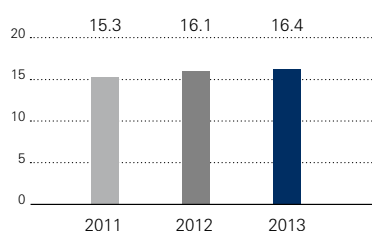


# Group Management Report

## Financial Year 2013 in Review

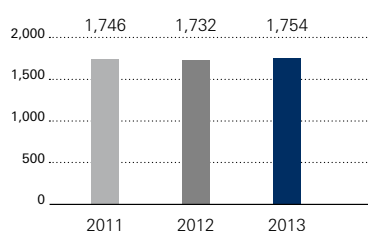
Bertelsmann achieved positive performance in financial year 2013. In implementing the strategy, significant progress was made in all four strategic priorities: strengthening the core businesses, driving forward the digital transformation, developing growth platforms and expanding in growth regions. Group revenues from continuing operations rose 1.8 percent to €16.4 billion (previous year: €16.1 billion). This was largely attributable to portfolio effects, in particular, the merger of Penguin and Random House and the acquisitions of BMG and Gothia Financial Group. Operating EBITDA increased to €2,313 million (previous year: €2,210 million). Despite investments in digitization projects and start-up losses for new businesses, operating EBIT of €1,754 million was slightly above the previous year's high level (previous year: €1,732 million). Growth in the German television business was offset by the negative impact on earnings also from structurally declining businesses. Return on sales was 10.7 percent (previous year: 10.8 percent). Group profit increased significantly to €870 million from €612 million in the previous year. Total investments including acquired financial debt in the reporting period increased to €2.0 billion (previous year: €0.7 billion). The net financial debt at year-end fell by half to €636 million (previous year: €1,218 million) thanks to proceeds from the placement of RTL Group shares and a high level of operating cash flow. The progress in the implementation of the strategy will have a positive impact on the ongoing business performance. Bertelsmann expects the positive business development to continue in financial year 2014.

**Revenues** in € billions<sup>1)</sup>



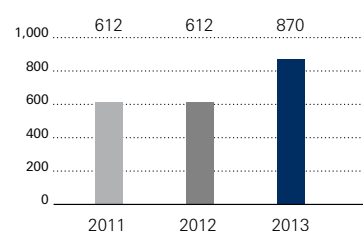
- Group revenues up 1.8 percent
- Contributions to revenues through strategic portfolio expansions (Penguin Random House, BMG, Gothia)
- Development was characterized by normalization of Random House revenues and accelerated scaling back of structurally declining businesses

**Operating EBIT** in € millions<sup>1)</sup>



- Operating EBIT slightly above previous year's high level
- Positive development at RTL Group and Arvato despite start-up losses for new businesses
- Declining earnings in structurally declining businesses

**Group Profit** in € millions



- Group profit up 42 percent thanks to lower burdens from special items and improved operating performance
- Financial result burdened by expenses from early repayment of financial debt
- Negative follow-on effects from discontinued operations

<sup>1)</sup> Figures for financial year 2011 as reported in Annual Report 2011.

## Business and Economic Conditions

### Description of Business and Organizational Structure

Bertelsmann is active in the core business fields of media and services in around 50 countries worldwide. The geographic core markets are Western Europe – in particular, Germany, France, the UK and Spain – 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), Arvato (services) and Be Printers (printing).

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 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 plus Corporate Investments and Corporate Center.

RTL Group is the leading European entertainment network with interests in 55 television channels and 27 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, Hungary and India, as well as the participations in Atresmedia in Spain and RTL CBS Asia Entertainment Network in Southeast Asia. RTL Group's content production arm, Fremantle Media, is one of the largest international producers outside the United States. RTL Group S.A. is listed on the German MDAX index.

Penguin Random House is the world's largest trade book publisher with nearly 250 editorially independent imprints across five continents. The best-known publishing brands include illustrious publishing houses such as Doubleday, Viking and Alfred A. Knopf (United States), Ebury, Hamish Hamilton and Jonathan Cape (UK), Plaza & Janés (Spain) and Sudamericana (Argentina) as well as the international book publisher DK. Each year Penguin Random House publishes over 15,000 new titles and sells over 700 million books, e-books and audio books. More than 77,000 English-, German- and Spanish-language Penguin Random House titles are now available as e-books. Germany's Verlagsgruppe Random House 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 operating division.

Gruner + Jahr is represented in over 30 countries with around 500 media activities, magazines and digital businesses. G+J Deutschland publishes well-known magazines such as

"Stern," "Brigitte" and "Geo." Gruner + Jahr owns 59.9 percent of Motor Presse Stuttgart, one of Europe's biggest special-interest magazine publishers. Gruner + Jahr's largest foreign company is Prisma Media, the second-largest magazine publisher in France. Gruner + Jahr's publishing activities also include magazine, sales and marketing operations in Austria, China, Spain, the Netherlands, Italy, India and the Adriatic Region.

Arvato is a global services provider that supports business customers from a wide range of industries in over 35 countries in successfully shaping their customer relationships. Arvato provides solutions for a variety of business processes via the Solution Groups Customer Relationship Management (CRM), Supply Chain Management (SCM), Financial Solutions, IT Solutions and Digital Marketing as well as Print Solutions and Replication.

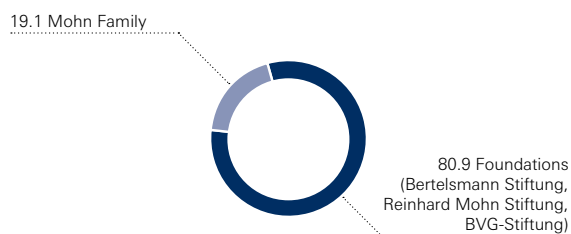
Be Printers is an international printing group that operates gravure and offset printing plants at 18 production locations in Germany and the UK (Prinovis), in Italy and Spain (Southern Europe) and in the United States and Colombia (Americas). In addition to magazines, catalogs, brochures, books and calendars, the production portfolio of Be Printers includes digital communication services.

Bertelsmann's remaining operating activities are grouped under Corporate Investments. Among others, these include the music rights company BMG, education-related activities and the Club and Direct Marketing businesses. Bertelsmann Digital Media Investments (BDMI), Bertelsmann Asia Investments (BAI) and other fund activities in the growth regions are also allocated to Corporate Investments.

### Shareholder Structure

Bertelsmann SE & Co. KGaA is an unlisted partnership limited by shares. Three foundations (Bertelsmann, 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.

## Ownership Structure – Shares in percent



## Strategy

As an international media group, Bertelsmann occupies leading market positions in its core sectors of television, books, newspapers, services and print. Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability (see section "Value-Oriented Management System").

Bertelsmann aims to achieve a faster-growing, more digital and more international Group portfolio. As well as investments in existing activities, new business segments are being increasingly explored that supplement the established businesses and provide a broader overall revenue structure. The further development of the portfolio is subject to clear investment criteria. 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 Group currently has two main earnings pillars, media and services, with a third supporting pillar, education, due to be added in the medium term. Group strategy comprises four strategic priorities, which constituted the key work aspects for the Executive Board in 2013: strengthening core businesses (in particular, investments in creative businesses, exploiting opportunities for consolidation); driving forward the digital transformation of all core businesses; developing growth platforms in the divisions (in particular, Financial Services and TV production) and at the Group level (music rights and education); and expanding in growth regions (China, India and Brazil).

In financial year 2013, Bertelsmann made progress in all four strategic priorities. For example, RTL Group expanded its families of channels and the production business. The book publishing business was strengthened through the merger of Random House and Penguin Group to form the world's largest trade book publisher. Bertelsmann holds the majority of shares in the new publishing group (53 percent). Gruner + Jahr completed a restructuring of the company according to defined

Communities of Interest. Arvato was reorganized into Solution Groups and countries on the basis of a multidimensional structure, thus strengthening interdivisional cooperation as well as the key account management for its most important customers. The consolidation measures were intensified in structurally declining businesses, such as Be Printers and the Club and Direct Marketing activities. These measures included, for example, the announced closure of the Prinovis Itzehoe location in April 2014.

Bertelsmann is making significant progress in driving forward the digital transformation. In 2013, RTL Group's online offerings generated a total of 16.8 billion video views. Through a strategic partnership with the Canadian multichannel network BroadbandTV, RTL Group became the third-largest provider on YouTube (excluding music video services). Penguin Random House now offers more than 77,000 titles as e-books worldwide. As part of the organizational interlinking of print and online, Gruner + Jahr has strengthened its commitment to e-magazines, apps and mobile offerings. Arvato continued to benefit from the expansion of its digital services for customers in the IT, high-tech and e-commerce sectors.

The development of the growth platforms was successfully continued. In the reporting period, Bertelsmann completed the full acquisition of the music rights group BMG and expanded it. Signings of top-level artists such as Mick Jagger and Keith Richards from the Rolling Stones as well as Robbie Williams and the Backstreet Boys contributed to the expansion. Arvato acquired the financial services provider Gothia. The education business was expanded.

Progress was also achieved with the regional expansion in growth regions. RTL Group expanded into Southeast Asia in conjunction with CBS. In the book publishing segment, Bertelsmann strengthened its presence in China, India and Latin America through the merger of Penguin and Random House. Arvato achieved further profitable growth with its services in China. The investment fund Bertelsmann Asia Investments expanded its investment portfolio and achieved a very positive value performance.

Bertelsmann generated revenues of around €1.5 billion by placing a total of 25.5 million RTL Group shares in 2013, while retaining a participation level of over 75 percent.

In 2014, Bertelsmann will pursue the four strategic priorities mentioned. The success of Bertelsmann in the future will continue to be driven by content-based and entrepreneurial creativity, which is why the Group continues to invest 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. The compliance with and

achievement of the strategic development priorities are continuously examined by the Executive Board at divisional level through regular meetings of the Strategy and Business Committee and as part of the annual Strategic Planning Dialog 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 selected Group-wide functions.

### 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 EBIT as well as the 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 return on sales and the cash conversion rate. The financial management system with defined internal financing targets is also part of the broadly defined

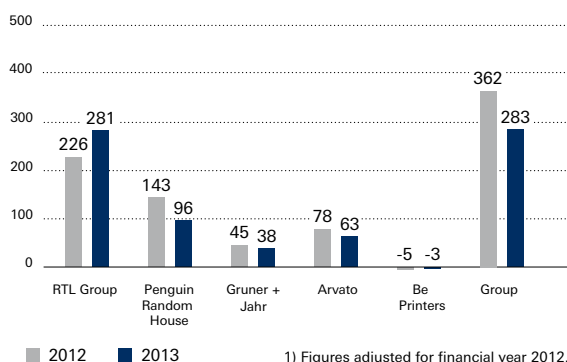
value-oriented management system. Broadly defined performance indicators are – if they are used at all – only voluntary predictions that are not included in the outlook as they are not directly relevant for management purposes.

### Strictly defined operational performance indicators

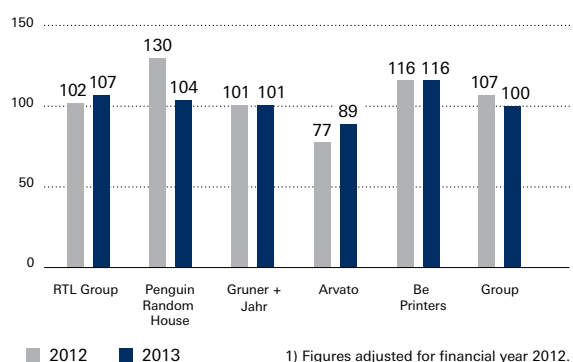
In order to control and manage the Group, Bertelsmann uses revenues, operating EBIT and BVA as performance indicators. Revenue is used as a growth indicator of businesses. In financial year 2013, Group revenues rose 1.8 percent to €16.4 billion (previous year: €16.1 billion). Operating EBIT serves as an indicator of the profitability of the operating businesses. Operating EBIT is calculated before interest and taxes and adjusted for special items. This procedure yields a normalized, sustainable indicator of performance that helps to improve predictability and comparability. In the reporting period, operating EBIT of €1,754 million was slightly above the previous year's high level (previous year: €1,732 million).

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. This form of value orientation is reflected in strategic investment and portfolio planning and the management of Group operations and, together with qualitative criteria, forms the basis for measuring the variable portion of management compensation. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated as operating EBIT after modifications and less a flat 33-percent tax. Cost of capital is the product of the weighted average cost of capital (WACC) and the level of capital invested. The uniform WACC after taxes is 8 percent. Invested capital is calculated on the basis of the Group's operating assets less non-interest-bearing operating liabilities. The present value of operating leases is also taken

**BVA in € millions<sup>1)</sup>**



**Cash Conversion Rate in percent<sup>1)</sup>**



into account when calculating the invested capital. BVA in financial year 2013 was €283 million compared with the previous year's figure of €362 million. The decline is mainly attributable to the increased acquisition activity and the revaluations carried out in the course of company transactions.

#### **Broadly defined performance indicators**

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

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. Operating free cash flow does not reflect interest, tax or dividend payments, is lowered by operating investments such as replacement and expansion investments as well as changes in working capital, and is adjusted for special items. The Group aims to maintain a cash conversion rate of 90 to 100 percent as a long-term average. The cash conversion rate in financial year 2013 was 100 percent (previous year: 107 percent) and therefore within the target corridor.

The return on sales is calculated as the ratio of operating EBIT to revenues, which is used as an additional criterion for assessing the business performance. Bertelsmann aims to achieve return on sales of at least 10 percent at Group level. Return on sales in financial year 2013 was 10.7 percent (previous year: 10.8 percent).

In view of the Bertelsmann Group's growth strategy and the associated expansion of investment activity, it will focus more closely on operating EBITDA. In this context, operating EBITDA is defined as earnings before interest, taxes and depreciation, and is adjusted for special items. As operating EBITDA is not distorted by the accounting-related effects of acquisitions, it is a meaningful earnings indicator, which is also used as a standard internationally and has been introduced on the capital markets.

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

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

## **Overall Economic Developments**

The global economy in 2013 reflected the moderate growth level of the previous year. Real GDP increased by 2.9 percent in 2013 compared with a rise of 3.1 percent in 2012. While tensions eased on the international financial markets, economic expansion in the threshold countries remained sluggish.

The US economy continues to follow a gradual path of recovery. According to the US Bureau of Economic Analysis, real GDP in the United States in 2013 was 1.9 percent compared with 2.8 percent in 2012. Growth stimuli were provided primarily by the expansion of private consumer spending, private asset investments and exports.

The euro zone came out of the recession over the course of 2013. However, the European debt crisis has not yet been resolved, and the economic situation in the euro zone remains fragile. According to the Statistical Office of the European Union, real GDP fell by 0.5 percent in 2013, having fallen 0.7 percent in 2012.

After a weak start to the year, the German economy began to pick up during 2013. Overall, according to the Federal Statistical Office, real GDP increased by 0.4 percent in 2013 compared with a rise of 0.7 percent in 2012. Domestic stimuli played a key role in the turnaround at the end of the year. Private consumption benefited from favorable employment and income prospects and the ongoing low-interest environment.

## **Developments in Relevant Markets**

The following analysis pertains only to markets and regions of a sufficient size if their trend can be adequately aggregated and is important for the business development of Bertelsmann businesses.

With the exception of Germany, the European TV advertising markets largely declined in 2013.

The German- and Spanish-language book markets proved mostly stable overall in 2013. The book markets in the United States and the UK showed a slight decline after the exceptional bestseller performance of the previous year. The global growth of e-books continued. Germany, in particular, recorded significant growth, while growth in the United States and the UK declined slightly.

In 2013, the magazine markets in Germany, France, Spain and China were characterized by sharply falling advertising markets in some areas. Magazine sales in the core European countries declined due to a downward trend in circulations.

The service markets (CRM, SCM, Financial Services, IT Services and Digital Marketing) achieved positive growth. By contrast, the storage media markets declined significantly worldwide due to the increasing importance of electronic forms of distribution.

Overall, the European print markets for magazines, catalogs and promotional materials declined in 2013 due to the ongoing pressure on prices and volumes. Likewise, the print market for books in North America continued to decline in 2013.

### 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.

As 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.

### Significant Events in the Financial Year

On January 1, 2013, Christoph Mohn became the new Chairman of the Supervisory Board of Bertelsmann SE & Co. KGaA and of the Supervisory Board of Bertelsmann Management SE. In both positions, Christoph Mohn succeeded Gunter Thielen, who resigned from the Supervisory Board upon reaching retirement age as of the end of 2012.

In February 2013, the Prinovis group, which is part of Be Printers, announced the closure of its gravure printing facility in Itzehoe. The continued difficult situation in the European gravure printing market as a result of continued pressure on prices and lower volumes were key issues behind the closure decision. The negotiations concerning the compensation and redundancy package were agreed in June 2013. As part of the compensation package, it was agreed to cease production in Itzehoe as of April 30, 2014.

At the end of March 2013, Bertelsmann concluded the full acquisition of the music rights company BMG Rights Management after the deal was approved by the antitrust authorities. In this regard, Bertelsmann acquired the remaining shares it had not previously held and since then has carried BMG Rights Management as a wholly owned subsidiary. There were further artist signings and takeovers of music catalogs in the reporting period.

On April 1, 2013, Achim Berg simultaneously became CEO of Arvato AG and a member of the Executive Board of Bertelsmann Management SE. Achim Berg thereby succeeded Rolf Buch who had resigned as head of Arvato and had also resigned his Executive Board mandate for Bertelsmann Management SE as of the end of 2012. In fall 2013, Berg announced a reorganization of Arvato. The businesses are organized according to Solution Groups and countries on the basis of a multidimensional structure. In addition, a central Key Account Management department has been introduced for key customers. The aim of the new organizational structure is to promote innovation, internationality, cooperation and the transfer of knowledge within Arvato.

At the end of April 2013, Bertelsmann placed 23.5 million RTL Group shares at a price of €55.50 per share. The proceeds from the reduction of the shareholding will be used to implement Bertelsmann's growth strategy. The share capital of RTL Group was admitted for trading on the Prime Standard of the Frankfurt Stock Exchange and in September 2013 was listed on the German MDAX index. In October 2013, Bertelsmann placed an additional 2 million RTL Group shares, which originated from the non-exercised over-allotment option, at a price of €75.81 per share. Bertelsmann remains the clear majority shareholder in RTL Group with a 75.1-percent stake in share capital.

In June 2013, Bertelsmann announced that the operations of the direct marketing company Inmediaone would be gradually closed down and that it would cease trading in mid-2014 due to a lack of economic prospects.

In mid-June 2013, Arvato completed the acquisition of Gothia Financial Group and has since been in the process of merging the existing financial services business of its subsidiary Arvato Infoscure with that of Gothia. The merger will strengthen the growth businesses in the area of Financial Services and will help make Arvato's businesses more international.

On July 1, 2013, the Penguin Random House merger was completed. Bertelsmann and Pearson had already announced their intention to combine the activities of their respective book publishing companies, Random House (with the exception of the German-language publishing business) and Penguin Group, in October 2012. Bertelsmann holds a 53-percent interest in the new trade book publishing group Penguin Random House, with Pearson holding 47 percent. Penguin Random House comprises all of the publishing units of Random House and the Penguin Group in the United States, Canada, the UK, Australia, New Zealand, India and South Africa as well as the Random House publishers in Spain and Latin America and the Penguin businesses in the Asian region and Germany. Reviews by the authorities in several countries around the world preceded the closing of the merger.

In August 2013, the cooperation between RTL Group and CBS Studios International in the new company RTL CBS Asia Entertainment Network and the joint launch of two pay-TV channels in Southeast Asia were announced. The two channels will broadcast in English and local languages in several Asian markets and will be transmitted in high-resolution HD standard via cable, satellite and Internet TV.

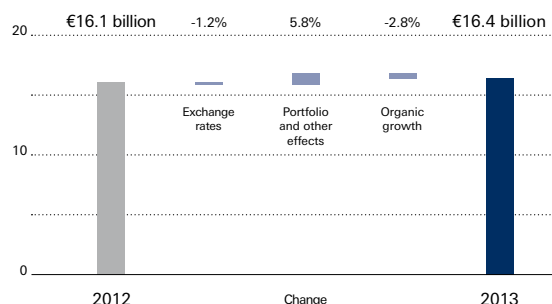
In December 2013, the disposal of the Czech-Slovakian book and publishing house Euromedia Group to the Czech investment firm Arraviet was agreed. The transaction includes all Euromedia business in both countries, namely book clubs, book trade, distribution and publishers. The disposal of Euromedia Group is subject to the approval of the responsible antitrust authority in the Czech Republic.

Effective December 31, 2013, Thomas Hesse, member of the Executive Board of Bertelsmann Management SE and President, Corporate Development and New Businesses, resigned his mandate. His areas of responsibility were taken over by CEO Thomas Rabe.

## Results of Operations

The following analysis of earnings performance relates to continuing operations as of December 31, 2013. Please refer to the section "Performance of the Group Divisions" for a more detailed picture of the earnings situation.

### Revenue Breakdown



### Revenues by Division

in € millions	2013			2012		
	Germany	International	Total	Germany	International	Total
RTL Group	2,080	3,809	5,889	2,110	3,892	6,002
Penguin Random House	262	2,393	2,655	288	1,854	2,142
Gruner + Jahr	937	1,128	2,065	993	1,225	2,218
Arvato	2,029	2,385	4,414	1,965	2,454	4,419
Be Printers	414	709	1,123	444	770	1,214
Corporate Investments	235	347	582	269	202	471
Total revenues by division	5,957	10,771	16,728	6,069	10,397	16,466
Corporate Center/Consolidation	(245)	(127)	(372)	(264)	(137)	(401)
Continuing operations	5,712	10,644	16,356	5,805	10,260	16,065

## Revenue Development

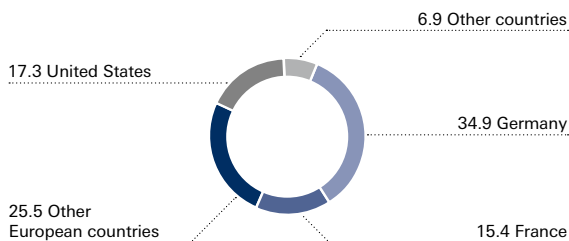
Group revenues from continuing operations rose 1.8 percent in financial year 2013 to €16.4 billion (previous year: €16.1 billion). The strategic portfolio expansions through the merger of Penguin and Random House as well as the full takeover of BMG (Corporate Investments) and the acquisition of Gothia (Arvato) resulted in increased revenues. Adjusted for portfolio and exchange rate effects, the Group's organic growth was -2.8 percent. The exchange rate effects were -1.2 percent; portfolio and other effects were 5.8 percent. The organic revenue decline is attributable to the extraordinarily strong previous year at Random House, the weak European advertising markets overall, the impact of structurally declining businesses and deliberately managed revenue development at Arvato.

Revenues at RTL Group were down 1.9 percent to €5,889 million (previous year: €6,002 million) in the reporting period. The positive development of Mediengruppe RTL Deutschland and RTL Nederland partially offset the decline at Fremantle Media. As a result of the merger with Penguin on July 1, 2013, and the acquisition of the remaining shares in Random House Mondadori on January 1, 2013, revenues at Penguin Random House were 23.9 percent above the previous year at €2,655 million (previous year: €2,142 million). Adjusted for these portfolio effects, organic revenues at Penguin Random House declined as the previous year had been largely characterized by the bestseller performance of the "Fifty Shades" trilogy. Revenues at Gruner + Jahr were down 6.9 percent to €2,065 million (previous year: €2,218 million). The lower revenues are partly attributable to portfolio effects from the partial closure of the business media publishing division and the sale of G+J Poland. In addition, the advertising and circulation business posted declining revenues particularly in France, Austria,

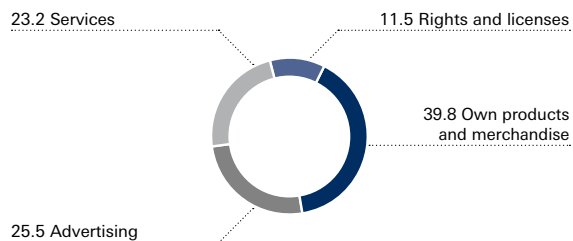
Spain and China. This is counteracted by revenue growth from the digital businesses. Arvato's revenues remained stable at €4,414 million (previous year: €4,419 million). Financial Services and the CRM and IT Services units showed positive development. By contrast, replication at Arvato posted a fall in revenues due to the general declining market development and the disposal of the replication activities in Brazil. Impacted further by the structural decline of the print businesses, revenue at Be Printers declined by 7.5 percent to €1,123 million (previous year: €1,214 million). Revenues at Corporate Investments, despite declining revenues in the Club and Direct Marketing activities, increased by 23.6 percent to €582 million (previous year: €471 million) following the full takeover of BMG.

There were minor changes in the geographical breakdown of revenues from continuing operations compared to the previous year. The proportion of revenues generated in Germany was 34.9 percent compared with 36.1 percent in the previous year. The revenue share generated by France amounted to 15.4 percent (previous year: 15.8 percent). The share of total revenues generated by the other European countries amounted to 25.5 percent compared with 24.9 percent in the previous year. The revenue share generated by the United States increased to 17.3 percent (previous year: 16.3 percent) and the other countries achieved a revenue share of 6.9 percent (previous year: 6.9 percent). This means that the proportion of total revenues attributable to countries other than Germany rose slightly to 65.1 percent (previous year: 63.9 percent), which is primarily attributable to strategic portfolio expansions in financial year 2013. Year on year, there was only a slight change in the ratio of the four revenue streams (own products and merchandise, advertising, services, rights and licenses) to overall revenue.

Consolidated Revenues by Region in percent



Revenues by Category in percent





## Results Breakdown

in € millions	2013	2012
Operating EBIT by division		
RTL Group	1,137	1,065
Penguin Random House	309	325
Gruner + Jahr	146	168
Arvato	244	244
Be Printers	41	58
Corporate Investments	(40)	(38)
<b>Total operating EBIT by division</b>	<b>1,837</b>	<b>1,822</b>
Corporate Center/Consolidation	(83)	(90)
<b>Operating EBIT from continuing operations</b>	<b>1,754</b>	<b>1,732</b>
Special items	(46)	(405)
<b>EBIT (earnings before interest and taxes)</b>	<b>1,708</b>	<b>1,327</b>
Financial result	(361)	(322)
<b>Earnings before taxes from continuing operations</b>	<b>1,347</b>	<b>1,005</b>
Income taxes	(419)	(393)
<b>Earnings after taxes from continuing operations</b>	<b>928</b>	<b>612</b>
Earnings after taxes from discontinued operations	(58)	–
<b>Group profit or loss</b>	<b>870</b>	<b>612</b>
attributable to: Bertelsmann shareholders	498	477
attributable to: Non-controlling interests	372	135

## Operating EBIT and Operating EBITDA

Bertelsmann achieved operating EBIT of €1,754 million in financial year 2013 (previous year: €1,732 million). Return on sales of 10.7 percent was again in the double-digit range (previous year: 10.8 percent). The earnings reflected the positive overall business performance and the strategic portfolio measures implemented in the reporting period. Core businesses were strengthened, growth platforms developed and necessary consolidation steps introduced in structurally declining business units.

RTL Group's operating EBIT increased by 6.8 percent from €1,065 million in the previous year to €1,137 million in 2013, primarily as a result of the improved earnings contributions of Mediengruppe RTL Deutschland. Penguin Random House achieved operating EBIT of €309 million compared with €325 million in the previous year. The growth resulting from the merger of Penguin and Random House virtually offsets the decline in earnings after the strong previous year. At Gruner + Jahr, operating EBIT fell to €146 million (previous year: €168 million). The earnings decline is attributable to falling advertising and circulation revenues particularly in China, Austria and France, as well as to costs associated with the accelerated digital transformation. Arvato generated an operating result of €244 million (previous year: €244 million) and benefited from improved performances in the CRM and SCM units. This was contrasted by start-up costs for take-overs as well as set-up costs for newly acquired customers.

Operating EBIT at Be Printers reduced to €41 million (previous year: €58 million) as a result of the persistently declining print market. Earnings from activities grouped under Corporate Investments came to €-40 million (previous year: €-38 million).

Year on year, operating EBITDA from continuing operations rose to €2,313 million. The increase of €103 million compared with the previous year's figure of €2,210 million is primarily attributable to RTL Group and Corporate Investments. Operating EBITDA of Penguin Random House and Arvato increased slightly year on year in each case. Meanwhile, operating EBITDA of Gruner + Jahr and Be Printers declined. The following table shows a detailed breakdown of operating EBITDA by division:

## Operating EBITDA by Division

in € millions	2013	2012
RTL Group	1,333	1,253
Penguin Random House	363	352
Gruner + Jahr	193	213
Arvato	401	392
Be Printers	92	115
Corporate Investments	10	(29)
<b>Total operating EBITDA by division</b>	<b>2,392</b>	<b>2,295</b>
Corporate Center/Consolidation	(79)	(85)
<b>Operating EBITDA</b>	<b>2,313</b>	<b>2,210</b>

## Special Items

Special items primarily reflect the strategic measures implemented in the reporting period. The majority of restructuring expenses relate to structurally declining businesses, in particular with the imminent closure of the Prinovis location in Itzehoe. The restructuring expenses also include costs for the implementation of the new organizational structure of Gruner + Jahr and Arvato as well as integration costs in connection with the merger of Penguin and Random House. By contrast, profit of €109 million was recorded from the revaluation of the fair value after the takeover of the remaining BMG shares as well as a write-up of €72 million on the fair value of the participation at Atresmedia.

Special items in the reporting period totaled €-46 million (previous year: €-405 million). They consist of impairments and reversals on impairments totaling €44 million (previous year: €-155 million), fair value remeasurement of investments of €110 million (previous year: €18 million), capital gains of €111 million (previous year: €12 million) and restructuring expenses and other special items totaling €-297 million (previous year: €-288 million). In the reporting period, there were adjustments to carrying amounts on assets held for sale in the amount of €-14 million (previous year: €8 million).

## EBIT

Adjusting operating EBIT for special items of €-46 million (previous year: €-405 million) resulted in an EBIT of €1,708 million. The increase of €381 million from the previous year's figure of €1,327 million is primarily attributable to the overall lower burden from special items.

## Group Profit or Loss

The year-on-year financial result changed from €-322 million to €-361 million. The deviation is based on one-time costs of €40 million for the early repayment of financial debt, which in future will have a positive impact on the financial result. The increased tax expenses of €-419 million (previous year: €-393 million) largely resulted from the improved pre-tax earnings. This produced after-tax earnings from continuing operations of €928 million (previous year: €612 million). The after-tax earnings from discontinued operations of €-58 million (previous year: –) are non-cash follow-on effects related to the disposal of the Direct Group businesses, which were formerly shown as discontinued operations. Taking into account the after-tax earnings from discontinued operations, this results in a Group profit of €870 million (previous year: €612 million). This corresponds to an increase of €258 million compared with the same period in the previous year. The share held by non-controlling interests was €372 million (previous

year: €135 million). The increase in non-controlling interests compared with the previous year is primarily attributable to the reduction of the RTL participation and the Penguin Random House merger. The share of Group profit held by Bertelsmann shareholders was €498 million (previous year: €477 million). At the Annual General Meeting of Bertelsmann SE & Co. KGaA, a dividend payout of €180 million will be proposed for financial year 2013 (previous year: €180 million).

## Net Assets and Financial Position

### Financial 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 Group'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 calculated as the ratio of economic debt to operating EBITDA and limited to the defined maximum of 2.5. Economic debt is defined as net financial debt plus provisions for pensions, profit participation capital and the net present value of operating leases. Like operating EBITDA, economic debt is modified for calculation purposes.

As of December 31, 2013, the Group had a leverage factor of 2.0 (December 31, 2012: 2.3). Despite a high level of investment activity during the reporting period, the net financial debt at year-end fell by half to €636 million (previous year: €1,218 million) thanks to proceeds from the placement of RTL Group shares and a high level of operating cash flow. As of December 31, 2013, pension provisions of €1,944 million were also below the previous year's level (December 31, 2012: €2,146 million). This means that as of December 31, 2013, economic debt was reduced to €4,178 million from €4,773 million in the previous year.

## Financial Targets

	Target	2013	2012
<b>Leverage factor:</b> Economic debt/operating EBITDA <sup>1)</sup>	< 2.5	2.0	2.3
<b>Coverage ratio:</b> Operating EBITDA/financial result <sup>1)</sup>	> 4.0	6.0	6.4
<b>Equity ratio:</b> Equity to total assets (in percent)	> 25.0	40.7	32.2

1) After modifications.

Another financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA (after modifications) to financial result and is supposed to be above 4. In the reporting period the coverage ratio was 6.0 (previous year: 6.4). The Group's equity ratio was significantly above the self-imposed minimum of 25 percent and increased to 40.7 percent (December 31, 2012: 32.2 percent).

## Financing Activities

In April 2013, Bertelsmann repaid a tranche of a US private placement from 2003 of US\$200 million on time. In addition, the tranche of the US private placement falling due in 2015 for the sum of US\$200 million was repaid early in August 2013. Both US private placements were issued by the US financing company Bertelsmann U.S. Finance LLC, which in the reporting period was merged with Bertelsmann Inc., a US subsidiary of Bertelsmann. Furthermore, in December 2013 Bertelsmann repurchased parts of a bond falling due in October 2015 and another bond falling due in September 2016 for the total nominal amount of €284 million as part of a public buyback offer in December 2013. All repayments were made from existing liquidity.

## 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.

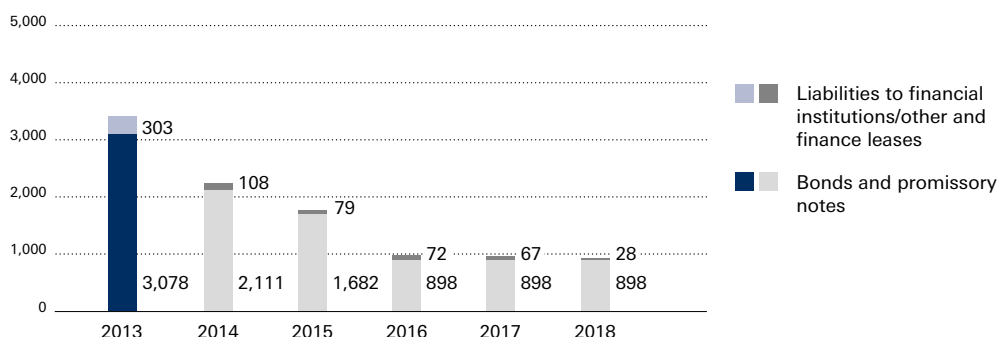
## Credit Facilities

The Bertelsmann Group also has access to liquidity via a syndicated loan. This forms the backbone of the strategic credit reserve, and Bertelsmann can utilize this to draw down up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling. In June 2013, the syndicated loan previously with a term through to 2017 was extended for a further year, namely until 2018. As in the previous year, Bertelsmann did not make use of this credit facility in financial year 2013.

## Bonds and Promissory Notes of Bertelsmann SE & Co. KGaA

Issue volume in millions of EUR	Carrying amount 12/31/2013 in millions of EUR	Maturity	Type	Nominal interest in percent
EUR 750	EUR 750	January 16, 2014	Bond	7.875%
EUR 500	EUR 187	February 25, 2014	Promissory note	5.050%
EUR 30	EUR 30	March 24, 2014	Promissory note	6.000%
EUR 500	EUR 429	October 6, 2015	Bond	3.625%
EUR 1,000	EUR 784	September 26, 2016	Bond	4.750%
EUR 60	EUR 60	May 4, 2019	Promissory note	4.207%
EUR 750	EUR 740	August 2, 2022	Bond	2.625%
EUR 100	EUR 98	June 29, 2032	Bond	3.700%

## Maturity Structure of Financial Debt in € millions



## Cash Flow Statement

The total earnings before interest and taxes is the starting parameter for preparing the Bertelsmann cash flow statement. In the reporting period, Bertelsmann generated net cash from operating activities of €1,785 million (previous year: €1,876 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,760 million (previous year: €1,861 million), and the cash conversion rate was 100 percent (previous year: 107 percent), within the target corridor (see the section entitled "Value-Oriented Management System"). At €-1,010 million, cash flow from investing activities was significantly above the level for the previous year (previous year: €-617 million). This included investments in intangible assets and fixed and financial assets of €-808 million (previous year: €-567 million). The purchase prices for consolidated investments (net of acquired cash and cash equivalents) increased to €-504 million (previous year: €-88 million), particularly as a result of the strategic portfolio expansions made in

the reporting period. Proceeds from the sale of subsidiaries and other business units and disposal of other fixed assets were €373 million (previous year: €93 million). Cash flow from investing activities was €-657 million (previous year: €-382 million). The outflow of €-1,188 million was attributable to the financial debt of €676 million acquired as part of the acquisition activity as well as early and scheduled repayments of financial debt. This was offset by inflows from the placement of RTL Group shares, which are included in the reported €1,410 million of the item "Change in equity". Dividends paid to the shareholders of Bertelsmann SE & Co. KGaA came to €-180 million (previous year: €-180 million). Dividends to non-controlling interests and payments to partners in partnerships came to €-445 million (previous year: €-213 million). The increase results from the payment of special dividends by RTL Group in spring and summer 2013. As of December 31, 2013, Bertelsmann had cash and cash equivalents of €2.7 billion (previous year: €2.7 billion).

## Group Cash Flow Statement (Summary)

in € millions	2013	2012
Cash flow from operating activities	1,785	1,876
Cash flow from investing activities	(1,010)	(617)
Cash flow from financing activities	(657)	(382)
Change in cash and cash equivalents	118	877
Currency effects and other changes in cash and cash equivalents	(23)	5
Cash and cash equivalents 1/1	2,660	1,778
Cash and cash equivalents 12/31	2,755	2,660
Less cash and cash equivalents included with assets held for sale	(10)	(2)
Cash and cash equivalents 12/31 (according to the Group balance sheet)	2,745	2,658

## 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, primarily due to the strategic portfolio expansions. The off-balance-sheet liabilities in place as of December 31, 2013 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 €676 million amounted to €1,988 million in financial year 2013, significantly above the previous year's figure of €655 million. Investments according to the cash flow statement amounted to €1,312 million (previous year: €655 million). As in previous years, the majority of the €289 million investment in property, plant and equipment (previous year: €270 million) stemmed from Arvato. Investments in intangible assets came to €411 million (previous year: €177 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 €108 million was invested in financial assets (previous year: €120 million). Purchase prices for consolidated investments (less acquired cash and cash equivalents) totaled €504 million in the reporting period (previous year: €88 million) and were primarily attributable to the takeovers of BMG and Gothia. The negative investments of Penguin Random House in the amount of €-36 million (previous year: €53 million) can be attributed to cash and cash equivalents acquired as a result of the merger of Penguin and Random House.

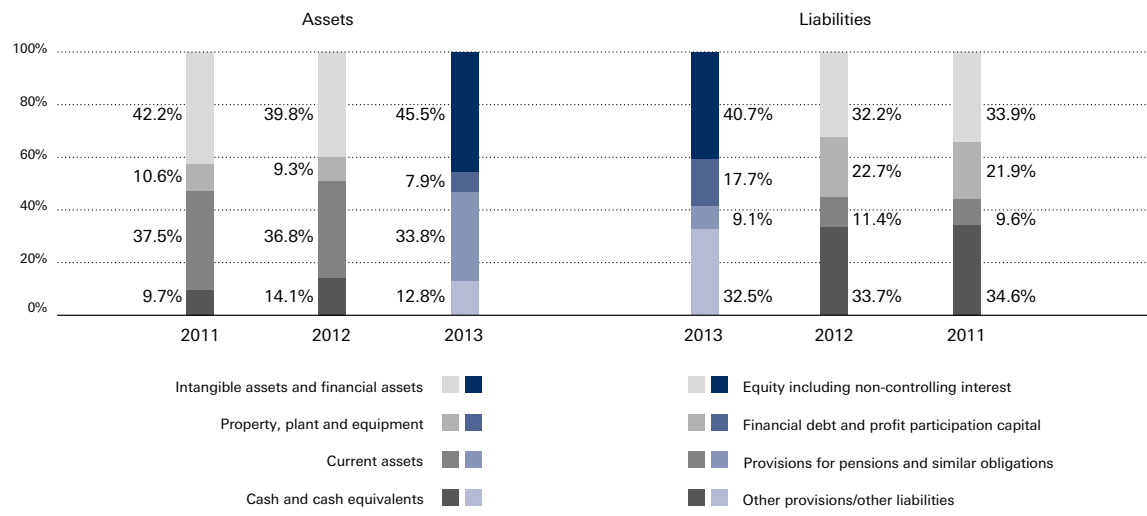
## Investments by Division

in € millions	2013	2012
RTL Group	264	251
Penguin Random House	(36)	53
Gruner + Jahr	46	49
Arvato	297	207
Be Printers	25	26
Corporate Investments	678	67
<b>Total investments by division</b>	<b>1,274</b>	<b>653</b>
Corporate Center/Consolidation	38	2
<b>Total investments</b>	<b>1,312</b>	<b>655</b>

## Consolidated Balance Sheet

Total assets increased significantly to €21.4 billion as of December 31, 2013 (previous year: €18.9 billion). The increase is mainly attributable to the reduction in shares in RTL Group, the merger of Penguin and Random House as well as the takeovers of BMG and Gothia. These portfolio changes led to an increase in intangible assets and equity. Cash and cash equivalents of €2.7 billion remained at the previous year's high level (previous year: €2.7 billion). The income from the reduction in shares in RTL Group increased equity to €8.7 billion (previous year: €6.1 billion). As a result of this increase, the equity ratio increased from 32.2 percent in the previous year to 40.7 percent. Equity attributable to Bertelsmann SE & Co. KGaA shareholders increased to €6.9 billion (previous year: €5.3 billion). Provisions for pensions and similar obligations decreased from €2,146 million in the previous year to €1,944 million. Gross financial debt decreased from €3,876 million to €3,381 million as of

## Balance Sheet



December 31, 2013 due to the partial early repayments of long-term debt reported in the section "Financing Activities." Apart from that, the balance sheet structure remained largely unchanged from the previous year.

### Profit Participation Capital

Profit participation capital had a nominal value of €301 million as of December 31, 2013, 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, 2013 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of notional 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 nominal value. The lowest closing rate of the 2001 profit participation certificates in financial year 2013 was 244.00 percent in January; their highest was 284.00 percent in November.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of notional value, subject to the availability of sufficient Group profit as well as profit 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 financial year 2013.

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 financial year 2013 was 6.49 percent (previous year: 6.39 percent), the payout on the 1992 profit participation certificates for financial year 2013 will be 7.49 percent of their notional value (previous year: 7.39 percent).

The payout distribution date for both profit participation certificates is expected to be on May 12, 2014. 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.

## Performance of the Group Divisions

### RTL Group

Although advertising markets across Europe were mostly in decline, Europe's leading entertainment group RTL Group was able to significantly increase its profitability in financial year 2013. Revenues reached €5.9 billion after €6.0 billion in the previous year, representing a 1.9 percent decrease. This revenue development reflects robust core businesses despite negative currency effects and lower revenues for the production arm Fremantle Media. In operating EBIT, another record result by Mediengruppe RTL Deutschland and the strong performance of the Dutch TV channels more than offset the impact of the negative development of advertising markets in many parts of Europe. Only the German TV advertising market showed slight growth.

Operating EBIT increased by 6.8 percent to a new record level of €1.1 billion (previous year: €1.1 billion). This pushed the return on sales to 19.3 percent (previous year: 17.7 percent). Operating EBITDA increased slightly to €1.3 billion (previous year: €1.3 billion). At year-end, RTL Group had 11,589 employees (December 31, 2012: 11,931). RTL Group succeeded in defending most of its leading positions in the audience markets. In France, the Netherlands, Hungary and Croatia, RTL Group's families of channels grew their share of the TV ad sales market.

Mediengruppe RTL Deutschland increased both its revenues and earnings. RTL Television's flagship broadcaster remains the clear market leader in the main target group. The French Groupe M6 achieved lower revenues, partly because of the declining advertising market. Operating EBIT declined due to start-up losses for the new digital channel 6ter. Audience shares remained largely stable despite the market entry of new competitors. RTL Nederland grew its revenues and operating EBIT despite a shrinking advertising market, and scored higher viewer ratings.

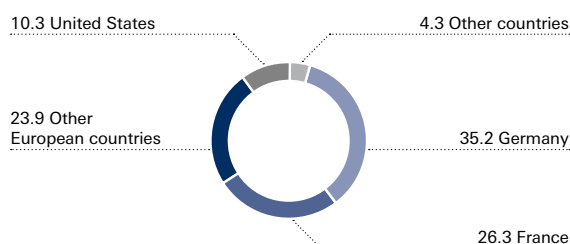
The production arm Fremantle Media registered continued global interest in its major talent shows and invested in the development of new formats. Revenues fell mainly due to currency effects and because of the cancellation of formats in individual territories. Operating EBIT was slightly down year on year. In November, Fremantle Media acquired the Danish production company Miso Film, which specializes in series and TV movies.

In the growth market of Asia, RTL Group partnered with CBS Studios International to initiate the establishment of two new channels. The first channel, RTL CBS Entertainment HD, made its debut in 2013 in Malaysia, Thailand, Singapore and the Philippines. The launch of the second channel will follow in the spring of 2014. In Croatia, RTL Hrvatska established a new children's channel, which went on air in January 2014 and has scored excellent ratings from the start.

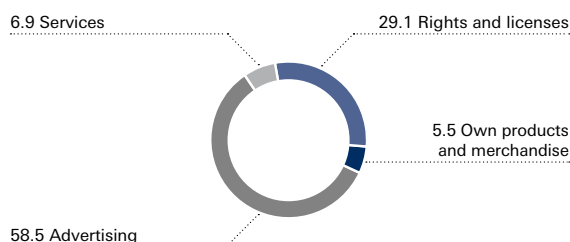
RTL Group's digital business also continued to be greatly expanded. The Group acquired a majority stake in BroadbandTV, one of the largest multichannel networks on YouTube, and also invested in the leading online video network for fashion and beauty StyleHaul, the German YouTube network Divimove, and the Dutch video-on-demand provider Videoload. The Group's various online platforms and mobile applications recorded high growth rates.

RTL Group has been additionally listed on the Frankfurt Stock Exchange since the end of April 2013. Bertelsmann reduced its holdings and has since held 75.1 percent of the shares in the company.

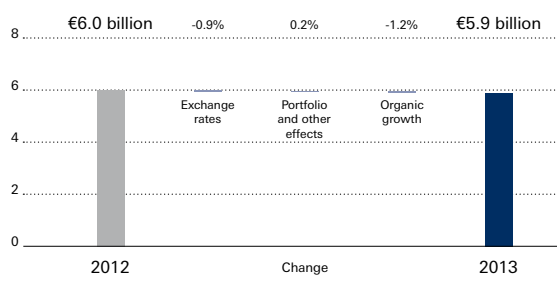
#### Revenues by Region in percent (without intercompany revenues)



#### Revenues by Category in percent



#### Revenue Breakdown



## Penguin Random House

For Random House, 2013 was the year of the historic merger of all its divisions outside Germany with Pearson's trade publishing division Penguin Group. The formation of Penguin Random House was completed on July 1, and the multiyear integration of the two units is now underway. Bertelsmann holds 53 percent of the shares in the world's largest trade book publisher, while Pearson holds 47 percent.

This year-end consolidated revenue of €2.7 billion for the combined company reflects a full year of Random House, including Germany's Verlagsgruppe Random House, and a half-year of the Penguin Group. Total sales were 23.9 percent above Random House's previous year's revenue (€2.1 billion). Adjusted for currency and portfolio effects, revenues decreased compared with the record year 2012, which was dominated by the exceptional success of the "Fifty Shades" trilogy. Operating EBIT fell 4.9 percent from the high level of the previous year – partly due to depreciations in connection with the initial inclusion of intangible assets at Penguin – to €309 million (previous year: €325 million). Return on sales came to 11.6 percent (previous year: 15.2 percent). Operating EBITDA increased to €363 million (previous year: €352 million). At the end of the year, Penguin Random House had 11,838 employees (December 31, 2012, Random House: 5,712).

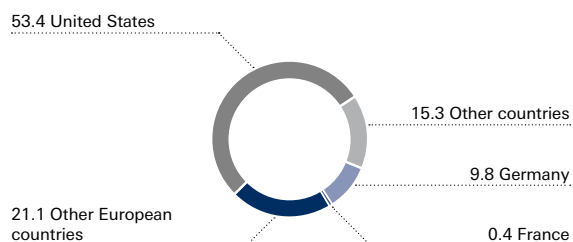
Penguin Random House's biggest new release was Dan Brown's "Inferno," selling almost six million copies in its English-language territories in seven months. Other mega-sellers included Sheryl Sandberg's "Lean In," "And The Mountains Echoed" by Khaled Hosseini, "The Fault In Our Stars" by John Green and John Grisham's "Sycamore Row." Demand for English-, German- and Spanish-language editions of the "Fifty Shades" trilogy continued to be strong with more than seven million print, digital and audiobook copies sold in 2013.

The US company placed 261 titles on the "New York Times" hardcover and paperback bestseller lists from July to December, 27 of them at number one. During the same period, Penguin Random House UK placed 14 number one titles on the bestseller lists of the "Sunday Times." In Germany, Verlagsgruppe Random House attained major growth in its digital publishing business, achieving first-time double-digit percentage of overall sales revenues with e-books. The division's biggest-selling title of the year was "Die Analphabetin, die rechnen konnte" by Jonas Jonasson. A solid business performance in Latin America and a strong portfolio of Spanish-language bestsellers offset the impact of the difficult economy in Spain, where the publishing unit has operated under the name Penguin Random House Grupo Editorial since November. In India and South Africa, Penguin Random House completed the purchase of their respective co-partners' ownership stakes.

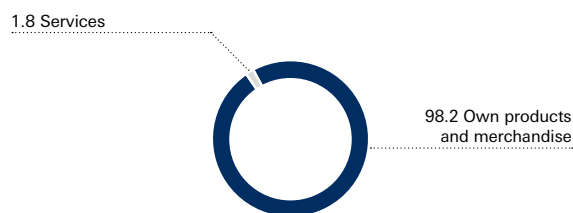
With new apps, the increasing integration of social media into book marketing and growing e-book downloads, Penguin Random House has advanced its leadership in the transformation to digital. During the reporting period, the Group sold more than 100 million e-books worldwide, and more than 77,000 titles are now internationally available in digital form.

Many Penguin Random House authors received prestigious literary awards in 2013, including Alice Munro, the winner of the Nobel Prize in Literature. The Group's authors also won four Pulitzer Prizes, a National Book Award in the United States, and for Verlagsgruppe Random House, the German Book Prize.

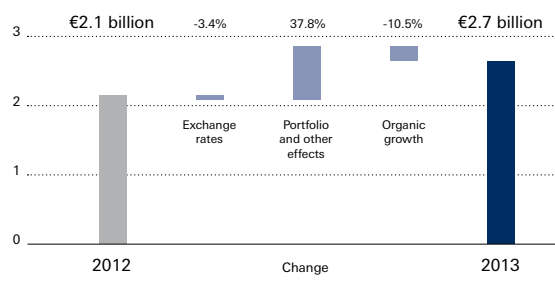
### Revenues by Region in percent (without intercompany revenues)



### Revenues by Category in percent



### Revenue Breakdown





## Gruner + Jahr

At Gruner + Jahr, the financial year was shaped by a personnel, organizational and strategic realignment to transform the existing printing and publishing company into a "house of content" with high-quality print and digital offerings for specific target groups. On the commercial side, Gruner + Jahr reported a significant fall in revenues and operating result during the reporting period; this was against a backdrop of declining ad sales revenues, the partial discontinuation of its business media along with other disposals, increased investment in the digital business and a decline in the international business. Revenues reached €2.1 billion after €2.2 billion the previous year (-6.9 percent). Operating EBIT was down by 13.1 percent to €146 million (previous year: €168 million). Return on sales decreased to 7.1 percent (previous year: 7.6 percent). Operating EBITDA was €193 million against €213 million in the previous year. At year-end, Gruner + Jahr employed 10,819 people (December 31, 2012: 11,585). Since April 2013, Gruner + Jahr has been jointly managed by Julia Jäkel (CEO), Stephan Schäfer and Oliver Radtke.

G+J Germany managed to improve its result year on year. Sales revenues dipped in line with market conditions but adjusted for portfolio changes the advertising business developed positively, bucking the market trend. In Germany the business structures were fundamentally changed. With its realignment along eight Communities of Interest, G+J is resolutely focusing on the interests of its readers, users and customers. For instance, its strong position in the Living, Food and Family communities was expanded with investments in digital offers such as the Home and Furniture community Roomido, the online store for high-end foods Delinero and the online store for baby and children's clothing Tausendkind. "Chefkoch" and "Flow" enhanced the print portfolio of the Food and Women communities with two innovative new titles. G+J Media Sales added market share in the ad sales market, and both G+J's digital marketer EMS and the performance marketer Ligatus recorded continued dynamic growth.

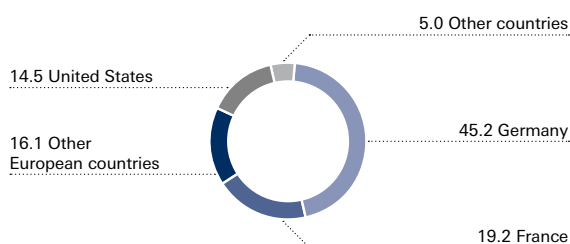
Prisma Media's magazine business in France declined due to difficult market conditions. The expansion of the digital business was successfully advanced, including through targeted acquisitions. For instance, the reporting period saw the acquisition of the two digital ad sales houses Mob Value and P Comme Performance.

Verlagsgruppe News in Austria declined, underperforming the market mainly in the ad sales business. In the reporting year, its activities in Southern Europe continued to be affected by difficult macroeconomic conditions. The company sold off its operations in Poland and parts of the operations in South-eastern Europe.

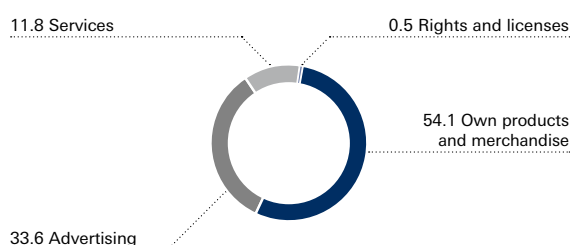
Gruner + Jahr's activities in China reported declines due to a first-time reduction in the Chinese ad sales market. In the United States, the offset printing company Brown Printing saw a fall in revenues and earnings due to lower utilization. The business of Dresdner Druck- und Verlagshaus was mostly stable.

During the reporting period, G+J journalists and authors won a variety of prestigious awards for their work; in Germany alone, they won more than any other publisher.

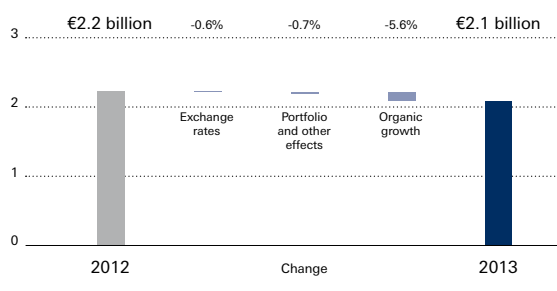
### Revenues by Region in percent (without intercompany revenues)



### Revenues by Category in percent



### Revenue Breakdown



## Arvato

The international service provider Arvato delivered a robust business performance in financial year 2013. Revenues remained stable at €4.4 billion (previous year: €4.4 billion). Operating EBIT remained stable at €244 million (previous year: €244 million). Return on sales thus remained at 5.5 percent (previous year: 5.5 percent). Operating EBITDA increased to €401 million (previous year: €391 million). There was a management changeover at the top of Arvato: Achim Berg has led the group as Chief Executive Officer since April 2013. A new organizational structure arranges the businesses by Solution Groups and countries, and a central Key Account Management system was introduced for major international clients. At year-end, Arvato employed 66,410 people (December 31, 2012: 63,627).

During the reporting period Arvato registered significant growth mainly at IT Services and supply chain management solutions for international customers in the Internet, high-tech and consumer goods sectors, as well as in China. Arvato's acquisition of Gothia Financial Group, completed in June 2013, advanced its internationalization and turned it into the third-largest service provider in Europe in the rapidly growing market for business information and financial services.

Operating EBIT also reflects upfront costs for acquisitions and set-up costs for newly acquired customers in the supply chain management and e-commerce businesses.

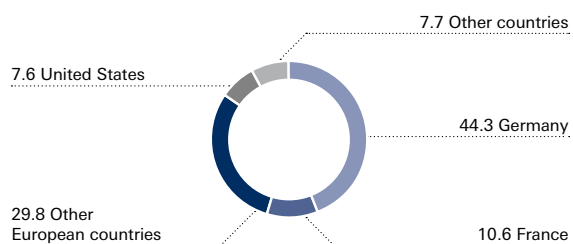
In the reporting period, the customer relationship management business showed a positive development in Germany and Spain, and declined slightly in France. In South America, Asia and Africa, new offshore sites for customer communications solutions were established or expanded to increase competitiveness.

Arvato's Print Services asserted its position in a difficult market environment. Revenues in Replication declined as expected. In Brazil and China, Arvato sold holdings in replication factories.

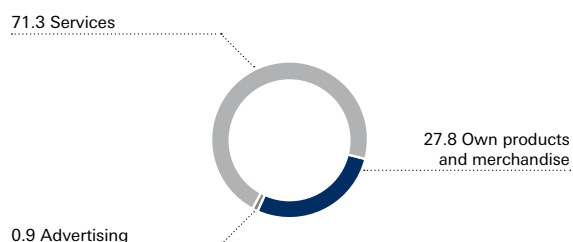
The development of Arvato's businesses varied from region to region. For example, performance was satisfactory in the European core countries given the difficult economic situation. In the UK, a major new government services client, the Department for Transport, was acquired. The service activities in Spain saw profitable growth despite the economic crisis. Meanwhile, the services businesses in France were not quite able to maintain the previous year's high levels. In the North American market, the portfolio of customers and locations was systematically culled to increase the profitability of the businesses. In Turkey, Arvato's services businesses grew dynamically, and in China the company's logistics network was expanded considerably yet again.

Arvato won prestigious awards in various countries around the world for its tailored customer solutions.

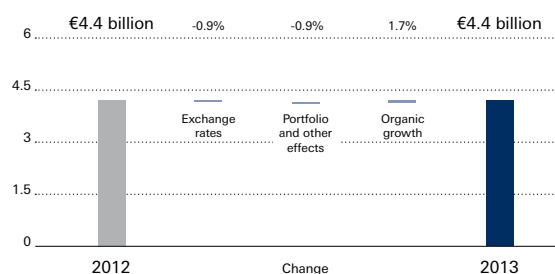
### Revenues by Region in percent (without intercompany revenues)



### Revenues by Category in percent



### Revenue Breakdown



## Be Printers

In 2013, Bertelsmann's gravure and international offset printing activities, grouped into Be Printers, generated revenues of €1.1 billion in a difficult market environment, down 7.5 percent from the previous year (€1.2 billion). Operating EBIT declined by 29.3 percent to €41 million (previous year: €58 million), and return on sales thus amounted to 3.7 percent (previous year: 4.8 percent). Operating EBITDA decreased to €92 million (previous year: €115 million). At year-end, Be Printers employed 6,201 people (December 31, 2012: 6,571).

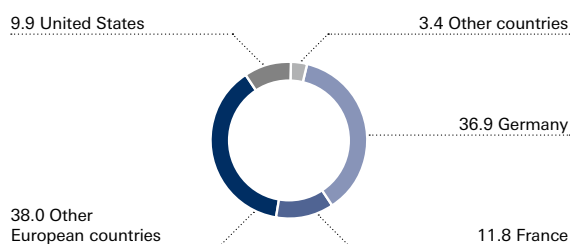
Declining print runs characterized Be Printers' printing operations in the reporting period, as did continuing price pressure and high excess capacity in the industry. The group responded with new offers as well as various programs to increase efficiency and lower costs.

Specifically, the gravure division Prinovis realized savings in personnel costs and materials purchasing. Provisions for restructuring costs were formed for the planned closure of the Itzehoe site in April 2014. As a special item, these are not shown under operating EBIT. The fire at a gravure printing press in Dresden led to restrictions on production; at the same time, Prinovis received a compensation payment from the machine's property insurance. As a special item, this is not shown under operating EBIT. In the UK, a major customer cut order volumes. Overall, revenues and earnings were down at Prinovis. During the reporting period, several of Prinovis' print products and digital offers won industry awards for their high quality.

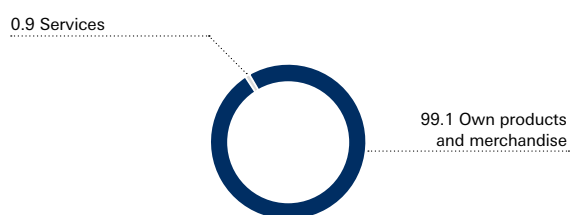
Be Printers' Southern European printing companies did business in a difficult market environment that was further exacerbated by macroeconomic developments in Italy and Spain. The units recorded declining volumes. Management countered this with measures to increase sales and cut costs, for example, in the areas of procurement and IT. The merger of the Italian and German calendar businesses also improved productivity and competitiveness.

Be Printers Americas bucked the declining market development and kept its earnings stable. Growing business with clients outside the publishing industry – such as communications services for companies in the health-care sector – cushioned the decline in revenues. In 2013, major existing customers renewed their contracts with Be Printers Americas.

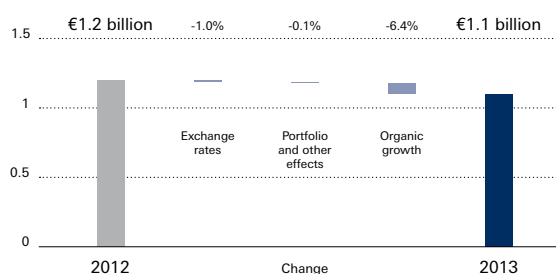
**Revenues by Region** in percent (without intercompany revenues)



**Revenues by Category** in percent



**Revenue Breakdown**



## Corporate Investments/Corporate Center

In 2013, Corporate Investments, which includes all of Bertelsmann's other operating activities, recorded significantly increased revenue of €582 million (previous year: €471 million) and operating EBIT of €-40 million (previous year: €-38 million). Operating EBITDA was €10 million compared with €-29 million in the previous year. The acquisition of full ownership of the BMG Music Rights subsidiary, completed in April 2013, helped to boost revenues. This was partly offset by declining revenues in the Club and Direct Marketing businesses. Operating EBIT reflects start-up losses, among other things for business expansion in the education sector, and a decline in earnings in the Club business. At year-end, Corporate Investments had 4,342 employees (December 31, 2012: 4,289).

Jointly established by Bertelsmann and KKR, the music rights company BMG has once again been fully owned by Bertelsmann since the end of March 2013 and grew strongly during the reporting period. BMG acquired several catalogs of song and master rights: Primary Wave, Sanctuary, Mute and Virgin/Famous. Numerous national and international artists signed new contracts including Mick Jagger and Keith Richards of the Rolling Stones, Robbie Williams and the Backstreet Boys. BMG expanded its presence in all major music markets, including opening a branch in Canada.

In the reporting period, Bertelsmann invested in developing its new line of business: education. The University Ventures Fund, jointly established with other investors, expanded its international portfolio of holdings. Bertelsmann also made direct investments to increase its stake in Synergis Education, a service provider that supports academic institutions in establishing accredited online degree programs, and in the innovative US online education provider University Now.

The Bertelsmann Digital Media Investments (BDMI) and Bertelsmann Asia Investments (BAI) funds expanded their portfolios. For instance, BDMI joined RTL Group in investing in the online video network StyleHaul, which brought its holdings to a total of 49 at year-end. BAI acquired five new holdings – including providers of mobile payment services, car purchasing and cloud computing – and divested from three companies, realizing high capital gains in the process. The remaining portfolio, consisting of 20 holdings, developed very well. In India, two direct investments were made, including in the real estate portal indiaproerty.com. In Brazil, investments were also made in two online media start-ups.

Revenues in the Club business declined as planned in 2013. The operational business of the direct marketing company Inmediaone will be gradually phased out by mid-2014. The dismantling of the German Club continued with store closures,

and the businesses in the Czech Republic and Slovakia were sold to a strategic investor.

The Corporate Center department, which comprises all of the Group's Corporate Centers around the world, controlled and supported several large transactions in 2013, including the merger of Penguin and Random House into the world's leading trade book publishing group and the incremental placement of RTL Group shares on the Frankfurt Stock Exchange. Its work during the year also focused on the organization of a Management Meeting and "State of the Art Forum" in Silicon Valley, as well as the global employee survey. In the first half of 2013 the Bertelsmann Executive Board launched the operational excellence program, which is designed to monitor processes and structures in the financial, HR, IT and procurement departments across the Group. The program will support Group strategy by modernizing structures, improving efficiency and creating uniform standards of quality. It will be implemented in several stages over a period of up to five years.

## General Statement by the Company Management on the Economic Situation

2013 was a successful financial year for Bertelsmann, in which progress was made in all strategic priorities. Of the existing businesses, the German television business in particular achieved solid growth. Despite the uneven development of the European advertising markets and the structurally declining businesses, Bertelsmann was able to fulfill its revenue and earnings expectations. In 2013, Bertelsmann generated consolidated revenues of €16.4 billion, an increase of 1.8 percent. On an organic basis, adjusted for currency and portfolio effects, consolidated revenues fell by 2.8 percent. The organic revenue decline is attributable to the weak European advertising markets overall, the extraordinarily strong previous year at Random House, the impact of structurally declining businesses and deliberately managed revenue development at Arvato. Taking into account the normalized book publishing business, revenue development was in line with expectations (outlook in Annual Report 2012: stable or slightly declining). Operating EBIT of €1,754 million (previous year: €1,732 million) was slightly above the previous year (outlook in Annual Report 2012: moderately below the previous year's figure). Operating EBIT includes investments in digitization projects and start-up losses for new businesses. Return on sales achieved a solid level of earnings at 10.7 percent (outlook in Annual Report 2012: at least 10 percent).

In 2013, the successful implementation of strategic measures paved the way for Bertelsmann to become a faster-growing, more digital and more international Group. Strengthening the core businesses in the reporting period resulted in the expansion of the families of channels at RTL Group, the merger of Penguin and Random House and the new organizational structures at Gruner + Jahr and Arvato. At the same time the structurally declining businesses were scaled back. This is shown in the initiated closure of the gravure printing location at Itzehoe, the disposal of the replication business in Brazil as well as the announcement that the activities of the direct marketing company Inmediaone will be terminated. The digital transformation was driven forward through the expansion of the nonlinear TV offerings at RTL Group, the increase in e-book revenues at Penguin Random House and the specific alignment of Gruner + Jahr Germany according to defined Communities of Interest. The growth platforms were developed in particular through the acquisition of the financial service provider Gothia, the full takeover of BMG and additional investments in University Ventures. The presence in growth regions was strengthened in particular by RTL Group's participation in RTL CBS Asia Entertainment Network in Southeast Asia, the growth of Arvato China and through Bertelsmann Asia Investments.

Bertelsmann's net assets and financial position remain positive. The financial strength was improved as a result of the proceeds generated from the reduction in the RTL shareholding in the reporting period. In view of the cash and cash equivalents available as of December 31, 2013, of €2.7 billion, the liquidity situation is good. The ratings agencies Moody's and S&P rated Bertelsmann as "Baa1" and "BBB+" respectively and with a stable outlook. Taking into account the solid liquidity and financing base as well as the positive business performance, Bertelsmann considers that the Group's overall financial situation is positive and thus provides a suitable starting basis for further implementation of the strategic growth targets.

## Significant Events After the Balance Sheet Date

In January 2014, Arvato took over significant parts of Netrada Group and combined the e-commerce businesses of both companies. As a result of the merger, Arvato has become one of the leading European service providers for integrated e-commerce services and at the same time benefits from Netrada's strong position in the growing fashion and lifestyle market segment. The range of services includes the development and operation of web shops, financial services, transport and logistics as well as customer service.

In February 2014, BMG acquired a 100-percent interest in the Dutch music publishing company Talpa Music B.V. The music company currently owns over 37,000 songs including many electronic dance music titles. The company also represents the publishing interests of various dance labels.

The bond due in January 2014 and the promissory note due in February 2014 were repaid when these matured. Part of cash and cash equivalents was used in this regard.

## Non-Financial Performance Indicators

### Employees

At the end of the financial year, the Group had 111,763 employees worldwide (previous year: 104,286). The increase of 7,477 employees is attributable primarily to strategic portfolio expansions. In 2013, there were 1,304 people (previous year: 1,254) serving in trainee positions in Bertelsmann companies in Germany.

Implementing and developing the partnership-based corporate culture is one of the top priorities of human resources (HR). For this reason, in 2013 the HR strategy initiatives that were agreed in the previous year were driven forward. For example, the new executive remuneration structure was introduced on other levels. The system that had previously been dominated by financial objectives was extended to include other objective criteria, including a number of qualitative criteria. Thus, among other things, the quality of management performance is included as a criterion for determining variable remuneration.

The focus of HR work in 2013 was the global employee survey. Once again, the survey achieved a record level of participation at 86.9 percent. The results were broken down to the departmental level and compiled into approximately 10,000 result reports and were made available to executives. This ensures that the results are worked on not only at divisional and Group level but also at team and company level.

Bertelsmann aims to promote diversity at all levels of the company. The diversity conference, which took place for the first time in February 2013, provided a forum for discussions about the level of diversity within the Group. Together with international executives from the Group, the conference developed and discussed key work aspects and measures to strengthen diversity.

In order to promote internationality and diversity within the Group, the annual careers event "Talent Meets Bertelsmann" was given an international focus. Over 450 people applied, and 63 of these were invited to Berlin for three days to exchange ideas with 80 company representatives, to receive professional career coaching and to present the results of their workshop to members of the Executive Board and the GMC. Since 2012, two women have been on the Executive Board of Bertelsmann Management SE, and the GMC has 15 members from seven countries – including six women.

In August 2013, "peoplenet" was introduced to make it easier for employees to access further training measures worldwide. Employees can use this online platform to find comprehensive information about all relevant training and further education programs and can apply for these directly on the system. At the end of 2013, "peoplenet" was initially made available to around 30,000 employees in Germany, and it will be extended to other locations in 2014. In parallel, Bertelsmann University and Bertelsmann Academy are continuously working on the development of their courses in line with the new Group strategy. For example, Bertelsmann University is largely responsible for designing and implementing the Digital Excellence Initiative in cooperation with Corporate Development.

## Corporate Responsibility

Taking responsibility – for employees, for the quality of media and services and for the impact the corporate activities have on society and the environment – is a key component of Bertelsmann's corporate culture. For decades, the Bertelsmann Essentials have specified corporate responsibility as one of their main goals and as a basic value for all of the company's employees, executives and shareholders.

Since 1974, Bertelsmann has regularly published an account of its commitment and activities in addition to the financial performance targets. To satisfy the growing demands of its stakeholders in relation to social and ecological topics, the Group publishes relevant information and facts and figures about corporate responsibility and compliance on its website. Since 2008, Bertelsmann has been a member of the UN Global Compact and, as part of the annual progress reporting, provides information about the measures that have already been realized and those that are planned. In accordance with the partnership-based principle of delegating responsibility, specific corporate responsibility projects are implemented in a decentralized way in the individual divisions. Key action areas are employee responsibility, promoting reading and media literacy, aid and donation campaigns through the media, responsibility for content, and environmental and climate protection.

Bertelsmann's "be green" environmental initiative promotes corporate responsibility in the areas of environment and climate protection. With the support of the independent ecological research institute IFEU, Bertelsmann produces a regular carbon footprint report in accordance with the globally recognized stipulations of the GHG protocol. This report was drawn up again in 2013 and audited by the auditing firm PwC. The carbon footprint report is an important component of the further development of the corporate responsibility strategy with the aim of ensuring that Bertelsmann as a company will use resources in a more eco-friendly and efficient way in order to remain competitive over the long term. On June 5, 2013, UN World Environment Day, the global "be green Day" was held for the fourth time across the Group. Employees at around 40 locations in 13 countries took part.

## Innovations

Businesses traditionally 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 traditional research and development

activities, for Bertelsmann, its unique power of innovation is important. Long-term success of the Group depends heavily on using flexible business models, investing in growth markets and integrating new technologies. Innovative expertise is also a key driver of Bertelsmann's organic growth.

Bertelsmann relies on innovation and growth in core operations and new business fields. The key factors of Bertelsmann's innovation management include continuously following cross-industry trends and observing new markets. At a Group level, Bertelsmann works with the divisions to continuously identify and implement innovative business strategies. Alongside the 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 relevant technological, economic and social trends and develop recommendations for action for their own businesses. This form of collaboration, network building and organized collective knowledge transfer is essential to Bertelsmann in order to turn business ideas and innovations into business reality. This close link between centralized and decentralized elements of innovation management allows Bertelsmann to play an active role in shaping the rapidly transforming media business and ensuring long-term success.

RTL Group's innovation management is focused on three core topics: developing and acquiring new, high-quality TV formats; using all digital distribution means; and expanding various forms of marketing and monetization. Further developing nonlinear and mobile TV services is particularly important. Besides the popular ad-financed catch-up TV services such as RTL Now in Germany and 6Play in France, the RTL Group channels are also working to establish pay models in the on-demand business. For example, RTL Nederland acquired the majority share of the leading Pay-Video-On-Demand service in the Netherlands in June 2013. Furthermore, in spring 2014, in conjunction with SBS and the Dutch public broadcasting service, RTL Nederland will launch the platform NL Ziet, where users can stream content from the three families of channels via a single contact point. RTL Group is also working on securing a leading position on the video portal YouTube. Here, the production subsidiary Fremantle Media and the recently acquired majority stake in the multichannel network BroadbandTV play a key role. Mediengruppe RTL Deutschland is expanding its digital distribution through new agreements governing the broadcasting of linear TV channels via the online platforms Zattoo and Magine. The continued development of online video advertising sales on all screen and TV platforms is one of the key digital growth segments for RTL Group. RTL Group offers advertisers a large number of new interactive forms of advertising parallel to linear TV

use, for example, via M6 Connect or the dynamic integration of advertising spots in closed TV services such as RTL Now and Vox Now on "Select Video" from Kabel Deutschland. Synergy Committees act as an organizational platform for exchanging information and knowledge in the decentralized RTL Group. These are made up of executives and experts from the RTL Group's operating units and Corporate Center and hold meetings several times a year.

The newly merged Penguin Random House brings together and leverages the previously individual Penguin and Random House innovative initiatives for the entire publishing process on a global scale. Penguin Random House is constantly exploring new ways to discover and nurture authors' voices, enhance the power of their writing, and spread their messages everywhere with traditional and developing content platforms. As a leading content provider, the publisher offers more than 77,000 e-books worldwide, and an increasing, wide array of award-winning apps and format start-up partnerships. Penguin Random House is rapidly expanding its social media reach to intensify relationships with readers and its publisher and author brands. Through its growing investments in virtual information and service platforms, Penguin Random House will continue to present its authors with tools and tutorials to enhance their connectivity and discoverability.

Gruner + Jahr is expanding its publishing business along all media-based platforms and value chains. This includes the qualitative development of the existing portfolio, the launch of new titles, the digital transformation of journalistic content into new digital channels and the development and expansion of complementary services offered in the Communities of Interest prioritized by Gruner + Jahr. In advertising marketing, the focus was on gaining additional market shares, expanding cross-media marketing, the international roll-out of performance marketing and expanding the mobile unit.

Arvato is aiming to become the best business partner for its customers by being innovative, agile, flexible and international. In order to increase its innovative power, Arvato adapted its internal structures in 2013 and, in the future, will be organized according to seven Solution Groups (CRM, SCM, Financial Solutions, IT Solutions, Digital Marketing, Print Solutions and Replication). These competence areas will be responsible for the global development of Arvato in the respective business segments. Their primary aim is to develop and market innovative, integrated solutions. Arvato is also increasing its innovative power by investing in new technologies and by taking over companies in fast-growing service segments. In 2013, for example, it acquired the international Gothia Financial Group, which has an innovative service portfolio particularly in the growing e-commerce services market.



Be Printers is developing and investing in print-related solutions and products for its customers in order to generate new business and strengthen the business relationship through additional offers. In 2013, innovations in the digital solutions sector and in the non-book business were developed further. These primarily consist of the POS Marketing Terminal (customer terminal for retailers) and print-based communication campaigns in traditional direct marketing. In addition, Be Printers is continuously working on concepts for the further development of print products, looking above all at the interaction with digital media.

## 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, controls and monitors the risks that have been identified. The aim of the RMS is to identify, at an early stage, material risks to the Group so that countermeasures 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-related and compliance-related objectives.

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 sub-processes of identification, assessment, management, control and monitoring. A major element of risk identification is the risk inventory that lists significant risks year by year, from the profit center level upward, and then aggregates them 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 even if no risk event occurs. 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 response and control measures to determine the so-called net risk. Both one-year and three-year risk assessment horizons are applied to enable the timely implementation of risk management measures. The basis for determining the main Group risks is the three-year period, similar to the medium-term corporate planning. The risk, measured against

possible financial loss, is the product of the estimated negative impact on the free cash flow should the risk occur and the estimated probability of occurrence. Risk monitoring is conducted by Group management on an ongoing basis. The RMS, along with its component ICS, is constantly undergoing further development and is integrated into ongoing reporting to the Bertelsmann Executive Board and Supervisory Board. Corporate risk management committees and divisional risk meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

Under section 91 (2) of Germany's Stock Corporation Act (AktG), 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, then report their findings to the Supervisory Board. Corporate Audit conducts ongoing reviews of the adequacy and functional capability of the RMS in the divisions of Penguin Random House, Arvato and Be Printers as well as the Corporate Investments and Corporate Center segments. The risk management systems of RTL Group and Gruner + Jahr are evaluated by the respective internal auditing departments of those divisions and by external auditors. 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 the 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" and "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, circulars) are made available without delay to all employees involved in the accounting process. The consolidated 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 pre-consolidated subgroup), then verified by external experts as required. Central contacts from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with the 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 Group- and division-level controlling departments 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 and Corporate Audit are promptly discussed with the affected companies, and solutions are developed. An annual self-assessment is conducted to establish a reporting of the quality of the ICS in the key Group companies. The findings are discussed in Audit and Finance Committee meetings at the divisional level.

Corporate Audit and the internal auditing departments of RTL Group and Gruner + Jahr evaluate the accounting-related processes as part of their auditing work. As part of the auditing process, the Group auditor also reports to the Bertelsmann SE & Co. KGaA Supervisory Board Audit and Finance Committee 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 endangering, considerable, significant, moderate or low for the purposes of risk tolerability. The risk inventory carried out did not identify any risks that would be classified as considerable or endangering.

Given the diversity of the core business fields 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. Integration risks from acquisitions carried out and information technology risks were identified as the primary risks and are therefore described separately. This is followed by an outline of legal and regulatory risks and financial market risks. These risks are largely managed at the corporate level.

### Strategic and Operational Risks

The development of the global economy in 2013 reflected the moderate growth level of the previous year. In 2014, the subdued global growth dynamic of recent years is expected to accelerate slightly. Although uncertainty over economic developments has eased somewhat, Bertelsmann's business development is still dogged by certain risks. Assuming the continuing normalization of the overall economic situation, Bertelsmann expects stable development of Group revenues for 2014. In addition to the risk from economic development, other significant Group risks include customer risks, the risks from changes in the market environment, supplier relationship risks and pricing and margin risks. How these risks develop depends, among other things, to a large extent on changes in customer behavior due to factors such as the digitization of media, the development and implementation of products and services by current and future competitors, bad debt losses as

## Overview of Major Risks to the Group

Priority	Type of risk	Risk classification				
		Low	Moderate	Significant	Considerable	Endangering
1	Customer risks					
2	Changes in market environment					
3	Supplier risks					
4	Cyclical development of economy					
5	Pricing and discounting					
6	Legal and regulatory risks					
7	Employee-related risks					
8	Integration risks Penguin Random House					
9	Audience and market share					
10	Financial market risks					

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

■ Existing risks

well as default and interference along the production chains in individual sectors such as IT. Employee-related risks, the integration risks associated with the Penguin Random House merger and the audience and market share are moderate risks for Bertelsmann.

The most important risks for RTL Group are a decrease in audience and advertising market shares as well as risks arising from changes in market environment and economic downturns. A decrease in audience shares could lead to decreasing revenues. RTL Group actively monitors international market changes and program trends. This is increasingly the case in the digital world, where audiences generally have more choice and market entry barriers are reduced. Higher competition in program acquisition, ongoing audience fragmentation and expansion of platform operators may also impact RTL Group's ability to generate revenues. Furthermore, economic development directly impacts the advertising market and therefore RTL Group revenue. With a focus on developing non-advertising revenue streams this risk is countered. Apart from potential cost increases triggered by content suppliers, the business can be impacted by the risk of losing key suppliers of content and customers. To address these risks, long-term contracts with major content providers are closed, and active customer relationship management is established. RTL Group's strategy is also to further diversify its business by establishing complementary families of channels and utilizing the opportunities presented by digitization.

The principle risk for Penguin Random House arises from the merger of the two companies. As with any merger of this size, the process of integrating the two companies, and in particular

the process of integrating the companies' IT systems, creates significant risks. Management has established work streams to carry out the integration plan and is closely monitoring its progress. Otherwise, the creation of the larger company has increased the scale of, but has not significantly altered the nature of, the risks that Random House faced prior to the merger. The increase in the digital portion of the business presents opportunities, but also creates challenges related to pricing and customer margin. The overall market trend, especially toward declining physical sales in book stores, could threaten the long-trend viability of certain customers and will likely result in continued margin pressure. Also, higher paper prices and general economic uncertainty continue to pose risks. The risk minimization strategy includes credit insurance to limit bad debt risks, long-term contracts with suppliers and a flexible cost structure in response to economic downturns. The continuing decline in store space of physical book retailers will be partially mitigated by e-book and online sales of physical books and further measures to improve the competitive situation.

The risks from a changing market environment constitute the greatest risk position for Gruner + Jahr. There is also the particular risk that higher agency discounts in the German advertising markets and the growing significance of digital advertising will lead to falling margins. The aim is to reduce risks through active customer management, including new forms of offers. The risk of a deterioration of the overall market environment and resulting falls in advertising and circulation revenues remains. Countermeasures include cost savings and reviewing individual titles. On the supplier side, there is still a risk of increasing commissions being charged by individual

distributors. Furthermore, there is the risk of losing key customers, for example as advertising customers could switch to other media, coupled with the risk associated with upcoming tenders in the client business. These are to be addressed through targeted measures for key account customers as well as marketing measures. Advertising restrictions discussed at the EU level (e.g., car advertising) could lead to declining advertising revenues.

Arvato sees itself particularly exposed to risks from customer relationships, risks from a changing market environment as well as risks from supplier relationships. The reorganization in the form of a matrix and a clear division into Solution Groups while simultaneously taking into account the regional dimension will make it possible to target customers more effectively and help to reduce these risks. The potential loss of key customers is being counteracted through active key account management, long-term contracts with flexible cost structures and through integrated service elements. Offering key customers a successful bundle of services reduces the risk of losing an entire service relationship. The markets in which Arvato operates and that are characterized by overcapacity (primarily replication) show sustained price pressure. In other areas, competitors are following Arvato's strategy by expanding their value chains, which is increasing the level of competition. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By constantly developing the range of services, the aim is to improve the competitive position and increase customer loyalty through integrated solutions together with a trend toward higher value added. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. The broad diversification across customers, sectors and regions helps to reduce this risk. On the procurement side is the risk that the procured intermediate products could be of inferior quality, leading to corresponding subsequent costs. Increased procurement prices that cannot be passed on to customers constitute further risks. Countermeasures include agreeing long-term contracts and monitoring the supplier market. The ongoing trend toward digitization entails further risks for individual customer segments of Arvato, particularly in the manufacturing and distribution of physical media products. These risks are being addressed, for example, by developing business priorities, which comprise digital services. Furthermore, business segments that offer no strategic or economic prospects are being deliberately scaled back. The handling of IT risks with sector-specific requirements (data protection and data security requirements) is an additional risk for Arvato as an international service provider. This risk is being reduced by introducing an Information

Security Management System based on the ISO 27001 standard, which is used to systematically identify and resolve information security risks.

Customer risks, in particular the greater dependence on a few major customers in structural terms, are the most significant risks for Be Printers. There are also risks from the market environment, which is characterized by shrinking markets and overcapacity. Risks can arise from a continuing market concentration leading to tougher price competition and lower margins. Deterioration in the economic environment may lead to declining circulations with a negative impact on earnings. The same applies to the increasing spread of digital end devices, which is resulting in a decline in printed media. There are further risks on the supplier side associated with rising raw material prices – particularly for paper – that cannot be passed on to customers. The risk minimization strategy is based, among other things, on flexible contractual arrangements, particularly for key accounts. Other key elements of this strategy include the agreement of price-adjustment clauses, optimizing cost structures and making them more flexible as well as ongoing market monitoring.

Corporate Investments essentially comprises the fund investments and BMG as well as the Group's remaining Club and Direct Marketing activities. From a Group perspective, the identified risks are of minor importance.

Finally, it should be noted that because of demographic change a greater emphasis in the risk reporting is placed on employee-related risks such as a shift in the age distribution of the workforce, challenges in recruiting qualified personnel and the departure of top executives. This risk applies to all divisions. Countermeasures include further training measures and health programs, increased recruiting measures as well as interdivisional talent development.

### Integration Risks from Acquisitions Carried Out

As well as organic growth, the Group's development strategy includes targeted acquisitions of promising businesses. These types of acquisitions, such as in 2013 the merger of Penguin Random House, the takeover of the remaining shares in BMG and the acquisition of Gothia, present opportunities as well as risks. Integration into the Group requires one-time costs that are usually offset by increased benefits in the long term thanks to synergy effects. In this context, there are risks in that the integration costs may be higher than expected or the predicted level of synergies may not materialize. The integration processes are therefore being permanently monitored by management.

## Information Technology Risks

For a global media company like Bertelsmann, the reliability and security of information technology is crucial. This means that the Group is now facing a wide range of IT risks. Challenges are constantly increasing as the business environment becomes more and more complex due to the increasing networking and IT penetration of business processes, many internal processes that are not yet standardized and potential external risks. In the future, this issue will be actively addressed by the introduction of the Group-wide Information Security Management System. The implementation of the management system includes regular and structured monitoring of compliance with the regulations as well as systematic recording of information security risks and deriving appropriate measures.

## Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is always exposed to a variety of legal and regulatory risks ranging from litigation to varying interpretations of tax assessment criteria. These risks are being continuously monitored by the relevant departments 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 proceedings in 2007 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.

At the end of January 2013, Kabel Deutschland (KDG) appealed a decision of the German Federal Cartel Office to settle a case in accordance with section 32b of the German Act Against Restraints of Competition following commitments of the channels of Mediengruppe RTL Deutschland to broadcast digital channels in standard quality unencrypted and to refrain from certain restrictions on the usage of digital signals in standard quality. The preliminary oral proceeding is scheduled for September 2014.

Foreign investments in media companies in the People's Republic of China are subject to restrictions. In order to comply with local legal provisions, some of the Bertelsmann participations in China are held by trustees. Bertelsmann has agreements with these trustees with respect to the securing

of Bertelsmann's rights. This type of structure is common for investments in China and has been tolerated by the Chinese authorities for many years. However, a basic risk exists that it will not be possible to safeguard such structures through Chinese courts if the People's Republic should change its policies toward foreign investment and, for example, no longer recognize offshore investments in general or in the media area in particular. In addition, it cannot be ruled out that Chinese authorities or courts in the future will interpret existing provisions differently from the previous practice. In the event that legal violations can be proven, in an extreme case, Bertelsmann could be exposed to considerable fines and the revocation of business licenses leading to immediate closure of participations in China. This would affect Arvato and Gruner + Jahr companies as well as Bertelsmann Asia Investments (BAI). In the past, however, such extreme measures by the Chinese authorities have only been reported in exceptional cases.

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 centrally 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 euro zone. 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. Interest rate derivatives are used centrally for the balanced management of interest rate risk. 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 by selecting appropriate maturity periods for the originated financial assets and liabilities affecting liquidity, and through the ongoing use of interest rate derivatives. The liquidity risk is regularly monitored on the basis of the planning calculation. The existing syndicated loan,

as well as appropriate liquidity provisions, form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in 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 an excellent credit rating. Existing risks from investing cash and cash equivalents are continuously monitored. Financial investments are generally made on a short-term basis so that the investment volume can be reduced if the credit rating changes (see also further explanatory remarks on “Financial Risk Management” in section 25 of the Notes).

### Overall Risk

The overall risk position has increased year on year primarily due to the increase in business volume through the Penguin Random House merger. The risks arising from the process of integrating the two companies are shown as an individual risk. Risks from technological challenges that were included in the top ten Group risks last year remain but they have become less significant. The continuing digital transformation of businesses is already largely anticipating the technological changes so that the risks in this connection are being increasingly reflected in other operating risks such as pricing and margin risks. 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 currently covered by existing liquidity and available credit facilities.

No risks endangering Bertelsmann's continued existence were identified in financial year 2013, nor are any substantial risks discernible from the current perspective that could threaten the continued existence of the Group.

### 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 planning process, the 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 divisional level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group. The department of Business Development and New Businesses continuously pursues strategic opportunity potential and seeks to derive synergies through targeted cooperation in the individual divisions. The interdivisional experience transfer is reinforced by regular meetings of the Group Management Committee.

### Opportunities

While the opportunities associated with positive development may be accompanied by corresponding risks, certain risks are entered into in order to exploit potential opportunities. This close 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 section “Strategy”). In particular, there are general opportunities for exploiting synergies as a result of the portfolio expansions. Furthermore, there is potential in the existing divisions for efficiency improvements and the possibility of more favorable economic development as well as individual operational opportunities. For RTL Group, the TV advertising markets in some core markets could develop better than expected. The many different possible applications for the increasingly digital means of distribution will allow RTL Group to target their end customers and advertising customers more effectively. At Penguin Random House, successful debut publications, strong market growth and higher e-book revenues provide further opportunities. Gruner + Jahr has opportunities in international markets through new and digital businesses. In the magazine business, growth may be achieved particularly in Spain, China and India through higher advertising revenues. At Arvato, the ongoing trend toward outsourcing and the successful development of new businesses are creating opportunities. Arvato could benefit in particular from higher growth of SCM activities in the e-commerce, high-tech and health-care segments and additional new business from the CRM Solution Group. There are also opportunities for growth in the Solution Groups: IT Solutions, Financial Solutions, Digital Marketing and Print Solutions. The Be Printers print businesses, particularly in

Southern Europe, may decline less steeply through additional volume and new customers. This would provide opportunities from the targeted servicing of market segments that are still growing. At Corporate Investments, there is potential for growth thanks to lower restructuring costs in the Club and Direct Marketing businesses. In addition, potential artist signings or music catalog takeovers could offer growth opportunities for BMG. 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 the economic conditions will develop as follows in 2014. In the reporting period, the subdued global growth dynamic of recent years is expected to accelerate slightly. The Institute for the World Economy at the University of Kiel (IfW) forecasts that the global economy will grow by 3.7 percent in real terms in 2014. The recovery based on the gradually stabilizing economic conditions in Europe and the ongoing course of recovery in the United States is being supported by the continuing expansive monetary policy. However, compared with the high level of previous years, fewer growth stimuli for the global economy are expected from the threshold countries.

For the United States, the IfW expects real growth of 2.3 percent in 2014. According to the IfW forecast, the euro zone will strengthen over the course of 2014 and achieve a real growth rate of 0.9 percent. The European Central Bank estimates that the economy in the euro zone will benefit from a recovery in domestic demand and a gradual increase in the demand for exports. Nonetheless, European economic development will still be adversely affected by the consolidation measures of indebted member states as well as by high unemployment. In view of the clear upturn in the UK, real growth of 2.0 percent is expected in 2014. The recovery of the euro zone will also improve German economic development. For 2014, the IfW expects real growth of 1.7 percent in Germany. Domestic stimuli are playing a key role in the positive expectations. Private consumption benefited from favorable employment and income prospects, and investments are being driven by

the improving global economic environment and the easing of uncertainty.

### 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 threshold countries 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 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.

In 2014, a stable overall development in the TV advertising markets in Germany and Benelux, declines in France and a slight to moderate recovery in Southern and Eastern Europe is expected. The English-, German- and Spanish-language book markets are expected to show largely stable development in 2014. In the magazine business, the advertising and circulation markets in Germany, France, Spain and China in 2014 are expected to continue to decline. In 2014, the services markets are expected to achieve growth similar to 2013, and the storage media markets are expected to continue to decline at the same rate as in the previous year. The European print markets for magazines, catalogs and promotional materials and the print market for books in the United States are expected to continue to decline in 2014.

### Expected Performance

Despite the gradually easing uncertainty over economic developments, the forecasts are still subject to certain risks. The following expectations are therefore based on the assumption that the normalization of the overall economic situation will continue, and that most of the forecast market developments and the economic predictions of the research institutions will be realized.

Bertelsmann's business development will be determined by the diversity of some of its businesses. The presence in different markets and regions reduces possible fluctuations and has a stabilizing effect. For financial year 2014, Bertelsmann

anticipates that the positive business development will be driven by the stable market expectations for the TV advertising markets in Germany and Benelux, the stable book markets and the continuously growing service markets. The growth stimuli created in financial year 2013 through the strategic portfolio expansions will have a positive impact on Bertelsmann's growth profile over the next few years. The accelerated scaling back of structurally declining businesses – in particular, print, replication, Club and Direct Marketing – will also help to mitigate their negative impact.

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 the revenue and earnings share within the euro zone expected to remain at around 75 percent, the extent of growth is based on the forecasted real and nominal economic development. The IfW assumes that GDP in the euro zone will increase by 2.2 percent in nominal terms and by 0.9 percent in real terms in 2014. The OECD predicts that GDP in the euro zone will increase by 2.0 percent in nominal terms and by 1.0 percent in real terms in 2014. In view of these economic forecasts, Bertelsmann expects a stable development of Group revenues for 2014. Taking into account the strategic portfolio expansions made in the reporting period but not included for the whole year as of December 31, 2013, Bertelsmann expects a significant increase in Group revenues in financial year 2014. Despite incurring start-up losses for digitization projects and new businesses, Bertelsmann expects stable to slightly increasing operating EBIT compared with the previous year, which will more than offset the negative impact of structurally declining businesses. As a result of the

strategic portfolio expansions in financial year 2013, which are taken into account for the full year's period for the first time in 2014 as well as higher operating investments, Bertelsmann anticipates a significant increase in the level of invested capital in financial year 2014. Consequently, a low overall return on investment and a strong fall in BVA are expected.

The revenues of Penguin Random House will be strongly above the previous year's figure as they are taken into account for the full year's period in the consolidated financial statements for financial year 2014. Otherwise, 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 current business strategy as outlined in the "Business and Economic Conditions" section. In general, the forecasts reflect careful consideration of risks and opportunities and are based on operational planning and the medium-term outlook for the corporate divisions. All statements concerning potential economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying suppositions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.