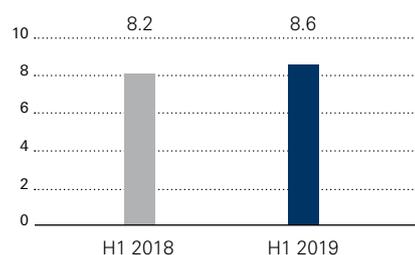


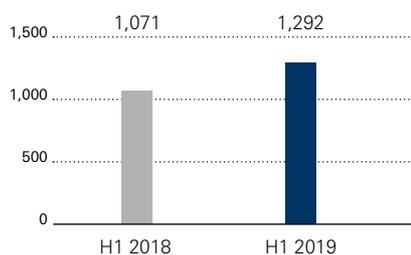
# Group Interim Management Report

In the first half of 2019, Bertelsmann reported a successful business performance with improved organic growth and a high operating profit. Group revenues rose 4.6 percent to €8.6 billion (H1 2018: €8.2 billion) driven by organic growth of 3.2 percent. In addition to the book publishing business, the Group's strategic growth platforms were the main contributors to this, especially Fremantle, the digital businesses of RTL Group, BMG, Arvato Supply Chain Solutions and the Bertelsmann Education Group. Operating EBITDA increased to €1,292 million (H1 2018: €1,071 million). In addition to the positive business performance, the significant increase is also attributable to the first-time application of the new financial reporting standard IFRS 16 Leases. The EBITDA margin increased to 15.0 percent (H1 2018: 13.0 percent). At €502 million, Group profit once again exceeded half a billion euros (H1 2018: €501 million). For 2019, Bertelsmann anticipates continued positive business performance.

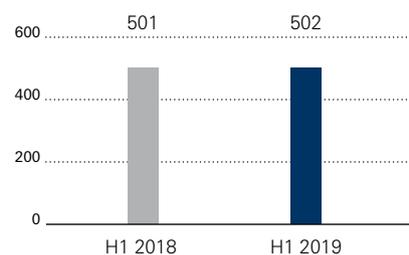
**Revenues** in € billions



**Operating EBITDA** in € millions



**Group Profit** in € millions



- Revenue growth of 4.6 percent, improved organic growth of 3.2 percent
- Continued expansion of growth businesses with strong organic revenue growth

- Increase in operating EBITDA to €1,292 million, attributable in part to new financial reporting standard, on a comparable basis above the high prior-year level
- EBITDA margin of 15.0 percent compared to 13.0 percent during the same period last year

- Group profit exceeds high level of the same period last year
- Negative impact from special items and higher other financial expenses in the financial result

## Fundamental Information about the Group

### Corporate Profile

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

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

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

### Strategy

Bertelsmann aims to achieve a fast-growing, digital, international and diversified Group portfolio. The Group strategy comprises four strategic priorities: strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions.

In the first half of 2019, Bertelsmann once again made considerable progress in implementing its strategy. The core businesses were further strengthened, for instance, by new original productions at RTL Group and the upcoming addition of the children's television channel Gulli to the family of channels in France. Penguin Random House continued to expand the book publishing business through organic growth and acquisitions, including the acquisition of the British children's book publishing company Little Tiger Group

and creative successes such as Michelle Obama's memoir "Becoming." At the beginning of the year, Bertelsmann and the Saham Group completed the merger of their global CRM businesses under a newly formed company, Majorel. The global print businesses of Bertelsmann Printing Group were restructured both organizationally and in terms of staffing to further reinforce collaboration among the individual printing companies and to achieve gains in both efficiency and effectiveness. As yet another strategic focus, there were efforts to establish collaborations in the Bertelsmann Group, particularly by founding Bertelsmann Content Alliance in Germany. The continued digital transformation was furthered through the continual expansion of the digital businesses. RTL Group increased the number of users of its video-on-demand platforms in Germany and the Netherlands by 46.2 percent to 1.2 million paying subscribers within the year. The digital business of Gruner + Jahr performed well overall, particularly the app discovery platform AppLike. The growth platforms were expanded further and recorded strong organic growth, particularly Fremantle. BMG expanded its presence in Asia by opening a branch in Hong Kong. In April, contracts were signed with Richard Marx and the Berlin-based band Seeed, among others. In the online education segment, Relias continued to expand its customer base and integrated the healthcare division of OnCourse Learning, a company acquired last year. The online learning platform Udacity also initiated new Nanodegree programs in the field of data engineering. The company's presence in the growth regions was also expanded. Of the investments held by Bertelsmann Investments, more than 110 are active in China, while the remainder of the focus is on the strategic growth regions of India and Brazil. In July 2019, Brazil-based Afya Education, a medical education and training provider, made its debut on the Nasdaq Stock Market, a stock exchange based in New York. Bertelsmann holds an indirect interest in Afya through its investment fund Bertelsmann Brazil Investments (BBI).

### Value-Oriented Management System

Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability with efficient capital investment at the same time. 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. Broadly defined performance indicators are applied separately. These include the EBITDA margin and the cash conversion rate. Some of the key performance indicators are

determined on the basis of so-called Alternative Performance Measures, which are not defined under International Financial Reporting Standards (IFRS). These should not be considered in isolation but as complementary information for evaluating Bertelsmann's business performance. For detailed information on this, please refer to the "Alternative Performance Measures" section in the 2018 Combined Management Report.

Revenues as a growth indicator of the businesses increased in the first half of 2019 by 4.6 percent to €8,612 million (H1 2018: €8,237 million). Organic growth improved to 3.2 percent. Operating EBITDA is determined as earnings before interest, tax, depreciation, amortization and impairment losses, and is adjusted for special items. The adjustment for special items serves to determine a sustainable operating result that could be repeated under normal economic circumstances, which is not affected by special factors or structural distortions. These special items primarily include impairment losses and reversals of impairment losses, fair value measurement of investments, restructuring expenses and/or results from disposals of investments. This means that operating EBITDA is a meaningful performance indicator. During the reporting period, operating EBITDA increased by 20.6 percent to €1,292 million (H1 2018: €1,071 million).

The central performance indicator for assessing the profitability from operations and return on invested capital is BVA. BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value orientation is reflected in strategic investment, portfolio planning and the management of Group operations and, together with qualitative criteria, provides the basis for measuring the variable portion of management remuneration. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. Operating EBIT is the result of deducting amortization, depreciation, impairment losses and reversals of impairment losses on intangible assets, property, plant and equipment, and right-of-use assets totaling €449 million (H1 2018: €310 million), which were not included in special items. A flat tax rate of 33 percent was assumed in order to calculate NOPAT of €565 million (H1 2018: €510 million), which is used to calculate BVA. Cost of capital is the product of the average level of capital invested on a pro rata basis and the weighted average cost of capital (WACC). The average level of capital invested on a pro rata basis totaled €16.2 billion as of June 30, 2019 (H1 2018: €15.0 billion). The uniform WACC after taxes is 8 percent, resulting in cost of capital

of €646 million (H1 2018: €600 million) in the half-year reporting period. The average invested capital is calculated quarterly on the basis of the Group's operating assets less non-interest-bearing operating liabilities. Upon the adoption of the new financial reporting standard IFRS 16, the right-of-use assets from leases, which had previously been recorded as the present value of the operating lease, have been included on the balance sheet since the financial year 2019 and are thus considered part of invested capital. The Bertelsmann Investments division is not taken into account when determining BVA. In the first half of 2019, BVA amounted to €-46 million (H1 2018: €-63 million).

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

## Report on Economic Position

### Corporate Environment

#### Overall Economic Developments

Global economic growth continued in the first half of 2019 but is proving to be increasingly fragile. In particular, pressures stem from global uncertainty concerning a potential further escalation in the trade dispute between the United States and China as well as a possible spread of the conflict to the trade relationships with the European Union.

According to Eurostat, the statistical office of the European Union, real gross domestic product (GDP) in the eurozone increased by 0.4 percent in the first quarter of 2019 compared to the previous quarter. According to initial estimates, growth of 0.2 percent is expected for the second quarter of 2019.

Economic growth in Germany slowed in the first half of 2019. Real GDP rose by 0.4 percent in the first quarter of 2019 compared to the previous quarter. According to the initial calculations of the German Federal Statistical Office, real GDP fell by 0.1 percent in the second quarter of 2019.

The economy of France managed to maintain its moderate growth rate. According to INSEE, the French National

Institute of Statistics and Economic Studies, real GDP rose by 0.3 percent in the first quarter of 2019 and by 0.2 percent in the second quarter of 2019.

Ongoing uncertainty in regard to the planned exit from the European Union continues to impact the economy in the United Kingdom. Real GDP rose by 0.5 percent in the first quarter and fell by 0.2 percent in the second quarter of 2019.

The growth trend in the United States continued. Real GDP rose in the first quarter of 2019 at an annualized rate of 3.1 percent. In the second quarter of 2019, real GDP increased by an annualized rate of 2.1 percent, according to initial calculations by the Bureau of Economic Analysis.

To date, overall economic development in some regions remains below the trend anticipated for the current year yet as a whole is still within the range of expectations expressed in the 2018 Combined Management Report.

### Developments in Relevant Markets

The European TV advertising markets experienced mixed growth in the first six months of 2019. While the TV advertising market in Germany recorded a moderate decline, the TV advertising markets decreased significantly in Spain and sharply in Belgium. In contrast, TV advertising markets in France remained stable and improved slightly in the Netherlands and Hungary.

In the first six months of 2019, the markets for printed books achieved moderate growth in the United States and the United Kingdom, and slight growth in Germany and the Spanish-speaking market. Publisher sales of e-books declined moderately in the United States and significantly in the United Kingdom. The market for audiobooks continued to grow strongly in the United States and the United Kingdom.

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

The global music publishing markets achieved moderate growth, while the global recorded-music markets experienced significant growth driven by the continued growth of the digital streaming market.

The service markets relevant to Arvato showed moderate to significant growth in the first half of 2019.

The relevant gravure print markets in Germany, France and the United Kingdom declined sharply in the first six months of 2019, and the corresponding offset markets showed a moderate decline. The North American book printing market showed a moderate decline over the same period.

The education markets in the United States grew strongly in the first half of 2019 in the market segments where Bertelsmann is involved: e-learning in the healthcare and technology sectors and higher education in the university and services sectors.

So far, the developments in the relevant markets are mainly within the current-year trend anticipated in the 2018 Combined Management Report.

## Significant Events in the Current Financial Year

Effective January 4, 2019, all worldwide Customer Relationship Management businesses at Bertelsmann and the Saham Group in Morocco were merged. Each partner holds 50 percent of the shares in the new company Majorel, controlled by Bertelsmann. Majorel is a consolidated Bertelsmann Group company.

Kasper Rorsted, CEO of adidas AG, resigned from the Supervisory Board of Bertelsmann effective March 31, 2019. The Bertelsmann General Meeting will make a decision on his successor in due course.

As of April 1, 2019, Penguin Random House acquired the British children's publishing company Little Tiger Group, thus expanding its position in the English-language children's and young adult book segment.

The RTL Group Board of Directors appointed Thomas Rabe as Chief Executive Officer of the RTL Group effective April 1, 2019. In addition, Thomas Rabe will remain Chairman and Chief Executive Officer of Bertelsmann.

Mediengruppe RTL Deutschland completed the sale of its subsidiary Universum Film to the investor KKR in April 2019.

As part of a strategic realignment of its print businesses, Bertelsmann resolved to close the Prinovis site in Nuremberg as of April 30, 2021. The objective of this is to significantly reduce the massive overcapacity in gravure printing in order to offset advancing price erosion in the gravure printing line of business.

In May and June 2019, the business units belonging to OnCourse Learning for the financial services and real estate divisions were sold separately to investors. The OnCourse Learning online training division for healthcare was integrated into Bertelsmann Education subsidiary Relias.

## Results of Operations

### Revenue Development

Group revenues increased in the first half of 2019 by 4.6 percent to €8,612 million (H1 2018: €8,237 million). Adjusted for exchange rate effects of 1.5 percent (H1 2018: -3.1 percent) and portfolio and other effects of -0.1 percent (H1 2018: 2.0 percent), organic revenue growth improved to 3.2 percent (H1 2018: 2.4 percent).

RTL Group achieved higher revenues in the first half of 2019 mainly due to the positive performance at Fremantle and the growing digital business. Penguin Random House reported strong revenue growth driven by successful bestsellers, high growth rates in audio formats and acquisitions. At Gruner + Jahr, revenues fell compared with the same period in the previous year, primarily due to continuing portfolio measures. In contrast, the revenues from digital businesses continued to grow. Revenues at BMG increased as a result of continued organic business expansion. Arvato achieved revenue growth through its successful business performance, particularly in Supply Chain Solutions. For the most part, Bertelsmann Printing Group revenue remained stable in a challenging market environment. Revenue at the Bertelsmann Education Group increased mainly due to the organic and acquisitive growth of the online education provider Relias. The investments of Bertelsmann Investments are generally not consolidated, so revenue is not usually reported for this division.

Viewed over a rolling 12-month period, the revenue share generated by the growth businesses increased to 35 percent overall (H1 2018: 32 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses remained stable at 4 percent (H1 2018: 4 percent). The growth businesses comprise those activities for which continuous revenue increases are expected due to sustained positive market factors and which have been identified under the Group strategy as growth priorities.

There were minor changes in the geographical breakdown of revenues compared to the same period last year. The revenue share in Germany amounted to 33.0 percent compared to 34.5 percent in the first half of 2018. The revenue share generated by businesses in France amounted to 12.4 percent (H1 2018: 13.6 percent). In the United Kingdom, the revenue share was 6.4 percent (H1 2018: 6.1 percent), while the other European countries achieved a revenue share of 18.4 percent (H1 2018: 18.8 percent). The share of total revenues generated in the United States rose to 23.5 percent (H1 2018: 20.8 percent); other countries accounted for a share of 6.3 percent (H1 2018: 6.2 percent). Overall, the total share of revenues represented by foreign business amounted to 67.0 percent (H1 2018: 65.5 percent). The ratio of the four revenue streams (own products and merchandise, advertising, services, and rights and licenses) to one another remained mostly unchanged compared to the first half of 2018.

### Operating EBITDA

During the reporting period, operating EBITDA increased by 20.6 percent to €1,292 million (H1 2018: €1,071 million). In addition to the positive business performance, the significant increase is also attributable to the new financial reporting standard IFRS 16 Leases. In connection with the first-time application of IFRS 16, expenses from leases will generally no longer be reported in operating profit (further details are presented in the notes to the Consolidated Financial Statements in the section "Impact of New Financial Reporting Standards"). The earnings performance of all divisions benefited from this, particularly Arvato, RTL Group and Penguin Random House. The EBITDA margin increased to 15.0 percent compared with 13.0 percent in the same period last year. The operating EBITDA of RTL Group increased compared to the same period last year. The increase was attributable in particular to improved earnings at Fremantle and the French Groupe M6 and was sufficient to more than offset the higher programming costs of Mediengruppe RTL Deutschland and higher investments in video-on-demand services. Penguin Random House generated significant earnings growth driven by ongoing strong bestseller performance. Despite lower revenues, operating EBITDA at Gruner + Jahr improved. Operating EBITDA at BMG improved as a result of the continued organic expansion of business.

## Operating EBITDA

in € millions	H1 2019	H1 2018
EBIT (earnings before interest and taxes)	824	769
Amortization/depreciation, impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment, and right-of-use assets	461	311
Adjustments on amortization/depreciation, impairment losses and reversals of impairment losses on intangible assets and property, plant and equipment, and right-of-use assets included in special items	(12)	(1)
Special items	19	(8)
attributable to: RTL Group	(69)	–
attributable to: Penguin Random House	9	3
attributable to: Gruner + Jahr	19	6
attributable to: BMG	5	6
attributable to: Arvato	3	8
attributable to: Bertelsmann Printing Group	77	1
attributable to: Bertelsmann Education Group	(31)	9
attributable to: Bertelsmann Investments	7	(46)
attributable to: Corporate	(1)	5
Operating EBITDA	1,292	1,071

Operating EBITDA at Arvato saw a significant increase as a result of the first-time application of IFRS 16 and positive business performance of Supply Chain Solutions. Despite decreasing volumes and persistent price pressure, earnings at the Bertelsmann Printing Group remained stable at the level of the previous year. Operating EBITDA at the Bertelsmann Education Group improved compared to the same period in the previous year, particularly due to Relias. The investments of Bertelsmann Investments are generally not consolidated, so operating earnings are not usually reported for this division.

### Special Items

Special items totaled €-19 million (H1 2018: €8 million). They consisted of reversals of impairment losses on other financial assets carried at amortized cost totaling €8 million (H1 2018: impairment losses of €-1 million), adjustments of carrying amounts of assets held for sale of €-7 million (H1 2018: €-3 million), results from disposals of investments of €76 million (H1 2018: €19 million), fair value measurement of investments of €9 million (H1 2018: €44 million), restructuring expenses and other special items totaling €-105 million

(H1 2018: €-49 million). In the first half of 2019, the special items included no impairment losses or reversals of impairment losses on investments accounted for using the equity method after €-2 million in the same period last year. The increase in restructuring expenses is primarily attributable to the realignment of the print businesses.

### EBIT

After adjusting operating EBITDA for special items totaling €-19 million (H1 2018: €8 million) and the amortization, depreciation, impairment losses and reversals of impairment losses on intangible assets, property, plant and equipment, and right-of-use assets totaling €-449 million (H1 2018: €-310 million), which were not included in special items, EBIT amounted to €824 million in the reporting period (H1 2018: €769 million). In addition to the effect of business performance, the increase in depreciation, amortization, impairment losses and reversals of impairment losses not included in the special items is attributable to the first-time application of IFRS 16 (further details are presented in the notes to the Consolidated Financial Statements in the section “Impact of New Financial Reporting Standards”).

## Group Profit

The financial result was €-168 million (H1 2018: €-106 million). The deviation is primarily attributable to the market valuation of derivatives entered into in order to hedge intercompany transactions as well as due to the first-time inclusion of compounding effects of leasing liabilities as part of the introduction of IFRS 16. The tax expense was €-154 million compared to €-162 million in the same period last year. Earnings after taxes from continuing operations thus amounted to €502 million (H1 2018: €501 million). Since no companies are classified as discontinued operations, Group profit also amounted to €502 million (H1 2018: €501 million). The share of Group profit held by Bertelsmann shareholders was €325 million (H1 2018: €349 million). The non-controlling interests in Group profit came to €177 million (H1 2018: €152 million).

## Net Assets and Financial Position

### Financing Guidelines

Bertelsmann's overall financial policy target is to ensure a balanced relationship of financing security, return on equity and growth. For this purpose, Bertelsmann bases its financing policy on the requirements of a "Baa1/BBB+" credit rating and the associated qualitative and quantitative criteria. Credit ratings and capital market transparency make a considerable contribution to the company's financial security and independence.

In accordance with the Group structure, the capital allocation is made centrally by Bertelsmann SE & Co. KGaA, which provides the Group companies with liquidity and manages the issuance of guarantees and letters of comfort for them. The Group uses this method to optimize its capital procurement and investment opportunities.

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and – to a lesser extent – its capital structure. One key financial target is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA over a 12-month period and limited to the defined long-term maximum of 2.5. As of June 30, 2019, operating EBITDA (12 months) amounted

to €2,644 million. Economic debt is defined as net financial debt less 50 percent of the nominal capital of the hybrid bonds amounting to €625 million (December 31, 2018: €625 million) plus provisions for pensions amounting to €1,995 million (December 31, 2018: €1,738 million), profit participation capital amounting to €413 million (December 31, 2018: €413 million) and lease liabilities amounting to €1,299 million (December 31, 2018: €1,161 million). As of June 30, 2019, economic debt was €7,065 million (December 31, 2018: €6,619 million). The increase is primarily attributable to higher pension provisions resulting from a lower discount rate and the increase in lease liabilities. In determining the leverage factor, the economic debt and the 12-month operating EBITDA are modified to enable financial management that corresponds to the Group's structure. For the purpose of this calculation, economic debt was therefore increased by €250 million (December 31, 2018: €136 million), and operating EBITDA decreased by €-294 million (December 31, 2018: €-108 million). This results in a leverage factor of 2.8 as of June 30, 2019 (December 31, 2018: 2.7).

Net financial debt increased slightly to €3,983 million compared to €3,932 million as of December 31, 2018. The increase is attributable, among other things, to dividend payments to shareholders and non-controlling interests, most of which were made during the first half of the year. Proceeds from sales resulting from portfolio measures had an offsetting effect.

### Financing Activities

A promissory note for €150 million due in February 2019 and a promissory note for €60 million due in May 2019 were repaid in the reporting period. Additionally, the syndicated loan with 15 banks previously maturing in 2021 was renewed early in July 2019. This forms the backbone of the strategic credit reserve; Bertelsmann can utilize this with a term until 2024 to draw up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling.

### Rating

Bertelsmann is rated by Moody's as "Baa1" (outlook: stable) and by S&P as "BBB+" (outlook: stable). Both credit ratings are in the investment-grade category and meet Bertelsmann's target rating. Bertelsmann's short-term credit quality rating is "P-2" from Moody's and "A-2" from S&P.

## Consolidated Cash Flow Statement (Summary)

in € millions	H1 2019	H1 2018
Cash flow from operating activities	568	309
Cash flow from investing activities	(107)	(354)
Cash flow from financing activities	(601)	(459)
Change in cash and cash equivalents	(140)	(504)
Exchange rate effects and other changes in cash and cash equivalents	(5)	9
Cash and cash equivalents on 1/1	1,405	1,442
Cash and cash equivalents 6/30	1,260	947
Less cash and cash equivalents included within assets held for sale	(29)	-
Cash and cash equivalents 6/30 (according to the consolidated balance sheet)	1,231	947

### Cash Flow Statement

In the reporting period, Bertelsmann generated cash flow from operating activities of €568 million (H1 2018: €309 million). The cash flow from investing activities was €-107 million compared to €-354 million in the same period last year. Among other things, the difference is due to higher proceeds from the sale of subsidiaries. The cash flow from financing activities was €-601 million (H1 2018: €-459 million). Cash and cash equivalents fell to €1,231 million as of June 30, 2019 (December 31, 2018: €1,405 million). In light of the first-time application of the new IFRS 16, operating cash flow improved, while lease payments burdened the cash flow from financing activities (further details are presented in the notes to the Consolidated Financial Statements in the section “Impact of New Financial Reporting Standards”).

### Investments

According to the cash flow statement, investments in the first half of 2019 amounted to €578 million (H1 2018: €476 million). Investments in intangible assets came to €141 million (H1 2018: €145 million) and were attributable primarily to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. As in the same period last year, the majority of investments in property, plant and equipment, totaling €155 million (H1 2018: €143 million), was attributable to Arvato. The sum of €189 million was invested in financial assets (H1 2018: €120 million).

Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €93 million in the reporting period (H1 2018: €68 million). In particular, these include the acquisitions of Penguin Random House, such as the British children’s book publishing company Little Tiger Group. Proceeds from the sale of subsidiaries and other business units were €217 million (H1 2018: €11 million) and are related to the sale of Universum Film, among others.

### Balance Sheet

Total assets came to €26.2 billion as of June 30, 2019 (December 31, 2018: €25.3 billion). The increase in total assets resulted primarily from the first-time application of IFRS 16 (further details are presented in the notes to the Consolidated Financial Statements in the section “Impact of New Financial Reporting Standards”). Pension provisions increased to €2.0 billion (December 31, 2018: €1.7 billion) as a result of lower discount rates. Equity amounted to €9.9 billion compared to €9.8 billion as of December 31, 2018. This resulted in an equity ratio of 37.6 percent (December 31, 2018: 38.8 percent). Cash and cash equivalents decreased to €1,231 million as of June 30, 2019, from €1,405 million as of December 31, 2018.

### Employees

As of June 30, 2019, Bertelsmann had 125,931 employees worldwide.

## Performance of the Group Divisions

### RTL Group

RTL Group increased its revenues to a new record level in the first half of 2019; operating EBITDA also reached a higher level despite increased investments in programming and video-on-demand (VOD) services. Group revenues increased by 4.2 percent to €3.2 billion (H1 2018: €3.0 billion) driven by growth of Fremantle's production business and the digital businesses, the revenues of which increased by 21.0 percent to €513 million (H1 2018: €424 million). At €665 million, operating EBITDA was up 3.4 percent from the previous year's figure of €643 million. Improved profit contributions at Fremantle and the French Groupe M6 as well as positive effects from the first-time application of a new accounting standard largely compensated for increased program costs at Mediengruppe RTL Deutschland.

RTL Group recorded 1.2 million paying subscribers for its VOD services TV Now in Germany and Videoland in the Netherlands at the end of the first half of the year; this corresponds to a year-on-year increase of 46.2 percent. The two services thus made a tangible contribution to revenue growth. Declining TV advertising revenues at Mediengruppe RTL Deutschland and RTL Nederland were partially compensated for by the higher VOD revenues, as well as increased distribution revenues. In France, Groupe M6 recorded a slight increase in TV advertising revenues.

In Germany, Mediengruppe RTL's TV channels increased their average audience share in the primary target group, while in France Groupe M6 maintained its audience share in its primary target group at the previous year's level. In the Netherlands, the audience share of RTL Nederland's family of channels decreased slightly.

Fremantle, the group's content arm, showed strong growth in the reporting period. Revenues and operating EBITDA increased thanks to successful shows and scripted drama productions in the United States and good business at UFA in Germany.

Since April 2019, RTL Group has been led by Thomas Rabe, who took on his new role in addition to his duties as Chairman and CEO of Bertelsmann.

### Penguin Random House

Penguin Random House had a strong first half of 2019, in which the trade publishing group increased its sales, earnings and market share in key markets. Including

Verlagsgruppe Random House, which is wholly owned by Bertelsmann, revenues amounted to €1.7 billion (H1 2018: €1.5 billion). This 11.3 percent increase is mainly attributable to strong bestsellers, high growth rates in audio formats, and acquisitions. Operating EBITDA rose by 33 percent, from €171 million in the prior-year period to €227 million.

The first half of the year was dominated by strong bestseller performance, led by "Becoming," the autobiography of former US First Lady Michelle Obama. After selling seven million copies in 2018, "Becoming" sold more than 2.8 million copies with Penguin Random House-related companies between January and June 2019. With the editions licensed and coordinated by Penguin Random House in 45 languages across all formats, worldwide sales of the book since its release total more than 11.5 million copies.

The novel "Where the Crawdads Sing" by Delia Owens sold more than two million copies in print, audio and e-book formats, while "The Mister" by E L James was a number-one "New York Times" bestseller for multiple weeks. In all, Penguin Random House placed 191 titles on the "New York Times" bestseller lists in the first half of the year, with 21 of them making it to number one (H1 2018: 178/25). In the United Kingdom, 46 percent of all titles on the "Sunday Times" bestseller lists were published by Penguin Random House UK imprints (H1 2018: 41 percent) and in Germany, Verlagsgruppe Random House placed 261 titles on the "Spiegel" bestseller lists, including 13 at number one (H1 2018: 251/11).

Penguin Random House acquired the British children's book publisher Little Tiger Group, as well as a stake in the innovative US publisher Sourcebooks. Penguin Random House Grupo Editorial expanded its leading position in the Spanish-language market with the acquisition of the Ediciones Salamandra publishing group. Penguin Random House continued to invest in developing its direct reader relationships through e-mail, social media, podcasts, websites and creative campaigns.

### Gruner + Jahr

The publishing subsidiary Gruner + Jahr had a successful first half of 2019, during which it grew its operating EBITDA by 21 percent to €62 million (H1 2018: €51 million). The 3 percent decline in revenues to €677 million (H1 2018: €701 million) was due among other things to continued

portfolio measures, especially the sale of Ligatus. The digital business further increased its revenues and earnings.

In Germany, G+J recorded a stable revenue performance with a strong increase in earnings. This was primarily due to the business's successful transformation: renewed digital growth, strong expansion of the brand extension business and successful print innovations more than compensated for the declines in the print advertising business and newsstand sales.

G+J France also increased its earnings, partly thanks to the digital advertising business of its branded sites. The business with web videos saw a particularly strong development. Prisma Media continues to be the leading digital publisher in France.

The digital business in the core markets of Germany and France once again grew strongly with 25 percent growth in the first half of 2019. The digital share of revenues rose to 34 percent. The digital offerings of the traditional magazine brands in both countries also recorded continued growth. AppLike posted strong revenues and earnings growth.

DDV Mediengruppe was able to increase revenues slightly, but its earnings remained below the previous year's levels.

## **BMG**

Bertelsmann's music subsidiary BMG continued its dynamic growth in the first half of 2019, with double-digit increases in revenue and operating EBITDA. Revenues were up by 11.4 percent year on year to €269 million (H1 2018: €241 million), driven primarily by organic growth. Operating EBITDA, meanwhile, increased by 16.7 percent to €49 million (H1 2018: €42 million). The fastest growth came from BMG's recordings business; the publishing business also increased revenues strongly. The share of total revenues attributable to digital formats increased to 56 percent (H1 2018: 54 percent), reflecting continuing growth in the digital streaming market.

In BMG's recordings business, the first half of 2019 saw successful releases by artists including Keith Richards, Kylie Minogue, Lil Dicky, Avril Lavigne, Dido, The Cranberries, AJR and Adel Tawil, as well as number-one albums by Jack Savoretti (UK) and Kontra K (DE). New record contracts were signed with The Shires, Seeed, the Zac Brown Band, Sugar Ray and Richard Marx.

In the music publishing segment, successes included Lewis Capaldi, whose worldwide hit "Someone You Love" has sold over three million copies, and Juice WRLD, who scored

his first US number-one album. In February, BMG songwriters were behind a record 24 number-one hits across the Billboard charts. New publishing agreements were signed with Cage the Elephant, AnnenMayKantereit and Jason Duke.

Major transactions during the first half of the year included an extension of the company's relationship with Black Sabbath, the launch of the new Trojan Jamaica label and an extension of BMG's global music publishing partnership with Latin music label DEL Records. BMG launched its 15th international office, in Hong Kong, to further strengthen its footprint in the Asian market.

## **Arvato**

Arvato's service businesses performed well in the first half of 2019. Arvato was able to increase both revenues and operating profit. Revenues grew by 2.4 percent to €2.0 billion (H1 2018: €2.0 billion) and operating EBITDA increased by 50 percent to €263 million (H1 2018: €175 million).

On January 4, 2019, Bertelsmann and the Saham Group completed the combination of their global CRM businesses. The two partners each own a 50 percent stake in the new company, which trades globally as Majorel and is fully consolidated at Bertelsmann. The business developed according to plan in the first half of 2019, and the international service center organization was strengthened by the opening of two locations in Georgia (Tbilisi and Kutaisi), among other things.

The logistics services businesses within Arvato Supply Chain Solutions saw strong and profitable growth in the reporting period. The business activities in the fashion e-commerce, healthcare and high-tech segments in particular contributed to this positive performance. In addition, the existing global network of locations was further expanded by commissioning new distribution centers and expanding existing ones in Germany, Poland and Hong Kong, among other places.

Likewise, Arvato Financial Solutions' businesses once again showed a slightly positive development in the period under review. Revenues and operating profit were up year on year. This development was supported above all by a good business performance, particularly in the area of receivables management in the Germany, Austria and Switzerland region. In March 2019, a comprehensive purchase-on-account solution was successfully implemented for the customers of a leading international e-commerce marketplace.

The IT service provider Arvato Systems grew organically and profitably in the reporting period. This positive performance was

fueled in particular by its serialization solutions in the health-care sector, which were implemented in various European countries. In addition, the company recorded increasing demand for cloud-based solutions, and was commissioned by Germany's Gematik to operate the central telematics infrastructure for the electronic health card for another eight years.

### **Bertelsmann Printing Group**

In the first six months of 2019, the Bertelsmann Printing Group (BPG), the printing services provider with operations primarily in Europe and the United States, recorded revenues that were close to the level of the prior-year period, and a slight improvement in operating profit. Group revenues dipped by 0.3 percent year on year to €766 million (H1 2018: €768 million). Operating EBITDA amounted to €30 million (H1 2018: €28 million).

In April 2019, Bertelsmann reorganized the structure and staff of the global printing businesses pooled in BPG. Dirk Kemmerer has since been responsible for the Group's business operations. At the same time, it was announced that gravure printing production capacities would be significantly reduced by the planned closure of the Prinovis site in Nuremberg in spring 2021.

All of the Group's business activities in Germany, Austria and Switzerland have been combined in the BPG DACH regional organization since April of this year. The printing businesses in this division recorded a decline in revenues and operating profit in the first six months of the year. Europe's leading offset printer, Mohn Media, was down year on year due to lower capacity utilization in the catalog and book business. Prinovis Germany's performance continued to decline in the reporting period due to continued difficult market conditions.

GGP Media, which specializes in print solutions for book publishers, and Vogel Druck, which specializes in small- to medium-print-run periodicals and catalogs, were able to maintain their revenues and earnings levels.

The direct-marketing businesses bundled in BPG recorded an overall positive revenues and earnings performance. This applies to Dialog's multi-channel marketing businesses, Campaign's campaign management services and the DeutschlandCard multi-partner rewards program.

The Group's printing activities in Britain developed as planned at a good earnings level. The first offset printing press was put into operation at the Liverpool site in the spring. The printing

businesses in the United States increased their revenues and operating profit in the first half of 2019. The reasons for this positive performance were additional volumes from strategic customers in the book and healthcare sectors.

Revenues in storage media replication performed better than planned against the backdrop of a declining market, but declined as expected. Another major customer was acquired in the United States, and the collaboration with a major music company was expanded in Europe.

### **Bertelsmann Education Group**

The Group's businesses pooled in the Bertelsmann Education Group continued to record high demand for online educational offerings. As a result, the Group's revenues and operating result once again increased markedly.

Together, Bertelsmann's education businesses grew their revenues by 51.3 percent to €168 million in the reporting period (H1 2018: €111 million). The online education provider Relias in particular saw significant growth. Bertelsmann Education Group's operating EBITDA improved to €41 million (H1 2018: €10 million).

Relias achieved considerable growth, both organic and through acquisitions, during the period under review. The Bertelsmann subsidiary expanded its customer base to more than 11,150 institutions and integrated the healthcare education division of OnCourse Learning. OnCourse's other two divisions acquired in 2018 – educational offerings for the financial services and real estate sectors – were sold separately in the first half of the year.

The online learning platform Udacity further developed its range of courses and launched new Nanodegree programs, including in the field of data engineering. In particular, Udacity expanded its B2B business, including with Audi and Mercedes-Benz. Bertelsmann owns a significant stake in the Silicon Valley company.

At HotChalk's major partner university, the number of online students enrolled in courses run by the US university services provider developed positively.

Alliant International University, which specializes in psychology and education, recorded an increase in revenues and earnings as well as in the number of students during the reporting period. Here, too, the online business was expanded.

## Bertelsmann Investments

Bertelsmann Investments made 42 new and follow-on investments in the reporting period, primarily through the four funds that comprise the division: Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI). At the same time, it achieved several exits, so that Bertelsmann Investments held a total of 208 shareholdings on June 30, 2019.

Since the launch of the first fund, BDMI, Bertelsmann has invested around €1 billion in young digital companies and funds. The financial returns in the same period have amounted to more than €600 million.

Bertelsmann Investments' business performance is essentially measured based on EBIT, which was €-9 million in the first half of 2019 (H1 2018: €45 million). This decline is mainly attributable to lower market valuations of some of BAI's publicly traded holdings.

BAI made 23 new and follow-on investments in the reporting period. Several investments were made in the e-commerce sector, including the platform Club Factory, and in education. BAI also completed several successful exits, including the sale of all shares in the tech company Bigo.

In Brazil, Bertelsmann Investments made further investments in the education sector via BBI, and acquired full ownership of Afferolab, a corporate training provider. BBI also supported the preparations for the Brazilian education group Afya's successful IPO in July 2019. Bertelsmann owns a stake in Afya via a fund participation with its partner Crescera Investimentos.

BII supported its portfolio companies in the further expansion of their businesses, and invested in AgroStar, an online platform for the agricultural sector in India.

BDMI made 16 new and follow-on investments, including in FloSports, which specializes in live broadcasts of sports events, and the fundraising startup Omaze.

In the period under review, Bertelsmann Investments committed capital to the Partech Africa fund, which invests in African startup companies in the tech sector. The division's footprint in Europe was strengthened with a stake in the London-based venture capital fund Blossom Capital, which

invests primarily in European companies from the financial services, cybersecurity and infrastructure sectors.

## Significant Events after the Balance Sheet Date

In July 2019, antitrust authorities approved the acquisition of TV activities of the Lagardère Group announced at the beginning of the year. As one effect of this transaction, Groupe M6, which belongs to RTL Group, will expand its family of channels with the market leader in French children's television, Gulli. The transaction is expected to close in early September 2019.

In June 2019, Gruner + Jahr announced that it would sell its interest in Motor Presse Stuttgart to the successors to the founding family Pietsch, Patricia Scholten and Peter-Paul Pietsch. The responsible authority approved the sale in July 2019.

French media regulatory and competition authorities granted their approvals of the common online video platform in July and August 2019. The groups France Télévisions, TF1 and Groupe M6, which belongs to RTL Group, will bundle their entire range of online video services on the Salto platform planned for the first quarter of 2020 and make it available to users under a subscription model.

## Risks and Opportunities

### Risk Management System

Please refer to the 2018 Combined Management Report for a description of Bertelsmann's risk management system (RMS) and the accounting-related RMS and internal control system (ICS).

### Significant Changes in Risks Compared to the 2018 Combined Management Report

Please refer to the respective disclosures in the 2018 Combined Management Report for a description of the key risks to the Bertelsmann Group. Overall, as of June 30, 2019, the same Group risks are considered material as those existing as of December 31, 2018. However, the significance of individual types of risk in terms of Bertelsmann's future business performance has changed. This is attributable in particular to the increases in supplier risks and in the risks associated with economic trends and customer risks. Customer risks represent the most significant risk to the Group.

## Strategic and Operational Risks

The strategic and operational risk position for the Group remains essentially unchanged from that depicted in the 2018 Combined Management Report.

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

## Legal and Regulatory Risks

Please refer to the 2018 Combined Management Report for details of the legal and regulatory risks. No significant changes have been identified.

## Financial Market Risks

Compared to the situation in the 2018 Combined Management Report, the financial market risks have remained unchanged at a low level.

## Overall Risk

The overall risk position has increased slightly overall compared with the previous year. No going-concern risks were identified for Bertelsmann as of June 30, 2019.

## Opportunities

The assessment of opportunities has not changed substantially compared to the information presented in the Combined Management Report 2018.

## Outlook

For 2019 as a whole, the global economy is expected to continue growing at a moderate rate. However, impending trade disputes and increased economic uncertainty are negatively impacting the economy particularly in the industrial sector and

taking a toll on investing activities. The economic estimates by the Kiel Institute for the World Economy (IfW) concerning global development are 3.2 percent for 2019, which is slightly below the previous expectations.

In the eurozone, the economy will grow somewhat more slowly than expected. The IfW now expects real GDP growth to reach only 1.2 percent in 2019. Growth expectations for Germany, in particular, were adjusted downward significantly. In the IfW's view, real GDP will increase by only 0.7 percent in 2019. The German economy is increasingly feeling the impact of the slow-down of key industries, most of which are export oriented. Real GDP in France is still predicted to grow by 1.4 percent in 2019. According to the IfW estimates, the real growth rate in the United Kingdom will be 1.4 percent. The somewhat higher expectations are mainly attributable to the temporary effect of stockpiling inventories ahead of the exit from the European Union – initially planned for the end of March 2019 and then postponed. The economic outlook for the United States remains positive. The IfW expects an increase of 2.4 percent in real GDP in 2019.

These expectations remain subject to a high level of uncertainty due to difficulties in forecasting economic developments. Certain risks remain for the global economy. Geopolitical crises, national deficits, currency turbulence or the introduction of higher tariffs as a result of rising protectionist tendencies could interfere with economic performance. The resulting developments could adversely affect the economic situation, which is a key factor influencing Bertelsmann's business performance.

Bertelsmann confirms the outlook for revenues, operating EBITDA and BVA as presented in the 2018 Combined Management Report.

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