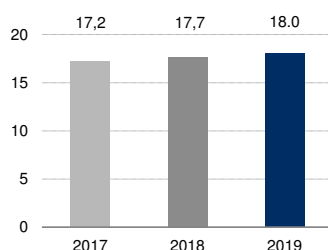


# Combined Management Report

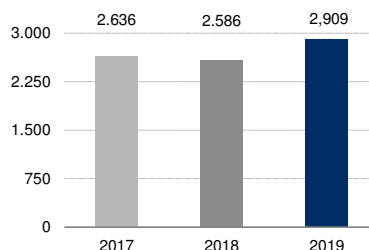
## Financial Year 2019 in Review

Bertelsmann reported successful business performance in the financial year 2019, with continued organic growth and high operating profit. Group revenues rose 2.0 percent to €18.0 billion (previous year: €17.7 billion), with organic growth of 1.2 percent. In addition to the book publishing business, the Group's strategic growth platforms were the main contributors to this, especially Fremantle, Arvato Supply Chain Solutions, the digital businesses of RTL Group, BMG, Arvato Systems and the digital businesses of Gruner + Jahr. Operating EBITDA increased to €2,909 million (previous year: €2,586 million). In addition to the positive business performance, the significant increase is also attributable to the initial application of the new IFRS 16 Leases financial reporting standard. As a result, the EBITDA margin rose to 16.1 percent (previous year: 14.6 percent). Group profit was once again high, at €1,091 million, compared with €1,104 million in the previous year. Bertelsmann anticipates positive business performance for 2020 as well.

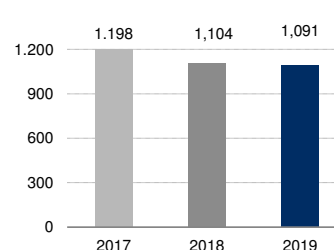
**Revenues** in € billions



**Operating EBITDA** in € millions



**Group Profit** in € millions



- Revenue growth of 2.0 percent, continued organic growth of 1.2 percent
- Continued expansion of growth businesses with strong organic revenue growth
- Increase in operating EBITDA to €2,909 million, attributable in part to the new financial reporting standard, on a comparable basis above the high prior-year level
- EBITDA margin of 16.1 percent, compared to 14.6 percent during the same period last year
- Group profit exceeding billion-euro mark for the fifth consecutive year
- Continued high profit contribution from fund activities of Bertelsmann Investments

## Fundamental Information about the Group

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

## Corporate Profile

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

Bertelsmann SE & Co. KGaA is a publicly traded but unlisted company limited by shares. As a group holding company, it exercises key corporate functions such as the definition and further development of group strategy, capital allocation, financing and management. Internal corporate management and reporting follow the Group's organizational structure, which consists of the operating divisions and Corporate.

RTL Group is, based on revenue, one of the leading television groups in the broadcasting, content and digital business, with interests in 68 television channels, eight streaming services, 30 radio stations, and global content production companies and digital businesses. The television portfolio includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as a stake in Atresmedia in Spain. RTL Group's content business, Fremantle, is one of the largest international creators, producers and distributors of scripted and unscripted content in the world. RTL Group is active in the area of online video with the streaming services of its broadcasters (including TV Now, 6play and Videoland); the digital video networks BroadbandTV and Divimove; and Fremantle's over 300 YouTube channels. RTL Group also owns the ad-tech companies Smartclip and SpotX. RTL AdConnect is RTL Group's international advertising sales house. RTL Group is a listed company and a member of the MDAX.

Penguin Random House is, based on revenue, the world's largest trade book publisher, with more than 300 imprints across six continents. Its well-known book brands include Doubleday, Riverhead, Viking and Alfred A. Knopf (United States); Ebury, Hamish Hamilton and Jonathan Cape (United Kingdom); Plaza & Janés and Alfaguara (Spain); Sudamericana (Argentina); and the international imprint DK. Germany's Verlagsgruppe Random House, which includes illustrious publishing houses such as Goldmann and Heyne, is not part of Penguin Random House from a legal point of view, but is under the same corporate management and is part of the Penguin Random House division. Each year Penguin Random House publishes about 15,000 new titles and sells around 600 million print books, e-books and audiobooks.

Gruner + Jahr is one of Europe's leading premium magazine publishers. Its magazine portfolio includes established brands such as "Stern," "Brigitte" and "Geo"; young brands like "Barbara," "Guido" and "Wohllebens Welt"; and the French magazine publisher Prisma Media. It also has products and licenses such as the "Schöner Wohnen" furniture collection and digital offerings in all publishing segments. In digital marketing, G+J operates international platforms such as AppLike, and has a stake in the global leader of native advertising, Outbrain. The G+J enterprise Territory is one of the leading communication agencies in Germany and the leading content communications provider in Europe. In addition, G+J holds the majority stake in DDV Mediengruppe in Saxony, and a stake in Spiegel-Gruppe.

BMG is an international music company with 19 offices in 12 core music markets, now representing more than three million songs and recordings, including the catalogs of Alberts Music, Broken Bow Music Group, Bug, Cherry Lane, Chrysalis, Mute, Primary Wave, Sanctuary and Trojan, as well as thousands of famous artists and songwriters.

Arvato is an international service provider that develops and implements custom-made solutions for all kinds of business processes, for customers in a wide range of sectors in more than 40 countries. These comprise Supply Chain Solutions (SCS), Financial Solutions and IT Services. The service business also includes the Majorel group, in which Bertelsmann holds a 50 percent stake.

Bertelsmann Printing Group unites Bertelsmann's printing activities. They include all the Company's gravure and offset printing companies in Germany, the United Kingdom and the United States. In addition, various digital marketing services are offered, with a focus on data-driven multichannel marketing, campaign management and customer loyalty. Bertelsmann Printing Group also includes the storage media producer Sonopress, the specialty printer Topac and the multipartner program DeutschlandCard.

Bertelsmann Education Group comprises Bertelsmann's education activities. The digital education and service offerings are primarily in the healthcare and technology sectors, as well as in the university education area. The education activities include the online education provider Relias and a stake in Udacity, as well as the US university services provider HotChalk.

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

## Regulatory Environment

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

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

## Shareholder Structure

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

## Strategy

Bertelsmann aims to achieve a fast-growing, digital, international and diversified Group portfolio. Businesses in which Bertelsmann invests should have long-term stable growth, global reach, sustainable business models, high market-entry barriers and scalability. The rapidly expanding education business is being developed into the third earnings pillar alongside the media and service businesses. The Group strategy comprises four strategic priorities: strengthening the core businesses; digital transformation; expanding growth platforms; and expanding into growth regions. In the financial year 2019, steady efforts continued to focus on implementing strategy in line with these priorities.

Strengthening the core businesses included both organic successes and important strategic acquisitions. RTL Group expanded its broadcasting lineup in France, and acquired free-to-air children's channel Gulli and five pay-TV channels from Lagardère. In Germany, VOXup is a new linear channel providing a versatile array of familiar Vox formats, free-TV premieres and new in-house productions. At the end of the 2019 financial year, Bertelsmann announced the planned acquisition of the remaining shares in Penguin Random House

held by co-owner Pearson. This makes Bertelsmann the sole shareholder of the world's largest trade book publisher. In addition, Penguin Random House increased its share in the book publishing business, with continued organic growth and also through acquisitions that include the British children's book publisher Little Tiger Group and a shareholding in the US publisher Sourcebooks. Gruner + Jahr enlarged its personality magazine portfolio with a cooperation between "Brigitte" and the psychotherapist and best-selling author Stefanie Stahl. At the beginning of 2019, Bertelsmann and the Saham Group completed the merger of their global CRM businesses under a newly formed company, Majorel. The global print businesses of Bertelsmann Printing Group were restructured organizationally. The new cross-division structure is based on a "single-company approach." Another emphasis in the reporting period was strengthening collaborations and alliances – for example, the Bertelsmann Content Alliance in the content business and the Ad Alliance in advertising and marketing.

The digital transformation progressed as digital businesses were continually expanded. RTL Group reported not only an increase in paying subscribers for its streaming services, but also an increase in viewing time on the platforms TV Now in Germany and Videoland in the Netherlands. In France, the RTL Group company Groupe M6 is developing a technical platform for Salto – the pay streaming service it operates with TF1 and France Télévisions, to be launched in 2020. Gruner + Jahr launched "Stern Crime Plus," its first paying subscriber model for digital journalism. Bertelsmann Content Alliance initiated Audio Alliance to increase its audio offers, and started producing podcasts and distributing new podcasts on its Audio Now platform.

The Group's growth platforms were expanded further and recorded overall significant organic growth. Fremantle is continuing its drama productions with the second season of drama series "American Gods," and was successful with formats such as "America's Got Talent: The Champions" in the United States and the second season of the UFA production "Charité" in Germany. BMG expanded its presence in Asia by opening a branch in Hong Kong and reported successful publications of artists like Kylie Minogue and Jason Aldean in the recordings business, and Bring Me The Horizon, Juice WRLD and Lewis Capaldi in the music publishing business. New or expanded agreements were signed in the recordings business – for example, with the singers Richard Marx and Natalie Imbruglia and the band Seether; and in the music publishing business with Neil Finn of Crowded House, Cage The Elephant, and Mick Jagger and Keith Richards of the Rolling Stones. Arvato Supply Chain Solutions attracted many new customers, and Arvato Financial Solutions initiated the creation of the pay-after-delivery business and a new digital "Know Your Customer" platform to offer companies and banks a powerful tool. Arvato Systems continued to expand its portfolio of IP-based solutions by introducing a serialization solution for prescription medication as well as starting a VPN access service. In the online education segment, Relias continued to expand its customer base and integrated the healthcare division of OnCourse Learning, a company acquired last year. Bertelsmann announced that it will provide around 50,000 scholarships for classes provided by the US-based online university Udacity in the areas of the cloud, data and artificial intelligence as part of the continuing digital education campaign "#50000Chancen."

Bertelsmann expanded its global network of startup investments in growth regions and made around 80 new and follow-up investments during the reporting period. At the end of 2019, Bertelsmann Investments held some 230 investments in young companies and funds, mainly through its four international funds. During the reporting period, Bertelsmann Asia Investments (BAI) included the e-commerce platform Ding Dong Fresh, with which customers can order fresh groceries and have them delivered to their home. Furthermore, this fund was successful in several exits, including the sale of all the shares in the tech company Bigo. Bertelsmann India Investments (BII) invested in the online loan market platform Rupeek, which is currently focused on issuing loans with gold as collateral. In Brazil, Bertelsmann acquired 100 percent of Afferolab, one of the country's largest corporate training providers. In addition, Bertelsmann Brazil Investments (BBI) assisted in preparing the successful IPO of Afya, a Brazilian education company. Bertelsmann holds a stake in Afya via a fund participation with its partner Crescera Investimentos. Penguin Random House expanded its presence in South America with its acquisition of the publishing group Ediciones Salamandra, operating in Spain and Latin America, and by purchasing the literature and educational publisher Editor Zaher in Brazil through Companhia das Letras.

Bertelsmann will continue to push ahead with its ongoing transformation in 2020, in line with the four strategic priorities. Compliance with and achievement of the strategic development priorities are continuously examined by the Executive Board at the divisional level, through regular meetings of the Strategy and Business Committee and as part of the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board. In addition, relevant markets and the competitive environment are analyzed on an ongoing basis in order to draw conclusions concerning the further development of the Group's strategy. The Executive Board is also supported by the Group Management Committee (GMC) on issues of corporate strategy and development. This Committee is composed of executives representing key businesses, countries and regions, and select Group-wide functions.

The Group's content-based and entrepreneurial creativity is also very important for the implementation of its strategy. Bertelsmann will therefore continue to invest in the creative core of its businesses. Simultaneously, innovation competence is very important for Bertelsmann and is a key strategic component (see the section "Innovations").

## Value-Oriented Management System

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

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

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

### Strictly Defined Operational Performance Indicators

To control and manage the Group, Bertelsmann uses revenues, operating EBITDA and BVA as performance indicators. Revenue is used as a growth indicator of businesses. Group revenues in the financial year 2019 rose by 2.0 percent to €18.0 billion (previous year: €17.7 billion). The organic growth was 1.2 percent.

A key performance indicator for measuring the profitability of the Bertelsmann Group and the divisions is operating EBITDA. Operating EBITDA increased in the reporting period to €2,909 million (previous year: €2,586 million), due in part to the initial application of the new standard IFRS 16 Leases.

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. At €89 million, BVA in the financial year 2019 was below the previous year's figure of €121 million.

### Broadly Defined Performance Indicators

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

The cash conversion rate serves as a measure of cash generated from business activities, which should be between 90 percent and 100 percent as a long-term average. In the financial year 2019, the Cash Conversion Rate was 97 percent (previous year: 91 percent).

The EBITDA margin is used as an additional criterion for assessing business performance. In the financial year 2019, the EBITDA margin of 16.1 percent was above the previous year's level of 14.6 percent. Initial application of IFRS 16 had a correspondingly positive impact.

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

## Non-Financial Performance Indicators

The following section refers to the non-financial performance indicators at Bertelsmann. For more information about the organization, management and key topics of corporate responsibility, please refer to page 41 et seq. of the section "Combined Non-Financial Statement."

### Employees

At the end of the financial year 2019, the Group had 126,447 employees worldwide. In 2019, there were 1,235 people serving in trainee positions in Bertelsmann companies in Germany.

The personnel department strengthened talent management processes and instruments. In particular, by 2021, one-third of top and senior management positions across all divisions should be occupied by women.

The Bertelsmann Essentials (corporate values) were communicated, and an inaugural digital employee survey was conducted across the Group to evaluate their implementation. The Group plans to conduct the survey biennially from 2019 onward.

Furthermore, the digital curriculum of Bertelsmann University was expanded. At the end of 2019, over 91,000 employees in 57 countries were able to access training courses on the Group-wide digital "peoplenet" HR IT platform.

At the Group Dialogue Conference in December 2019, employee representatives and company representatives discussed future methods of cooperation and current trends.

After adopting the Inclusion Action Plan to improve participation of disabled persons in the working environment, implementation was launched at the German sites, working together with representatives for disabled persons.

Bertelsmann has been one of the pioneers in profit sharing since 1970. Accordingly, in 2019, a total of €116 million of the 2018 profit was distributed to employees across the Group (previous year: €105 million).

### Innovations

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

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

executives meet with internal and external experts to examine success factors for innovation and creativity. Furthermore, cooperation is strengthened with increased collaboration among the divisions. For example, the marketer IP Deutschland, G+J eMS and other partners have combined their capabilities into the Ad Alliance, and provide them to advertising clients and media agencies. In the reporting period, Bertelsmann also launched the new Bertelsmann Content Alliance in Germany, a cooperation between all content businesses in the Group for developing and marketing mutual formats across divisions.

The innovations at RTL Group focus on three core topics: continuously developing new, high-quality TV formats; using all digital means of distribution; and expanding diverse forms of advertising sales and monetization. RTL Group established, for example, the Format Creation Group (FC Group) that meets the high demand for exclusive content by developing innovative format ideas and intellectual property fully owned and controlled by RTL Group. FC Group develops factual entertainment formats and reality shows exclusively for RTL broadcasters and streaming services, reflecting their needs in the local markets. Groupe M6 is developing the tech platform for the pay streaming service Salto, to be launched in 2020. Salto is a project of the two main commercial French television companies, Groupe TF1 and Groupe M6, as well as the public broadcaster France Télévisions. Salto's tech platform will also be used by RTL Group broadcasters and is open to other broadcasting partners. In Germany, Mediengruppe RTL Deutschland together with ProSiebenSat.1 launched the joint venture d-force which aims to boost addressable television and online video advertising in Germany.

Innovations at Penguin Random House aim to promote a culture throughout the entire company that is driven by readers. The innovative approach starts with understanding the tastes and preferences of readers, using data and new insights to create a unique brand experience for them. In order to enhance the reader's buying experience, the US publisher introduced Reader Rewards, a customer loyalty program that rewards consumers for purchasing and reading books. Studies indicate that many millennials prefer to experience things rather than buy material goods. For this reason, Penguin Random House held its first own-book fair, "Book Fair for Grown Ups!" in New York. The event, modeled after a school book fair and aimed at young adults, was very popular with participants and on social media. One example of the company's expertise in handling data with the goal of reaching a broader audience is the Global Data Hub. The Hub is a global data project that allows for optimal use of data to assist the various Penguin Random House companies in decision-making and to help authors reach as many readers as possible with their books.

Innovations at Gruner + Jahr included, in particular, launching new magazines and developing digital journalistic pay models, as well as promoting sustainable alliances, most importantly the Bertelsmann Content Alliance. The positive business performance of the marketing platform AppLike and the increase in digital offerings of the classic magazine brands of Prisma Media contributed to additional growth in the digital business. "Wohllebens Welt" was an addition to the successful personality magazine segment, and the magazine "Brigitte Be Green" addressed the social trend toward sustainability. G+J created its first successful paid-content products with "Stern Crime Plus" and "Stern Plus." Together with the Bauer Media Group, G+J created the new platform "Der Medienvertrieb" for newspaper marketing.

Innovation at BMG is based on the company's five strategic pillars: focusing on growth markets; expanding and diversifying its repertoire; expanding global presence; and relentlessly delivering on its core values of fairness, transparency, and service while retaining its competitive approach to costs. One major innovation in 2019 was the update to the mobile BMG customer portal, myBMG, which can now display songwriters' data from the Synch area and license updates as well as provide complete transparency regarding licensing information. Other innovations include the new edition of Keith Richards' classic first solo album, "Talk is Cheap," for its 30th anniversary as a high-end product; expanding the service portfolio to include artist management; the creation of "Modern Recordings," a label for new classical, jazz and electronic music; the Grammy-nominated documentary on David Crosby titled "Remember My Name"; and a dynamic rebranding of BMG Production Music.

Innovation was achieved in the four divisions of Arvato. All four divisions are using their innovative activities to pursue the goal of enhancing existing solutions or designing and creating new services. Arvato Supply Chain Solutions invested in automation projects in 2019; for example, in the Netherlands, launching one of the largest autostore warehouse systems in Europe. Under the name "cinfoni," Arvato Financial Solutions continued to develop a new platform solution that greatly lightens the burden on banks and businesses regarding the complex handling of strictly regulated KYC-relevant company data and documents. The IT services provider Arvato Systems founded "AI Competence Cluster," further expanding its competency in the field of applied artificial intelligence, and Majorel provided additional impetus to the digital transformation of customer communication with machine learning and chatbots.

Innovations at Bertelsmann Printing Group in 2019 included optimizing existing processes with new technologies, and creating innovative products and services. Prinovis in Liverpool developed an innovative packing system for print products that substitutes plastic wrap with paper banderoles. At Mohn Media, virtual and augmented reality were tested for use in training and continued education, and Topac, which offers highly innovative packaging systems, was a successful entry into the promising sustainable packaging market. In addition, companies in the area of digital marketing established several innovative services in the market that involve highly individualized customer contact.

The innovations at Bertelsmann Education Group mainly consisted of developing digital and customized education offerings. For example, in the healthcare sector Relias employs health experts (including doctors, nurses and therapists) to develop a training library for training specific skills to clinic and nursing home personnel. Data analyses are used more and more frequently to determine training success and to ensure that proper techniques are used in treating patients with certain illnesses. In the technology segment, Udacity was able to expand its products for companies – among other things, in the areas of data science and artificial intelligence. For example, employees learn about new technologies in Nanodegree programs and help their companies discover new uses for digitalization and automation.

## Report on Economic Position

### Corporate Environment

#### Overall Economic Developments

Economic growth slowed in 2019. Real GDP increased by 3.0 percent compared to 3.7 percent in 2018. The slowdown in industry and global trade still has an effect. The economies in developed countries in particular continued to slow down, whereas the economic situation in many emerging countries stabilized. In addition, the global economy was negatively impacted by the worsening of the trade conflict between China and the United States.

In Europe the economy slowed down. Real GDP grew by 1.2 percent compared to 1.8 percent in 2018. Sluggish industry growth ultimately also affected the service sector, which had been recording robust growth for a long period.

Global economic slowdown affected the German economy. Real GDP grew by only 0.6 percent compared to 1.5 percent in the previous year. In contrast, the French economy maintained its growth trajectory. The smaller dependency on exports compared with Germany is a positive factor for growth. Real GDP growth was 1.2 percent in 2019 compared to 1.7 percent in 2018. Economic growth in the United Kingdom remained stable, with an increase of 1.4 percent compared to 1.3 percent in the previous year.

After a slight weakness mid-year in the United States real GDP grew by 2.3 percent in 2019 compared to 2.9 percent in 2018.

#### Developments in Relevant Markets

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

The development in European TV advertising markets was mixed in 2019, yet was slightly down overall. TV advertising markets grew significantly in Hungary and remained stable in the Netherlands, whereas the French TV advertising markets showed a slight decrease, in Belgium and Germany a moderate drop, and in Spain a significant decline. The streaming markets in Germany, France and the Netherlands showed strong growth.

The markets for printed books achieved slightly positive growth overall in 2019. Revenue from printed books reported slight growth in all relevant markets. Publisher sales of e-books declined moderately in the United States and the United Kingdom, whereas the markets for audiobooks continued to grow strongly.



The magazine markets in Germany and France in 2019 were characterized by strongly declining print advertising business and moderately declining circulation business in Germany, as well as a significant decline in the circulation business in France, while the digital business in Germany and France posted strong growth.

The global music markets in 2019 reported moderate growth in the publishing segment. The recording market segment grew significantly.

The key service markets for Arvato, namely Customer Relationship Management, Supply Chain Solutions (SCS), Financial Solutions and IT, saw moderate to significant growth.

The European offset printing markets declined moderately in 2019, while the European gravure printing markets declined significantly. The development of the North American book printing market declined moderately over the same period.

In 2019, the education markets in the United States exhibited moderate to strong growth in the market segments where Bertelsmann is involved – namely, training in healthcare, e-learning in the technology area, and university education in the university and services areas.

## Significant Events in the Financial Year

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

Kasper Rorsted, CEO of adidas AG, resigned from the Supervisory Board of Bertelsmann effective March 31, 2019.

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

The RTL Group's Board of Directors appointed Thomas Rabe as Chief Executive Officer of RTL Group effective April 1, 2019. In addition, Thomas Rabe is also Chairman and CEO of Bertelsmann.

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

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

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

In July and August 2019, the media and competition authorities in France approved a joint pay streaming service provided by France Télévisions, TF1 and Groupe M6 (part of RTL Group). The Salto platform is planned to launch in 2020, and will combine the entire programme offers by these channels as well as exclusive content and make them available to users in a subscription model.

In September 2019, Groupe M6 (part of RTL Group) completed the acquisition of Groupe Lagardère's television business. As a result, Groupe M6 expanded its family of channels with the French market leader in children's television, Gulli. The digital free-to-air channel for children has a strong presence in linear and non-linear television, and is one of the most successful children's brands in France.

At the end of December 2019, Bertelsmann announced that it would take over 100 percent of Penguin Random House, as planned. When it acquires the 25 percent share owned by co-owner Pearson for USD \$675 million, Bertelsmann will become the sole owner of the publishing group. This acquisition is subject to approval required from the authorities. The transaction is expected to be completed from the second quarter of 2020.

## Results of Operations

The following analysis of earnings performance relates to continuing operations as of December 31, 2019. Please refer to the section "Performance of the Group Divisions" for a more detailed picture of the results of operations.

### Revenues by Division

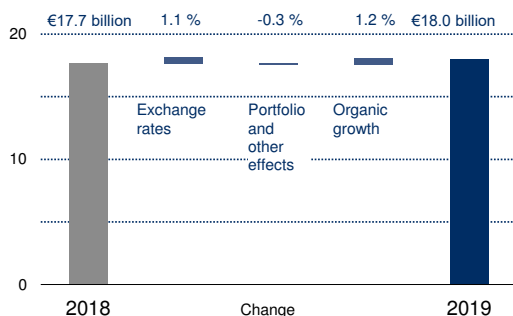
in € millions			2019			2018
	Germany	Other countries	Total	Germany	Other countries	Total
RTL Group	2,138	4,513	6,651	2,168	4,337	6,505
Penguin Random House	265	3,371	3,636	257	3,167	3,424
Gruner + Jahr	913	442	1,355	948	492	1,440
BMG	46	554	600	34	511	545
Arvato	1,697	2,478	4,175	1,630	2,470	4,100
Bertelsmann Printing Group	948	620	1,568	966	673	1,639
Bertelsmann Education Group	2	331	333	1	257	258
Bertelsmann Investments	0	13	13	0	12	12
Total divisional revenues	6,009	12,322	18,331	6,004	11,919	17,923
Corporate/Consolidation	(203)	(105)	(308)	(145)	(105)	(250)
Continuing operations	5,806	12,217	18,023	5,859	11,814	17,673

### Revenue Development

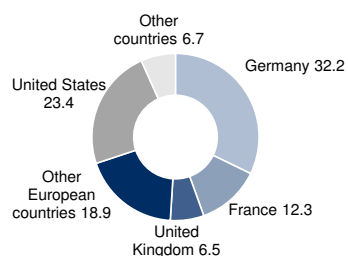
Group revenues in the financial year 2019 rose by 2.0 percent to €18.0 billion (previous year: €17.7 billion). Revenue increases were recorded in particular by RTL Group, Penguin Random House, BMG, Arvato and Bertelsmann Education Group. The Group achieved organic growth of 1.2 percent. At the same time, the strong organic growth of strategic growth businesses was dampened by structurally declining businesses. Exchange rate effects were 1.1 percent; portfolio and other effects were -0.3 percent.

Revenues at RTL Group rose 2.2 percent to €6,651 million (previous year: €6,505 million). The organic growth was 2.4 percent. The primary growth contributors were RTL Group's content business Fremantle and the Group's the digital businesses. Revenues at Penguin Random House rose 6.2 percent to €3,636 million (previous year: €3,424 million). The organic growth was 1.5 percent. Both the exchange rate and portfolio effects due to acquisitions had a positive impact on revenues. At €1,355 million, Gruner + Jahr's revenues were down 5.9 percent year on year (previous year: €1,440 million). The organic growth was -0.3 percent. The lower revenue level is largely attributable to portfolio adjustments, which have been completed in the meantime. BMG revenues increased by 10.1 percent to €600 million (previous year: €545 million) due to continued expansion of the business. The organic growth was 6.9 percent. Revenues at Arvato rose 1.8 percent to €4,175 million (previous year: €4,100 million). The organic growth was 2.3 percent. The increase stemmed in particular from positive business development in the SCM and Financial Solutions divisions. Revenues at Bertelsmann Printing Group fell 4.3 percent to €1,568 million (previous year: €1,639 million) due to market effects. The organic growth was -4.9 percent. Bertelsmann Education Group increased its revenues by 29.4 percent to €333 million (previous year: €258 million). The organic growth was 4.0 percent. Revenue growth was due to organic growth, and in particular due to portfolio effects. The investments of Bertelsmann Investments are generally not consolidated, so revenue is not usually reported for this division.

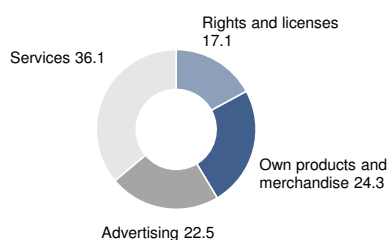
## Revenue Breakdown



## Consolidated Revenues by Region in percent



## Consolidated Revenues by Category in percent



The revenue share generated by the growth businesses increased to 36 percent overall (previous year: 34 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses decreased to 3 percent (previous year: 4 percent). The growth businesses comprise those activities that post continuous revenue increases due to sustained positive market factors and that have been identified as growth priorities as part of the Group's strategy. These include the digital businesses of RTL Group and Gruner + Jahr; the TV production, music business and service businesses in the Arvato divisions of SCM Solutions and Financial Solutions and Systems; and the education business. The structurally declining businesses comprise those activities that post sustained revenue losses due to market factors. These include in particular the gravure printing activities and the storage media replication business.

There were only minor changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 32.2 percent compared to 33.2 percent in the previous year. The revenue share generated by France amounted to 12.3 percent (previous year: 13.2 percent). In the United Kingdom, the revenue share was 6.5 percent (previous year: 6.5 percent). The share of total revenues generated by the other European countries amounted to 18.9 percent compared to 18.9 percent in the previous year. The revenue share generated by the United States was 23.4 percent (previous year: 22.0 percent), and the other countries achieved a revenue share of 6.7 percent (previous year: 6.2 percent). This means that the share of total revenues generated by foreign business was 67.8 percent (previous year: 66.8 percent). Year on year, there was a slight change in the ratio of the four revenue sources (own products and merchandise, services, advertising, rights and licenses) to overall revenue.

## Results Breakdown

in € millions	2019	2018
Operating EBITDA by division		
RTL Group	1,439	1,402
Penguin Random House	561	528
Gruner + Jahr	157	140
BMG	138	122
Arvato	549	377
Bertelsmann Printing Group	68	85
Bertelsmann Education Group	84	37
Bertelsmann Investments	(1)	(3)
Total operating EBITDA by division	2,995	2,688
Corporate/Consolidation	(86)	(102)
Operating EBITDA from continuing operations	2,909	2,586
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(930)	(670)
Special items	(154)	(296)
EBIT (earnings before interest and taxes)	1,825	1,620
Financial result	(309)	(216)
Earnings before taxes from continuing operations	1,516	1,404
Income tax expense	(426)	(301)
Earnings after taxes from continuing operations	1,090	1,103
Earnings after taxes from discontinued operations	1	1
Group profit or loss	1,091	1,104
attributable to: Earnings attributable to Bertelsmann shareholders	729	753
attributable to: Earnings attributable to non-controlling interests	362	351

## Operating EBITDA

Bertelsmann achieved operating EBITDA of €2,909 million in the financial year 2019 (previous year: €2,586 million). The increase of 12.5 percent is basically attributable to method effects caused by applying the new IFRS 16 Leases financial reporting standard (+€274 million). In particular Gruner + Jahr, BMG, Arvato and Bertelsmann Education Group posted a substantial percentage growth in earnings. The EBITDA margin rose to 16.1 percent (previous year: 14.6 percent).

Initial application of the new IFRS 16 Leases financial reporting standard had a positive impact on operating EBITDA at all divisions. Operating EBITDA at RTL Group was up 2.7 percent to €1,439 million (previous year: €1,402 million), due especially to an increased profit contribution from Fremantle. Operating EBITDA at Penguin Random House rose by 6.2 percent to €561 million (previous year: €528 million). Operating EBITDA at Gruner + Jahr increased by 12.1 percent to €157 million (previous year: €140 million). BMG's operating EBITDA increased by 12.7 percent to €138 million (previous year: €122 million), also attributable to continued business expansion. Arvato achieved operating EBITDA of €549 million (previous year: €377 million). The strong growth of 45.7 percent also resulted from noticeable organic growth, especially in the Supply Chain Solutions (SCS) business area. Operating EBITDA at Bertelsmann Printing Group declined by 19.6 percent to €68 million (previous year: €85 million) due to declining volumes and the persistent pressure on prices. Operating EBITDA at Bertelsmann Education Group increased significantly to €84 million (previous year: €37 million). This was due to portfolio effects and organic profit growth, especially at Relias. The investments of Bertelsmann Investments are generally not consolidated, so operating earnings are not usually reported for this division.

## Special Items

Special items in the financial year 2019 totaled €-154 million compared to €-296 million in the previous year. They consist of impairments on goodwill and other intangible assets with indefinite useful lives amounting to €-27 million (previous year: €-173 million), impairments on

investments accounted for using the equity method amounting to €51 million (previous year: €2 million), impairments on other financial assets at amortized cost amounting to €9 million (previous year: –), adjustments of carrying amounts of assets held for sale of €7 million (previous year: €6 million), results from disposals of investments amounting to €90 million (previous year: €6 million), fair value measurement of investments amounting to €143 million (previous year: €157 million), as well as restructuring expenses and other special items totaling €293 million (previous year: €278 million). The increase in restructuring expenses is largely attributable to cutting back the gravure printing business.

## **EBIT**

EBIT amounted to €1,825 million in the financial year 2019 (previous year: €1,620 million), after adjusting operating EBITDA for special items totaling €154 million (previous year: €296 million) and the amortization, depreciation, impairments and reversals of impairments on intangible assets, property, plant and equipment and right-of-use assets totaling €930 million (previous year: €670 million), which were not included in the special items.

## **Group Profit**

The financial result was €216 million, compared with the previous year's amount of €309 million. The deviation is attributable to the first time adoption of the interest accrual effects of lease liabilities due to the initial application of IFRS 16, as well as to effects from the market valuation of derivatives used to secure internal Group transactions. The tax expense of €426 million reached a normalized level compared to €301 million in the previous year, primarily due to a decrease in positive valuation effects of deferred taxes. This produced earnings after taxes from continuing operations of €1,090 million (previous year: €1,103 million). Taking into account the earnings after taxes from discontinued operations of €1 million (previous year: €1 million), this resulted in Group profit of €1,091 million (previous year: €1,104 million). The share of Group profit attributable to non-controlling interests came to €362 million (previous year: €351 million). The share of Group profit attributable to Bertelsmann shareholders was €729 million (previous year: €753 million). At the Annual General Meeting of Bertelsmann SE & Co. KGaA, an unchanged year-on-year dividend payout of €180 million will be proposed for the financial year 2019.

## **Net Assets and Financial Position**

### **Financing Guidelines**

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

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

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One of the financial targets is a dynamic leverage factor limited to the defined maximum of 2.5. As of December 31, 2019, the leverage factor of Bertelsmann was 2.6, lower than the previous year's level (December 31, 2018: 2.7). Due to a high operating release of funds, net financial debt decreased. This was counteracted by the increase in pension provisions due to the lower discount rate and the increase in the present value of lease liabilities resulting from IFRS 16. Both of these effects caused the leverage factor limit to be exceeded (see further explanation in the section "Alternative Performance Measures"). Assuming that the discount interest rate did not change from the previous year, the leverage factor would have been below 2.4 as of December 31, 2019.

As of December 31, 2019, economic debt decreased to €6,511 million from €6,619 million in the previous year, due to a decrease in net financial debt to €3,364 million (December 31, 2018: €3,932 million). In contrast, the recognized lease liabilities increased (method effect of IFRS 16) to €1,392 million (December 31, 2018/net present value of operating leases: €1,161 million). Provisions for pensions and similar obligations rose to €1,967 million as of December 31, 2019 (December 31, 2018: €1,738 million), primarily due to a decrease in the discount interest rate.

Another financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA, used to determine the leverage factor, to financial result and should exceed four. In the reporting period, the coverage ratio was 8.5 (previous year: 11.1). The Group's equity ratio was 38.2 percent (December 31, 2018: 38.8 percent), which remains significantly above the self-imposed minimum of 25 percent.

### Financial Targets

	Target	2019	2018
<b>Leverage Factor:</b> Economic debt/Operating EBITDA <sup>1)</sup>	≤ 2.5	2.6	2.7
<b>Coverage ratio:</b> Operating EBITDA/Financial result <sup>1)</sup>	> 4.0	8.5	11.1
<b>Equity ratio:</b> Equity as a ratio to total assets (in percent)	≥ 25.0	38.2	38.8

1) After modifications.

### Financing Activities

A promissory note for €150 million due in February 2019, a promissory note for €60 million due in May 2019, and a floating-rate note for €100 million due in November 2019 were repaid in the reporting period. In July 2019, Bertelsmann placed a promissory note for €75 million with a seven-year term of which €65 million have fixed interest rates and €10 million have variable interest rates. Additionally, the syndicated loan with 15 banks previously maturing in 2021 was renewed early in July 2019. Bertelsmann can utilize this with a term until 2024 to draw up to €1.2 billion of revolving funds.

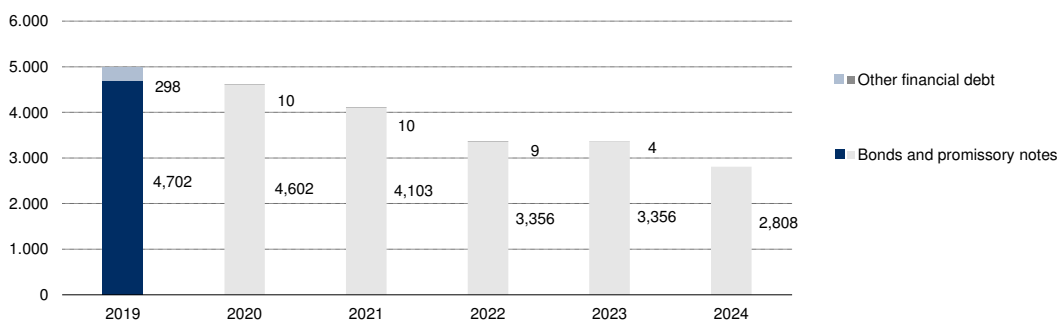
### Rating

Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The issuer 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: negative) 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

In addition to available liquidity, the Bertelsmann Group has access to a syndicated loan agreement with 15 banks. This forms the backbone of the strategic credit reserve; Bertelsmann can utilize this with a term until 2024 to draw up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling.

### Maturity Structure of Financial Debt in € millions



## Cash Flow Statement

In the reporting period, Bertelsmann generated net cash from operating activities of €2,090 million (previous year: €1,437 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,883 million (previous year: €1,753 million), and the cash conversion rate was 97 percent (previous year: 91 percent); see also the section "Broadly Defined Performance Indicators." The cash flow from investing activities was €-712 million (previous year: €-1,130 million). This included investments in intangible assets, property, plant and equipment, and financial assets of €-953 million (previous year: €-878 million). The purchase price payments for consolidated investments (net of acquired cash and cash equivalents) were €-317 million (previous year: €-556 million). Proceeds from the sale of subsidiaries and other business units and from the disposal of other non-current assets were €558 million (previous year: €304 million). Cash flow from financing activities was €-1,128 million (previous year: €-372 million). Dividends paid to shareholders of Bertelsmann SE & Co. KGaA remained unchanged at €-180 million (previous year: €-180 million). Dividends to non-controlling interests and further payments to partners in partnerships came to €-263 million (previous year: €-356 million). As of December 31, 2019, Bertelsmann had cash and cash equivalents of €1.6 billion (previous year: €1.4 billion).

### Consolidated Cash Flow Statement (Summary)

in € millions	2019	2018
Cash flow from operating activities	2,090	1,437
Cash flow from investing activities	(712)	(1,130)
Cash flow from financing activities	(1,128)	(372)
Change in cash and cash equivalents	250	(65)
Exchange rate effects and other changes in cash and cash equivalents	(12)	28
Cash and cash equivalents on 1/1	1,405	1,442
Cash and cash equivalents on 12/31	1,643	1,405
Less cash and cash equivalents included within assets held for sale	(7)	–
Cash and cash equivalents on 12/31 (according to the consolidated balance sheet)	1,636	1,405

## 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 declined year on year in particular due to the initial application of the new IFRS 16 accounting standard. The existing off-balance-sheet liabilities as of December 31, 2019, had no significant negative effects on the Group's net assets, financial position and results of operation for the past or future financial year.

## Investments

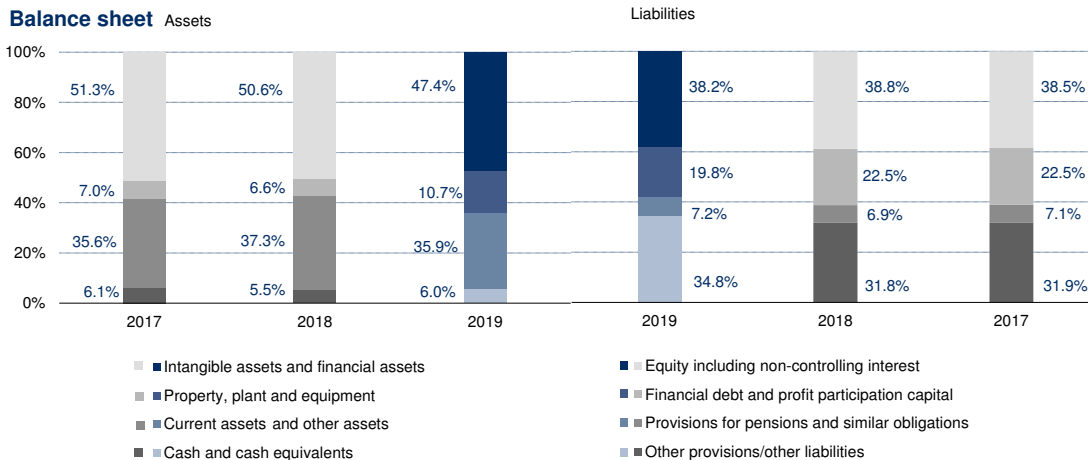
Total investments including acquired financial debt of €6 million (previous year: €27 million) amounted to €1,276 million in the financial year 2019 (previous year: €1,461 million). Investments according to the cash flow statement amounted to €1,270 million (previous year: €1,434 million). As in previous years, the majority of the €323 million investments in property, plant and equipment (previous year: €325 million) stemmed from Arvato. Investments in intangible assets came to €313 million (previous year: €295 million) and were primarily attributable to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. The sum of €317 million was invested in financial assets (previous year: €258 million). These include in particular the investments of Bertelsmann Investments. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €317 million in the reporting period (previous year: €556 million) and were attributable in part to the acquisition of the TV activities of Groupe Lagardère.

## Investments by Division

in € millions	2019	2018
RTL Group	481	262
Penguin Random House	124	43
Gruner + Jahr	31	54
BMG	80	107
Arvato	216	233
Bertelsmann Printing Group	45	36
Bertelsmann Education Group	25	484
Bertelsmann Investments	260	202
Total investments by division	1,262	1,421
Corporate/consolidation	8	13
Total investments	1,270	1,434

## Balance Sheet

Total assets amounted to €27.3 billion as of December 31, 2019 (previous year: €25.3 billion). Cash and cash equivalents amounted to €1.6 billion (previous year: €1.4 billion). Equity increased to €10.4 billion (previous year: €9.8 billion). This resulted in an equity ratio of 38.2 percent (previous year: 38.8 percent). Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €8.9 billion (previous year: €8.5 billion). Provisions for pensions and similar obligations increased to €1,967 million (previous year: €1,738 million). Gross financial debt decreased to €5,000 million compared to €5,337 million as of December 31, 2018. Apart from that, the balance sheet structure remained largely unchanged from the previous year.



## Profit Participation Capital

Profit participation capital had a par value of €301 million as of December 31, 2019, 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, 2019 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of par value of profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of par value. The lowest closing rate of the 2001 profit participation certificates in the financial year 2019 was 318.50 percent in January; their highest in the 2019 financial year was 353.40 percent in December.



Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of par value, subject to the availability of sufficient Group profit and net income at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will also be made for the financial year 2019.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, only have a limited cash trade due to their low volume. Payouts on the 1992 profit participation certificates are based on the Group's return on total assets. As the return on total assets for the financial year 2019 was 6.36 percent (previous year: 6.83 percent), the payout on the 1992 profit participation certificates for the financial year 2019 will be 7.36 percent of their notional value (previous year: 7.83 percent).

The payout distribution date for both profit participation certificates is expected to be May 11, 2020. 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

RTL Group once again grew its revenues to a new record level in 2019, mainly driven by Fremantle's expanding production business and the group's digital businesses. Operating EBITDA also increased based on accounting method effects and Fremantle's strong performance, despite higher costs for programming and streaming services. RTL Group rapidly expanded its streaming services in the European core markets. In Germany in particular, the group strengthened its market presence through alliances within and outside the Bertelsmann Group, primarily in the areas of advertising sales, technology and content.

RTL Group's revenues rose 2.2 percent to €6.7 billion (previous year: €6.5 billion), reaching a new peak. At €1.1 billion (previous year: €985 million), 16.1 percent (previous year: 15.1 percent) of total revenues were attributable to digital businesses such as digital advertising, streaming and advertising technology. Operating EBITDA increased by 2.7 percent to €1,439 million (previous year: €1,402 million), and the EBITDA margin was 21.6 percent (previous year: 21.5 percent).

At year-end, RTL Group had more than 1.44 million paying subscribers to its streaming platforms TV Now in Germany and Videoland in the Netherlands. This represents a 37 percent year-on-year increase. In France, approval was granted by the antitrust authorities to Salto, Groupe M6's joint streaming service with TF1 and France Télévisions, which is scheduled to launch in 2020.

Mediengruppe RTL Deutschland operated in a declining TV advertising market in 2019, but was able to partially compensate for lower advertising revenues with increased streaming and platform revenues. Earnings declined against a background of higher costs for sports content and the expansion of TV Now. The family of channels' combined audience share increased to 28.1 percent (previous year: 27.5 percent) in the main target group. The market-leading flagship channel RTL Television did especially well, increasing its audience share for the first time since 2011.

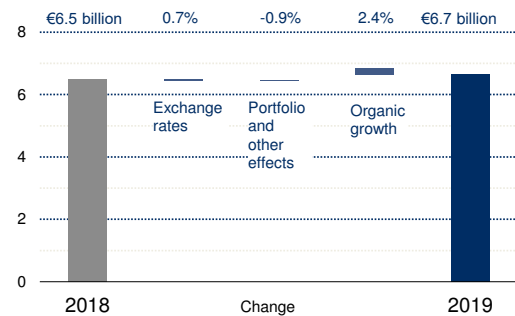
In France, Groupe M6's revenues fell slightly, while earnings remained stable. The decrease in revenue was mainly due to the sale of the soccer club Girondins de Bordeaux in 2018, which was almost completely compensated by higher TV ad sales following the acquisition of Lagardère's TV operations in September 2019. With this acquisition, which included France's leading children's TV channel, Gulli, Groupe M6 further strengthened its market position and profitability. As a result, Groupe M6 increased its combined audience share in the key target group to 22.8 percent (previous year: 21.4 percent). At RTL Nederland, revenues and earnings declined despite a positive performance by the streaming business.

The production business Fremantle grew strongly: Revenues and operating EBITDA increased at double-digit rates. This was driven by new seasons of successful series and show formats in the United States, as well as a thriving business at the German production subsidiary UFA.

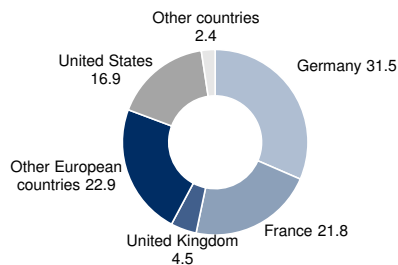
RTL Group contributed to the Bertelsmann Content Alliance in Germany with numerous projects and expanded its group-wide audio business. The German Ad Alliance gained additional partners. In the field of advertising technology, the activities of the RTL Group subsidiaries Smartclip and SpotX were strategically realigned.

RTL Group created a leading European digital studio by combining Divimove and United Screens. The digital video network StyleHaul was discontinued in 2019.

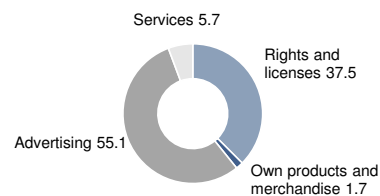
#### Revenue Breakdown



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



#### Revenues by Category in percent



#### Penguin Random House

Penguin Random House saw significant growth in 2019 thanks to numerous bestsellers and market share gains in several markets. Including Germany's Verlagsgruppe Random House, Penguin Random House increased its revenues by 6.2 percent to €3.6 billion (previous year: €3.4 billion). Operating EBITDA increased by 6.2 percent to €561 million (previous year: €528 million), also due to the initial application of the new IFRS 16 accounting standard. At 15.4 percent, the EBITDA margin once again reached a high level (previous year: 15.4 percent). In December, Bertelsmann announced its acquisition of full ownership of Penguin Random House.

Penguin Random House published the three biggest-selling adult titles of the year in the largest book market, the United States: "Where the Crawdads Sing" by Delia Owens sold over four million copies across all formats; Tara Westover's autobiographical debut "Educated" and Michelle Obama's "Becoming" each sold more than two million copies. Published in 46 languages, the memoir by the former U.S. First Lady has sold 13 million copies worldwide since its November 2018 publication.

Audiobooks were a growth driver once again, with revenue increases in the double-digit percentiles in most markets. Penguin Random House strengthened its portfolio by acquiring several publishers, including the Little Tiger Group in the United Kingdom, a stake in the leading U.S. independent publisher Sourcebooks, Ediciones Salamandra in Spain, and the global publishing rights for the prolific bestselling children's author Eric Carle ("The Very Hungry Caterpillar").

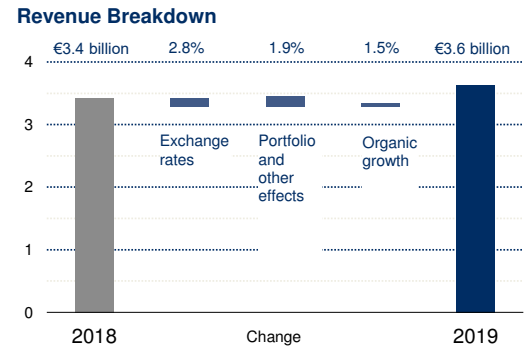
In the United States, Penguin Random House placed 496 titles on the “New York Times” bestseller lists, 61 at number one. Additional number-one bestselling titles for the group were “The Water Dancer” by Ta-Nehisi Coates, “The Testaments” by Margaret Atwood and “The Guardians” by John Grisham. Dr. Seuss’ children’s book classics sold more than 10 million copies.

Penguin Random House UK also had a very strong publishing performance and revenue grew significantly. The publishers placed 43 percent of all the titles on the “Sunday Times” bestseller lists. Their top-selling titles included “Veg” by Jamie Oliver, “Becoming” by Michelle Obama and “The Testaments” by Margaret Atwood. The publishing group increased its market share, strengthened its international sales and expanded its audio business.

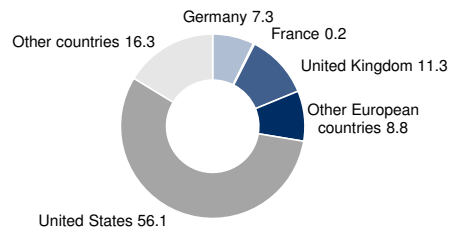
Penguin Random House Grupo Editorial improved its market position in the Spanish-speaking world with positively performing businesses and acquisitions; revenues showed strong growth. Its biggest bestsellers were “Sinceramente” by Cristina Fernández de Kirchner, “Sidi” by Arturo Pérez-Revert, and “Largo Pétalo de Mar” by Isabel Allende.

Munich-based Verlagsgruppe Random House enhanced its market-leading position with a strong bestseller performance and rising backlist revenues. It placed 414 titles on the “Spiegel” bestseller lists, 23 of them at #1. The year’s top-selling titles were “Die Sonnenschwester” by Lucinda Riley, “Der Ernährungskompass” by Bas Kast and “Die Suche” by Charlotte Link.

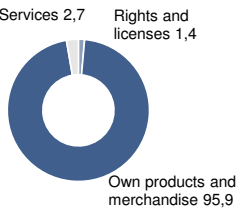
Numerous Penguin Random House authors won prestigious awards, including Olga Tokarczuk, the Nobel Prize winner in Literature; Abhijit Banerjee and Esther Duflo, who were awarded the Nobel Prize in Economic Sciences; Saša Stanišić, who won the German Book Prize; and Margaret Atwood and Bernardine Evaristo, who together won the 2019 Booker Prize.



Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



## Gruener + Jahr

Gruener + Jahr successfully continued its transformation in 2019. Revenues remained organically stable at the previous year's level, operating EBITDA rose sharply by 12.1 percent to €157 million (previous year: €140 million) and the EBITDA margin improved to 11.6 percent (previous year: 9.7 percent). The reasons for this are share gains in the declining advertising market through the Ad Alliance in Germany, the initial application of IFRS 16 and the growing digital business in Germany and France. Against a backdrop of continued portfolio measures, reported sales declined by 5.9 percent to €1.4 billion (previous year: €1.4 billion). The special-interest publishing house Motor Presse Stuttgart was sold, and the digital marketing platform Ligatus was integrated into Outbrain, the world market leader in native advertising.

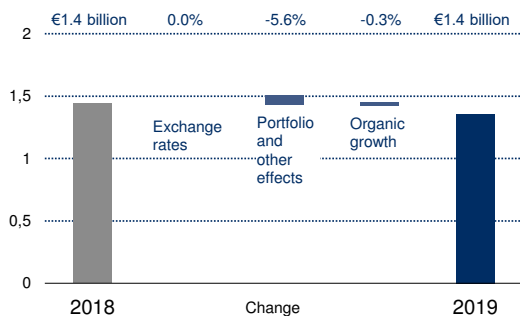
In its core countries, G+J once again significantly increased the digital revenue contribution. It now stands at 33 percent (previous year: 27 percent). One growth driver was the AppLike marketing platform, which posted strong increases in both revenues and earnings. Meanwhile, the digital offerings of the magazine brands in Germany and France also saw strong increases in revenues and earnings.

Other reasons for the strong increase in earnings in Germany, besides the merger of Ligatus into Outbrain and the growing digital business, were innovative magazine launches such as "Barbara," as well as some classic segments like popular-science magazines (e.g., "Geo") and the cheaper production of magazines. This more than compensated for the market-driven decline in newsstand and print-ad sales.

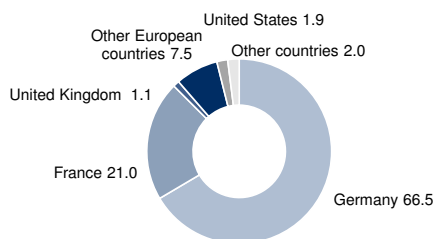
G+J France's earnings were well above the previous year. This was due to, among other things, the digital businesses' earnings performance. DDV Mediengruppe was able to slightly increase its revenues; its result was below the previous year, due to cost factors among other things. Territory, Europe's leading content communication provider, reported year-on-year declines in revenues and earnings.

As part of the Bertelsmann Content Alliance, G+J took on a leading role in managing the collaboration of all Bertelsmann's content businesses. Initial cross-divisional joint formats such as the MOSAiC Arctic expedition and Crime Day were developed and successfully marketed.

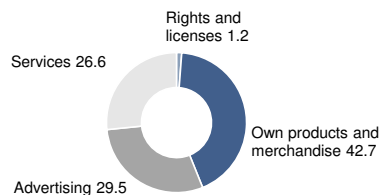
### Revenue Breakdown



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



**Revenues by Category** in percent



## BMG

In 2019, Bertelsmann's music subsidiary BMG continued to record significant increases in revenues and operating profit, driven by organic growth, especially in the recordings business but also in publishing. Revenues increased by 10.1 percent to €600 million (previous year: €545 million), while operating EBITDA rose by 12.7 percent to €138 million (previous year: €122 million). The EBITDA margin therefore increased to 23.0 percent (previous year: 22.5 percent). The share of BMG's total revenues attributable to digital formats rose to 56 percent in the past financial year (previous year: 52 percent), reflecting continuing growth in the streaming sector.

In the recordings business, BMG outpaced the market's growth in key territories such as the United Kingdom, where album sales were up nearly 12 percent in a declining market, and the United States, where its music streaming business grew 62 percent, nearly three times as much as the industry as a whole. Successful releases by renowned artists such as Jason Aldean, Blanco Brown, Keith Richards, Dido, The Cranberries, Andy Grammer, AJR and Lil Dicky had a positive effect on the recordings business. Number-one albums included releases from Kylie Minogue, Jack Savoretti and Kontra K. BMG signed new record contracts with The Shires, Natalie Imbruglia, Rufus Wainwright, KSI, Huey Lewis & The News, Seemed and Richard Marx, among others. Country star Jason Aldean renewed his contract to be represented worldwide by BMG.

For the first time since the company was re-founded in 2008, BMG launched a new label imprint, Modern Recordings. It is aimed at fans of jazz, new classical and electronic music.

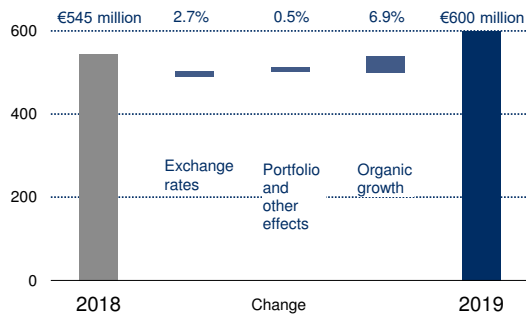
In the publishing business, BMG's distinctive focus on established artists such as AC/DC, Mick Jagger and Keith Richards of the Rolling Stones, Roger Waters and Steven Tyler of Aerosmith continued to pay off. In the year under review, they made significant contributions to revenues. Number-one albums included the work of Bring Me The Horizon, Juice WRLD, 21 Savage and Johannes Oerding. Singer/songwriter Lewis Capaldi not only scored a number-one album but also a Grammy-nominated number-one single ("Someone You Loved"). Among the most prominent signings were Neil Finn from Crowded House, Cage The Elephant, KSI, LOCASH and AnnenMayKantereit. Mick Jagger and Keith Richards renewed and expanded their contracts with BMG. Kontra K will also be represented on the publishing side from now on, beyond his existing recordings deal.

BMG continued to expand its production music, film and book businesses, and added artist management to its services portfolio, entering into a partnership with Shelter Music Group. Highlights in the film sector included the documentary "Remember My Name" about David Crosby, which was screened at the Sundance Festival 2019 and later scored a Grammy nomination for Best Music Film.

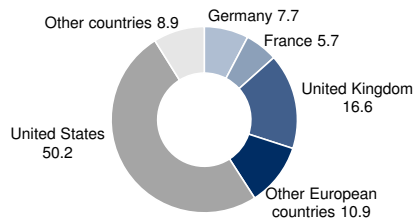
BMG strengthened its collaboration with Bertelsmann subsidiaries in the areas of TV, audio and film production, books and magazines. The Bertelsmann Content Alliance aims to develop and market media content and formats Group-wide.

BMG opened an office in Hong Kong to strengthen its presence in the Asian market. It also expanded its business in Latin America and Canada, bringing its total number of international offices to 19.

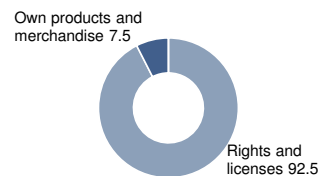
### Revenue Breakdown



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



### Revenues by Category in percent



## Arvato

The group's services activities, pooled in the Arvato division, continued their positive development in 2019. The company's business operations significantly increased both revenues and operating profit. Revenues grew by 1.8 percent to €4.2 billion (previous year: €4.1 billion), while operating EBITDA increased by 45.7 percent to €549 million (previous year: €377 million). This positive business performance was driven mainly by the strong organic growth of the IT, logistics and financial services businesses and the initial application of IFRS 16. Arvato's EBITDA margin was 13.2 percent (previous year: 9.2 percent).

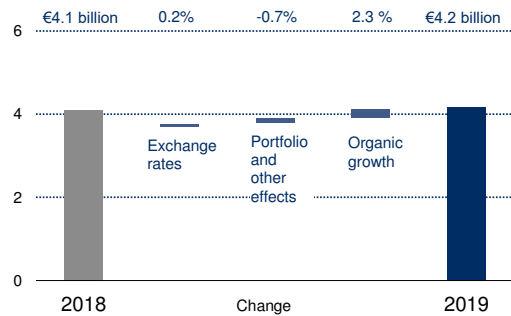
In January, Bertelsmann and Morocco's Saham Group completed the merger of their global CRM businesses. The two partners each own a 50 percent stake in the new company, which will operate globally as Majorel and be fully consolidated at Bertelsmann. Majorel saw a positive business performance last year. The international service center organization grew significantly, especially outside the European Union, with the opening of additional sites in Togo (Lomé), Armenia (Yerevan) and Georgia (Tbilisi and Kutaisi).

The logistics services businesses at Arvato Supply Chain Solutions showed strong and profitable growth in the year under review. It was driven mainly by the establishment of new businesses as well as the expansion of existing ones, particularly with customers in the growth areas of consumer products, healthcare and high-tech. The global network of locations was further expanded by opening new distribution centers and expanding existing ones, including in Germany, Poland and Hong Kong.

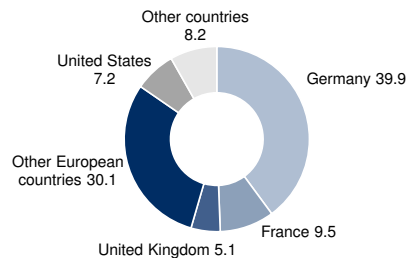
Likewise, revenues and operating profit at Arvato Financial Solutions (AFS) developed positively in the reporting period, exceeding the previous year's results. This development was primarily supported by a steeply positive business trend in the receivables management segment in the GSA region. For example, a comprehensive purchase-to-bill solution was successfully implemented for the customers of a leading international e-commerce marketplace. In the B2B finance area, a new service was developed to make it easier to customize the compilation of regulatory data, validate it and make this data available online.

The IT services provider Arvato Systems grew organically and profitably in the period under review. On one hand, this was due to serialization solutions in the healthcare sector, which were implemented in various European countries. And on the other hand, new customers and contract renewals in the energy, healthcare, retail and media sectors provided positive momentum. In the emerging field of multi-cloud services, Arvato Systems was able to expand its comprehensive cloud portfolio and further strengthen its position as a service provider through a partnership with Google Cloud Platform (GCP).

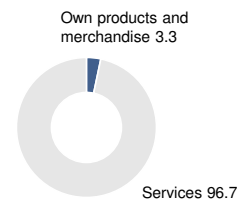
#### Revenue Breakdown



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



#### Revenues by Category in percent



### Bertelsmann Printing Group

The Bertelsmann Printing Group (BPG), which primarily operates in Europe and the United States, was confronted with a challenging market environment in the past financial year. In the Magazine segment, the decline in circulation continued to intensify across all categories. In the Catalog segment, large-volume projects in particular were under severe cost pressure. Orders in the Brochure segment declined slightly in the 2019 financial year. Overall, group revenues were down 4.3 percent year on year to just under €1.6 billion (previous year: €1.6 billion). Operating EBITDA declined significantly, by 19.6 percent to €68 million (previous year: €85 million). The EBITDA margin was 4.4 percent (previous year: 5.2 percent).

In April 2019, Bertelsmann reorganized the BPG. Since then a new, cross-divisional organizational structure has been implemented in Germany, Switzerland and Austria (BPG GSA), and collaboration between the individual printing companies in the group has been stepped up significantly. In April, it was announced that production capacities in the gravure printing business would be greatly reduced by closing Prinovis's Nuremberg site in spring 2021.

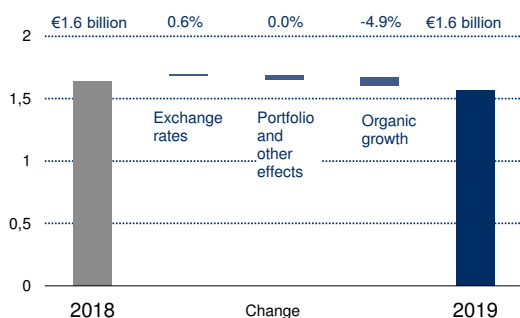
The printing businesses in BPG GSA recorded a decline in revenue and operating profit in 2019. Europe's leading offset printing company Mohn Media was down year on year, in particular due to lower capacity utilization in the catalog and book business. The gravure operations

pooled in the Prinovis Group once again declined in the reporting period, against the backdrop of very difficult market conditions. The group's direct-marketing activities once again increased their revenues and earnings in the past financial year. The multi-partner rewards program DeutschlandCard also recorded a very positive performance.

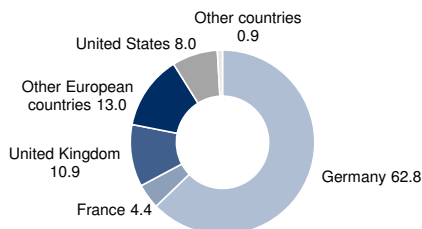
The group's printing activities in the United Kingdom recorded a slight decline in operating profit. At the Liverpool site, the first offset printing press started operation in spring 2019. Meanwhile, the printing businesses in the United States recorded significant revenue and earnings losses in 2019. The reason for this was massive reductions in circulation by publishing customers and clients in the healthcare sector.

Against the backdrop of a market that continued to slow down significantly, revenues at the storage media manufacturer Sonopress declined, as was expected. The Topac packaging printing company, which is part of the Sonopress Group, successfully entered the market for sustainable food packaging during the past financial year.

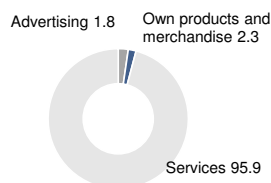
### Revenue Breakdown



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



### Revenues by Category in percent



## Bertelsmann Education Group

The group's education businesses, which are pooled in the Bertelsmann Education Group, recorded significant growth in the 2019 financial year. Operating profit more than doubled. The division benefited from ongoing high demand for digital educational services in the areas of health, educational theory and technology.

Bertelsmann Education Group revenues increased by 29.4 percent to €333 million (previous year: €258 million). Organic and acquisition-related growth at the e-learning provider Relias, the expansion of the online business at Alliant International University, and positive currency effects all contributed to this result. Operating EBITDA improved to €84 million (previous year: €37 million). The EBITDA margin was 25.2 percent (previous year: 14.5 percent).



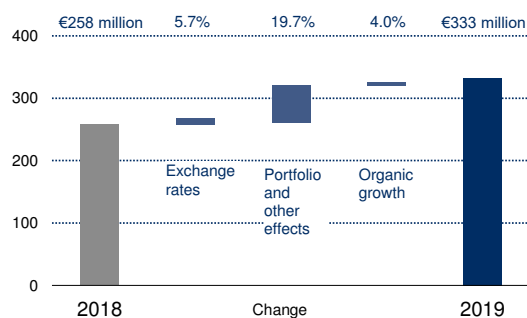
The e-learning provider Relias, which specializes in online continuing education and training for the healthcare sector, increased its customer base to around 11,200 institutions in 2019. During the course of the year, the healthcare division of the educational provider OnCourse Learning, acquired in 2018, was fully integrated into Relias. The OnCourse divisions for training in financial services and real estate were sold separately.

Alliant International University, specializing in psychology and education, continued to expand its online enrollments. Alliant also introduced a new Student Information System that allows students to plan and manage their academic career entirely online.

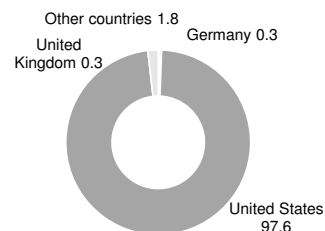
The online learning platform Udacity, in which Bertelsmann holds a significant stake, further developed its range of courses in the technology vertical and introduced new Nanodegrees for data engineering, cloud computing and artificial intelligence. Udacity continued to expand its business with corporate customers.

In 2019, Bertelsmann launched a three-year global education initiative that will provide 50,000 tech scholarships for Udacity courses in the fields of cloud, data and artificial intelligence. Around 46,000 applications from all over the world were submitted for the first round comprising 15,000 scholarships. The courses started in October.

### Revenue Breakdown



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



### Revenues by Category in percent



### Bertelsmann Investments

In the 2019 financial year, Bertelsmann Investments (BI) expanded its global network of holdings in innovative young companies and extended its regional focus to Africa and Southeast Asia. BI made a total of roughly 80 new and follow-on investments during the reporting period. At the same time, it completed several exits, so that by year-end the Bertelsmann Investments portfolio comprised around 230 investments.

Bertelsmann Investments once again made a noticeable contribution to the Group's results, mainly through increases in the value of its holdings and through disposals. EBIT amounted to €107 million (previous year: €96 million).

Bertelsmann Asia Investments (BAI) remains the largest and most active fund in the division, and made 28 new investments, including in the e-commerce platform Tongcheng Life, the online delivery service Ding Dong Fresh and Tomato Mart, an online and offline food retailer. Follow-up investments were made in 13 companies, including Club Factory, a multinational e-commerce platform. With the sale of its stake in the social media platform Bigo Live to the Chinese company YY, BAI also realized the largest exit in the fund's history in 2019. In addition, BAI sold its holdings in the bike-sharing service provider Hellobike, the social network Momo and other investments.

In July, Afya completed a successful IPO on the NASDAQ in New York. The educational network in the healthcare segment, which was jointly formed by Bertelsmann Brazil Investments (BBI) and its partner Crescera Investimentos, was created by merging NRE Educacional, Medcel and other holdings. BBI continues to hold an indirect stake in Afya via Crescera's Bozano Educacional II fund. With around 36,000 students, the company is the largest provider of its kind in Brazil; its portfolio includes various medical education and training programs. BBI also recorded a successful exit from its investment in Jusbrasil.

Bertelsmann India Investments (BII) invested in the agricultural technology start-up Agrostar and in Rupeek, an online platform for loans to private individuals. It also made follow-up investments in the Fintech company Lendingkart and in Licious, a direct-to-consumer platform for food.

Bertelsmann Digital Media Investments (BDMI) made 20 new investments in 2019, primarily in the United States. BDMI also participated in follow-up investment rounds for 14 fledgling companies, including FloSports, a subscription service for sports media. This was offset by exits from two investments: shares in the food community Food52 and in Crowdtwist, a cloud-based customer loyalty service provider, were sold.

Apart from this, BI participated in several funds in new regions and thematic fields for the first time in 2019. They include Partech Africa and Blossom Capital 1, based in London.

Since 2012, Bertelsmann has invested more than €1 billion in digital companies through its funds; during the same period, returns from the sale of investments have exceeded €600 million.

## General Statement by Company Management on the Economic Situation

Over the financial year 2019, Bertelsmann's businesses posted overall positive development. The Group improved its growth profile with the continuing organic and acquisitive expansion of its growth platforms. Bertelsmann also systematically continued its transformation into a fast-growing, digital, international and diversified Group.

Group revenues in the reporting period rose by 2.0 percent to €18.0 billion from €17.7 billion the previous year, and were therefore marginally lower than estimates (outlook in the 2018 Annual Report: moderate increase in revenues). This was primarily due to largely unplanned portfolio effects caused by divestments at Gruner + Jahr, Arvato and the Bertelsmann Education Group. The organic revenue growth was 1.2 percent. Operating EBITDA also increased strongly due to the initial application of the new IFRS 16 Leases accounting standard, by 12.5 percent to €2,909 million, from €2,586 million in the previous year (outlook in the 2018 Annual Report: strong increase in operating EBITDA due to IFRS 16; without IFRS 16, stable to slight growth in operating EBITDA). At €89 million, the BVA used for Group management was strongly below the previous year's figure of €121 million (outlook in the 2018 Annual Report: strongly declining BVA). The development reflects the increase in the average level of capital invested.

In the financial year 2019, steady efforts continued to focus on implementing the strategy. Important strategic acquisitions – for example, the French children's TV station Gulli, the UK children's book publisher Little Tiger Group and the pending complete takeover of Penguin Random House – contributed to strengthening the core businesses. Furthermore, another emphasis in the reporting period was placed on strengthening collaborations and alliances; for example, the Bertelsmann Content Alliance in the content business and the Ad Alliance in advertising marketing. In the context of the digital transformation, Bertelsmann Content Alliance initiated Audio Alliance to increase its audio offers and started producing podcasts and distributing new podcasts on the Audio Now platform. The growth platforms were further

expanded; in particular, the TV production business was successful with the new formats. Bertelsmann also made progress in China, India and Brazil, with a number of new and follow-on investments through the funds grouped under Bertelsmann Investments.

Net assets and financial position remain solid. The leverage factor of Bertelsmann was 2.6, slightly lower than the previous year's level (December 31, 2018: 2.7). As of December 31, 2019, the cash and cash equivalents, reported at €1.6 billion (December 31, 2018: €1.4 billion), represent sufficient liquidity. The ratings agencies Moody's and S&P continued to rate Bertelsmann as "Baa1" and "BBB+". The outlook is rated stable by S&P and negative by Moody's.

## Alternative Performance Measures

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

### Organic Revenue Growth

in percent	2019	2018
Organic revenue growth	1.2	2.7
Exchange rate effects	1.1	(1.7)
Portfolio effects and other effects	(0.3)	1.8
Reported revenue growth	2.0	2.8

The organic growth is calculated by adjusting the reported revenue growth for the impact of exchange rate effects, corporate acquisitions and disposals, as well as other effects. When determining the exchange rate effects, the functional currency that is valid in the respective country is used. The other effects include changes in methods and reporting, for example.

### Operating EBITDA

in € millions	2019	2018
EBIT (earnings before interest and taxes)	1,825	1,620
Special items	154	296
attributable to: RTL Group	(4)	107
attributable to: Penguin Random House	13	44
attributable to: Gruner + Jahr	65	77
attributable to: BMG	12	12
attributable to: Arvato	19	95
attributable to: Bertelsmann Printing Group	96	5
attributable to: Bertelsmann Education Group	58	50
attributable to: Bertelsmann Investments	(109)	(101)
attributable to: Corporate/Consolidation	4	7
Amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment, and right-of-use assets	1,051	847
Adjustments on amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment, and right-of-use assets included in special items	(121)	(177)
Operating EBITDA	2,909	2,586

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

## BVA

in € millions	2019	2018
Operating EBITDA	2,909	2,586
Amortization/depreciation, impairments/reversals of intangible assets, property, plant and equipment, and right-of-use assets not included in special items	(930)	(670)
Operating EBIT	1,979	1,916
Flat taxes (33 percent)	(653)	(632)
NOPAT (Net Operating Profit After Tax)	1,326	1,284
Average invested capital	16,434	15,294
Cost of capital (8 percent)	1,315	1,224
Correction Bertelsmann Investments	78	61
BVA	89	121

BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value orientation is reflected in strategic investment, portfolio planning and the management of operations and, together with qualitative criteria, provides the basis for measuring the variable portion of management remuneration. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. NOPAT, which is used to calculate BVA, is determined by deducting depreciation and amortization, provided that they are not included in special items, and a flat 33 percent tax (as of financial year 2020: 30 percent). Cost of capital is the product of the weighted average cost of capital (WACC) and the average level of capital invested. The uniform WACC after taxes is 8 percent. The average invested capital is calculated quarterly on the basis of the Group's operating assets less non-interest-bearing operating liabilities. Upon the adoption of the new financial reporting standard IFRS 16, the right-of-use assets from leases, which had previously been recorded as the present value of the operating lease, have been included on the balance sheet since the financial year 2019 and are thus considered part of invested capital. BVA is determined without taking into account the Bertelsmann Investments division, since business performance is represented primarily on the basis of EBIT. Accordingly, the method does not include a NOPAT contribution from this division. To maintain consistency, the invested capital will be adjusted for the Bertelsmann Investment division; hence, capital costs will be neutralized.

## Cash Conversion Rate

in € millions	2019	2018
Cash flow from operating activities	2,090	1,437
Income taxes paid	424	534
Change in provisions for pensions and similar obligations	95	113
Investments in intangible assets and property, plant and equipment (less proceeds from the sale of non-current assets)	(611)	(528)
Lease payments	(288)	n/a
Further adjustments	173	197
Operating free cash flow	1,883	1,753
Operating EBITDA	2,909	2,586
Amortization/depreciation, impairments/reversals of intangible assets, property, plant and equipment, and right-of-use assets not included in special items	(930)	(670)
Operating EBIT	1,979	1,916
<b>Cash Conversion Rate (in percent)</b>		
Operating free cash flow/Operating EBIT	97	91

The cash conversion rate serves as a measure of cash generated from business activities, and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets

and property, plant and equipment as well as lease payments, increased by proceeds from the sale of non-current assets. Further adjustments are made to ensure an allocation of capital flows to the relevant periods, and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with operating EBITDA. Operating EBITDA is used to calculate operating EBIT by deducting amortization and depreciation, provided that these are not included in special items. The Group aims to maintain a cash conversion rate of 90 percent to 100 percent as a long-term average.

## Economic Debt

in € millions	2019	2018
Net financial debt	5,000	5,337
Less cash and cash equivalents	(1,636)	(1,405)
Net financial debt	3,364	3,932
Less 50 percent of the par value of the hybrid bonds	(625)	(625)
Pension provisions	1,967	1,738
Profit participation capital	413	413
Net present value of operating leases	n/a	1,161
Lease liabilities	1,392	n/a
Economic debt	6,511	6,619

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

## Leverage Factor

in € millions	2019	2018
Economic debt	6,511	6,619
Modifications	250	136
Economic debt <sup>LF</sup>	6,761	6,755
Operating EBITDA	2,909	2,586
Modifications	(291)	(108)
Operating EBITDA <sup>LF</sup>	2,618	2,478
<b>Leverage Factor:</b>		
Economic debt <sup>LF</sup> /Operating EBITDA <sup>LF</sup>	2.6	2.7

One of the financial targets is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA; this factor should not regularly exceed the defined maximum of 2.5. In determining the leverage factor, the economic debt and the operating EBITDA are modified to enable financial management that corresponds to the Group's structure. Modifications were adjusted and simplified in the 2019 financial year, also with respect to the initial application of IFRS 16. The modifications in regard to the economic debt largely relate to cash and cash equivalents, which are tied up in the Group, while the modifications in regard to the operating EBITDA address the Group's structure and its co-shareholder shares. The leverage factor determined in this way is thus always more conservative than the figure that would be obtained using only the items recognized in the balance sheet.

## Significant Events after the Balance Sheet Date

In March 2020, Bertelsmann secured a syndicated credit facility in the amount of €675 million with a maturity of up to 18 months. This credit facility can be used by Bertelsmann SE & Co. KGaA in the form of variable rate loans denominated in euros and US dollars, on the basis of EURIBOR or LIBOR. This facility serves the purpose of corporate financing in general as well as short-term financing requirements in connection with the acquisition of the remaining shares in Penguin Random House.

## Risks and Opportunities

### Risk Management System

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

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

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

### Accounting-Related Risk Management System and Internal Control System

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

The ICS for the accounting process consists of the following areas. The Group's internal rules for accounting and the preparation of financial statements (e.g., IFRS manual, guidelines and circulars) are made available without delay to all employees involved in the accounting process. The 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 preconsolidated subgroup), and then verified by external experts as required. Central contact persons from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with local subsidiaries to ensure IFRS-compliant accounting as well as compliance with reporting deadlines and obligations. These preventive measures are supplemented by specific controls in the form of automated and manual analyses by the Corporate Financial Reporting department of Bertelsmann SE & Co. KGaA and RTL Group (for the preconsolidated subgroup). The purpose of such analyses is to identify any remaining inconsistencies. The controlling departments at the Group and division levels are also integrated into the internal management reporting. Internal and external reporting are reconciled during the quarterly segment reconciliation process. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The findings of the external auditors, Corporate Audit and the internal auditing department of RTL Group are promptly discussed with the affected companies, and solutions are developed. An annual self-assessment is conducted to establish reporting on the quality of the ICS in the key fully consolidated Group companies. The findings are discussed at the divisional level. Like the RMS, each ICS cannot guarantee with absolute certainty that significant misinformation in the accounting process can be prevented or identified.

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

## Major Risks to the Group

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

### Overview of Major Risks to the Group

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

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

■ Existing risks

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

## **Strategic and Operational Risks**

Economic growth slowed in 2019. Real GDP increased by 3.0 percent, compared to 3.7 percent in 2018. The slowdown in industry and global trade still has an effect. The economies in developed countries in particular continued to slow down, whereas the economic situation in many emerging countries stabilized. In addition, the global economy was negatively impacted by the worsening of the trade conflict between China and the United States. Bertelsmann's business development is also subject to certain risks. Uncertainty regarding the future trade agreements to be negotiated after the United Kingdom's impending exit from the EU, or further escalation of international trade conflicts could adversely impact Bertelsmann's economic environment. Bertelsmann is monitoring the exit process to identify any risks at an early stage and, where necessary, take measures. Furthermore, the spread of the Covid-19 virus is associated with risks in global macroeconomic developments which could potentially also have negative effects on Bertelsmann's businesses. In the short to medium term, significant Group risks include pricing and margin risks, legal and regulatory risks, changes in the market environment, customer risks and a loss of audience and market share, as well as risks associated with economic development. How these risks develop depends to a large extent on changes in customer behavior due to factors such as the continued digitization of media, the development and implementation of products and services by competitors, bad debt losses, and default and interference along the production chains in individual sectors such as IT. Supplier and employee-related risks are moderate risks for Bertelsmann, while financial market risks and risks from future technological challenges in the three-year period under review are classified as low.

Increasing competition and constant change, particularly in the digital environment, are resulting in a stronger fragmentation of RTL Group's markets as audiences will have more choice (for example, through online platforms) and, at the same time, the market-entry barriers are being lowered. The possible risks of this for RTL Group are decreasing audience and advertising market shares of its advertising-financed channels and therefore, ultimately, lower revenues. To counter these risks, RTL Group is continuously revising and developing the channels and program strategies. By linking traditional, linear offerings with new digital business models, and by strengthening existing investments in the online video market and in advertising technologies, RTL Group counters risks from digitization while actively influencing this development. Increasing competition in the area of program acquisition and TV production, and the growing dependence on individual production companies, coupled with the risk of potential cost increases, could also impact RTL Group's ability to generate revenues. This risk is being reduced by expanding the program share of in-house productions – in particular local content. Furthermore, economic development directly impacts the TV advertising markets and therefore RTL Group's revenue. This risk is being countered by focusing on cost reduction programs, but also on developing non-advertising revenue streams, for example, distribution revenues from platform operators. To reduce the risk of customer losses, advertising packages with cooperation partners are offered, as well as pursuing the basic aim of establishing long-term customer relationships.

Falling e-book sales, and the possibility of price concessions in the audiobook segment due to a change in market conditions, constitute risks for Penguin Random House. Another risk attributable to the changing retail landscape is declining sales volumes in brick-and-mortar book retail. Penguin Random House is countering these risks by introducing differentiated pricing, increasing online sales of physical books and audiobooks, and continuously examining alternative selling and marketing options. Any risks of bad-debt loss are being limited through debtor management, and in some cases through credit insurance. In addition to the risk of cost increases, Penguin Random House is finding itself exposed to risks from general economic uncertainty, which could lead to lower sales. The risks are addressed through careful management of supplier relationships and innovative marketing activities, and by maintaining a flexible cost structure that allows for a quick response in the event of an economic downturn.

The risk of a deterioration of the overall economic environment and the resulting declines in advertising and circulation revenues, as well as the continuously changing conditions in the digital business, represent significant challenges for Gruner + Jahr. A changing market environment, marked by product innovations and increased consolidation of agencies and marketers, is confronted with a widespread decrease in demand for print products, which as a result of pressure on prices and conditions can lead to lower margins. Furthermore,



there is the risk of losing key customers as advertising customers could switch to other media, notably digital media. Due to these developments, subsequent risks such as imminent bad-debt losses or service limitations are possible, because service providers in the areas of distribution or manufacturing could restrict or discontinue their products. The risks are being countered by cost and customer management; the development of new – in particular, digital – forms of offerings; product, price and quality improvements; and developing alternative scenarios and solution scenarios.

Risks that affect BMG primarily concern the client portfolio (extending contracts with artists/authors and distribution partners), its monetization (physical and digital distribution partners), corporate growth (integration of new businesses) and the scalability of the company (including technical platform and organization). Market risks are addressed through high revenue diversification (clients/catalogs, business segments, regions) and contractual protection clauses (securing the recouping of advances).

Arvato sees itself as particularly exposed to risks from customer and supplier relationships. The potential loss of key customers is being countered through contracts offering comprehensive service packages with simultaneously flexible cost structures. On the supplier side there are risks associated with the availability of services. Countermeasures include an active exchange with existing suppliers and entering into long-term framework agreements. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By developing the range of services, the aim is to improve the competitive position and increase customer loyalty through integrated solutions. Technological trends arising from digitization and ongoing automation could in some cases damage the business model and competitiveness in individual customer segments. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. Broad diversification across regions and sectors helps to reduce this risk.

For Bertelsmann Printing Group, customer risks are the most significant risks. In addition, price and margin pressure results from a market environment that is characterized by over-capacity. Furthermore, deterioration in the economic environment also may lead to declining circulations. There are risks on the supplier side associated with rising raw material prices – particularly for paper, color and energy. Similarly, the increasing use of digital media is accelerating the decline in circulation, particularly in the magazine segment. These risk minimization strategies are based, in particular, on the expansion of innovative print services, constantly optimizing cost structures and monitoring markets on an ongoing basis.

For Bertelsmann Education Group, increasing competition from other training providers, particularly in the US healthcare market, could lead to growing price and margin pressure and negatively impact the planned growth targets. These risks are being countered in particular through strategic partnerships, long-term customer agreements and marketing measures.

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

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

### **Acquisition-Related Risks**

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

## Information Security Risks

For Bertelsmann, the ability to provide information in a timely, complete, error-free and confidential way, and to process it without disruptions, is crucial to its success and is becoming increasingly important. Bertelsmann has addressed this tougher operating environment at the management level by operating an Information Security Management System (ISMS, based on ISO 27001) for structured management of cyber risks across the Group and to monitor compliance with minimum Group standards. In order to have access to both modern cyber security technologies and specialist expertise in emergencies, Bertelsmann maintains a network of external partners and is a member of the German Cyber Security Organization (Deutsche Cyber-Sicherheitsorganisation: DCSO). Furthermore, Bertelsmann addresses the increased risk with specific measures that directly strengthen resilience in cyber security – for example, with the Group-wide introduction of Security Operations Centers and authentication technologies. An indicative assessment of risks to information security was conducted in the fiscal year 2019 on the basis of the method used to assess operative Group risks. The results indicate that information security risks are moderate, analogous to the categorization of major Group risks.

## Legal and Regulatory Risks

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

Several subsidiaries of RTL Group are being sued by the broadcaster RTL 2 Fernsehen GmbH & Co KG and its sales house El Cartel Media GmbH & Co KG before the regional court in Düsseldorf, Germany, seeking disclosure of information to substantiate a possible claim for damages. The proceedings follow the imposition of a fine in 2007 by the German Federal Cartel Office for abuse of market dominance with regard to discount scheme agreements (share deals) granted by IP Deutschland GmbH and SevenOne Media GmbH to media agencies. The German Federal Cartel Office argued that these discounts would foreclose small broadcasters from the advertising market. In 2014, the district court of Düsseldorf decided to order an expert report. The expert concluded in February 2018 that the likelihood of damages cannot be proven with certainty. In July 2018, RTL 2 Fernsehen GmbH & Co KG filed a motion claiming that the expert was not impartial, with the aim of getting the court to obtain a new expert opinion. IP Deutschland has rejected the motion of lack of impartiality as unfounded. In May 2019, the court announced it would give the expert the opportunity to comment on the motion of lack of impartiality, and to then draw up a list of questions by the end of July 2019. This has not yet been done. The court case will continue. Similar proceedings from other small broadcasters, initiated in different courts, were unsuccessful or have been withdrawn.

In June 2016, the main competitors of Fun Radio alleged that a host of the morning show had influenced Fun Radio's results by encouraging his listeners to give favorable treatment to Fun Radio in the Médiamétrie surveys. In response to these allegations, Médiamétrie decided to remove Fun Radio from its surveys. Following a legal procedure initiated by Fun Radio, Médiamétrie was required to reinstate Fun Radio in the audience results surveys as of September 2016. Nevertheless, Médiamétrie decided to lower Fun Radio's audience results in its published surveys, alleging the existence of a "halo effect". Following a procedure initiated by Fun Radio, a judicial expert was appointed in December 2017 to examine Médiamétrie's assessment of the alleged halo effect. The judicial expert issued in September 2019 his final report which confirmed the 'halo effect' but assessed that Fun Radio's results were over-corrected. As of September 2017, Médiamétrie has again published the full audience results for Fun Radio. In parallel to the above procedure, the main competitors of Fun Radio also filed, in December 2016, a claim for damages, claiming unfair competition, but this procedure was suspended until the end of the judicial expertise and will restart in the course of first quarter of 2020. In the meantime, four of the six claimants withdrew their claim from the proceedings.

On 22 February 2018, the Spanish Competition Authority (CNMC) communicated to Atresmedia the opening of a proceeding for sanctions in relation to possible practices restricting competition prohibited by article 1 of the Spanish Competition Act. On 6 February 2019, the CNMC notified the Statement of Objections in which it assumes proven that specific commercial practices by Atresmedia are restrictive of competition. On 28 May 2019, the department of the competition authority responsible for the investigation submitted a proposal for a decision which included a proposed fine of €49.2 million. Atresmedia submitted its observations on the proposed decision on 28 June 2019. On 12 November 2019, the CNMC Board took its decision and imposed a fine of €38.2 million. On 10 January 2020, Atresmedia filed an application for judicial review against the decision with the competent court. Atresmedia remains convinced that the decision made by the CNMC is not sufficiently justified and expects a positive outcome. The prospects of success are based, inter alia, on the outdated definition of the advertising market used by CNMC.

Foreign investments in the People's Republic of China are subject to regulatory restrictions. To satisfy local requirements, some of Bertelsmann's activities in China are held as so-called VIE structures. These types of arrangements are standard market practice for investments in China. However, these structures are rarely the subject of legal disputes in China, which means that there is a certain risk that it will not be possible to safeguard VIE structures through the courts, particularly if the People's Republic changes its policies toward investments by foreigners (particularly in respect to VIE structures) or if courts and authorities change their case law or administrative practice. The law passed in May 2019 by the People's Republic of China regarding foreign investment (PRC Foreign Investment Law: FIL) entered into force on January 1, 2020. This FIL replaces existing laws on the regulation of foreign investment in China. This affects companies that are wholly owned by foreign companies, Chinese-foreign contractual joint ventures, and Chinese-foreign equity joint ventures. During the legislative process, VIE structures were to be made equivalent to those of all other foreign direct investment. However, in the FIL as adopted, VIE structures are no longer a topic, so that it is expected that this structure will retain its status quo, meaning that it will fall under the unregulated area. Furthermore, the FIL requires fair access to the market and equal treatment of foreign investment companies, and stipulates that these companies' corporate governance is subject to Chinese company law, with a transition period of five years. The Implementing Regulations announced by the Chinese State Council on December 31, 2019, entered into force on January 1, 2020. They contain detailed provisions regarding protection and equal treatment of foreign investments, publishing obligations and the five-year transition period. Local Bertelsmann legal advisors are closely observing implementation of the FIL and its implementing regulations, and will take any steps necessary and conduct procedures to remain compliant with the law. This affects companies within Fremantle, BMG, Arvato and Bertelsmann Education Group, as well as investments by Bertelsmann Asia Investments (BAI).

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

## **Financial Market Risks**

As an international corporation, Bertelsmann is exposed to various forms of financial market risk, especially interest rate and currency risks. These risks are primarily monitored centrally by the Finance Department on the basis of guidelines set up by the Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann uses currency derivatives mainly to hedge existing foreign currency risks from intercompany financing and operating liabilities. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount being adapted over time. A number of subsidiaries are based outside the eurozone. The resulting translation risk to the leverage factor (ratio of economic debt to operating EBITDA) is managed by aligning the leverage factors for the USD and GBP in the long-term with the maximum permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. The cash flow risk from interest rate changes is centrally monitored and controlled as part of interest rate management. The aim is to achieve a balanced ratio of different fixed interest rates through the selection of appropriate maturity periods for the originated financial assets and liabilities affecting liquidity, and through the ongoing use of interest rate derivatives. The liquidity risk is regularly monitored on the basis of the budget planning. The syndicated loan and appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in respect to invested cash and cash equivalents, as well as in case a counterparty to derivative transactions defaults. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with high credit ratings. Within the guidelines, a risk limit specified by the Bertelsmann Executive Board has been issued for financial assets and derivatives for each counterparty. Compliance with this limit is regularly monitored by the Finance Department. The guidelines concerning the investment of cash and cash equivalents

are continuously monitored and extended if necessary. Financial investments are made on a short-term basis, so that the investment volume can be reduced if the credit rating changes. There were no substantial changes over the previous year in financial market risks, and therefore they can still be estimated as low.

## **General Statement on the Risk Situation**

The risks identified in the financial year 2019 are not endangering. Neither are there any substantial discernible risks that could threaten the existence of the Group.

The overall risk situation is slightly below the previous year's level. The major risks to the Group have not changed compared to the previous year. In particular, pricing and margin risks, legal and regulatory risks and risks from a changing market environment, as well as risks in connection with customer relationships and possible loss of audience and market share at RTL Group still constitute the key challenges. However, as a result of the diversification of Group businesses, there are no concentration risks stemming from dependency on individual business partners or products in either procurement or sales. The Group's financial position is solid, with liquidity needs covered by existing liquidity and available credit facilities.

## **Opportunity Management System**

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

## **Opportunities**

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

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

For RTL Group, a better-than-expected development of the TV advertising markets, as well as higher audience and advertising market shares, are major opportunities. Furthermore, the increasing digitization and fragmentation of the media landscape are opening up opportunities. Professionally produced content can be distributed across multiple platforms nationally and internationally. New revenue streams could be generated by exploiting existing TV content across different platforms, and by creating native digital content. Also, the increased presence in the digital sector provides opportunities for online video advertising sales on all devices and platforms, and growing subscriber-based revenues in the on-demand business. Other opportunities can be found in target-group marketing of the Group's own inventory (addressable advertising) and advertising technology products for third parties. In addition, stepping up distribution of new technologies such as UHD/4K could contribute to greater revenue growth in the platform business.

Penguin Random House is the world's largest trade book publisher. Its position enables the publishing group to attract new authors and book projects to potentially grow its market share. The group is well positioned to invest in new markets and diverse content worldwide to take advantage of increasing interest in long-form reading, and to thereby offer its content to the widest possible readership. In general, the digital evolution transforming book markets offers the potential for new product development, and broader and more efficient marketing channels as well as better accessibility to the backlist. Digital audiobooks are experiencing growth worldwide, while new technologies could make books more appealing and bring book content to wider audiences. New online tools and platforms are expanding opportunities for author engagement with readers.

For Gruner + Jahr, a better development of the advertising and sales markets represents significant opportunities. The transformation is providing further opportunities due to the development of new businesses related to the published brands. There are opportunities for growth, particularly in the development and expansion of digital activities and in cooperation with other publishers and marketers. In terms of marketing, G+J could gain new customers through new forms of advertising in the online, mobile and video media channels.

BMG's focus is on organic growth through the signing of additional artists and songwriters. There may also be opportunities for selective acquisitions of music catalogs. The growing market penetration of subscription-based music streaming services offers significant opportunities to expand the recorded-music and music-publishing markets internationally.

At Arvato, interdivisional cooperation and major projects can provide additional opportunities for acquiring new customers. The global e-commerce market will continue its dynamic growth over the next few years. Arvato could participate significantly in this growth through new services, particularly those offered by the Supply Chain Solutions and Financial Solutions areas. Further growth opportunities from ongoing digitization lie in the development of innovative IP-based and cloud-based IT services.

Bertelsmann Printing Group businesses may decline less steeply through additional volumes of existing and new customers. Furthermore, increased consolidation in the market could result in an additional strengthening of Bertelsmann Printing Group's own competitive position.

The education business is being developed as Bertelsmann's third earnings pillar, alongside the media and service businesses. A further shift away from traditional classroom-based delivery methods toward online and skill-based training could offer further growth opportunities for the education business. The growing online education market also offers organic growth opportunities for Bertelsmann Education Group businesses. For example, Relias has the potential to grow through the expansion of employee assessment and data analytics products, and through internationalization. Owing to the lack of skilled workers and the ongoing demand for further education in the technology sector, the stake in Udacity provides the opportunity to become a premium brand in the area of IT and technology training.

For Bertelsmann Investments fund activities, there is the opportunity to realize higher-than-expected profits, thanks to increasing portfolio valuations or through the disposal of investments.

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

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

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

## Outlook

### Anticipated Overall Economic Development

Bertelsmann anticipates that economic conditions will develop as follows in 2020. The global economy will stagnate at the weak prior-year level. The Kiel Institute for the World Economy (IfW) estimates in its outlook from December 2019 that global production will increase by 3.1 percent in 2020, compared to 3.0 percent in 2019. Existing trade uncertainties continue to pose risks to the global economy. In addition, it is currently difficult to predict the concrete impact of the spreading Covid-19 virus on the global economy.\*

\*In its spring forecast published in March 2020, the IfW revised growth expectations for the eurozone, among other things, and anticipates that the Covid-19 virus will cause a sharp downturn in the economy followed by a subsequent strong recovery.

In the eurozone, the economic upturn is expected to continue, even if there are risks of a downturn. The IfW estimates real economic growth of 1.2 percent in 2020. The IfW also expects GDP for Germany to grow by 1.1 percent in real terms. The growth rate in France is expected to be 1.4 percent in real terms. For the United Kingdom, GDP is expected to rise by 0.6 percent in real terms in 2020. Economic momentum in the United States is gradually slowing down. For 2020, real economic growth of only 1.5 percent is expected.

### **Anticipated Development in Relevant Markets**

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

Overall stable development of European TV advertising markets is expected in 2020, as well as strong growth of the streaming markets in Germany, France and the Netherlands. In the book markets, an overall stable development is expected. In the magazine business, a continuation of the strong decline in the print advertising markets in Germany and France, as well as a moderate decline in the circulation market in Germany and a significant decline in France, is expected in 2020, while continued strong growth is expected in the digital segment in Germany and France. For 2020, continuing moderate growth of the global music market is expected in the publishing rights segment. At the same time, significant growth is anticipated in the recording rights segment. Service markets will likely show moderate growth in 2020. The gravure printing market in 2020 is likely to show an ongoing strong decline. Continued moderate decline is expected for the offset market in Europe, while the book printing market in North America is also expected to continue its moderate downward trend. Overall, sustained moderate to strong growth is anticipated for the relevant US education markets.

### **Expected Business Development**

The following expectations are based on the assumption of a gradual normalization of the overall economic situation, and an assumption that most of the forecasted market developments and the economic predictions of the research institutions will be realized.

For the financial year 2020, Bertelsmann anticipates that business development will be driven by the stable European TV advertising and book markets, and by growing service and music markets. The growth stimuli created through strategic portfolio expansions will continue to have a positive impact on Bertelsmann's growth profile.

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the basis of the expected business development. With revenue and earnings share within the eurozone currently expected at around two-thirds, the extent of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore predicts that GDP in the eurozone will increase by 1.2 percent in real terms, while the International Monetary Fund expects growth of 1.3 percent for 2020. In view of these economic expectations, Bertelsmann expects Group revenues to show a slight increase in the financial year 2020. Operating EBITDA is expected to remain stable or decline slightly in the financial year 2020. This is due primarily to greater expenses for the digital transformation, for example in the streaming segment (video on demand) of RTL Group, as well as investments in IT infrastructure and new technologies. The average level of capital invested will continue to increase as a result of acquisitions made, as well as continued investment in growth businesses. Compensating effects from earnings contributions are not expected to materialize for some time. Against this backdrop, a strong decline in BVA is still expected for the Group. These expectations are based on operational planning and the medium-term outlook for the corporate divisions, assuming that exchange rates remain constant.

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

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

These forecasts are based on Bertelsmann's business strategy, as outlined in the section "Corporate Profile." In general, the forecasts reflect careful consideration of risks and opportunities. All statements concerning potential economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying assumptions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

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

In addition to the Group reporting, the business development of Bertelsmann SE & Co. KGaA is outlined below. Bertelsmann SE & Co. KGaA is the parent company and group holding company of the Bertelsmann Group. As a group holding company, it exercises key corporate functions such as the definition and further development of group strategy, capital allocation, financing and management. There are also service functions for individual divisions within the Corporate Center. Furthermore, it is the controlling company of the tax group for most of the domestic subsidiaries. The position of Bertelsmann SE & Co. KGaA is essentially determined by the business success of the Bertelsmann Group.

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

### Results of Operations of Bertelsmann SE & Co. KGaA

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

in € millions	2019	2018
Revenues	113	115
Other operating income	189	202
Cost of materials	(31)	(30)
Personnel costs	(171)	(175)
Amortization, depreciation and write-downs	(23)	(20)
Other operating expenses	(213)	(245)
Income from other participations	664	759
Interest income	(67)	(58)
Write-downs of long-term financial assets	—	(128)
Taxes on income	(60)	(111)
Earnings after taxes	401	309
Other taxes	(3)	(3)
Net income	398	306
Income brought forward	461	485
Transfer to retained earnings	(195)	(150)
Unappropriated income	664	641

The results of operations of Bertelsmann SE & Co. KGaA will continue to be significantly affected by the amount of income from other participations, due to Bertelsmann SE & Co. KGaA's role as the parent company of the Bertelsmann Group. The increase in net income to €398 million (previous year: €306 million) is primarily attributable to the nearly completed write-downs of long-term financial assets in the 2019 financial year as well as the reduction in taxes on income and earnings. In contrast to this, the decline in income from participations impacted net income.

Other operating income decreased slightly year on year, to €189 million (previous year: €202 million). The decrease in other operating expenses from €245 million to €213 million is primarily attributable to an improved foreign currency results and lower losses from the disposal of long-term assets. This was counteracted by reporting expenses from warranty contracts.

Income from participations is primarily affected by the amount of income from a profit and loss transfer agreement with Bertelsmann Capital Holding GmbH, Gütersloh. Mainly as a result of the change in the dividends policy of RTL Group S.A. Luxembourg, the amount of income coming from the profit and loss transfer agreement with this company dropped by €275 million. This decline was partially compensated by the increase in income coming from the profit and loss transfer agreements of other subsidiaries.

Write-downs of long-term financial assets in the previous year mainly pertain to write-downs of shares in Media Communication S.A.S., Vendin-Le-Vieil.

The taxes on income decreased to €-60 million in the 2019 financial year (previous year: €-111 million) as a result of lower taxable income of the tax group.

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

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

in € millions	12/31/2019	12/31/2018
<b>Assets</b>		
<b>Fixed assets</b>		
Intangible and tangible assets	369	388
Long-term financial assets	16,924	16,998
	17,293	17,386
<b>Current assets</b>		
Receivables and other assets	4,541	4,234
Securities, cash and cash equivalents	513	230
	5,054	4,464
<b>Prepaid expenses and deferred charges</b>	20	21
	22,367	21,871
<b>Shareholders' equity and liabilities</b>		
<b>Shareholders' equity</b>	9,849	9,631
<b>Provisions</b>	570	470
<b>Liabilities</b>	11,944	11,767
<b>Deferred income</b>	4	3
	22,367	21,871

The total assets of Bertelsmann SE & Co. KGaA increased from €21,871 million in the previous year to €22,367 million. A high ratio of equity (44 percent) and long-term financial assets (76 percent) to total assets continues to dictate the performance of the net assets and financial position.



The change in long-term financial assets is attributable to the opposing trends in investments in affiliated companies with an increase of €552 million on one hand, and a decrease of €467 million in loans to affiliates, and a decrease of €159 million in securities on the other hand. Investments in affiliated companies increased due to the contributions to Bertelsmann Capital Holding GmbH, Gütersloh, in the amount of €500 million. Loans to affiliated companies decreased as a result of timely repayment of loans. The increase in receivables and other assets is largely related to the repayment of loans.

The equity increased by €398 million as a result of the net income of the reporting year, and decreased by €180 million as a result of distributions to shareholders. The increase in liabilities to €11,944 million (previous year: €11,767 million) includes liabilities to affiliated companies in the amount of €616 million. The decrease of €310 million in bonds and promissory notes is attributable to timely repayment of two promissory notes and a floating-rate note.

### **Risks and Opportunities for Bertelsmann SE & Co. KGaA**

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

### **Outlook for Bertelsmann SE & Co. KGaA**

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

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

The Executive Board of Bertelsmann Management SE, as general partner of Bertelsmann SE & Co. KGaA, has submitted a voluntary report to the Supervisory Board of Bertelsmann SE & Co. KGaA in accordance with sections 278 (3) and 312 (1) of the German Stock Corporation Act, in which it outlines its relationships with affiliated companies for the financial year 2019. The Executive Board hereby declares that Bertelsmann SE & Co. KGaA received adequate consideration in return for each and every legal transaction under the circumstances known at the time the transactions were undertaken.

## **Combined Non-Financial Statement**

The following information relates to Bertelsmann SE & Co. KGaA and the Bertelsmann Group ("Bertelsmann") with its incorporated, fully consolidated subsidiaries ("subsidiaries") in accordance with section 315c of the HGB, in conjunction with sections 289b to 289e of the HGB.

Bertelsmann operates in the core business fields of media, services and education in around 50 countries (see the section "Company Profile"). Responsible conduct – toward employees, in society, in business and in dealing with the environment – is firmly anchored in Bertelsmann's corporate culture. In its corporate responsibility management, Bertelsmann pursues the goal of reconciling commercial interests with social and environmental concerns, within the Group and beyond.

Identifying relevant topics and the concept descriptions in this non-financial statement are oriented toward the standards (2016) of the Global Reporting Initiative (102 and 103). In addition, voluntary reporting based on the GRI Standards (2016; in accordance: "core" option) will be published by the middle of the financial year.

## Company Principles and Guidelines

The prerequisites for a corporate culture in which employees, management and shareholders work together successfully, respectfully and in a spirit of trust are common goals and shared values. These are set forth in the corporate constitution as well as in the newly created Bertelsmann Essentials "Creativity & Entrepreneurship," which were introduced in 2019. Furthermore, the Bertelsmann Code of Conduct – as a binding guideline – defines standards for law-abiding and ethically responsible conduct within the company and toward business partners and the public.

Bertelsmann's actions are also determined by external guidelines. The company largely follows the recommendations of the German Corporate Governance Code for good and responsible corporate governance, and the OECD Guidelines for Multinational Enterprises. Bertelsmann is committed to the principles of the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights, and the International Labor Organization core labor standards. A member of the United Nations Global Compact, Bertelsmann supports the Agenda 2030 of the UN.

## Corporate Responsibility Management

### Organization

The advisory body for the strategic development of corporate responsibility at Bertelsmann is the Corporate Responsibility (CR) Council. The CR Council, which is made up of the Chief Human Resources Officer (CHRO) and representatives from the corporate divisions, focuses on Group-wide CR topics in line with the corporate strategy and the cross-divisional coordination of CR activities within the Group.

At the Group level, the Corporate Responsibility & Diversity Management department coordinates and supports the work of the CR Council in close cooperation with the other Group functions. Within the Bertelsmann corporate structure, the local management teams are responsible for implementing corporate responsibility through specific CR measures and projects. The corporate divisions and companies have their own structures and processes in place for this, in accordance with local requirements.

### Topics

To identify key CR topics, Bertelsmann carries out regular CR relevance analyses. For each analysis, the company conducts a survey of internal and external stakeholders; the external stakeholders estimate the impact of Bertelsmann's business activity on the topics, while the internal stakeholders assess their business relevance. This makes it possible to identify topics of relevance to Bertelsmann relating to environmental, social and employee matters, and respect for human rights, anti-corruption and bribery matters as well as environmental matters. These topics are analyzed within the company boundaries, unless otherwise stated. The CR relevance analysis of 2018 was confirmed in 2019.

CR topics, including non-financial performance indicators, are not directly relevant to business, and are accordingly not part of Bertelsmann's value-oriented management system. Due to currently limited measurability, no directly quantifiable statements can be made regarding relevant interdependencies and value increases for the Group. For this reason, the non-financial performance indicators are not used for the management of the Group (see the section "Value-Oriented Management System").

### Risks

A number of risks associated with CR topics are relevant for Bertelsmann. These risks can arise from the company's own business activities or from its business relationships, and can affect the company or its environment and stakeholders.

For the non-financial matters defined in the German Commercial Code – social and employee matters, anti-corruption and bribery matters, respect for human rights and environmental matters – no significant risks were identifiable as part of the 2019 reporting. For more information on the relevant risks, please see the section “Risks and Opportunities.”

## Employee Matters

Motivated employees ensure long-term quality, innovation and growth. HR work at Bertelsmann is therefore based on the company's cooperative identity as codified in the corporate constitution and the Bertelsmann Essentials. Supplementary regulations are specified in the Bertelsmann Code of Conduct and the Executive Board guidelines on HR work. The CHRO is primarily responsible for dealing with employee matters within the company. He works closely with the HR managers from the corporate divisions, who report directly to him via a dotted-line concept. The focus of his work includes setting the strategic HR agenda, aligning management development with the Group's strategic priorities, Group-wide learning, standardizing and providing IT support for important HR processes, developing the corporate culture, and implementing corporate responsibility in the Group. In 2019, measures were taken to address the following topics.

### Participation

Bertelsmann sees continual dialogue between employees and company management as a fundamental prerequisite to the company's success. Although Bertelsmann, as a media company, is free to determine its political direction as defined in the German Works Constitutions Act (Tendenzschutz) and therefore is not subject to statutory co-determination in the Supervisory Board, the company nevertheless makes four positions on the Supervisory Board of Bertelsmann SE & Co. KGaA available to employees on a voluntary basis; three of these are works council members and one is a member of the Bertelsmann Management Representative Committee. In addition, managers, general workforce, employees with disabilities and trainees all have platforms for exchanging ideas, advancing topics and voicing their concerns. For example, the Bertelsmann Group Dialogue Conference is an event where the CEO, CHRO and members of the Corporate Works Council can exchange ideas. In 2019, cross-divisional work groups developed new dialogue formats for employee representatives and management groups, in order to further enhance social partnership. Employees are also involved in the development and improvement of working conditions through standardized HR interview tools (Performance and Development Dialogue, Agreements on Objectives, Team Talk), as well as Group-wide employee surveys. In 2019, for the first time the international employee survey was conducted exclusively online.

### Learning

Highly qualified employees are needed to overcome major challenges such as the Group's increasingly international focus, the digital transformation of media and services, and demographic change. By providing opportunities for lifelong learning, Bertelsmann helps secure the long-term employability of its employees. With four different campuses – Strategy, Leadership, Function and Individual – Bertelsmann University is the central learning organization within the company. The most important measures implemented in 2019 included the further development of international programs in the areas of leadership, strategy and transformation, and – in the context of focusing on our corporate values of creativity and entrepreneurship – formats on the topics of creativity, innovation and entrepreneurship. The three-year Udacity scholarship program, with around 50,000 scholarships, further strengthened the technology focus on the areas of data, cloud and artificial intelligence. In addition, the training and courses offered by Bertelsmann in Germany were continually expanded. New content was included, modern learning environments were created, and teachers were given suitable further qualification.

### Diversity

For Bertelsmann, the diversity and differences in its workforce are prerequisites for creativity, innovation and long-term business success. This is conveyed in the Bertelsmann Essentials. The diversity strategy is implemented by the Corporate Responsibility & Diversity Management department, with support from a Group-wide working group. The focus is on the following dimensions: gender, disabilities, sexual orientation and identity, nationality and ethnic origin, as well as generational differences. The Group Management Committee,

which at the end of 2019 consisted of 16 members (previous year: 18), included at that time six women (previous year: 6) and six nationalities (previous year: 7). To enhance diversity at the management levels, Bertelsmann aims to achieve the goal of having women occupy one-third of positions in top and senior management across all divisions by the end of 2021. To fulfil this target in top and senior management, the targeted proportion of women in the respective Group-wide talent pools was set at one-third, and was increased to 50 percent in the career development pool. These targets were reached in 2019 for all three talent pools. Furthermore, in 2019 the Bertelsmann Inclusion Action Plan (2019–2024) was rolled out in the German companies.

## Health

With a view to designing a health-promoting work environment and preventing work-related risks of disease, Bertelsmann is expanding a systematic health management system at German locations. Bertelsmann Health Management has been put in charge of supervising and coordinating the Germany-wide health strategy and associated activities, in conjunction with a cross-functional strategy group. The cross-divisional "Health Community," which is comprised of health experts, works council chairs, HR managers and representatives for employees with disabilities, plays a key role here. Through targeted networking, it also helps reinforce uniform standards for all German locations. In 2019, advising on health topics was expanded by testing workshop formats and analysis tools in selected Bertelsmann companies.

## Fair Working Conditions

At Bertelsmann, remuneration issues are an essential part of the topic of fair working conditions. The policy is to establish consistent and transparent remuneration structures in the Group. The design of the compensation system is intended to ensure that remuneration is driven by market, function and performance, taking into account business-specific characteristics. Employee profit sharing at Bertelsmann and many of its subsidiaries in Germany is based on the same criteria as those used to calculate variable remuneration components for Executive Board members and executives. A number of additional subsidiaries in Germany and abroad have similar success and profit-sharing models adapted to local requirements. In 2019, a total of €116 million of the 2018 profit was distributed as part of such schemes.

## Social Matters

### Creative Independence

Bertelsmann stands for editorial and journalistic independence, as well as for freedom of the press and artistic license. Bertelsmann publishes a wide variety of opinions and positions. These basic principles for business activities are set forth in the Bertelsmann Code of Conduct. Bertelsmann interprets this independence in two directions: inside the company, it means that our management does not attempt to influence the decisions of artists, editors and program managers, or to restrict their artistic or editorial freedom. In accordance with the Bertelsmann "Editor-in-Chief Principle," editorial decisions are the sole responsibility of the content managers. To the outside, this means that the company does not capitulate to political or economic influence in its coverage, and complies with existing laws regarding the separation of editorial content and commercial advertising. The result is that the company expects careful research, qualitative reporting and transparency in case of errors. Sound journalism creates a counterweight to fake news and online disinformation. In addition to the Bertelsmann Code of Conduct, many subsidiaries and their editors and creative departments in 2019 continued to implement their own statutes and rules to safeguard editorial and artistic independence in their day-to-day business, and to develop these further where necessary. These statutes focus primarily on duties of care, respect for privacy, and dealing with the representation of violence and the protection of minors.

### Content Responsibility

Bertelsmann reflects on the repercussions of the content it produces and distributes, to protect the rights and interests of media users, customers and third parties as far as possible. Overriding principles and guidelines of media ethics are set by national and international laws governing the press, broadcasting and multimedia; by voluntary commitments to external guidelines such as the ethics codes of national press councils; and within the company by the Bertelsmann Code of Conduct and editorial statutes. In accordance with these principles and guidelines, Bertelsmann's editorial staff are committed to, among other things, "respecting privacy and the responsible

treatment of information, opinion and images." Cross-division verification teams provide their expertise in discerning between authentic and manipulated photos and videos, or those taken out of context. In accordance with the "Editor-in-Chief Principle," the responsibility for media content lies solely with the content managers in the local editorial teams and creative departments.

In the area of youth media protection, content is monitored at Bertelsmann in accordance with different restrictions for each medium and region to see if it could adversely affect the development of children or young people. In this case, various restrictions come into force, such as broadcasting time restrictions or content and/or product labels. Through voluntary labeling systems, Bertelsmann sometimes goes beyond the existing European and national regulations, particularly in the area of audiovisual media. Other specifications relating to content responsibility are agreed to through supplementary statutes at the divisional, company and editorial level.

## **Customer Data Protection**

Bertelsmann attaches great importance to protecting customer data. This includes safeguarding the personal data of company customers, as well as personal data provided to Bertelsmann by its business partners regarding their customers. The objective of customer data protection is to protect an individual's right to determine who has what knowledge about the individual, and when. This also means that personal information, or information that could identify a person, must be handled in accordance with legal requirements and adequately protected against unauthorized access. In addition to the Bertelsmann Code of Conduct, customer data protection within the company is regulated by Executive Board guidelines on the topics of information security and IT risk management.

The Executive Board Guideline on Data Protection reflects the basic data-protection legal framework at Bertelsmann Group based on the European Union's General Data Protection Regulation (GDPR), and is designed to ensure consistent data protection management across the Bertelsmann Group. A Group-wide data protection management system addresses in particular implementation of the documentation and accountability obligations under GDPR.

Responsibility for customer data protection rests with the management of the individual subsidiaries. To ensure compliance with data protection laws, the subsidiaries in Germany have a data protection organization consisting of central data protection officers and local data protection coordinators. The latter report to the local management, as well as annually or on an event-driven basis to the central data protection officers, who in turn report to the Bertelsmann Executive Board. A similar organization exists in subsidiaries outside Germany. An information security management system (ISMS) based on industry-standard ISO 27001 creates the technical and organizational framework for confidential data processing. The ISMS features a regular and structured survey of relevant processes and procedures, to ensure compliance with statutory information security requirements, a systematic recording of risks and derivation, and control of related mitigation measures.

## **Protecting Intellectual Property**

Bertelsmann's businesses develop, produce, transfer, license and sell products and services that are protected as intellectual property. For Bertelsmann, the protection of intellectual property rights is the foundation of its business success. For this reason, the company is committed to a high level of global copyright protection worldwide, and fair competition in the digital market. The Group-wide Taskforces Copyright, with representatives from the relevant corporate divisions, monitor current developments in copyright and develop joint positions – for example, on EU copyright law.

## **Respect for Human Rights**

Through its corporate principles and its voluntary commitment to external guidelines, Bertelsmann is committed to respecting and protecting human rights within the company and in its business relationships. For this reason, the Bertelsmann Executive Board established an Integrity & Compliance program and appointed a Corporate Compliance Committee (CCC). The CCC submits an annual Compliance Report to the Bertelsmann Executive Board and the Audit and Finance Committee. The Integrity & Compliance (I&C)

department was created to manage the ongoing day-to-day work, and is subordinated to the CCC in the organization. I&C supports the CCC in fulfilling its tasks and makes suggestions for necessary improvements to the I&C program. I&C ensures that employees worldwide are made aware of the key legal provisions and internal company guidelines, including those concerning the respect for human rights, and it implemented the training and communication measures necessary for this in 2019.

Respect for human rights within the supply chain is also expressly stipulated by the Bertelsmann Code of Conduct and the Supplier Code of Conduct. This includes a ban on child and coercive labor and a ban on discrimination and intimidation, and it reaffirms the right to freedom of association and the right to engage in collective bargaining.

In addition, individual subsidiaries and Bertelsmann itself issued statements in 2019 in accordance with the "UK Modern Slavery Act" that condemn all forms of modern slavery, coercive and child labor, and exploitation and discrimination, and present measures to prevent these human rights violations. These statements are revised each year (if required). Infringements of these principles can be reported by Bertelsmann employees and by third parties using the existing compliance management systems.

In terms of anti-discrimination, contact persons for Germany's "General Equal Treatment Act" (AGG) have been appointed at all German locations. Employees can contact them in the event of suspected breaches of said act. The employees are informed of their rights under the AGG and given corresponding training through a wide range of communication channels. The topic of anti-discrimination was addressed in a Group-wide e-learning program designed to build employee awareness of the issue and advise them of their rights. These and other international activities were continually refined and expanded in 2019.

## Anti-Corruption and Bribery Matters

Both the Bertelsmann Code of Conduct and the Bertelsmann Executive Board Guideline on anti-corruption and integrity expressly prohibit all forms of corruption and bribery. This prohibition also applies to all third parties that work for, with or on behalf of Bertelsmann, as stipulated in the Supplier Code of Conduct. Along with instructions for dealing with officials, and guidelines for the granting or accepting of gifts in the context of business relations, the Anti-corruption and Integrity Guideline prescribes appropriate due diligence processes in dealing with third parties. An appropriate due diligence review is carried out for each individual risk profile through a corresponding risk classification. This Executive Board guideline also describes the channels for reporting suspected violations and seeking advice, as well as other prevention and control measures. The Executive Board guideline for dealing with alleged compliance violations anchors an obligation to report suspected violations of the prohibition of corruption to the Bertelsmann Corporate Center. The topic of corruption prevention is globally managed and further developed by the I&C department. One of the most important measures in 2019 was advising and training executives and employees on anti-corruption and the continued Group-wide rollout of the new e-learning program on this topic, conceived in 2017.

## Fair Competition and Antitrust Law

Bertelsmann is committed to the principle of fair competition, and condemns antitrust violations and anticompetitive behavior. The company acts against any contravention that becomes known, and consults internal or external experts on antitrust and competition issues. The Bertelsmann Executive Board has approved a "Group Guideline for Compliance with Antitrust Regulations." There is an obligation to report any antitrust violations. The Corporate Legal Department offers antitrust training programs to corporate divisions and the management and employees of these divisions. A comprehensive compulsory training program for employees working in antitrust-related areas, which was also implemented in 2019, is intended to identify antitrust risks at an early stage and prevent antitrust violations.

## Environmental Matters

Bertelsmann aims to become climate neutral by 2030. This goal was adopted in December 2019 by the Executive Board, and is aligned with a Group-wide guideline adopted in the same year, the Bertelsmann Energy and Climate Policy. The Group-wide environmental efforts include not only the company's own sites, but also relevant parts of the supply chain – for example, paper suppliers, external printers and

energy suppliers. Operational responsibility for energy and environmental management, as well as for implementing measures, rests with the management of the individual companies. The international “be green” working group with representatives from the Bertelsmann corporate divisions again provided a platform for cross-divisional exchange on environmental topics in 2019. The cooperation will focus on increasing the use of paper from certified or recycled sources, and reducing greenhouse gas emissions related to the sites, mobility and products. Experts in the “be green” work group also coordinate an annual environmental survey, conducted Group-wide for the first time on the basis of an IT-based environmental platform.