is initially recognized at acquisition cost, with subsequent recognition at cost less accumulated impairment losses. Goodwill is subject to impairment testing at least annually in accordance with IAS 36. In the Bertelsmann Group, goodwill is tested for impairment as outlined in the "Impairment Losses" section.

Other Intangible Assets

Non-current internally generated intangible assets are capitalized at cost in accordance with IAS 38 if the corresponding requirements have been met. Intangible assets acquired separately are carried at acquisition cost less accumulated amortization and accumulated impairment losses, also in accordance with IAS 38. Intangible assets acquired as part of a business combination are initially recognized at fair value on the acquisition date in accordance with IFRS 3.

Intangible assets with finite useful life are amortized on a straight-line basis over their estimated useful life. Impairment losses and reversals of impairment losses are determined by applying the requirements for impairment testing in accordance with IAS 36. As a rule, capitalized software has a useful life of between three and five years. Supply rights and subscriber portfolios are amortized over a period of two to 15 years, while the amortization period for trademarks and music and publishing rights is three to 25 years. Licenses are amortized on a straight-line basis over the term of the license agreement or depending on performance (based on the ratios of income from use generated in the reporting period to the estimated total income from use over the whole useful life).

Intangible assets with indefinite useful life are not amortized. Instead, they are subject to at least annual impairment testing in accordance with IAS 36 and, if applicable, written down to their recoverable amount.

Property, Plant and Equipment

Items of property, plant and equipment are accounted for in accordance with IAS 16 and carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined on a straight-line basis over the estimated useful life of the asset. In the financial year 2016, depreciation is generally based on the following useful lives:

- buildings: 10 to 50 years
- technical equipment and machinery: four to 15 years
- other equipment, fixtures, furniture and office equipment: three to 15 years

Land is not subject to depreciation.

Impairment Losses

Goodwill and intangible assets with indefinite useful life are tested for impairment in accordance with IAS 36 annually as of December 31 and if a triggering event occurs. Intangible assets with a finite useful life and property, plant and equipment are tested for impairment at the end of each reporting period in accordance with IAS 36 only if there are any indications of impairment.

Impairment loss in accordance with IAS 36 has occurred when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal and the value in use are generally determined using the discounted cash flow method, which is based on future cash flow forecasts, which are part of company forecasts. For assets held for sale, only fair value less costs to sell is used as a basis for comparison.

For determining the value in use, estimated future cash inflows or outflows from future restructurings or from improvement or enhancement of the cash-generating units' performance are excluded unless, as of the end of the reporting period, the cash-generating unit is committed to the restructuring and related provisions have been made. If an active market exists, the market price or, if applicable, the price in the most recent comparable transaction is used for fair value

measurement. If there is no active market, fair value less costs of disposal is generally calculated using the discounted cash flow method. If it is not possible to allocate cash flows to assets, the relevant impairment losses are determined on the basis of cash flows attributable to the cash-generating unit to which the assets belong. Projected cash flows are based on internal estimates for three planning periods. Generally, two further detailed planning periods are applied in addition. For periods beyond this detailed horizon, a perpetual annuity is recognized, taking into account individual business-specific growth rates. Discounting is generally based on the weighted average cost of capital (WACC) after tax. Specific WACCs are derived for cash-generating units with different risk profiles. The Bertelsmann Group performs sensitivity analyses on the cash-generating units, especially on those where the headroom between the recoverable amount and the carrying amount is low.
If the reasons for an impairment loss recognized in prior periods no longer exist, the impairment loss is reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized. The latter does not apply to goodwill. The impairment loss and reversals of impairment losses are both recognized immediately in profit or loss.

Leases

On the date the lease agreement is entered into, a lease is classified as a finance lease or an operating lease in accordance with IAS 17. A lease is classified as a finance lease if substantially all the risks and rewards incidental to ownership are transferred to the Bertelsmann Group. An operating lease is a lease not classified as a finance lease. Lease payments for operating leases are recognized in profit of loss under "Other operating expenses" using the straight-line method over the lease term.

Financial Assets

Financial assets are recognized initially at fair value, taking into account transaction costs that are directly attributable to the acquisition of the financial asset. In the case of financial assets that are recognized at fair value through profit or loss, transaction costs are recognized directly in the income statement. Regular purchases and sales of financial assets are recognized on the trade date – the day on which the Bertelsmann Group enters into an obligation to buy or sell the asset.

For subsequent measurement, financial assets are classified into the following categories and subcategories:

- available-for-sale financial assets
- financial assets recognized at fair value through profit or loss
  - primary and derivative financial assets held for trading
  - financial assets initially recognized at fair value through profit or loss
- loans and receivables
  - originated loans and trade receivables
  - cash and cash equivalents

The Bertelsmann Group does not use the category of held-to-maturity financial instruments.

Available-for-sale financial assets:
The available-for-sale category primarily includes non-current equity investments not classified as loans and receivables or at fair value through profit or loss. In accordance with IAS 39, available-for-sale financial assets are measured at their fair value at the end of the reporting period to the extent that this value can be reliably measured. Otherwise these are measured at cost. With deferred taxes taken into consideration, gains and losses resulting from fluctuations in the fair value are recognized in other comprehensive income. However, if there is objective evidence of impairment, this is recognized

in profit or loss. A significant or prolonged decline in the fair value of an equity instrument below its acquisition cost is also to be regarded as objective evidence of impairment. If these assets are sold, the accumulated gains and losses previously recognized in other comprehensive income are reclassified from equity to the income statement.

Primary and derivative financial assets held for trading:
This category includes derivatives that do not meet the formal requirements of IAS 39 for hedge accounting. They are measured at their fair value. Gains or losses from changes to the fair values are recognized in profit or loss.
All derivatives that fulfill the formal requirements of IAS 39 for hedge accounting are carried separately as derivative financial instruments used in hedging relationships and are measured at fair value. Further details are presented in the section "Derivative Financial Instruments."

Financial assets initially recognized at fair value through profit or loss:
This category includes financial assets that are designated upon initial recognition at fair value through profit or loss. Changes in fair value are recognized in the other financial result.

Originated loans and trade receivables:
Originated loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method. Long-term interest-free or low-interest loans and receivables are discounted. If there is objective evidence of impairment, the carrying amount is reduced through use of an allowance account and the loss is recognized in profit or loss.

Cash and cash equivalents:
Cash includes bank balances and cash on hand. Cash equivalents include short-term, highly liquid securities with a term to maturity on acquisition of a maximum of three months.

Impairment losses and reversals:
The carrying amounts of financial assets not recognized at fair value through profit or loss are examined at the end of each reporting period in order to determine whether there is objective evidence of impairment. Such evidence exists in the following cases: information concerning financial difficulties of a customer or a group of customers; default or delinquency in interest or principal payments; the probability of being subject to bankruptcy or other financial restructuring; and recognizable facts that point to a measurable reduction in the estimated future cash flows, such as an unfavorable change in the borrower's payment status or the economic situation that corresponds to the delayed performance. In the case of financial assets carried at amortized cost, the loss in case of impairment corresponds to the difference between the carrying amount and the present value of the anticipated future cash flows – discounted using the original effective interest rate for the financial asset. If it is established that the fair value has increased at a later measurement date, the impairment loss previously recognized is reversed up to a maximum of amortized cost in profit or loss. Impairment losses are not reversed in the case of unlisted equity instruments that are classified as available-for-sale assets and carried at cost. In case of impairment on available-for-sale assets carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted using the risk-adjusted interest rate.

Measurement at Fair Value

In the case of financial assets and financial liabilities measured at fair value, the valuation technique applied depends on the respective inputs present in each case. If listed prices can be identified for identical assets on active markets, they are used for valuation (level 1). If this is not possible, the fair values of comparable market transactions are applied, and financial methods that are based on observable market data are used (level 2). If the fair values are not based on observable market data, they are identified using established financial methods or on the basis of observable prices obtained as part of the most recently implemented qualified financing rounds taking into account the life and developmental cycle of the respective entity (level 3).

Inventories

Inventories – including raw materials and supplies, finished goods, work in progress and merchandise – are accounted for in accordance with IAS 2 and recognized at the lower of historical cost and net realizable value at the end of the reporting period. Similar inventories are measured at average cost or using the FIFO (first-in, first-out) method.

In addition, inventories include all short-term film, television and similar rights that are intended for broadcast or sale within the Group's normal operating cycle. In particular, this includes films and TV shows currently in production, coproductions and acquired broadcasting rights. The carrying amount of such items at the end of the reporting period is the lower of historical cost or net realizable value. The consumption of film and television rights starts from the date of initial broadcast and depends either on the number of planned broadcasts or the expected revenues. The broadcast-based consumption of film and television rights is as follows:

- Free television thematic channels: Program rights are consumed on a straight-line basis over a maximum of six runs.
- Free television other channels:
  - Entertainment programs such as soap operas, documentaries, sports and quiz or music programs are written off in full at the initial broadcast date.
  - Fifty percent of the carrying amount of children's programs and cartoons is written off at each of the first two broadcast dates.
  - The consumption of cinema productions, TV feature films and series also spans a maximum of two broadcasts: 67 percent of the value is consumed upon the first broadcast, the remaining 33 percent upon the second broadcast.
- Pay television channels: Program rights are consumed on a straight-line basis over the license period.

The consumption of inventories and film and television rights is recognized in the income statement in the cost of materials and changes in inventories, respectively.

Customer-Specific Production Contracts

In the financial year 2016, no material revenues were recognized from customer-specific production contracts.

Deferred Taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amounts shown on the IFRS consolidated balance sheet, and for as yet unused tax loss carryforwards and tax credits.

Deferred tax assets are recognized only to the extent it is probable that taxable income will be available against which the deductible temporary difference can be utilized. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities resulting from business combinations are recognized with the exception of temporary differences on goodwill not recognizable for tax purposes. The tax rates applied for computation are those expected as of the date of reversal of temporary differences and use of tax loss carryforwards, respectively. As a rule, deferred taxes are recognized in profit or loss unless they relate to items recognized in other comprehensive income. In this case, deferred taxes are recognized in other comprehensive income.

Cumulated Other Comprehensive Income

In addition to foreign exchange gains and losses, cumulated other comprehensive income also includes in accordance with IAS 39 in equity recognized unrealized gains and losses from the fair value measurement of available-for-sale financial assets and of derivatives used in cash flow hedges.
In addition, in accordance with IAS 28.10, changes in other comprehensive income for entities accounted for using the equity method are recognized. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the return implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized in the retained earnings in the year in which these gains and losses have been incurred as part of the reconciliation of total comprehensive income for the period in the statement of changes in equity. Deferred taxes on the aforementioned items are also recognized directly in equity.

Provisions

Provisions for pensions and similar obligations are calculated using the projected unit credit method in accordance with IAS 19. The net interest expense included in pension expense is recognized in the financial result. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the return implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized immediately in equity under other comprehensive income and are not reclassified to profit or loss in a subsequent period (recycled).

With the exception of the other personnel-related provisions calculated in accordance with IAS 19, all of the other provisions are recognized in accordance with IAS 37. Provisions are measured in the amount of the most likely outcome. Non-current provisions are discounted. The discount rates take into account current market expectations and, if necessary, specific risks for the liability. As a rule, income from the reversal of provisions is generally included in the income statement line item to which the provision was previously charged.

Liabilities

Trade payables and other primary financial liabilities including profit participation certificates are initially measured at their fair value less transaction costs. Subsequent measurement is based on amortized cost using the effective interest method (financial liabilities at amortized cost), unless the financial liability is classified as initially recognized at fair value through profit or loss. Finance lease liabilities, which are also recognized under financial liabilities, are carried at their net present value in accordance with IAS 17.

Derivative Financial Instruments

As set out in IAS 39, all derivative financial instruments are recognized at fair value on the balance sheet. Derivative financial instruments are recognized as of the transaction date. When a contract involving a derivative is entered into, it is initially determined whether that contract is intended to serve as a fair value hedge or as a cash flow hedge. Some derivatives do not meet the requirements included in IAS 39 for recognition as hedges, despite this being their economic purpose (stand-alone hedge).

Changes in the fair values of derivatives are recognized as follows:

1. Fair value hedge: Changes in the fair value of these derivatives used to hedge assets or liabilities are recognized in profit or loss; the corresponding gain or loss on the change in fair value of the underlying balance sheet item is also directly included in the income statement.
2. Cash flow hedge: The effective portion of the changes in the fair value of derivatives used to hedge future cash flows is recognized in other comprehensive income. The amounts carried here are included in the initial measurement when an underlying non-financial asset or a non-financial liability is received (basis adjustment). In other cases, the reclassification of the previously recognized gains and losses from equity to the income statement is performed when the hedged underlying transaction affects profit or loss. The ineffective portion of the changes in the fair value of the hedging instrument is recognized in profit or loss.
3. Stand-alone hedge: Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss in accordance with the held-for-trading category and are therefore classified as at fair value through profit or loss.

In the financial year 2016, no hedge transactions were recognized with fair value hedges. Likewise, no hedge of net investment in foreign operations was made.

Share-Based Payments

Share-based payments for employees of the Bertelsmann Group include equity-settled share-based payment transactions and cash-settled share-based payment transactions. Equity-settled share-based payment transactions are granted to certain directors and senior employees in the form of share options. The options are granted at the market price on the grant date and are exercisable at that price. For share options, the fair value of the options granted is recognized as personnel costs with a corresponding increase in equity. The fair value is measured at the grant date and allocated over the vesting period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option pricing model, taking into account the terms and conditions at which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options vesting. Share options forfeited solely due to share prices not achieving the vesting threshold are excluded.

The financial liability of cash-settled share-based payment transactions is measured initially at fair value at grant date using an option pricing model. Until the liability is settled, its fair value shall be remeasured at the end of each reporting period and at the date of settlement, with any value changes recognized in profit or loss as personnel costs of the period.

Non-Current Assets Held for Sale and Related Liabilities

Non-current assets or disposal groups are classified as held for sale if the associated carrying amount will be recovered principally through a sale transaction and not from continued use. These non-current assets and the associated liabilities are presented in separate line items in the balance sheet in accordance with IFRS 5. They are measured at the lower of the carrying amount or fair value less costs to sell. Depreciation/amortization is not recognized if a non-current asset is classified as held for sale or forms part of a disposal group that is classified as held for sale.

Components of entities that fulfill the requirements of IFRS 5.32 are classified as discontinued operations and thus are carried separately in the income statement and cash flow statement as well. All of the changes in amounts made during the reporting period that are directly connected with the sale of a discontinued operation in any preceding period are also stated in this separate category. If a component of an entity is no longer classified as held for sale, the results of this entity component that were previously carried under discontinued operations are reclassified to continuing operations for all of the reporting periods shown.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of Consolidated Financial Statements requires the use of accounting judgments, estimates and assumptions that may impact the carrying amounts of assets, liabilities, income and expenses recognized. Amounts actually realized may differ from estimated amounts. The following section presents accounting judgments, estimates and assumptions that are material in the Bertelsmann Consolidated Financial Statements for understanding the uncertainties associated with financial reporting.

- Recognition of income and expense: In the event of return rights, mostly for print products, estimates must be made with regard to the anticipated return volume as revenues are recognized taking the anticipated returns into account. Return ratios determined using statistical methods are used to identify the anticipated returns.
- Control of entities in which the Bertelsmann Group holds less than half of the voting rights: Management considers that the Bertelsmann Group has de facto control of Groupe M6, which belongs to RTL Group, even though it holds less than 50 percent of the voting rights. RTL Group is the majority shareholder of Groupe M6 while the balance of other holdings remains highly dispersed, and the other shareholders have not organized their interest in such a way that they intend to vote differently from the Bertelsmann Group.
- Investments in equity instruments: The measurement of various investments in equity instruments recognized at fair value that are not based on prices quoted on active markets is based on observable prices obtained as part of the most recently implemented qualified financing rounds taking into account the life and developmental cycle of the respective entity, or on valuations obtained on the basis of established financial methods using risk-adjusted discount rates.
- Trade receivables and other receivables: Valuation allowances are recognized for doubtful receivables based on risk factors such as a customer’s financial difficulties and unfavorable changes in the economic situation, taking into account the maturity structure of the receivables. Sales estimates and assumptions on future sales success are also made in connection with advances paid to authors to secure exploitation rights in their publications. In addition, in the case of sports and film rights, estimates are made with regard to anticipated revenues.
- Impairment losses: Management estimates of cash flow, on which impairment tests are based, are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments, EBITDA margins and growth rates. A combination of long-term trends, industry forecasts and in-house knowledge, with special emphasis on recent experience, is used in forming the assumptions about the development of the various relevant markets in which the Bertelsmann Group operates. The relevant markets are an area highly exposed to the general economic conditions. The state of the relevant markets is just one of the key operational drivers that the Bertelsmann Group uses when assessing individual business models. The most important assumptions include estimated growth rates, the weighted average cost of capital and tax rates. All of these different elements are variable, interrelated and difficult to isolate as the main driver of the various business models and respective valuations. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. The growth rates applied are based on long-term real growth rates for the relevant economies, growth expectations for

the relevant sectors and long-term inflation forecasts for the countries in which the cash-generating units operate. The values allocated to the key assumptions are in line with external sources of information. The figures obtained using the respective discount rates reflect the recoverable amount of the cash-generating units. Material changes in the market or competitive environment may impair the value of cash-generating units. Details on impairment testing for intangible assets (including goodwill) in the Bertelsmann Group are presented in note 10 "Intangible Assets."

- Pension obligations: Pension obligations are measured using the projected unit credit method. Using this approach, biometric calculations, the prevailing long-term capital market interest rates and, in particular, assumptions about future salary and pension increases are taken into account. Information on the assumptions made in pension accounting is presented in note 19 "Provisions for Pensions and Similar Obligations."
- Provisions for onerous contracts and warranties are also based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation, whether an outflow of resources is probable and whether it is possible to reliably determine the amount of the obligation are generally based on the expertise of in-house or third-party specialists. More recent information could change the estimates and thus impact the Group's financial position and performance. The legal and regulatory environment in which Bertelsmann operates does not bear significant litigation risks. With regard to risk provisioning, a provision for potential losses from litigation is recognized when the risks of a loss are considered to be probable and when a reliable estimate of the anticipated financial impact is possible. For significant contingent liabilities for which the possibility of a future loss is more than remote but less than probable, the Bertelsmann Group estimates the possible loss where the Group believes that an estimate can be made. At the end of the reporting period, there were no reportable contingent liabilities from litigation. Management regularly reviews the recognition, measurement and use of provisions along with the disclosure requirements for contingent liabilities.

In the case of purchase price allocations, assumptions are also made regarding the measurement of assets and liabilities assumed as part of business combinations. This applies in particular with regard to the acquired intangible assets, as measurements are based on fair value. As a rule, this is the present value of the future cash flows after taking into account the present value of the tax amortization benefit. In addition, the definition of uniform useful lives within the Group is based on the management's assumptions. General information on useful lives is presented in the sections "Other Intangible Assets" and "Property, Plant and Equipment."

Assessments of the ability to realize uncertain tax positions and future tax benefits are also based on assumptions and estimates. Recognition of an asset or liability from an uncertain tax position is performed in accordance with IAS 12 if payment or refund of an uncertain tax position is probable. Measurement of the uncertain tax position is at its most likely amount. Deferred tax assets are only carried to the extent that it is probable that they can be utilized against future taxable profits. When assessing the probability of the ability to use deferred tax assets in the future, various factors are taken into account, including past earnings, company forecasts, tax forecast strategies and loss carryforward periods. Information relating to the ability to realize tax benefits is presented in note 9 "Income Taxes."

Assumptions are also made for measuring fair values of financial assets and financial liabilities. In this regard, Bertelsmann uses various financial methods that take into account the market conditions and risks in effect at the end of the respective reporting periods. The inputs to these models are taken from observable markets where possible, but where these are not available, measuring fair values is based on assumptions by management. These assumptions relate to input factors such as liquidity risk and default risks.

Estimates and assumptions also relate to the share-based payments. The conditions of the cash-settled share-based payment transactions and the stock option plans are presented in greater detail in the "Share-Based Payments" section in note 18 "Equity."

Estimates and the underlying assumptions are reviewed on an ongoing basis. As a rule, adjustments to estimates are taken into account in the period in which the change is made and in future periods.

Notes to the Income Statement and Balance Sheet

1 Revenues

in € millions	2016	2015
Revenues from selling goods and merchandise	4,602	4,990
Revenues from providing services	5,767	5,774
Revenues from advertising	4,384	4,237
Revenues from grant of use of assets	2,197	2,140
	16,950	17,141

The item "Revenues from advertising" includes, among others, revenues from barter transactions in the amount of €58 million (previous year: €66 million), which were primarily incurred by RTL Group and Gruner + Jahr.

2 Other Operating Income

in € millions	2016	2015
Income from reimbursements	231	170
Income from sideline operations	175	177
Gains from disposals of non-current assets	55	30
Fair value remeasurement of investments	12	82
Foreign exchange gains	10	–
Sundry operating income	130	116
	613	575

The item "Income from reimbursements" includes, among others, a contractual compensation of €50 million in connection with the termination of the Groupe M6 mobile contract with Orange.

3 Personnel Costs

in € millions	2016	2015
Wages and salaries	4,230	4,268
Statutory social security contributions	689	694
Expenses for pensions and similar obligations	149	160
Profit sharing	105	95
Other employee benefits	202	213
	5,375	5,430

The contributions paid by employer to state pension plans amount to €342 million (previous year: €338 million) in the financial year 2016.

4 Amortization, Depreciation, Impairment and Reversals of Intangible Assets and Property, Plant and Equipment

in € millions	2016	2015
Amortization/depreciation, impairment losses and reversals of		
– intangible assets	371	354
– property, plant and equipment	261	262
	632	616

5 Other Operating Expenses

in € millions	2016	2015
Administrative expenses	1,307	1,352
Selling and transmission expenses	523	588
Advertising costs	424	470
Allowances on receivables and non-financial assets	206	236
Consulting and audit fees	171	210
Operating taxes	120	100
Adjustment to carrying amounts on assets held for sale	14	–
Losses on disposals of non-current assets	5	7
Foreign exchange losses	–	2
Sundry operating expenses	96	99
	2,866	3,064

The item “Administrative expenses” includes, among others, payments recognized as expenses from operating leases of €267 million (previous year: €272 million), associated services and incidental costs of €23 million (previous year: €23 million) and contingent lease payments of €7 million (previous year: €9 million). In addition, this item includes repair and maintenance costs of €188 million (previous year: €187 million) and costs for IT services of €162 million (previous year: €161 million).

6 Results from Financial Assets

in € millions	2016	2015
Income from participations	14	17
Impairment on other financial assets	(22)	(17)
Results from financial assets	(8)	–

7 Interest Income and Interest Expenses

in € millions	2016	2015
Interest income		
Interest income on cash and cash equivalents	3	3
Interest income on interest derivatives	–	2
Other interest income	10	15
	13	20
Interest expenses		
Interest expenses on financial debt	(119)	(123)
Interest expenses on interest derivatives	(3)	(1)
Other interest expenses	(24)	(18)
	(146)	(142)

8 Other Financial Income and Expenses

in € millions	2016	2015
Other financial income		
Financial income from put options	5	15
Non-operating foreign exchange gains	5	–
Minority interests in partnerships	1	2
Other	3	5
	14	22
Other financial expenses		
Dividend entitlement on profit participation certificates	(44)	(44)
Net interest on defined benefit plans	(40)	(53)
Minority interests in partnerships	(12)	(8)
Non-operating foreign exchange losses	–	(1)
Other	(29)	(24)
	(125)	(130)

To better reflect the economic content, income and expenses from non-operating hedged foreign currency transactions are offset against the results from the measurement of the hedged foreign currency items and are recognized as non-operating foreign exchange gains or losses. In the financial year 2016, losses from these non-operating foreign currency transactions of €-116 million (previous year: €-91 million) were offset by income from hedged foreign currency transactions amounting to €190 million (previous year: €129 million). Gains from these foreign currency transactions of €84 million (previous year: €186 million) were offset by expenses from hedged foreign currency transactions amounting to €-153 million (previous year: €-225 million).

9 Income Taxes

Income taxes, broken down into current and deferred income taxes, are as follows:

Income Taxes

in € millions	2016	2015
Earnings before income taxes (total)	1,556	1,454
Current income taxes from continuing operations	(388)	(287)
Deferred income taxes from continuing operations	(31)	(59)
Income taxes from continuing operations	(419)	(346)
Current income taxes from discontinued operations	–	–
Deferred income taxes from discontinued operations	–	–
Income taxes from discontinued operations	–	–
Total income taxes	(419)	(346)
Net income after income taxes (total)	1,137	1,108

Tax loss carryforwards of €433 million (previous year: €446 million) were utilized in the financial year 2016, reducing current tax expenses by €102 million (previous year: €104 million). Of the tax loss carryforwards utilized, €132 million (previous year: €172 million) was due to German corporate income tax, €41 million (previous year: €25 million) was due to German trade tax and €260 million (previous year: €249 million) was due to foreign income taxes. These amounts include €40 million (previous year: €88 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past. These relate to German corporate tax in the amount of €1 million (previous year: €1 million), German trade tax in the amount of €1 million (previous year: €5 million) and foreign income taxes in the amount of €38 million (previous year: €82 million). This led to a reduction in current tax expense of €11 million (previous year: €24 million).

Deferred tax assets and liabilities resulted from the following items and factors:

Deferred Taxes

in € millions	12/31/2016 Assets	12/31/2016 Equity and liabilities	12/31/2016 thereof recognized in profit or loss	12/31/2015 Assets	12/31/2015 Equity and liabilities	12/31/2015 thereof recognized in profit or loss
Intangible assets	276	570	(4)	301	569	11
Property, plant and equipment	63	39	10	64	46	9
Financial assets	14	26	7	5	21	7
Inventories	75	4	(7)	80	4	(11)
Receivables	111	24	(11)	123	25	7
Advance payments and other assets	113	153	17	118	165	(46)
Provisions	826	182	(5)	776	240	12
Financial debt	19	42	(13)	22	32	(13)
Liabilities	29	4	9	19	3	1
Advance payments and other liabilities	55	31	5	54	40	(4)
Loss carryforwards/tax credits	355		(39)	384		(32)
Total	1,936	1,075	(31)	1,946	1,145	(59)
Offset	(929)	(929)		(985)	(985)	
Carrying amount	1,007	146		961	160	

No deferred tax liabilities were recognized for temporary differences in connection with investments in subsidiaries in the amount of €781 million (previous year: €657 million) as Bertelsmann can control their reversal, and it is probable that these temporary differences will not be reversed in the foreseeable future. Current and deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and meet the criteria for offsetting. The term of the deferred taxes on temporary differences is mostly long term.

Information on amounts of income tax relating to other comprehensive income is presented in note 18 "Equity."

Valuation allowances for deferred tax assets are recognized on temporary differences, tax loss carryforwards and tax credits when it is unlikely that they can be utilized in the foreseeable future. The need to recognize valuation allowances is assessed primarily based on existing deferred tax liabilities from temporary differences and projected taxable income within a planning period.

Temporary differences, tax loss carryforwards and tax credits for which no deferred taxes have been recognized can be carried forward as follows:

Expiration

in € millions	12/31/2016	12/31/2015
Tax loss carryforwards		
To be carried forward for more than 5 years	6,488	6,733
To be carried forward for up to 5 years	126	131
Temporary differences	91	121
Tax credits		
To be carried forward for more than 5 years	50	68
To be carried forward for up to 5 years	1	3

A reconciliation of expected tax result to actual tax result is shown in the following table:

Reconciliation to Actual Tax Expense

in € millions	2016	2015
Earnings before income taxes from continuing operations	1,555	1,451
Income tax rate applicable to Bertelsmann SE & Co. KGaA	30.80%	30.70%
Expected tax expense from continuing operations	(479)	(445)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment to different national tax rates	(8)	(23)
Effect of changes in tax rate and tax law	(4)	5
Tax effects in respect of results from disposals of investments	5	(6)
Current income taxes for previous years	11	22
Deferred income taxes for previous years	13	55
Effects of measurements of deferred tax assets	48	4
Permanent differences	13	51
Other adjustments	(18)	(9)
Total of adjustments	60	99
Actual tax expense from continuing operations	(419)	(346)

The income tax rate applicable to Bertelsmann SE & Co. KGaA consists of corporate income tax, the solidarity surcharge and trade tax.

Effective Income Tax Rate

	2016	2015
Corporate income tax including solidarity surcharge	15.83%	15.83%
Trade tax	14.97%	14.87%
Effective income tax rate	30.80%	30.70%

10 Intangible Assets

in € millions	Goodwill	Other intangible assets: Music and film rights	Other intangible assets: Other rights and licenses	Other intangible assets: Internally generated intangible assets	Other intangible assets: Advance payments	Other intangible assets: Total	Total
Cost							
Balance as of 1/1/2015	7,915	2,354	1,878	879	2	5,113	13,028
Currency translation differences	159	113	82	52	–	247	406
Acquisitions through business combinations	124	34	43	9	–	86	210
Other additions	–	215	95	56	12	378	378
Reductions through disposal of investments	(7)	(15)	(72)	–	–	(87)	(94)
Other disposals	–	(32)	(45)	(5)	–	(82)	(82)
Reclassifications in accordance with IFRS 5	–	–	–	–	–	–	–
Reclassifications and other changes	2	32	8	(29)	(3)	8	10
Balance as of 12/31/2015	8,193	2,701	1,989	962	11	5,663	13,856
Currency translation differences	28	(54)	(10)	21	–	(43)	(15)
Acquisitions through business combinations	255	27	77	5	–	109	364
Other additions	–	179	104	76	9	368	368
Reductions through disposal of investments	(8)	–	(18)	–	–	(18)	(26)
Other disposals	–	(72)	(57)	(11)	–	(140)	(140)
Reclassifications in accordance with IFRS 5	(2)	–	(5)	–	–	(5)	(7)
Reclassifications and other changes	(1)	50	5	(51)	(7)	(3)	(4)
Balance as of 12/31/2016	8,465	2,831	2,085	1,002	13	5,931	14,396
Accumulated amortization							
Balance as of 1/1/2015	300	1,130	868	816	–	2,814	3,114
Currency translation differences	–	25	23	52	–	100	100
Amortization	–	157	163	32	–	352	352
Impairment losses	–	1	4	1	4	10	10
Reversals of impairment losses	–	(1)	(7)	–	–	(8)	(8)
Reductions through disposal of investments	(2)	(10)	(41)	–	–	(51)	(53)
Other disposals	–	(32)	(40)	(4)	–	(76)	(76)
Reclassifications in accordance with IFRS 5	–	–	–	–	–	–	–
Reclassifications and other changes	–	(1)	1	–	–	–	–
Balance as of 12/31/2015	298	1,269	971	897	4	3,141	3,439
Currency translation differences	(1)	2	(6)	21	–	17	16
Amortization	–	183	157	25	–	365	365
Impairment losses	–	–	5	2	–	7	7
Reversals of impairment losses	–	–	(1)	–	–	(1)	(1)
Reductions through disposal of investments	(6)	–	(11)	–	–	(11)	(17)
Other disposals	–	(63)	(53)	(11)	–	(127)	(127)
Reclassifications in accordance with IFRS 5	–	–	(2)	–	–	(2)	(2)
Reclassifications and other changes	–	1	6	(9)	–	(2)	(2)
Balance as of 12/31/2016	291	1,392	1,066	925	4	3,387	3,678
Carrying amount as of 12/31/2016	8,174	1,439	1,019	77	9	2,544	10,718
Carrying amount as of 12/31/2015	7,895	1,432	1,018	65	7	2,522	10,417

Other rights and licenses include brands, supply rights, publishing rights along with acquired software and other licenses. In the financial year, BMG acquired music catalogs in the amount of €123 million, €81 million of which related to several music catalogs in the United Kingdom and €19 million to several music catalogs in the United States. Internally generated intangible assets mostly include own film and TV productions and internally generated software. As in the previous year, no intangible assets have been provided as collateral for liabilities.

Goodwill and other intangible assets are attributable to the following cash-generating units:

Goodwill and Other Intangible Assets with Indefinite Useful Life by Cash-Generating Units

	Goodwill		Other intangible assets with indefinite useful life	
in € millions	12/31/2016	12/31/2015	12/31/2016	12/31/2015
RTL Group	5,160	5,081	121	121
RTL Group, Group level	2,123	2,123	–	–
Fremantle Media	1,055	1,042	–	–
Television Germany	953	915	–	–
Television France	459	446	120	120
RTL Nederland	152	152	–	–
SpotX	126	121	–	–
StyleHaul	117	114	–	–
Other	175	168	1	1
Penguin Random House	979	1,002	–	–
Penguin Random House Ventures	934	957	–	–
Random House Germany	45	45	–	–
Gruner + Jahr	547	471	–	–
Magazines and digital business Germany & MPS	327	282	–	–
Magazines and digital business International	204	173	–	–
Newspapers	16	16	–	–
BMG	343	341	–	–
Arvato	508	491	–	–
Financial Solutions	410	402	–	–
Other	98	89	–	–
Bertelsmann Printing Group	39	38	–	–
Print US	25	24	–	–
Other	14	14	–	–
Bertelsmann Education Group	598	471	–	–
Online Learning	592	465	–	–
Other	6	6	–	–
	8,174	7,895	121	121

Intangible assets with an indefinite useful life are primarily Groupe M6 trademark rights in France (€120 million; previous year: €120 million). In determining that the M6 brand has an indefinite useful life, management has considered various factors such as the past and expected longevity of the brand, the impact of possible changes in broadcasting technologies, the impact of possible evolutions of the regulatory environment in the French television industry, the current and expected audience share of the M6 channel, and M6 management's strategy to maintain and strengthen the trademark "M6." Based on the analysis of these factors, as of December 31, 2016, that there is no foreseeable limit to the period of time over which the M6 brand is expected to generate cash inflows.

For the purpose of impairment testing in accordance with IAS 36, goodwill from a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. The cash flow forecasts underlying the impairment testing of the individual cash-generating units bearing material goodwill are based on the following assumptions relating to the market development for the beginning of the detailed planning period:

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

In addition, fair values were measured using the following individual business-specific growth rates and discount rates for periods after the detailed planning period:

Overview of Growth and Discount Rates

	Growth rate in % for the year		Discount rate in % for the year	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
RTL Group				
RTL Group, Group level	2.0	2.0	7.0	6.9
Fremantle Media	2.5	2.5	7.1	7.4
Television Germany	2.0	2.0	6.9	6.9
Television France	2.0	2.0	7.4	7.5
RTL Nederland	2.0	2.0	6.9	6.9
SpotX	2.0	2.0	12.0	10.8
StyleHaul	2.0	2.0	13.9	13.0
Other	-1.0–2.0	0.0–2.0	7.2–13.9	6.5–13.0
Penguin Random House				
Penguin Random House Ventures	0.5	0.5	8.5	8.4
Random House Germany	0.5	0.5	6.5	6.9
Gruner + Jahr				
Magazines and digital business Germany & MPS	-0.8	-0.8	6.0	6.0
Magazines and digital business International	-0.5	-0.5	6.4	7.5
Newspapers	-1.0	-1.5	7.0	6.9
BMG	2.0	2.0	6.5	6.7
Arvato				
Financial Solutions	1.0	1.0	6.3	5.7
Other	1.0	0.0–1.0	6.1–8.1	5.7–8.3
Bertelsmann Printing Group				
Print US	-1.0	-1.0	9.0	6.5
Other	-0.8–0.0	0.0	6.0–7.6	5.7
Bertelsmann Education Group				
Online Learning	2.5	2.5	8.9	8.6
Other	2.5	2.5	11.5	10.2

The recoverable amount for the impairment test for RTL Group's goodwill recognized at the Group level was determined on the basis of value in use. No impairment was identified for goodwill carried, and the validation with the stock market price confirms this estimate. The recoverable amount for the other cash-generating units of the RTL Group division equals the value in use as well.

For the cash-generating units of all other divisions, the recoverable amount equals the fair value, which is derived from discounted cash flows less costs of disposal, and which is based on level 3 of the fair value hierarchy. Projected cash flows were based on internal estimates for three detailed planning periods and generally two further detailed planning periods were applied in addition. For periods after this detailed horizon, a perpetual annuity was applied, taking into account individual business-specific growth rates.

As in the previous year, no impairment losses were recognized for goodwill in the financial year 2016. Impairment losses on goodwill and other intangible assets with indefinite useful lives are disclosed in the income statement under

"Amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment."

In addition to organic initiatives to develop new formats and intellectual property, Fremantle Media has continued its focus on the identification and integration of new businesses in order to increase the pipeline of new shows (IP creation), to gain presence in new markets and to continue expanding its drama footprint. Fremantle Media's key brands continue to perform well and this is expected to remain the case in the coming years. Fremantle Media continues to build a scalable digital business by expanding capabilities across the value chain and by developing new specific content. Therefore, despite continuing pressure on margins and volumes, the increase of the diversity of Fremantle Media's portfolio has led to an updated business plan confirming an expected slight increase of its EBITA margin. The recoverable amount was determined using the value in use on the basis of the discounted cash flow method with a long-term growth rate of 2.5 percent (previous year: 2.5 percent) and a discount rate of 7.1 percent (previous year: 7.4 percent). As of December 31, 2016, the recoverable amount exceeds the carrying amount by €237 million (previous year: €189 million). In the event of an increase in the discount rate by 0.7 percentage points, a reduction in the annual revenue of 1.0 percent or a reduction in the EBITDA margin by 1.2 percentage points, the recoverable amount is lower than the carrying amount.

Revenue growth of StyleHaul was impeded by the delayed ramp-up of certain revenue streams, notably branded entertainment. Gross profit increased from an improvement in talent revenue shares. At this stage, the increase in operating costs fully offsets the improved gross profit. The recoverable amount was determined using the value in use on the basis of the discounted cash flow method with a long-term growth rate of 2.0 percent (previous year: 2.0 percent) and a discount rate of 13.9 percent (previous year: 13.0 percent). As of December 31, 2016, the recoverable amount exceeds the carrying amount by €23 million (previous year: €11 million). In the event of an increase in the discount rate by 1.3 percentage points, a reduction in the annual revenue of 2.6 percent or a reduction in the EBITDA margin by 2.7 percentage points, the recoverable amount is lower than the carrying amount.

As of December 31, 2016, the recoverable amount for the cash-generating unit BMG exceeds the carrying amount by €367 million (previous year: €295 million). In the event of an increase in the discount rate by 0.8 percentage points, a reduction in the long-term growth rate by 0.8 percentage points or a reduction in the EBITDA margin by 3.9 percentage points, the recoverable amount is lower than the carrying amount.

As of December 31, 2016, the recoverable amount for the cash-generating unit Magazines and G+J digital business Germany & MPS exceeds the carrying amount by €44 million (previous year: €131 million). In the event of an increase in the discount rate by 0.6 percentage points, a reduction in the long-term growth rate by 0.7 percentage points or a reduction in the EBITDA margin by 0.4 percentage points, the recoverable amount is lower than the carrying amount.

Other material goodwill was not subject to impairment even given a change by one of the two most important factors: discount rate (increase of 1.0 percentage point) and long-term growth rate (reduction of 1.0 percentage point).

11 Property, Plant and Equipment

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Cost					
Balance as of 1/1/2015	1,816	2,558	1,276	112	5,762
Currency translation differences	20	47	27	2	96
Acquisitions through business combinations	4	–	9	–	13
Other additions	28	62	125	76	291
Reductions through disposal of investments	(1)	(1)	(12)	–	(14)
Other disposals	(98)	(161)	(88)	(1)	(348)
Reclassifications in accordance with IFRS 5	–	–	–	–	–
Reclassifications and other changes	–	67	18	(91)	(6)
Balance as of 12/31/2015	1,769	2,572	1,355	98	5,794
Currency translation differences	(13)	(23)	(3)	–	(39)
Acquisitions through business combinations	–	–	2	–	2
Other additions	75	50	121	104	350
Reductions through disposal of investments	–	(1)	(28)	–	(29)
Other disposals	(14)	(145)	(100)	–	(259)
Reclassifications in accordance with IFRS 5	(84)	(3)	(9)	–	(96)
Reclassifications and other changes	93	3	30	(135)	(9)
Balance as of 12/31/2016	1,826	2,453	1,368	67	5,714
Accumulated depreciation					
Balance as of 1/1/2015	1,008	2,260	910	–	4,178
Currency translation differences	12	44	18	–	74
Depreciation	51	89	120	–	260
Impairment losses	1	2	–	–	3
Reversals of impairment losses	–	(1)	–	–	(1)
Reductions through disposal of investments	(1)	(1)	(8)	–	(10)
Other disposals	(79)	(153)	(84)	–	(316)
Reclassifications in accordance with IFRS 5	–	–	–	–	–
Reclassifications and other changes	(6)	4	3	–	1
Balance as of 12/31/2015	986	2,244	959	–	4,189
Currency translation differences	(9)	(21)	–	–	(30)
Depreciation	50	79	125	–	254
Impairment losses	–	5	3	–	8
Reversals of impairment losses	(1)	–	–	–	(1)
Reductions through disposal of investments	–	–	(21)	–	(21)
Other disposals	(3)	(144)	(93)	–	(240)
Reclassifications in accordance with IFRS 5	(2)	(1)	(6)	–	(9)
Reclassifications and other changes	(8)	(9)	17	–	–
Balance as of 12/31/2016	1,013	2,153	984	–	4,150
Carrying amount as of 12/31/2016	813	300	384	67	1,564
Carrying amount as of 12/31/2015	783	328	396	98	1,605

As of the end of the reporting period, property, plant and equipment in the amount of €8 million (previous year: €9 million) was pledged as collateral for liabilities.

Impairment losses totaling €-8 million were recognized for property, plant and equipment (previous year: €-3 million).

12 Interests in Other Entities

Subsidiaries with Material Non-Controlling Interests

In the Group's view, material non-controlling interests relate to RTL Group and the publishing group Penguin Random House. The proportion of ownership interests held by non-controlling interests in RTL Group based in Luxembourg, Luxembourg, is 24.3 percent after treasury shares (previous year: 24.3 percent). At RTL Group itself, material non-controlling interests relate to the subsidiary Groupe M6 based in Paris, France. The Bertelsmann Group has a 48.4 percent interest (previous year: 48.4 percent) in Groupe M6. Of the non-controlling interests of RTL Group, €428 million (previous year: €409 million) is attributable to Groupe M6. The publishing group Penguin Random House, formed due to the merger of Random House and Penguin as of July 1, 2013, consists of the two legal groups Penguin Random House LLC, based in Wilmington, Delaware, United States, which bundles all of the publishing units in the United States, and Penguin Random House Limited, based in London, United Kingdom, comprising all other publishing units. To better reflect the substance of the Bertelsmann Group's investment in the two groups, both groups are considered as a single entity. The proportion of ownership interests held by non-controlling interests in Penguin Random House is 47.0 percent (previous year: 47.0 percent).

The following table shows summarized financial information on RTL Group and Penguin Random House, including the interests in their subsidiaries, joint ventures and associates. The information disclosed shows the amounts before intercompany eliminations.

Financial Information for Subsidiaries with Material Non-Controlling Interests

	RTL Group		Penguin Random House	
in € millions	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Non-current assets	6,672	6,694	1,910	2,011
Current assets	3,734	3,611	1,787	1,757
Non-current liabilities	1,210	1,258	239	223
Current liabilities	3,533	3,525	1,198	1,319
Bertelsmann shareholders' equity	4,527	4,435	1,407	1,394
Non-controlling interests	1,136	1,087	853	832

in € millions	2016	2015	2016	2015
Revenues	6,237	6,029	3,059	3,394
Profit or loss	814	865	374	342
– thereof of non-controlling interests	270	266	176	162
Total comprehensive income	845	907	339	531
– thereof of non-controlling interests	277	277	166	232
Dividends to non-controlling interests	224	243	149	192
Cash flow from operating activities	1,107	990	435	350
Cash flow from investing activities	(295)	(264)	(26)	(33)
Cash flow from financing activities	(827)	(768)	(353)	(405)
Increase/(decrease) in cash and cash equivalents	(15)	(42)	56	(88)

Investments Accounted for Using the Equity Method

The investments accounted for using the equity method relate to joint ventures in the amount of €44 million (previous year: €46 million) and to associates in the amount of €997 million (previous year: €899 million).

Investments in Joint Ventures

As of December 31, 2016, investments in 26 (previous year: 29) individually immaterial joint ventures were accounted for in the Consolidated Financial Statements. The following table shows summarized financial information on these joint ventures. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Joint Ventures

in € millions	12/31/2016	12/31/2015
Non-current assets	60	48
Current assets	57	79
Non-current liabilities	9	6
Current liabilities	59	70

in € millions	2016	2015
Earnings after taxes from continuing operations	27	26
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	(2)	(2)
Total comprehensive income	25	24

Investments in Associates

As of December 31, 2016, investments in 52 (previous year: 42) associates were accounted for in the Consolidated Financial Statements. As in the previous year, the investment of RTL Group in Atresmedia, based in San Sebastián de los Reyes, Spain, is individually material for the Group. As of December 31, 2016, the ownership is 18.7 percent after treasury shares (previous year: 18.7 percent). Although the Bertelsmann Group holds less than 20 percent of the interest in Atresmedia, management considers that the Bertelsmann Group still exercises a significant influence in Atresmedia due to the representation of RTL Group within the board of directors and other governing bodies of Atresmedia. On December 31, 2016, the stock market value of Atresmedia, which is listed on the Madrid Stock Exchange, amounted to €2,345 million (previous year: €2,221 million). As of December 31, 2016, the fair value of the Bertelsmann Group's interest in Atresmedia amounted to €437 million (previous year: €414 million).

The following table shows summarized financial information on Atresmedia. The information presented is the amounts included in the financial statements of Atresmedia plus adjustments for using the equity method and not the Bertelsmann Group's share of these amounts.

Financial Information on Individually Material Associates

	Atresmedia	
in € millions	12/31/2016	12/31/2015
Non-current assets	621	638
Current assets	689	615
Non-current liabilities	(141)	(203)
Current liabilities	(652)	(567)
Equity	517	483

in € millions	2016	2015
Revenues	1,021	970
Earnings after taxes from continuing operations	129	103
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	2	1
Total comprehensive income	131	104
Dividends received from the associate	17	12

Reconciliation of the summarized financial information shown to the carrying amount of the interest in Atresmedia in the Consolidated Financial Statements is shown in the following table:

Reconciliation to Carrying Amount

in € millions	12/31/2016	12/31/2015
Equity	517	483
Proportionate equity	97	90
Goodwill	166	166
Carrying amount	263	256

The following table shows summarized financial information on associates that management considers individually immaterial. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Associates

in € millions	12/31/2016	12/31/2015
Non-current assets	663	563
Current assets	309	214
Non-current liabilities	52	33
Current liabilities	177	134

in € millions	2016	2015
Earnings after taxes from continuing operations	(22)	(17)
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	(3)
Total comprehensive income	(22)	(20)

The total carrying amount of the investments in all individually immaterial associates amounts to €734 million (previous year: €643 million) as of December 31, 2016. Of this, €192 million was attributable to the investment in the online education platform HotChalk (previous year: €179 million) and €134 million was attributable to the investment in the online learning provider Udacity (previous year: €139 million). Although at 18.6 percent (previous year: 17.5 percent) the interest is less than 20 percent, the Bertelsmann Group exercises a significant influence in Udacity due to the representation within the board of directors. In the financial year 2016, the share of earnings attributable to HotChalk amounted to €-20 million and to Udacity €-9 million. As part of their realignment, both investments were tested for impairment. Taking into account the current growth targets, neither case required the recognition of an impairment loss. The achievement of these growth targets is continually monitored and assessed.

Of the total carrying amount of the investments in all individually immaterial associates, an additional €68 million (previous year: €58 million) is attributable to the three (previous year: four) University Venture Funds, which invest in high-growth companies in the education sector. Bertelsmann holds between 47.3 percent and 100 percent of the shares in these funds. As operational management and investment decisions in particular are the responsibilities of the respective fund managers, there is significant influence, but control as defined by IFRS 10 does not exist despite an ownership interest of over 50 percent in some cases.

Results from Investments Accounted for Using the Equity Method

in € millions	2016	2015
Income from investments accounted for using the equity method	90	83
– joint ventures	30	30
– associates	60	53
Expenses from investments accounted for using the equity method	(61)	(55)
– joint ventures	(3)	(4)
– associates	(58)	(51)
Results from investments accounted for using the equity method	29	28
– joint ventures	27	26
– associates	2	2

13 Other Financial Assets

in € millions	12/31/2016	12/31/2015
Non-current		
Loans	42	20
Investments in affiliates	15	14
Other investments	420	312
Securities and financial assets	16	13
Derivative financial instruments	49	46
	542	405
Current		
Loans	29	21
Securities and financial assets	1	5
Derivative financial instruments	82	87
	112	113

Investments in affiliates are measured at cost in accordance with IAS 39.46 (c), if they do not have a quoted market price in an active market and a reliable estimate of the fair value is not possible.
As a result of an improved level of information on other investments in the newly established Bertelsmann Investments division compared to previous years, their measurement in the financial year 2016 is generally at fair value in accordance with IAS 39.43 ff. in conjunction with IAS 39.55 ff.

In addition to the loss from deconsolidation, the results from disposals of investments in the amount of €41 million (previous year: €24 million) mainly include the result of several transactions conducted in the Bertelsmann Investments division, primarily the sale of the interest in Spring Rain Mobile Health Holdings Inc. and shares in Morningside China TMT Fund I.

As in the previous year, no financial assets have been provided as collateral for liabilities as of the end of the reporting period. Financial assets of €9 million (previous year: €13 million) were pledged with restrictions on disposal. No financial assets were provided as security for contingent liabilities to third parties for the financial years 2015 and 2016.

14 Inventories

in € millions	12/31/2016	12/31/2015
Program rights	1,005	954
Raw materials and supplies	105	109
Work in progress	124	139
Finished goods and merchandise	294	317
Advance payments	157	142
	1,685	1,661

In the financial year 2016, write-downs on inventories were recognized in the amount of €-129 million (previous year: €-139 million). In addition, reversals of write-downs on inventories were recognized in the amount of €119 million (previous year: €116 million). These are due to broadcasting factors for program rights and also increased prices in some markets. As in the previous year, no inventories have been pledged as collateral for liabilities.

15 Trade and Other Receivables

in € millions	12/31/2016	12/31/2015
Non-current		
Trade receivables	1	17
Other receivables	75	129
Current		
Trade receivables	3,149	3,248
Other receivables	704	459

The item "Other receivables" includes receivables in the amount of the continuing involvement in connection with factoring agreements in the amount of €45 million (previous year: €45 million) and receivables from participations in the amount of €27 million (previous year: €39 million).

16 Other Non-Financial Assets

in € millions	12/31/2016	12/31/2015
Non-current		
Other non-financial assets	704	640
Current		
Other non-financial assets	953	858
– advance payments	487	450
– other tax receivables	96	80
– deferred items	186	180
– sundry non-financial assets	184	148

The non-current other non-financial assets relate to advance payments for royalties and licenses in the amount of €664 million (previous year: €600 million). Advance payments for royalties and licenses are generally written off if no recoupment is expected. The amount of these write-downs is based on management estimates of future sales volumes and price changes using historical data.

17 Cash and Cash Equivalents

in € millions	12/31/2016	12/31/2015
Cash	1,192	1,209
Other securities < 3 months	181	101
	1,373	1,310

Cash and cash equivalents of €27 million (previous year: €22 million) were used as collateral for liabilities. As in the previous year, no cash and cash equivalents were pledged with restrictions on disposal as of the end of the reporting period.

18 Equity
Subscribed Capital

Number of shares	12/31/2016	12/31/2015
Ordinary shares	83,760	83,760
Total shares	83,760	83,760

Compared with the previous year, the subscribed capital of Bertelsmann SE & Co. KGaA remained unchanged at €1,000 million and comprises 83,760 registered shares (ordinary shares). As of December 31, 2016, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) held 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the other 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls the voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and personally liable partner Bertelsmann Management SE.

In the financial years 2016 and 2015, a dividend amounting to €180 million (a dividend of €2.149 per ordinary share in each year) was distributed to the shareholders.

The change in other comprehensive income after taxes is derived as follows:

Changes to Components of Other Comprehensive Income After Taxes

in € millions	2016				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	(347)	105	(242)	(230)	(12)
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Currency translation differences	28	–	28	17	11
Available-for-sale financial assets	75	(2)	73	72	1
Cash flow hedges	6	(2)	4	3	1
Share of other comprehensive income of investments accounted for using the equity method	11	–	11	6	5
Other comprehensive income net of tax	(227)	101	(126)	(132)	6

in € millions	2015				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	348	(66)	282	269	13
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Currency translation differences	274	–	274	213	61
Available-for-sale financial assets	(5)	1	(4)	(3)	(1)
Cash flow hedges	10	(4)	6	6	–
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	2	(2)
Other comprehensive income net of tax	627	(69)	558	487	71

The item “Available-for-sale financial assets” comprises primarily the effects from the valuation of investments measured at fair value in the Bertelsmann Investments division. Further details are presented in note 13 “Other Financial Assets.”

Share-Based Payments

The Bertelsmann Group has granted cash-settled or equity-settled share-based payment awards.

The Bertelsmann Education Group initiated an Education Group Incentive Plan (EGIP) for selected executives. The EGIP is a performance-based remuneration component linked to the achievement of long-term targets. No shares or options to acquire shares of Bertelsmann SE & Co. KGaA or its Group companies shall be granted as part of participation in the EGIP. The term of the EGIP currently ends on December 31, 2019. Over its term, the funding of the EGIP is aligned with the value enhancement of the Bertelsmann Education Group. The EGIP is also capped. The fair value of the EGIP is currently measured at the end of the reporting period using a Monte Carlo simulation, taking into account the terms and conditions under which these instruments were granted and the current likelihood of achieving the total value of the Education Group. The fair value of the EGIP is recognized on an accrual basis under personnel costs. For the financial year, the amount recognized under personnel costs amounted to €1 million. The carrying amount of the financial liability related to the EGIP amounts to €1 million as of December 31, 2016.

There are various stock option plans at Groupe M6, which belongs to RTL Group. Métropole Télévision has established a stock option plan open to directors and certain employees within Groupe M6. The number of options granted to participants is approved by the Supervisory Board of Métropole Télévision SA in accordance with the authorization given by the General Meeting of Shareholders.

The terms and conditions of the grants are as follows, whereby all options are settled by the physical delivery of shares:

Granting and Vesting Conditions (Groupe M6)

Free share plans	Maximum number of free shares granted (in thousands)[1]	Remaining options (in thousands)	Vesting conditions
April 2014	149.55	–	2 years of service
October 2014	513.15	–	2 years of service + performance conditions
May 2015	32.50	32.50	2 years of service
July 2015	480.40	453.20	2 years of service + performance conditions
July 2016	440.60	437.30	2 years of service + performance conditions
July 2016	361.00	361.00	2 years of service + performance conditions
Total	1,977.20	1,284.00	

1) Maximum number of free shares granted if the performance conditions are significantly exceeded. Such number could be reduced to zero if objectives are not met.

The free share plans are subject to performance conditions. The plans granted in October 2014, July 2015 and July 2016 are subject to Groupe M6 achieving its target growth in net consolidated result over the financial years 2014, 2015 and 2016, respectively. The second plan in July 2016 is subject to a cumulated performance requirement over three years. The plans granted in April 2014 and May 2015 are only subject to presence in Groupe M6.

The price to be paid when exercising the remaining options is the average value of the shares of Métropole Télévision on the Paris Stock Exchange, taken over 20 trading days prior to the date of grant. The management free share allocation plan forms an exception to the above.

The table below shows movements in the number of stock options in the reporting period.

Options (Groupe M6)

in thousands	Average exercise price in € per share	2016	Average exercise price in € per share	2015
Options outstanding at the beginning of the year	–	–	15	233
Options exercised during the year	–	–	15	(152)
Options expired during the year	–	–	15	(81)
Options outstanding at the end of the year	–	–	–	–

An estimated 1,284,000 free shares are exercisable at the end of the year against 1,147,000 at the beginning of the year. 802,000 free shares were granted during the year, with 620,000 being exercised and 45,000 being forfeited.

Share options outstanding at the end of the year have the following terms:

Conditions for Stock Options (Groupe M6)

Expiry date	Exercise price in €	Number of shares (in thousands) 2016	Number of shares (in thousands) 2015
Free share plans			
2016		–	634
2017		486	513
2018		798	–
		1,284	1,147

As of December 31, 2016, the market price of Groupe M6 shares on the Paris Stock Exchange was €17.67 (December 31, 2015: €15.84).

The fair value of services received in return for share options granted is measured by reference to the fair value of stock options granted. The estimate of fair value of the services received is measured based on a binomial model. Free shares are valued at the share price at the date they are granted less discounted dividends, which employees are not entitled to receive during the vesting period.

Fair Values of Stock Options (Groupe M6)

Grant date	Share price	Risk-free interest rate	Expected return	Option life	Personnel costs in € millions 2016	2015
Free share plans						
7/26/2013	€14.79	0.58%	6.10%	2 years	–	1.9
4/14/2014	€16.05	0.53%	5.60%	2 years	0.3	0.8
10/13/2014	€12.03	0.23%	7.60%	2 years	1.5	1.9
5/11/2015	€18.62	0.16%	4.80%	2 years	0.2	0.1
7/28/2015	€18.38	0.22%	4.90%	2 years	3.0	1.3
7/28/2016	€16.24	(0.10)%	5.50%	2 years	1.2	–
7/28/2016	€16.24	(0.10)%	5.50%	2 years	1.0	–
Total					7.2	6.0

There are additional share-based payments within the Bertelsmann Group that are immaterial on a stand-alone basis.

19 Provisions for Pensions and Similar Obligations

in € millions	12/31/2016	12/31/2015
Defined benefit obligation	1,902	1,607
Obligations similar to pensions	97	102
	1,999	1,709

The Bertelsmann Group operates various pension plans for current and former employees and their surviving dependents. The model of such plans varies according to the legal, fiscal and economic environment of the country concerned. These company pension plans include both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes payments into an external pension fund or another welfare fund through a statutory, contractual or voluntary model. The company has no obligation to provide further benefits once it has made these payments, so no provisions are recognized.

Expenses for defined contribution plans in the amount of €50 million were recognized in the financial year 2016 (previous year: €50 million).

All other pension plans are defined benefit plans. The US companies' obligations for healthcare costs for employees after they retire (medical care plans) are also defined benefit obligations and are included in the provisions on the balance sheet. For all of the retirement benefit plans, a distinction must be made as to whether these are financed through an external investment fund or not.

Net Defined Benefit Liability Recognized in the Balance Sheet

in € millions	12/31/2016	12/31/2015
Present value of defined benefit obligation of unfunded plans	876	840
Present value of defined benefit obligation of funded plans	3,493	3,120
Total present value of defined benefit obligation	4,369	3,960
Fair value of plan assets	(2,479)	(2,365)
Net defined benefit liability recognized in the balance sheet	1,890	1,595
– thereof provisions for pensions	1,902	1,607
– thereof other assets	12	12

As in the previous year, the asset ceiling prescribed by IAS 19.64 did not impact other comprehensive income in the financial year 2016.

Provisions are recognized for these defined benefit plans. These are mostly flat salary plans and final salary plans.

Defined Benefit Plans

in € millions	12/31/2016	12/31/2015
Flat salary plans/plans with fixed amounts	2,317	2,184
Final salary plans	1,316	1,164
Career average plans	428	374
Other commitments given	245	174
Medical care plans	63	64
Present value of defined benefit obligation	4,369	3,960
– thereof capital commitments	231	216

The obligations and plan assets available for the existing pension plans are, in some cases, exposed to demographic, economic and legal risks. The demographic risks are primarily the longevity risk for pensioners. Economic risks include, in this respect, mostly unforeseeable developments on the capital markets and the associated impacts on plan assets and pension obligations. Legal risks can result from restrictions to investments and minimum funding requirements. In order to substantially minimize these risks, a Group-wide pension guideline was introduced in 2004. This stipulates that all new pension plans are, as a rule, only to be designed as defined contribution plans so that the charges from benefit commitments are always acceptable, calculable and transparent, and so that no risks can arise that the company cannot influence. In addition, the Bertelsmann Group aims, in particular, to transfer existing final salary-related pension agreements to plans with fixed amounts and capital commitments that are independent from trends. As a result of these measures, the obligations are almost entirely due to the plans that have been closed.

The Bertelsmann Group has minimum funding obligations for the plans in the United States and the United Kingdom. The pension plan in the United States is subject to the minimum funding agreements according to the "Employee Retirement Income Security Act of 1974" (ERISA). In general, the aim under this agreement is for a fully funded pension plan so that the annual contributions to the plan assets are limited to the pension entitlements that the insured employee has earned during the year, as is the case for a defined contribution plan. If the pension obligations are not fully covered by the plan assets, an additional amount sufficient to ensure full financing over a seven-year period must be applied in excess of this contribution. The plans in the United Kingdom are subject to the "Pensions Act 2004," which includes reviewing the full financing of the pension plan from an actuarial perspective every three years with annual monitoring and, if necessary, eliminating any deficits that may have arisen by means of further additions to plan assets. There are no other material regulatory conditions over and above the minimum funding regulations in the United States and the United Kingdom.

Furthermore, one Group entity participated in a multiemployer plan with other non-affiliated companies until December 31, 2014. As the relevant information required to account for this as a defined benefit plan was neither available on time nor available to a sufficient extent, this benefit plan was carried in the Consolidated Financial Statements in line with the requirements for defined contribution benefit plans. In the financial year 2015, the withdrawal from the plan with retrospective effect from January 1, 2015, was declared. The resulting withdrawal liability shall be settled by a lump sum for which a provision in the amount of €16 million was recognized in 2014. Further negotiations concerning the agreement of the withdrawal modalities will begin in the spring of 2017. According to the current estimate, the settlement amount corresponds to the provision recognized in 2014.

The provisions are determined using actuarial formulas in accordance with IAS 19. The amount of provisions depends on employees' length of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, in which the benefit entitlement earned is allocated to each year of service, thus assuming an increasing cost of service in comparison to the entry age normal method. When identifying the present value of the pension obligation, the underlying interest rate is of material importance. In the Bertelsmann Group, this is based on the "Mercer Yield Curve Approach." With this approach, separate spot rate yield curves are created for the eurozone, the United Kingdom and the United States on the basis of high-quality corporate bonds. In order to appropriately present the time value of money in accordance with IAS 19.84, the basis does not consider either spikes for which the risk estimate may be substantially higher or lower or bonds with embedded options that distort interest rates. As in the previous year, the biometric calculations in Germany are based on the 2005 G mortality tables issued by Prof. Dr. Klaus Heubeck.

Further significant actuarial assumptions are made as follows:

Actuarial Assumptions

	12/31/2016		12/31/2015	
	Germany	Foreign	Germany	Foreign
Discount rate	1.72%	2.80%	2.58%	3.63%
Rate of salary increase	2.25%	3.08%	2.25%	3.26%
Rate of pension increase	1.56%	1.70%	1.74%	1.70%

An increase or decrease in the assumptions set out above compared to the assumptions actually applied would have had the following effects on the present value of the defined benefit obligation as of December 31, 2016:

Effect of Actuarial Assumptions

in € millions	Increase	Decrease
Effect of 0.5 percentage point change in discount rate	(347)	398
Effect of 0.5 percentage point change in rate of salary increase	47	(41)
Effect of 0.5 percentage point change in rate of pension increase	170	(152)
Effect of change in average life expectancy by 1 year	167	(166)

In order to determine the sensitivity of the longevity, the mortality rates for all beneficiaries were reduced or increased evenly, so that the life expectancy of a person of a country-specific retirement age increases or decreases by one year.

Changes in the present value of defined benefit obligations and plan assets in the reporting period were as follows:

Development of the Defined Benefit Plans

	Defined benefit obligation (I)		Fair value of plan assets (II)		Net defined benefit balance (I) – (II)	
in € millions	2016	2015	2016	2015	2016	2015
Balance as of 1/1	3,960	4,219	2,365	1,624	1,595	2,595
Current service cost	64	78	–	–	64	78
Interest expenses	107	97	–	–	107	97
Interest income	–	–	67	44	(67)	(44)
Past service cost	2	1	–	–	2	1
Gains (-) or losses (+) from settlements	–	–	–	–	–	–
Income and expenses for defined benefit plans recognized in the combined income statement	**173**	**176**	**67**	**44**	**106**	**132**
Income/expense on plan assets excluding amounts included in net interest income and net interest expenses	–	–	115	(7)	(115)	7
Actuarial gains (-) and losses (+)						
– changes in financial assumptions	510	(316)	–	–	510	(316)
– changes in demographic assumptions	(17)	(12)	–	–	(17)	(12)
– experience adjustments	(30)	(29)	–	–	(30)	(29)
Impact from asset ceiling	–	–	–	–	–	–
Remeasurements for defined benefit plans recognized in the combined statement of comprehensive income	**463**	**(357)**	**115**	**(7)**	**348**	**(350)**
Contributions by employer	–	–	33	689	(33)	(689)
Contributions to plan assets by employees	4	5	4	5	–	–
Pension payments	(141)	(137)	(27)	(25)	(114)	(112)
Cash effects from settlements	–	–	–	(5)	–	5
Change of consolidation scope	(13)	(2)	–	(2)	(13)	–
Currency translation differences	(66)	58	(69)	45	3	13
Other changes	(11)	(2)	(9)	(3)	(2)	1
Other reconciling items	**(227)**	**(78)**	**(68)**	**704**	**(159)**	**(782)**
Balance as of 12/31	4,369	3,960	2,479	2,365	1,890	1,595
thereof						
Germany	3,407	3,052	1,765	1,685	1,642	1,367
United Kingdom	543	493	526	501	17	(8)
United States	211	216	137	123	74	93
Other European countries	179	176	39	45	140	131
Other countries	29	23	12	11	17	12

Of the contributions to plan assets, €3 million (previous year: €653 million) pertains to Germany. Employer contributions to plan assets are expected to amount to €24 million in the next financial year.

In Germany, reimbursement rights for defined benefit obligations in the amount of €22 million (previous year: €21 million) mostly relate to reinsurance, which is not pledged to the pension beneficiary. Reimbursement rights are carried under the balance sheet item “Trade and other receivables.”

The expenses for defined benefit plans are broken down as follows:

Expenses for Defined Benefit Plans

in € millions	2016	2015
Current service cost	64	78
Past service cost and impact from settlement	2	1
Net interest expenses	40	53
Net pension expenses	106	132

The portfolio structure of plan assets is composed as follows:

Portfolio Structure of Plan Assets

in € millions	12/31/2016	12/31/2015
Equity instruments[1]	675	653
Debt instruments[1]	1,582	1,310
Other funds	68	67
Qualifying insurance policies	129	125
Cash and cash equivalents	12	198
Property	5	6
Derivatives	7	4
Other	1	2
Fair value of plan assets	2,479	2,365

1) For almost all equity and debt instruments, market prices are listed on an active market.

The plan assets in the Bertelsmann Group are used exclusively for the fulfillment of benefit obligations. In order to avoid a concentration of risk, plan assets are invested in various classes of investments. The majority of plan assets are managed by Bertelsmann Pension Trust e.V. under a contractual trust arrangement (CTA) for pension commitments of Bertelsmann SE & Co. KGaA and some of the German subsidiaries. There is no funding requirement for the CTA. No contribution was made to plan assets during the reporting period. The trust assets were invested in accordance with the investment guideline of the beneficiary, using a long-term total return approach. This approach is based on the aim of using strategic asset allocation to generate a suitable return in the long term regardless of short-term market fluctuations and/or crises. The management board of the pension trust is responsible for the investment and regularly informs the beneficiary of the status and performance of the pension assets.

The weighted average duration of the pension obligations on December 31, 2016, was 17 years (previous year: 17 years).

The maturity profile of the anticipated undiscounted pension payments can be seen in the following table:

Maturity Profile of Pension Payments

in € millions	2016
Expected maturities	
Less than 1 year	146
1 to less than 2 years	148
2 to less than 3 years	153
3 to less than 4 years	159
4 to less than 5 years	165
5 to less than 10 years	867

Obligations similar to pensions relate to provisions for bonuses for employee service anniversaries, amounts due but not yet paid to defined contribution plans, and severance payments at retirement. Severance payments at retirement are made when employees leave the company and are based on statutory obligations, primarily in Italy and Austria. Provisions for employee service anniversary bonuses and severance payments at retirement are recognized in the same way as defined benefit plans, but with actuarial gains and losses recognized in profit or loss. Employees in Germany who are at least 55 years old and have a permanent employment contract with the company qualify for the old-age part-time schemes. The partial retirement phase lasts two to five years.

The following table shows the breakdown in obligations similar to pensions:

Breakdown of Obligations Similar to Pensions

in € millions	12/31/2016	12/31/2015
Provisions for old-age part-time schemes	30	35
Provisions for severance payments	34	35
Provisions for employee service anniversaries	28	28
Other	5	4
Obligations similar to pensions	97	102

20 Other Provisions

in € millions	12/31/2015	of which > 1 year	Additions	Reversal	Usage	Other effects	Change of consolida-tion scope	Accrued interest	12/31/2016	of which > 1 year
Restructuring	86	7	26	(6)	(53)	1	(2)	–	52	3
Onerous contracts	125	15	111	(12)	(66)	2	(1)	1	160	37
Litigation	105	57	14	(9)	(6)	(1)	–	–	103	59
Guarantees and warranties	24	10	4	(2)	(12)	–	–	–	14	1
Sales and distribution	11	–	2	–	(2)	–	–	–	11	–
Other employee benefits	29	–	4	(2)	(2)	2	–	–	31	1
Other	88	33	29	(21)	(15)	(5)	3	1	80	35
	468	122	190	(52)	(156)	(1)	–	2	451	136

In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions in the amount of €52 million (previous year: €86 million) are recognized for various restructuring programs within the Bertelsmann Group. In the financial year 2016, the amount was reduced due to utilization of provisions for restructuring, including for structurally declining businesses such as print, replication, clubs and direct marketing.

The provisions for onerous contracts concern RTL Group in the amount of €107 million (previous year: €93 million) and were recognized mainly for program rights, including sports events in the amount of €22 million (previous year: €7 million). A total of €64 million (previous year: €49 million) relates to Mediengruppe RTL Deutschland and another €42 million (previous year: €41 million) to Groupe M6. Additions related to provisions for onerous contracts total €52 million for movies and series and €21 million for sports events. A provision for onerous contracts for existing lease agreements was recognized in the amount of €25 million in the Penguin Random House division due to consolidation of its three New York locations.

Provisions for litigation totaling €90 million (previous year: €92 million) also pertain mainly to RTL Group companies. They cover expected losses from partly multiannual court proceedings and extrajudicial disputes. Please refer to the risk report in the Combined Management Report for information on antitrust litigation.

The other provisions include a provision in the amount of €26 million (previous year: €27 million) for compensation obligations from pension entitlements for employees at the Prinovis location in Ahrensburg toward Axel Springer SE.

21 Profit Participation Capital

in € millions	12/31/2016	12/31/2015
Profit participation capital 1992	23	23
Profit participation capital 2001	390	390
	413	413

The market value of the 2001 profit participation certificates with a closing rate of 319.00 percent on the last day of trading in the past financial year on the Frankfurt Stock Exchange was €907 million (previous year: €903 million with a rate of 317.50 percent) and, correspondingly, €32 million for the 1992 profit participation certificates with a rate of 190.00 percent (previous year: €29 million with a rate of 172.00 percent). The market values are based on level 1 of the fair value hierarchy.

Further information on profit participation capital is presented in detail in the Combined Management Report.

22 Financial Debt

Financial debt includes all of the Bertelsmann Group's interest-bearing liabilities to banks and capital markets as of the end of the reporting period. Carrying amounts are calculated as follows:

Current and Non-Current Financial Debt

	Current		Non-current			
			Remaining term in years			
in € millions	12/31/2016	12/31/2015	1 to 5 years	> 5 years	12/31/2016	12/31/2015
Bonds	–	786	100	3,075	3,175	2,678
Promissory notes	–	–	360	149	509	309
Liabilities to banks	91	82	12	–	12	12
Lease liabilities	8	10	42	1	43	54
Other financial debt	136	122	19	5	24	22
	235	1,000	533	3,230	3,763	3,075

The Bertelsmann Group has access to floating rate and fixed-rate funds through various contractual arrangements. Financial debt is generally unsecured.

In April 2016, Bertelsmann placed a publicly listed bond of €500 million with a term of 10 years. In addition, Bertelsmann issued a promissory note in the amount of €200 million with a term of two years in a private placement in June 2016. The bond due in September 2016 in the amount of €1,000 million was repaid on time, of which €214 million had already been repaid ahead of time in the financial year 2013. At the end of the reporting period, the Group had bonds, private placements and promissory notes outstanding with a nominal volume of €3,710 million (previous year: €3,796 million).

The differences in carrying amount versus nominal amount in the table below result from transaction costs, premiums and discounts.

Bonds and Promissory Notes

		in € millions			
		Carrying amount		Fair value	
Interest rate; emission; maturity; fixed interest	Nominal amount	12/31/2016	12/31/2015	12/31/2016	12/31/2015
4.750%; 2006; 2016; fixed interest bond[1]	1,000	–	786	–	813
0.090%; 2016; 2018; fixed interest promissory note	200	200	–	200	–
4.207%; 2012; 2019; fixed interest promissory note	60	60	60	66	68
3-Mon.-EURIBOR + 40 Bp.; 2014; 2019; floating rate note	100	100	100	100	100
0.774%; 2015; 2020; fixed interest promissory note	100	100	100	102	100
2.625%; 2012; 2022; fixed interest bond[1]	750	744	742	845	816
1.750%; 2014; 2024; fixed interest bond[1]	500	497	496	541	506
1.787%; 2015; 2025; fixed interest promissory note	150	149	149	160	151
1.125%; 2016; 2026; fixed interest bond[1]	500	494	–	507	–
3.700%; 2012; 2032; fixed interest bond	100	98	98	128	121
3.000%; 2015; 2075; fixed interest hybrid bond[1]	650	646	646	654	606
3.500%; 2015; 2075; fixed interest hybrid bond[1]	600	596	596	574	531
		3,684	3,773	3,877	3,812

1) Listed.

The documentation of the bonds from Bertelsmann SE & Co. KGaA in 2012, 2014 and 2016 is within the framework of a base documentation for debt issuance programs. The bonds issued by Bertelsmann SE & Co. KGaA in 2006 and the promissory notes were issued on the basis of separate documentation. The bonds have a rating of "Baa1" (Moody's) and "BBB+" (Standard & Poor's). The debt issuance program was updated in April 2016. The framework documentation allows Bertelsmann SE & Co. KGaA to place bonds with a total volume of up to €4 billion on the capital market. Transaction costs and agreed discounts or premiums are taken into account in the interest result over the term, impacting the carrying amount of the bonds and promissory notes. These led to a difference to the nominal volume of €26 million (previous year: €23 million) at the end of the year.

As a rule, the quoted prices at the end of the reporting period are used to determine the fair value of the bonds issued. On December 31, 2016, the cumulative fair value of the listed bonds totaled €3,121 million (previous year: €3,272 million) with a nominal volume of €3,000 million (previous year: €3,286 million) and a carrying amount of €2,977 million (previous year: €3,266 million). The stock market prices are based on level 1 of the fair value hierarchy.

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 1.78 percent. The fair values of the private placements and promissory notes are based on level 2 of the fair value hierarchy.

Credit Facility

The Bertelsmann Group has access to a syndicated agreement entered into with major international banks in the amount of €1,200 million (previous year: €1,200 million), which in June 2016 was extended by one more year to 2021. Bertelsmann SE & Co. KGaA can draw down this credit facility using floating rate loans in euros, US dollars and pounds sterling based on EURIBOR or LIBOR on a revolving basis.

Lease Liabilities

Finance leases exist for the following assets:

Leased Assets

	12/31/2016		12/31/2015	
in € millions	Acquisition costs	Net carrying amount	Acquisition costs	Net carrying amount
Land, rights equivalent to land and buildings	89	39	105	48
Technical equipment and machinery	6	2	8	2
Other equipment, fixtures, furniture and office equipment	13	3	13	5
	108	44	126	55

The Group's finance lease activities primarily relate to long-term agreements for office space. The Group generally has the option to acquire such properties at the end of the lease term. Finance leases for buildings are generally subject to non-cancelable minimum lease terms of approximately 20 years.

The minimum lease payments for finance leases are presented in the following table:

Minimum Lease Payments for Finance Leases

	12/31/2016			12/31/2015		
in € millions	Nominal amount of lease payments	Discount amounts	Present value	Nominal amount of lease payments	Discount amounts	Present value
Up to 1 year	8	–	8	10	–	10
1 to 5 years	48	6	42	62	8	54
Over 5 years	1	–	1	–	–	–
	57	6	51	72	8	64

As in the previous year, no subleases were in place as part of finance lease agreements as of the end of the reporting period.

23 Liabilities

in € millions	12/31/2016	12/31/2015
Non-current		
Trade payables	207	183
Other financial payables	185	192
Other non-financial liabilities	362	375
Current		
Trade payables	3,557	3,563
Other financial payables	750	713
Other non-financial liabilities	1,657	1,529
– tax liabilities	174	172
– social security liabilities	104	108
– personnel-related liabilities	689	630
– received advance payments	125	101
– deferred items	318	274
– sundry non-financial liabilities	247	244

Non-current other financial payables include liabilities from put options relating to shareholders with non-controlling interests of €79 million (previous year: €86 million), minority interests in partnerships of €46 million (previous year: €38 million), liabilities from the acquisition of assets in the amount of €19 million (previous year: €23 million) and derivative financial instruments of €10 million (previous year: €6 million). The current other financial payables include liabilities in connection with factoring agreements in the amount of €96 million (previous year: €79 million), liabilities from the acquisition of assets in the amount of €121 million (previous year: €109 million), liabilities to participations in the amount of €14 million (previous year: €8 million) and derivative financial instruments in the amount of €56 million (previous year: €28 million).

The increase in current personnel-related liabilities of €59 million mainly relates to a transfer of a non-current liability for an incentive scheme of RTL Group due to upcoming payments in 2017.

24 Off-Balance-Sheet Liabilities

Contingent Liabilities and Other Commitments

in € millions	12/31/2016	12/31/2015
Guarantees	30	37
Rental and lease commitments	1,740	1,499
Other commitments	3,981	3,907
	5,751	5,443

Of other commitments, €2,932 million (previous year: €2,797 million) pertains to RTL Group. These relate to supply agreements for productions and coproductions, contracts for TV licenses and broadcasting rights and other rights and services. A further €782 million (previous year: €775 million) of other commitments pertains to Penguin Random House, which represents the portion of obligations to authors for which no payments have yet been made, where future payments are contingent upon other events (such as delivery and acceptance of manuscripts). Other commitments of €22 million (previous year: €49 million) are for the acquisition of property, plant and equipment.

The following minimum lease payments exist from all of the Group's long-term rental commitments classified as operating leases:

Minimum Lease Payments for Operating Leases

in € millions	12/31/2016	12/31/2015
Nominal amount		
Up to 1 year	285	284
1 to 5 years	765	754
Over 5 years	691	461
	1,741	1,499
Present value	1,501	1,347

These commitments largely concern tenancy and technical broadcasting facilities. They are partially offset by expected minimum lease payments from subleases with a nominal amount of €60 million (previous year: €71 million). The net present values calculated considering country-specific interest rates show all of the net payments required to settle the obligation.

25 Additional Disclosures on Financial Instruments

Maturity Analysis of Selected Financial Assets

	Neither impaired nor past due on the reporting date	Not individually impaired as of the reporting date and past due by:					Gross value of accounts receivable individually impaired
in € millions		< 1 month	1 to 3 months	3 to 6 months	6 to 12 months	> 12 months	
Loans	71	–	–	–	–	–	48
Securities and financial assets	17	–	–	–	–	–	4
Trade receivables	2,508	412	142	52	27	22	184
Receivables from participations	24	1	–	–	–	1	4
Other selected receivables	722	16	13	1	2	3	37
Balance as of 12/31/2016	3,342	429	155	53	29	26	277
Loans	42	–	–	–	–	–	45
Securities and financial assets	18	–	–	–	–	–	4
Trade receivables	2,451	529	145	75	33	39	235
Receivables from participations	33	2	2	1	–	–	4
Other selected receivables	520	8	3	1	1	14	28
Balance as of 12/31/2015	3,064	539	150	77	34	53	316

No impairment losses were recognized for unsettled receivables not yet due as of the end of the reporting period, as there was no indication of default.

Reconciliation of Changes in Impairment in Accordance with IFRS 7

in € millions	Balance as of 1/1	Additions	Usage	Reversal	Change of consolidation scope	Exchange rate effect	Balance as of 12/31
Loans	(46)	(6)	–	2	2	–	(48)
Trade receivables	(242)	(62)	12	88	4	3	(197)
Receivables from participations	(3)	–	–	–	–	–	(3)
Sundry financial receivables	(28)	(17)	1	2	–	–	(42)
Total 2016	(319)	(85)	13	92	6	3	(290)
Loans	(100)	(7)	59	1	2	(1)	(46)
Trade receivables	(226)	(65)	9	57	(6)	(11)	(242)
Receivables from participations	–	(3)	–	–	–	–	(3)
Sundry financial receivables	(49)	(3)	17	7	–	–	(28)
Total 2015	(375)	(78)	85	65	(4)	(12)	(319)

The carrying amount of all receivables, loans and securities constitutes the Bertelsmann Group's maximum default risk.

The following table presents the contractually fixed undiscounted cash flows of the financial liabilities for settlement. The figures are based on undiscounted cash flows at the earliest date at which the Bertelsmann Group can be held liable for payment.

Contractual Maturity Analysis of Financial Liabilities

in € millions	Carrying amount	Undiscounted cash flows Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	413	–	–	413	413
Fixed interest bonds and promissory notes	3,584	–	360	3,250	3,610
Floating rate bonds and promissory notes	100	–	100	–	100
Liabilities to banks	103	91	12	–	103
Lease liabilities	51	9	48	–	57
Other financial debt	160	136	19	5	160
Trade payables	3,764	3,557	184	23	3,764
Liabilities to participations	14	14	–	–	14
Derivative financial instruments	66	56	10	–	66
Sundry financial payables	855	680	122	53	855
Balance as of 12/31/2016	9,110	4,543	855	3,744	9,142
Profit participation capital	413	–	–	413	413
Fixed interest bonds and promissory notes	3,673	786	160	2,750	3,696
Floating rate bonds and promissory notes	100	–	100	–	100
Liabilities to banks	94	82	12	–	94
Lease liabilities	64	10	62	–	72
Other financial debt	144	122	17	5	144
Trade payables	3,746	3,563	171	12	3,746
Liabilities to participations	8	8	–	–	8
Derivative financial instruments	34	28	6	–	34
Sundry financial payables	863	677	113	73	863
Balance as of 12/31/2015	9,139	5,276	641	3,253	9,170

Current cash outflows from financial obligations are offset by planned cash inflows from receivables and other financial assets. To cover current cash flows, Bertelsmann SE & Co. KGaA also has adequate financial reserves in the amount of the cash and cash equivalents and unutilized credit facilities in place at the end of the reporting period.

The following table presents the remaining terms of the contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged:

Liabilities from Derivatives with Gross Settlement

	Remaining term of liabilities		
in € millions	Up to 1 year	1 to 5 years	Over 5 years
Cash outflow	(2,256)	(127)	–
Cash inflow	2,195	118	–
Balance as of 12/31/2016	(61)	(9)	–
Cash outflow	(1,550)	(160)	–
Cash inflow	1,520	155	–
Balance as of 12/31/2015	(30)	(5)	–

Based on the remaining contractual terms of its financial liabilities at the end of the reporting period, the Bertelsmann Group will have to make the following future interest payments:

Future Undiscounted Interest Payments

	Undiscounted interest payments			
in € millions	Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	45	181	45	271
Bonds and promissory notes	85	332	290	707
Liabilities to banks	3	1	–	4
Lease liabilities	2	5	–	7
Other financial debt	3	3	1	7
Balance as of 12/31/2016	138	522	336	996
Profit participation capital	45	181	90	316
Bonds and promissory notes	116	313	338	767
Liabilities to banks	4	1	–	5
Lease liabilities	2	7	–	9
Other financial debt	3	1	–	4
Balance as of 12/31/2015	170	503	428	1,101

Carrying Amounts and Measurement Methods by Measurement Category

Assets

in € millions	Category in accordance with IAS 39					
	Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading	Derivatives with hedge relation
Measurement	At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss	
Loans	71	–	–	–	–	–
Investments in affiliates	–	3	12	–	–	–
Other investments	–	54	366	–	–	–
Securities and financial assets	–	1	3	13	–	–
Derivative financial instruments	–	–	–	–	68	63
Trade receivables	3,150	–	–	–	–	–
Receivables from participations	27	–	–	–	–	–
Sundry financial receivables	752	–	–	–	–	–
Cash	1,192	–	–	–	–	–
Other securities < 3 months	181	–	–	–	–	–
	5,373	58	381	13	68	63

Other investments include mainly the minority stakes in other entities and so-called fund-in-fund investments purchased by the Bertelsmann Investments division. As a rule, these financial instruments are measured at fair value, and the gains and losses from fluctuations in fair value are recognized in other comprehensive income with deferred taxes taken into consideration. The fair value measurement of fund-in-fund investments is based on the valuations of the external management as presented in regular reporting and taking into account a fungibility discount. When possible, measuring fair value of minority stakes in other entities is based, on observable prices obtained as part of the most recently

	Balance as of 12/31/2016	Category in accordance with IAS 39						Balance as of 12/31/2015
		Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading	Derivatives with hedge relation	
		At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss		
	71	41	–	–	–	–	–	41
	15	–	14	–	–	–	–	14
	420	–	274	38	–	–	–	312
	17	1	6	1	10	–	–	18
	131	–	–	–	–	81	52	133
	3,150	3,265	–	–	–	–	–	3,265
	27	39	–	–	–	–	–	39
	752	549	–	–	–	–	–	549
	1,192	1,209	–	–	–	–	–	1,209
	181	101	–	–	–	–	–	101
	5,956	5,205	294	39	10	81	52	5,681

implemented qualified financing rounds taking into account life and development cycles of the entity.

Certain investments in affiliates and other investments that are classified as available-for-sale within financial assets are measured at cost as they do not have a quoted price on an active market and a reliable estimate of the fair value is not possible. No plan has been made to sell significant holdings of the other available-for-sale investments in the near future. For all other financial assets and financial liabilities, their carrying amount represents a reasonable approximation of fair value.

Equity and Liabilities

in € millions	Category in accordance with IAS 39				
	Financial liabilities	Financial liabilities initially recognized at fair value through profit or loss	Financial liabilities held for trading	Derivatives with hedge relation	Payables out of scope of IAS 39
Measurement	At amortized cost	Fair value recognized in profit or loss	Fair value recognized in profit or loss		
Profit participation capital	413	–	–	–	–
Bonds and promissory notes	3,684	–	–	–	–
Liabilities to banks	103	–	–	–	–
Lease liabilities	–	–	–	–	51
Other financial debt	160	–	–	–	–
Trade payables	3,764	–	–	–	–
Liabilities to participations	14	–	–	–	–
Derivative financial instruments	–	–	63	3	–
Sundry financial payables	807	48	–	–	–
	8,945	48	63	3	51

	Balance as of 12/31/2016	Category in accordance with IAS 39			Derivatives with hedge relation	Payables out of scope of IAS 39	Balance as of 12/31/2015
		Financial liabilities	Financial liabilities initially recognized at fair value through profit or loss	Financial liabilities held for trading			
		At amortized cost	Fair value recognized in profit or loss	Fair value recognized in profit or loss			
	413	413	–	–	–	–	413
	3,684	3,773	–	–	–	–	3,773
	103	94	–	–	–	–	94
	51	–	–	–	–	64	64
	160	144	–	–	–	–	144
	3,764	3,746	–	–	–	–	3,746
	14	8	–	–	–	–	8
	66	–	–	29	5	–	34
	855	818	45	–	–	–	863
	9,110	8,996	45	29	5	64	9,139

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 12/31/2016
Financial assets initially recognized at fair value through profit or loss	–	13	–	13
Available-for-sale financial assets	9	1	371	381
Primary and derivative financial assets held for trading	–	65	3	68
Derivatives with hedge relation	–	63	–	63
	9	142	374	525

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2015
Financial assets initially recognized at fair value through profit or loss	–	10	–	10
Available-for-sale financial assets	8	1	30	39
Primary and derivative financial assets held for trading	–	75	6	81
Derivatives with hedge relation	–	52	–	52
	8	138	36	182

It is possible to allocate the financial instruments measured at fair value in the balance sheet to the three levels of the fair value hierarchy by category based on the table "Carrying Amounts and Measurement Methods by Measurement Category."

Financial Assets Measured at Fair Value Based on Level 3

in € millions	Available-for-sale financial assets	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2016	30	6	36
Total gain (+) or loss (-)	–	(3)	(3)
– in profit or loss	–	(3)	(3)
– in other comprehensive income	–	–	–
Purchases	2	–	2
Transfers out of/into level 3 (including first-time classification on level 3)	339	–	339
Balance as of 12/31/2016	371	3	374
Gain (+) or loss (-) for assets still held at the end of the reporting period	–	(3)	(3)

in € millions	Available-for-sale financial assets	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2015	34	–	34
Total gain (+) or loss (-)	(5)	6	1
– in profit or loss	–	6	6
– in other comprehensive income	(5)	–	(5)
Purchases	1	–	1
Transfers out of/into level 3 (including first-time classification on level 3)	–	–	–
Balance as of 12/31/2015	30	6	36
Gain (+) or loss (-) for assets still held at the end of the reporting period	–	6	6

In the financial year 2016, various investments held by the Bertelsmann Investments division were recognized at fair value for the first time (further details are presented in note 13 “Other Financial Assets”). The difference between the carrying amount, which generally equals the acquisition costs, and fair value was recognized in equity under other comprehensive income. The addition of fair value to level 3 is shown in the table above.

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 12/31/2016
Financial liabilities initially recognized at fair value through profit or loss	–	–	48	48
Primary and derivative financial liabilities held for trading	–	63	–	63
Derivatives with hedge relation	–	3	–	3
	–	66	48	114

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2015
Financial liabilities initially recognized at fair value through profit or loss	–	–	45	45
Primary and derivative financial liabilities held for trading	–	29	–	29
Derivatives with hedge relation	–	5	–	5
	–	34	45	79

Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial liabilities initially recognized at fair value through profit or loss	Total
Balance as of 1/1/2016	45	45
Total gain (-) or loss (+)	(12)	(12)
– in profit or loss	(12)	(12)
– in other comprehensive income	–	–
Purchases	22	22
Issues	–	–
Settlements	(7)	(7)
Transfers out of/into level 3	–	–
Balance as of 12/31/2016	48	48
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	(5)	(5)

in € millions	Financial liabilities initially recognized at fair value through profit or loss	Total
Balance as of 1/1/2015	43	43
Total gain (-) or loss (+)	(2)	(2)
– in profit or loss	(4)	(4)
– in other comprehensive income	2	2
Purchases	5	5
Settlements	(1)	(1)
Transfers out of/into level 3	–	–
Balance as of 12/31/2015	45	45
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	–	–

Level 1:
The fair value of the existing financial instruments is determined on the basis of stock exchange listings at the end of the reporting period.

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 interest rate structure 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 interest rate structure 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, measuring fair values 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 valuation 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. During the financial year 2016, no reclassifications were performed between levels 1, 2 and 3.

Net Result from Financial Instruments

in € millions	Loans and receivables	Available-for-sale financial assets	Financial assets initially recognized at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities initially recognized at fair value through profit or loss	Derivatives with hedge relation	Financial instruments held for trading	Other currency translation differences
From dividends	–	14	–	–	–	–	–	–
From interest	9	–	–	(117)	–	–	(3)	–
From impairment	5	(18)	–	–	–	–	–	–
From fair value measurement	–	–	–	–	12	4	(3)	–
From currency translation differences	–	–	–	–	–	–	39	(29)
From disposal/derecognition	(29)	72	–	23	–	–	–	–
Net income 2016	(15)	68	–	(94)	12	4	33	(29)
From dividends	–	17	–	–	–	–	–	–
From interest	12	–	–	(123)	–	–	(2)	–
From impairment	(17)	(12)	–	–	–	–	–	–
From fair value measurement	–	–	–	–	4	1	6	–
From currency translation differences	–	–	–	–	–	–	(97)	91
From disposal/derecognition	(20)	23	–	12	–	–	–	–
Net income 2015	(25)	28	–	(111)	4	1	(93)	91

Other currency translation differences consist of the exchange rate effects of the “Loans and receivables” and “Financial liabilities at amortized cost” categories.

Financial assets and liabilities are offset on the balance sheet if master netting agreements or similar agreements allow the Bertelsmann Group and the counterparty to reach settlement on a net basis. Settlement on a net basis is thus legally valid both as part of ordinary business activities and also in the event of payment default by one of the parties. In addition, Bertelsmann purchases financial derivatives that do not meet the criteria for offsetting on the balance sheet as future events determine the right to offset. As in the previous year, in general, the requirements for offsetting the financial instruments reported on the balance sheet are not met so that no material offsetting was carried out as of December 31, 2016.

Financial Derivatives

Bertelsmann uses standard market financial derivatives, primarily unlisted (OTC) instruments. These include, in particular, forward agreements, currency swaps, currency options, interest rate swaps and individual commodities forwards. Transactions are entered into solely with banks with a high credit rating. As a rule, the Central Financial Department's transactions are only performed with a group of banks approved by the Executive Board. The nominal volume is the total of all underlying buying and selling amounts of the respective transactions.

The majority of the financial derivatives at the end of the reporting period (nominal volume €3,682 million) are used to hedge against exchange rate risks from intercompany financing activities. These financial derivatives account for a total of €2,144 million (58 percent) as of the end of the reporting period. A total of €1,538 million (42 percent) is due to financial derivatives used to hedge currency risks from operating business as of the end of the reporting period. Financial derivatives are also used to hedge against interest rate risks from cash and cash equivalents and financing. No financial derivatives were purchased for speculative purposes.

All relationships between hedging instruments and hedged items in addition to its risk management objectives and strategies in connection with the various hedges are documented. This method includes linking all derivatives used for hedging purposes to the underlying assets, liabilities, firm commitments and forecasted transactions. Furthermore, the Bertelsmann Group assesses and documents the degree to which changes in the fair values or cash flows of hedged items are effectively offset by changes in the corresponding hedging instruments, both when the hedges are initiated and on an ongoing basis.

Nominal Volume and Fair Values of Financial Derivatives

	12/31/2016				
	Nominal volume				Fair values
in € millions	< 1 year	1 to 5 years	> 5 years	Total	
Currency derivatives					
Forward contracts and currency swaps	2,942	699	41	3,682	62
Interest rate derivatives					
Interest rate swaps	–	–	–	–	–
Other derivative financial instruments	–	–	–	–	3
	2,942	699	41	3,682	65

	12/31/2015				
	Nominal volume				Fair values
in € millions	< 1 year	1 to 5 years	> 5 years	Total	
Currency derivatives					
Forward contracts and currency swaps	3,149	516	–	3,665	94
Interest rate derivatives					
Interest rate swaps	52	–	–	52	(1)
Other derivative financial instruments	7	–	–	7	6
	3,208	516	–	3,724	99

The option offered in IFRS 13.48 (net risk position) is used for measuring the fair value of financial derivatives. In order 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. Currency forwards are used to hedge the exchange rate risk relating to the purchase of program rights and output deals for the TV business. Bertelsmann hedges between 80 and 100 percent of the future cash flows from the purchase of program rights in foreign currency, which represent a fixed obligation (within one year) or a future transaction with a high probability of occurrence, and between 10 and 80 percent of the longer-term (two to five years) transactions expected in the future under output deals. The derivatives used for this purpose are recognized as hedging instruments in connection with cash flow hedges. The effective portion of changes in the fair value of cash flow hedges is recognized in other comprehensive income until the effects of the hedged underlying transaction affect profit or loss or until a basis adjustment occurs. In the financial year 2016, changes in the fair value of cash flow hedges amounted to €14 million (previous year: €34 million) related to previous-year hedging relationships and €25 million (previous year: €2 million) related to new hedging relationships. The amount of €-33 million relating to other comprehensive income (previous year: €-26 million) was reclassified to the income statement. These are amounts before tax. The portion remaining in other comprehensive income at December 31, 2016, will thus mainly impact the income statement in the next years. The ineffective portion of the cash flow hedges in the amount of €5 million (previous year: €3 million) is recognized under the items "Other financial expenses" and "Other financial income."

The following table provides an overview of the carrying amounts of the derivative financial instruments, which correspond to their fair values. A distinction is made between derivatives that are included in an effective hedging relationship in accordance with IAS 39 and those that are not.

Derivative Financial Instruments

in € millions	Carrying amount as of 12/31/2016	Carrying amount as of 12/31/2015
Assets		
Forward contracts and currency swaps		
– without hedge relation	65	75
– in connection with cash flow hedges	63	52
Interest rate swaps		
– without hedge relation	–	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	3	6
Equity and liabilities		
Forward contracts and currency swaps		
– without hedge relation	63	28
– in connection with cash flow hedges	3	5
Interest rate swaps		
– without hedge relation	–	1
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–

Financial Instruments
Financial Risk Management

The Bertelsmann Group is exposed to various forms of financial risk through its international business operations. Above all, this includes the effects of exchange and interest rate movements. Bertelsmann's risk management activities are designed to effectively mitigate these risks.

The Executive Board establishes basic risk management policy, outlining general procedures for hedging currency and interest rate risk and the utilization of derivative financial instruments. The Corporate Treasury and Finance Department advises subsidiaries on operating risk and hedges risks using derivative financial instruments as necessary. However, subsidiaries are not obliged to use the services provided by this department for their operating risks. Some subsidiaries, such as RTL Group in particular, have their own finance departments. They report their hedge transactions to the Corporate Treasury and Finance Department each quarter. Further information on financial market risks and financial risk management is presented in the Combined Management Report.

Exchange Rate Risk

Bertelsmann is exposed to exchange rate risk in various currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against exchange rate risks in the local reporting currency by signing forward agreements with banks that have a high credit rating. Loans within the Bertelsmann Group that are subject to exchange rate risk are hedged using derivatives.

A number of subsidiaries are based outside the eurozone. The resulting translation risk is managed through the relationship of economic financial debt to operating EBITDA of key currency areas. Over the long term, the Group aims to achieve a reasonable relationship between financial debt and results of operations. Bertelsmann's focus is on the maximum leverage factor permitted for the Group.

Interest Rate Risk

There are interest rate risks for interest-bearing assets and financial debt. Interest rate risk in the Bertelsmann Group is analyzed centrally and managed on the basis of the Group's planned net financial debt. A key factor in this management is the Group's interest result over time and its sensitivity to interest rate changes. The Group aims for a balanced relationship between floating rates and long-term fixed interest rates depending on the absolute amount, forecast performance of the interest-bearing liability and interest level. This is implemented using underlying and derivative financial instruments for control.

Liquidity Risk

Liquidity risks may arise through a lack of rollover financing (liquidity risk in a narrow sense), delayed receipt of payment and unforeseen expenditure (budgeting risk). Budgeting risk is determined by comparing deviations in actual spending with budget and reserve amounts. In a narrow sense, liquidity risk depends on the volume of debt due within a given period.

Liquidity risk is monitored on an ongoing basis with reference to the budget for current and future years. New and unplanned transactions (e.g., acquisitions) are continuously tracked. The maturity profile of financial assets and liabilities is also reconciled on a regular basis. Budget risks are managed through effective cash management and constant monitoring of projected versus actual cash flows. Debt maturities are also diversified to ensure that rising financing costs do not have a short-term impact. Credit facilities are also maintained for unplanned expenditures.

Counterparty Risk

The Bertelsmann Group is exposed to default risks in the amount of the invested cash and cash equivalents and the positive fair value of the derivatives in its portfolio. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with a high credit rating ("core banks"). The credit ratings of core banks are constantly monitored and classified on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.). Counterparty limits determined on the basis of credit ratings refer to cash holdings and positive fair values; the use of limits is monitored regularly. Funds are invested in very short-term portfolios in some cases to preserve flexibility in the event of credit rating changes. In addition, some tri-party transactions with banks have been concluded to reduce default risks. These tri-party transactions are collateralized investments, and the banks provide predefined securities as collateral. As in the previous year, at the end of the reporting period, no tri-party transactions were outstanding and no collateral had been provided. Processing these transactions and managing and valuing the collateral are performed by a clearing agent. Default risks arising from trade receivables are partially mitigated through credit insurance coverage. The Bertelsmann Group has obtained credit collateralization in the amount of €610 million for these receivables (previous year: €541 million).

Capital Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financing security, return on equity and growth. The Group's net indebtedness is based specifically on the requirements for a credit rating of "Baa1/BBB+." Financial management at Bertelsmann is conducted using quantified financing objectives that are a central factor in ensuring the Group's independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are broadly defined performance indicators. The key performance indicator for limiting economic debt within the Bertelsmann Group is a maximum leverage factor of 2.5. On December 31, 2016, the leverage factor was 2.5 (previous year: 2.4). In addition, the coverage ratio is to remain above 4. The coverage ratio amounted to 9.7 on December 31, 2016 (previous year: 10.1). The equity ratio is not to fall below 25 percent of total assets. Management of the equity ratio is based on the definition of equity in IFRS. Although minority interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes. In the financial year 2016, the equity ratio was 41.6 percent (previous year: 41.2 percent), meeting the internal financial target set by the Group.

Interest Rate and Exchange Rate Sensitivity

For the analysis of interest rate risk, a distinction is made between cash flow and present value risks. Financial debt, cash and cash equivalents and interest rate swaps with variable interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates impact the Group's interest result almost immediately. In contrast, medium- and long-term interest rate agreements are subject to a greater degree of present value risk. The accounting treatment of present value risks depends on the respective financial instrument or a hedging relationship documented in conjunction with a derivative (micro-hedge).

Upon initial recognition, originated financial debt is measured at fair value less transaction costs. Subsequent measurement is based on amortized cost. Changes in fair value are limited to opportunity effects, as changes in interest rates have no effect on the balance sheet or the income statement. The recognition of originated financial debt at fair value is only permitted for transactions for which a micro-hedge is documented in accordance with IAS 39 in conjunction with the conclusion of an interest rate or exchange rate hedge transaction involving derivatives. In this case, changes in the fair value of the respective items are recognized in the income statement in order to substantially balance out the offsetting effects of the fair value measurement of the related derivatives.

For derivative financial instruments, the effects of changes in interest rates are recognized in the income statement. In the case of documented hedging relationships (cash flow hedges), however, these effects are taken directly to equity.

The cash flow or present value risks existing at the end of the reporting periods are analyzed using a sensitivity calculation as an after-tax observation. A parallel shift in the interest rate curve of +/-1 percent is assumed for all major currencies. The analysis is performed on the basis of financial debt, cash and cash equivalents and derivatives at the end of the reporting period. The results are shown in the following table:

Sensitivity Analysis of Cash Flow and Present Value Risks

	12/31/2016		12/31/2015	
in € millions	Shift +1%	Shift -1%	Shift +1%	Shift -1%
Cash flow risks (income statement)	8	(8)	5	(5)
Present value risks (income statement)	4	(4)	–	–
Present value risks (equity)	–	–	–	–

The analysis of exchange rate sensitivity includes the Group's financial debt and operating transactions at the end of the reporting period and the hedging relationships entered into (forward agreements and options). The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent write-up of the euro versus all foreign currencies and is presented after tax. A uniform devaluation of foreign currencies would have resulted in a change in the carrying amount recognized in profit or loss of €-11 million (previous year: €-9 million). Thereof, €-6 million (previous year: €-3 million) relates to fluctuations in the US dollar exchange rate with a net exposure of US$95 million (previous year: US$53 million). Shareholders' equity would have changed by €50 million (previous year: €43 million) as a result of fluctuations in the fair values of documented cash flow hedges. Thereof, €50 million (previous year: €43 million) relates to fluctuations in the US dollar exchange rate on the basis of a documented cash flow hedge volume of US$766 million (previous year: US$680 million). If there had been a uniform increase in the value of foreign currencies, this would have led to opposite changes in these amounts for the Bertelsmann Group.

Factoring

In certain specific individual cases, Bertelsmann sells receivables to financial intermediaries. The receivables sold relate primarily to short-term external receivables that Arvato Financial Solutions acquires from third parties as part of its services in receivables management. This business can be changed at any time during the year. The receivables are resold to financial intermediaries on an ongoing basis. The volume of receivables sold amounted to €321 million as of the end of the reporting period (previous year: €331 million). As part of the contractual agreements on the sale of receivables, in the majority of cases neither all rewards nor all risks that are associated with the receivables were transferred or retained. In particular, parts of the default and late payment risks were retained by Bertelsmann, with the result that a receivable was accounted for in the amount of the continuing involvement of €45 million (previous year: €45 million). The carrying amount of the associated liability is €52 million (previous year: €54 million).

26 Cash Flow Statement

The Bertelsmann consolidated cash flow statement has been prepared in accordance with IAS 7 and is used to evaluate the Group's ability to generate cash and cash equivalents. Cash flows are divided into those relating to operating activities, investing activities and financing activities. Cash flows from operating activities are presented using the indirect method, with Group earnings before interest and taxes adjusted for non-cash items. Income and expenses relating to cash flows from investing activities are also eliminated.

The management of Group operations of the Bertelsmann Group utilizes indicators that include operating EBITDA and is thus before interest and taxes, and depreciation, amortization and impairment and special items. Operating results and the resulting cash flow from operating activities should therefore be consistent and comparable. Accordingly, the net balance of interest paid and interest received during the financial year is shown in the cash flow statement as part of financing activities. Contributions to pension plans are a cash outflow reported as a separate item in the cash flow from investing activities. The change in provisions for pensions and similar obligations represents the balance of personnel costs for pensions and similar obligations and company payments for these obligations (further explanations are presented in note 19 "Provisions for Pensions and Similar Obligations").

Other effects include the adjustments of gains and losses from the disposal of assets, results from investments accounted for using the equity method and adjustments in connection with non-cash income and expenses. The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in the scope of consolidation. Items in the consolidated cash flow statement thus cannot be compared with changes in items disclosed on the consolidated balance sheet. Investing activities include payments for fixed assets and purchase price payments for consolidated investments acquired and proceeds from the disposal of non-current assets and participations. Further explanations concerning acquisitions made during the financial year are presented in the "Acquisitions and Disposals" section. Disposals during the financial year are also presented separately in that section. Financial debt of €6 million (previous year: €41 million) was assumed during the reporting period.

Cash flow from financing activities includes changes in equity, financial debt and dividend payments affecting cash, as well as interest paid and interest received. The item "Proceeds from bonds and promissory notes" mainly includes the payments received from the publicly listed bond of €500 million issued in April and the promissory note of €200 million issued in a private placement in June 2016. The item "Redemption of bonds and promissory notes" includes the on-time repayment for the bond due in September 2016 in the amount of €1,000 million, of which €214 million had already been repaid ahead of time in financial year 2013. The item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €263 million (previous year: €222 million) and payments in the amount of €-204 million (previous year: €-377 million).

27 Segment Reporting

IFRS 8 Operating Segments requires that external segment reporting must be based on internal organizational and management structure and on management and reporting indicators used internally. At the beginning of the financial year 2016, the strategic growth segments of music and education and the fund activities previously reported under the Corporate Investments division were divided into the three independent divisions of BMG, Bertelsmann Education Group and Bertelsmann Investments. BMG is an international music company. The Bertelsmann Education Group division comprises the growth businesses and investments specializing in providing high-quality education services. Bertelsmann Investments comprises the funds Bertelsmann Digital Media Investments (BDMI), Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI) and Bertelsmann India Investments (BII), investing in innovative, promising businesses. In addition, the division Bertelsmann Printing Group bundles the Group's offset and gravure printing activities as of January 1, 2016. It comprises the businesses Mohn Media, GGP Media and Vogel Druck previously considered part of the Arvato division, the gravure activities of Prinovis in Germany and the United Kingdom previously operating under Be Printers, and the offset and digital printers of Be Printers in the United States. The new division also includes further businesses previously classified as part of the Arvato division, including the RTV Media Group, the lettershop services company Campaign and the storage media replication business Sonopress. Furthermore, Medienfabrik, a company that was previously allocated to the Arvato division until December 31, 2015, has been a part of Gruner + Jahr since January 1, 2016. As of January 1, 2016, the Bertelsmann Executive Board manages and monitors the three new divisions separately so that, since 2016, internal reporting and external segment reporting reflect eight operating reportable segments (RTL Group, Penguin Random House, Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments). As a result of the realignment of the Bertelsmann Printing Group, this division experiences a shift in its revenue sources from revenue from products and merchandise to revenue from services since the financial year 2016. For comparability, the figures from the previous year in segment information and in note 1 "Revenues" were adjusted accordingly in this report.

Each of the eight segments is run by a segment manager who is responsible for results. This manager reports to the Executive Board of Bertelsmann Management SE in its role as the chief operating decision maker in accordance with IFRS 8. Corporate is mainly responsible for activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, corporate communications and management, internal control and strategic development of the Group, financing, risk management and the optimization of the Group's investment portfolio.

Intersegment eliminations are carried in the column "Consolidation."

As in the past, specific segment information is defined according to the definitions on which Group management is based. As a rule, accounting and measurement in the segment reporting uses the same IFRS principles as in the Consolidated Financial Statements. Invested capital is calculated on the basis of the Group's operating assets less non-interest-bearing operating liabilities. In addition, 66 percent of the net present value of the operating leases is considered in the calculation of invested capital. Intercompany revenues are recognized using the same arm's length conditions applied to transactions with third parties.

Operating EBITDA serves as a key performance indicator for a sustainable determination of operating result. Assessment of the operating segments' performance is based on this performance indicator as well. Operating EBITDA represents the operating earnings generated by the respective segment management before interest and income taxes, and depreciation, amortization and impairment, and it is adjusted for special items. Elimination of these special items allows the determination of a normalized performance indicator, thus simplifying forecasting and comparability. Segment depreciation and amortization include the depreciation of property, plant and equipment and the amortization of intangible assets as set out in notes 10 "Intangible Assets" and 11 "Property, Plant and Equipment." The business development of Bertelsmann Investments is determined primarily on the basis of EBIT. Due to misstatements in previous years at one entity in the RTL Group division, an additional charge was recognized to EBITDA in the amount of €11 million. This effect had no impact on the cash flow from operating activities. The figures from the previous year's Consolidated Financial Statements were not adjusted for reasons of immateriality at the Group level.

Each segment shows the investments accounted for using the equity method and their results, provided these companies can be clearly allocated to the segment concerned. Results from investments accounted for using the equity method are shown before impairment. In addition to the segment breakdown, revenues are broken down by customer location and revenue source. Non-current assets are also stated according to the location of the respective company.

Tabular information on the segment information is presented on page 46f.

The following table shows the reconciliation of segment information to the Consolidated Financial Statements:

Reconciliation of Segment Information to the Consolidated Financial Statements

in € millions	2016	2015
Operating EBITDA from continuing operations	2,568	2,485
Amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment	632	616
Adjustments on amortization/depreciation, impairment losses and reversals of intangible assets and property, plant and equipment included in special items	(2)	(3)
Special items	139	191
EBIT from continuing operations	1,799	1,681
Financial result	(244)	(230)
Earnings before taxes from continuing operations	1,555	1,451
Income tax expense	(419)	(346)
Earnings after taxes from continuing operations	1,136	1,105
Earnings after taxes from discontinued operations	1	3
Group profit or loss	1,137	1,108

28 Related Party Disclosures

For the Bertelsmann Group, related parties as defined in IAS 24 are those persons and entities that control or exercise a significant influence over the Bertelsmann Group, and those persons and entities controlled or jointly controlled by the Bertelsmann Group, or over which it exercises a significant influence. Accordingly, certain members of the Mohn family, the members of the Executive Board of Bertelsmann Management SE as the personally liable partner and the Supervisory Board of Bertelsmann SE & Co. KGaA including close members of their families and including the companies that are controlled or jointly managed by them, and the joint ventures and associates forming part of the Bertelsmann Group and their subsidiaries are defined as related parties.

Bertelsmann Verwaltungsgesellschaft mbH (BVG), Gütersloh, a holding company with no operating activities, has control of the Bertelsmann Group. Johannes Mohn GmbH, Bertelsmann Beteiligungs GmbH, Reinhard Mohn Verwaltungsgesellschaft mbH and Mohn Beteiligungs GmbH have informed Bertelsmann SE & Co. KGaA that they each own more than one-quarter of the shares. Shares held both directly and indirectly are included when identifying shareholdings.

In the legal form of a KGaA, the business is managed by a personally liable partner. In the case of Bertelsmann SE & Co. KGaA, Bertelsmann Management SE, represented by its Executive Board, is responsible for the management of the business. The statutory bodies consist of the Supervisory Board and the General Meeting at the Bertelsmann SE & Co. KGaA level and the Executive Board, Supervisory Board and General Meeting at the Bertelsmann Management SE level. The Supervisory Board of the KGaA is elected by the limited partners at the General Meeting. The members of the Bertelsmann Management SE Supervisory Board are appointed by the General Meeting of Bertelsmann Management SE. BVG controls the voting rights at the Bertelsmann SE & Co. KGaA and Bertelsmann Management SE General Meeting.

Remuneration for key management personnel includes:

Remuneration for Key Management Personnel

in € millions	2016	2015
Short-term employee and termination benefits	23	23
Post-employment benefits	7	2
Other long-term benefits	8	5

The remuneration shown also includes remuneration for activities by the members of the Supervisory Board of Bertelsmann SE & Co. KGaA in the Supervisory Board of Bertelsmann Management SE. Transactions with subsidiaries included in the scope of consolidation are eliminated and are not further disclosed. In addition to transactions with consolidated subsidiaries, the following transactions with related parties and entities were conducted in the reporting period:

Transactions with Related Parties

in € millions	Parent and entities with significant influence	Key members of management	Joint ventures	Associates	Other related parties
2016					
Goods delivered and services provided	–	–	64	32	–
Goods and services received	–	(2)	(33)	(9)	(1)
Receivables against	–	–	26	38	–
Amounts owed to	–	55	68	13	27
2015					
Goods delivered and services provided	–	–	69	29	–
Goods and services received	–	(2)	(28)	(10)	(1)
Receivables against	–	–	33	25	–
Amounts owed to	–	35	34	9	15

The amounts owed to key members of management include pension obligations and variable remuneration components as well as long-term incentives. The item "Other related parties" primarily includes transactions with the personally liable partner Bertelsmann Management SE. The obligations as of the end of the reporting period result from expenses passed on by Bertelsmann Management SE.

No guarantees were entered into for associates during the reporting period and also not in the previous year. In line with the previous year, Bertelsmann has no share in the contingent liabilities of its associates. There are contribution obligations in the amount of €61 million (previous year: €72 million) to a Brazilian fund set up by Bertelsmann along with the investment company Bozano Investimentos and other partners, investing in educational companies, with a particular focus on healthcare. Further contribution obligations exist to University Ventures Funds in the amount of €44 million (previous year: €51 million). In the financial year 2016, no significant expenses were recognized for bad or doubtful debts due from associates (previous year: €-8 million).

Joint ventures have obligations to the Bertelsmann Group from operating leases in the amount of €12 million (previous year: €14 million) and contingent liabilities in the amount of €17 million (previous year: €16 million). As of the end of the reporting period, commitments for RTL Group joint ventures existed in the amount of €38 million (previous year: €54 million). As in the previous year, in the financial year 2016, no expenses were recognized for bad or doubtful debts due from joint ventures.

29 Events After the Reporting Period

At the end of January 2017, BMG fully acquired the American music group BBR Music Group (BBRMG) including established country music labels Broken Bow Records, Stoney Creek Records, Wheelhouse Records, Red Bow Records and the music publisher Magic Mustang Music. Concluding this transaction guarantees BMG a leading role in the capital of country music, Nashville, Tennessee – and provides numerous benefits to the artists and songwriters under contract with BBRMG and BMG. By becoming a part of BMG's global platform, the customers of BBR Music Group will also benefit from a significantly larger international reach. At BMG, the musicians also have access to a wide range of marketing resources. The transaction will be accounted for as a business combination in accordance with IFRS 3. The preliminary purchase price before purchase price adjustments totals €97 million. As a result of the early stage of the preliminary purchase price allocation, it is currently not possible to quantify any adjustments relating to the fair value prior the preparation of Consolidated Financial Statements and to provide any other information required by IFRS 3 on the acquisition of the BBR Music Group.

The British education company Pearson, which holds an interest of 47 percent in Penguin Random House, informed Bertelsmann on February 1, 2017, of its intent to sell its shareholding and submitted an exit notice as required by contract. As of this date, the structured process begins during which Bertelsmann and Pearson will initially work together to determine the market value of Penguin Random House. Bertelsmann then has the option to accept, refuse or not to respond to the exit notice. If Bertelsmann does not accept the exit notice, Pearson can require a recapitalization of Penguin Random House with the intent to force dividend distribution. At this time, the effect on the future assets, liabilities and financial position of the Group cannot be ascertained.

30 Exemption for Subsidiaries from Preparation, Audit and Publication of Financial Statements

The following subsidiaries took advantage of the exemption regulations set out in section 264 (3) of the German Commercial Code (HGB) relating to additional requirements for limited liability companies to prepare annual financial statements and a management report and the requirements for audit of and publication by limited liability companies for the financial year ended December 31, 2016:

Name of the entity	Place
"I 2 I" Musikproduktions- und Musikverlags-gesellschaft mbH	Cologne
Ad Alliance GmbH	Cologne
adality GmbH	Munich
arvato analytics GmbH	Gütersloh
arvato backoffice services Erfurt GmbH	Erfurt
arvato business support GmbH	Gütersloh
arvato CRM Energy GmbH	Leipzig
arvato CRM Healthcare GmbH	Berlin
arvato CRM Nordhorn GmbH	Nordhorn
arvato direct services Brandenburg GmbH	Brandenburg
arvato direct services Cottbus GmbH	Cottbus
arvato direct services Dortmund GmbH	Dortmund
arvato direct services eiweiler GmbH	Heusweiler-Eiweiler
arvato direct services GmbH	Gütersloh
arvato direct services Münster GmbH	Münster
arvato direct services Neubrandenburg GmbH	Neubrandenburg
arvato direct services Potsdam GmbH	Potsdam
arvato direct services Rostock GmbH	Rostock
arvato direct services Schwerin GmbH	Schwerin
arvato direct services Stralsund GmbH	Stralsund
arvato direct services Wilhelmshaven GmbH	Schortens
arvato distribution GmbH	Harsewinkel
arvato eCommerce Beteiligungsgesellschaft mbH	Gütersloh
arvato eCommerce Verwaltungsgesellschaft mbH	Gütersloh
arvato health analytics GmbH	Munich
arvato infoscore GmbH	Baden-Baden
arvato IT support GmbH	Gütersloh
arvato Logistics, Corporate Real Estate & Transport GmbH	Gütersloh
arvato media GmbH	Gütersloh
arvato Payment Solutions GmbH	Verl
arvato SCM Consumer Products GmbH	Gütersloh
arvato services Chemnitz GmbH	Chemnitz
arvato services Cottbus GmbH	Cottbus
arvato services Dresden GmbH	Dresden
arvato services Duisburg GmbH	Duisburg
arvato services Erfurt GmbH	Erfurt
arvato services Essen GmbH	Essen
arvato services Gera GmbH	Gera
arvato services Halle GmbH	Halle (Saale)
arvato services Leipzig GmbH	Leipzig
arvato services Magdeburg GmbH	Magdeburg
arvato services Rostock GmbH	Rostock
arvato services solutions GmbH	Gütersloh
arvato services Suhl GmbH	Suhl

Name of the entity	Place
arvato systems GmbH	Gütersloh
arvato Systems perdata GmbH	Leipzig
arvato Systems S4M GmbH	Cologne
arvato telco services Erfurt GmbH	Erfurt
AVE Gesellschaft für Hörfunkbeteiligungen mbH	Berlin
AZ Direct Beteiligungs GmbH	Gütersloh
AZ Direct GmbH	Gütersloh
BAG Business Information Beteiligungs GmbH	Gütersloh
BAI GmbH	Gütersloh
BDMI GmbH	Gütersloh
BePeople GmbH	Gütersloh
Bertelsmann Accounting Services GmbH	Gütersloh
Bertelsmann Accounting Services Schwerin GmbH	Schwerin
Bertelsmann Aviation GmbH	Gütersloh
Bertelsmann Capital Holding GmbH	Gütersloh
Bertelsmann China Holding GmbH	Gütersloh
Bertelsmann Music Group GmbH	Gütersloh
Bertelsmann Transfer GmbH	Gütersloh
Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung	Gütersloh
BFS finance GmbH	Verl
BFS finance Münster GmbH	Münster
BFS health finance GmbH	Dortmund
BMG RIGHTS MANAGEMENT (Europe) GmbH	Berlin
BMG RIGHTS MANAGEMENT GmbH	Berlin
Campaign Services Neckarsulm GmbH	Neckarsulm
Campaign Services Offenbach GmbH	Frankfurt am Main
Carcert GmbH	Wiesbaden
CBC Cologne Broadcasting Center GmbH	Cologne
COUNTDOWN MEDIA GmbH	Hamburg
Delta Advertising GmbH	Munich
DeutschlandCard GmbH	Munich
Digital Media Hub GmbH	Cologne
direct services Gütersloh GmbH	Gütersloh
DirectSourcing Germany GmbH	Munich
Erste TD Gütersloh GmbH	Gütersloh
Erste WV Gütersloh GmbH	Gütersloh
European SCM Services GmbH	Gütersloh
FremantleMedia International Germany GmbH	Potsdam
GGP Media GmbH	Pößneck
Global Assekuranz Vermittlungsgesellschaft mit beschränkter Haftung	Gütersloh
Gruner + Jahr Communication GmbH	Hamburg
Gruner + Jahr Management GmbH	Hamburg
infoNetwork GmbH	Cologne

Name of the entity	Place
informa HIS GmbH	Wiesbaden
informa Solutions GmbH	Baden-Baden
infoscore Business Support GmbH	Baden-Baden
infoscore Consumer Data GmbH	Baden-Baden
infoscore Finance GmbH	Baden-Baden
infoscore Forderungsmanagement GmbH	Verl
infoscore Portfolio Management International GmbH	Gütersloh
infoscore Profile Tracking GmbH	Gütersloh
infoscore Tracking Solutions GmbH	Gütersloh
infoscore Tracking Technology GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
IP Deutschland GmbH	Cologne
KWS Kontowechsel Service GmbH	Schortens
mbs Nürnberg GmbH	Nuremberg
MEDIASCORE Gesellschaft für Medien- und Kommunikationsforschung mbH	Cologne
Mediengruppe RTL Deutschland GmbH	Cologne
Mohn Media Energy GmbH	Gütersloh
Mohn Media Mohndruck GmbH	Gütersloh
NETLETIX GmbH	Munich
NORDDEICH TV Produktionsgesellschaft mbH	Hürth
Prinovis Ahrensburg Weiterverarbeitung und Logistik GmbH	Hamburg
Prinovis GmbH	Gütersloh
Prinovis Klebebindung GmbH	Nuremberg
PRINOVIS Service GmbH	Hamburg
Print Service Gütersloh GmbH	Gütersloh
Probind Mohn media Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Random House Audio GmbH	Cologne
Reinhard Mohn GmbH	Gütersloh
Relias Learning GmbH	Berlin
rewards arvato services GmbH	Munich
RM Buch und Medien Vertrieb GmbH	Gütersloh
RTL Group Central & Eastern Europe GmbH	Cologne

Name of the entity	Place
RTL Group Deutschland GmbH	Cologne
RTL Group Deutschland Markenverwaltungs GmbH	Cologne
RTL Group Licensing Asia GmbH	Cologne
RTL Hessen GmbH	Frankfurt am Main
RTL interactive GmbH	Cologne
RTL Nord GmbH	Hamburg
RTL Radio Berlin GmbH	Berlin
RTL Radio Center Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
RTL Radio Luxemburg GmbH	Cologne
RTL Radiovermarktung GmbH	Berlin
RTL West GmbH	Cologne
rtv media group GmbH	Nuremberg
Smart Shopping and Saving GmbH	Berlin
Sonopress GmbH	Gütersloh
Sparwelt GmbH	Berlin
SpotX Deutschland GmbH	Cologne
SSB Software Service und Beratung GmbH	Munich
TERRITORY CTR GmbH	Gütersloh
TERRITORY MEDIA GmbH	Munich
UFA Distribution GmbH	Potsdam
UFA Fiction GmbH	Potsdam
UFA Film und Fernseh GmbH	Cologne
UFA GmbH	Potsdam
Ufa Radio-Programmgesellschaft in Bayern mbH	Ismaning
UFA Serial Drama GmbH	Potsdam
Universum Film GmbH	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlegerdienst München GmbH	Gilching
Viasol Reisen GmbH	Berlin
VIVENO Group GmbH	Gütersloh
Vogel Druck und Medienservice GmbH	Höchberg
VOX Holding GmbH	Cologne
webmiles GmbH	Munich

In addition, the exemption regulations set out in section 264b of the German Commercial Code (HGB) were used by the following companies for the financial year ended December 31, 2016:

Name of the entity	Place
"Alwa" Gesellschaft für Vermögensverwaltung mbH & Co. Grundstücksvermietung KG	Schönefeld
11 Freunde Verlag GmbH & Co. KG	Berlin
AVE II Vermögensverwaltungsgesellschaft mbH & Co. KG	Cologne
AZ fundraising services GmbH & Co. KG	Gütersloh
Berliner Presse Vertrieb GmbH & Co. KG	Berlin
DDV Mediengruppe GmbH & Co. KG	Dresden
Deutsche Medien-Manufaktur GmbH & Co. KG	Münster
G+J / Klambt Style-Verlag GmbH & Co. KG	Hamburg

Name of the entity	Place
G+J Food & Living GmbH & Co. KG	Hamburg
G+J Immobilien GmbH & Co. KG	Hamburg
Gruner + Jahr GmbH & Co KG	Hamburg
infoscore Portfolio Management GmbH & Co. KG	Verl
infoscore Portfolio Management II GmbH & Co. KG	Baden-Baden
LV-Publikumsmedien GmbH & Co. KG	Münster
Motor Presse Stuttgart GmbH & Co. KG	Stuttgart
Prinovis GmbH & Co. KG	Hamburg
Sellwell GmbH & Co. KG	Hamburg

The consolidated subsidiary Arvato SCM Ireland Limited in Dublin, Ireland, has used the option offered in section 357 of the “Republic of Ireland Companies Act 2014” for publication requirements for its annual financial statements.

31 Additional Information in accordance with Section 315a of the German Commercial Code (HGB)

Compensation of the Supervisory Board of Bertelsmann SE & Co. KGaA for the financial year 2016 amounted to €1,901,667 plus statutory value-added tax. Members of the Executive Board received total remuneration in the reporting period of €29,098,221, including €16,451,543 from Bertelsmann Management SE. Former members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG and their surviving dependents received compensation of €5,876,338, including €5,498,548 from Bertelsmann SE & Co. KGaA. The provision for pension obligations to former members of the Executive Board of Bertelsmann AG and Bertelsmann Management SE accrued at Bertelsmann SE & Co. KGaA and Bertelsmann Management SE amounts to €81,914,919. The members of the Executive Board and Supervisory Board are listed on pages 133 ff.

The fees for the Group auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft totaled €7 million during the financial year. Thereof, €5 million was due to fees for the audit of the financial statements, and €2 million was due to other audit-related services. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was paid a total of less than €1 million for tax consulting services. Fees for further services also totaled less than €1 million.

The following table shows the number of employees as of December 31, 2016, and on an annual average:

Number of Employees

	Number of employees (closing date)	Number of employees (average)
RTL Group	13,150	13,015
Penguin Random House	10,594	10,524
Gruner + Jahr	10,877	10,968
BMG	597	576
Arvato	68,463	67,546
Bertelsmann Printing Group	8,138	8,216
Bertelsmann Education Group	1,488	1,515
Bertelsmann Investments	28	26
Corporate	3,099	3,101
Total	116,434	115,487

32 Proposal for the Appropriation of Net Retained Profits

The personally liable partner Bertelsmann Management SE and the Supervisory Board of Bertelsmann SE & Co. KGaA will propose to the General Meeting that the remaining net retained profits of Bertelsmann SE & Co. KGaA of €642 million be appropriated as follows:

Net Retained Profits for Bertelsmann SE & Co. KGaA

in € millions	
Retained earnings	642
Dividends to shareholders	(180)
Carry forward to new financial year	462

The dividend per ordinary share thus totals €2,149.