Annual Report 2019

BERTELSMANN

BERTELSMANN

At a Glance 2019

Key Figures (IFRS)

in € millions	2019	2018	2017	2016	2015
Business Development					
Group revenues	18,023	17,673	17,190	16,950	17,141
Operating EBITDA	2,909	2,586	2,636	2,568	2,485
EBITDA margin in percent[1]	16.1	14.6	15.3	15.2	14.5
Bertelsmann Value Added (BVA)[2]	89	121	163	180	180
Group profit	1,091	1,104	1,198	1,137	1,108
Investments[3]	1,270	1,434	1,103	1,240	1,259
Consolidated Balance Sheet					
Equity	10,445	9,838	9,127	9,895	9,434
Equity ratio in percent	38.2	38.8	38.5	41.6	41.2
Total assets	27,317	25,343	23,713	23,794	22,908
Net financial debt	3,364	3,932	3,479	2,625	2,765
Economic debt[4]	6,511	6,619	6,213	5,913	5,609
Leverage factor	2.6	2.7	2.5	2.5	2.4
Dividends to Bertelsmann shareholders	180	180	180	180	180
Distribution on profit participation certificates	44	44	44	44	44
Employee profit sharing	96	116	105	105	95

As of January 1, 2019, the new financial reporting standard IFRS 16 Leases was applied for the first time. In accordance with the transitional provisions of IFRS 16, prior-year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."
The figures shown in the table are, in some cases, so-called Alternative Performance Measures (APM), which are neither defined nor described in IFRS. Details are presented in the section "Alternative Performance Measures" in the Combined Management Report.
Rounding may result in minor variations in the calculation of percentages.

1) Operating EBITDA as a percentage of revenues.
2) Bertelsmann uses BVA as a strictly defined key performance indicator to evaluate the profitability of the operating business and return on investment. Since the financial year 2018, Bertelsmann Value Added has been calculated excluding the Bertelsmann Investments division.
3) Taking into account the financial debt assumed, investments amounted to €1,276 million (2018: €1,461 million).
4) Net financial debt less 50 percent of the par value of the hybrid bonds plus pension provisions, profit participation capital and lease liabilities.

Bertelsmann is a media, services and education company that operates in about 50 countries around the world. It includes the broadcaster RTL Group, the trade book publisher Penguin Random House, the magazine publisher Gruner + Jahr, the music company BMG, the service provider Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments, an international network of funds. The company has 126,000 employees and generated revenues of €18.0 billion in the 2019 financial year. Bertelsmann stands for creativity and entrepreneurship. This combination promotes first-class media content and innovative service solutions that inspire customers around the world. Bertelsmann aspires to achieve climate neutrality by 2030.

www.bertelsmann.com

Interactive Online Report

The Bertelsmann Annual Report can also be accessed online at:
ar2019.bertelsmann.com

As well as company information and an extensive financial section, the online report offers many extra features, including several videos, extracts and additional web links.

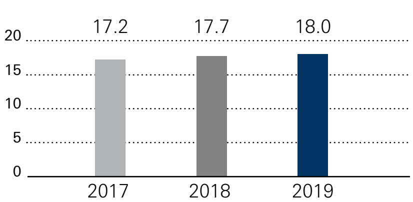
Financial Information

Combined Management Report

Financial Year 2019 in Review

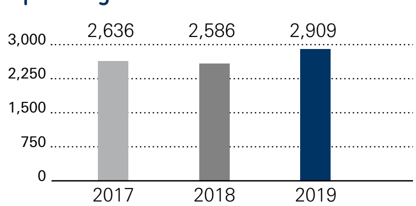
Bertelsmann reported successful business performance in the financial year 2019, with continued organic growth and high operating profit. Group revenues rose 2.0 percent to €18.0 billion (previous year: €17.7 billion), with organic growth of 1.2 percent. In addition to the book publishing business, the 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



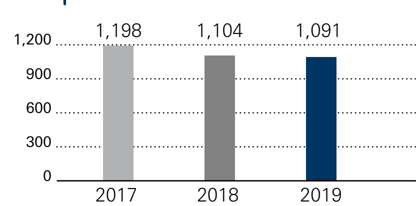
- Revenue growth of 2.0 percent, continued organic growth of 1.2 percent
- Continued expansion of growth businesses with strong organic revenue growth

Operating EBITDA in € millions



- 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 in € millions



- Group profit exceeding the 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 more than 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. The Bertelsmann Content Alliance initiated the 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 Seeed; 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 start-up 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 Editora Zahar 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 February 2020, 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 program 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 US$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 in the second quarter of 2020.

Results of Operations

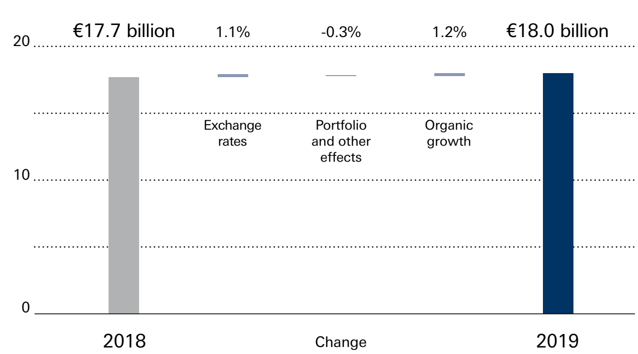
The following analysis of earnings performance relates to continuing operations as of December 31, 2019. Please refer to the section "Performance of the Group Divisions" for a more detailed picture of the results of operations.

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 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)

Revenue Breakdown



Revenues by Division

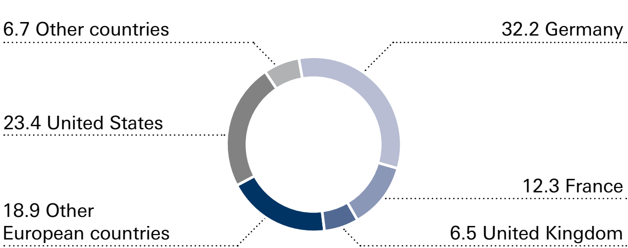
in € millions			2019			2018
	Germany	Other countries	Total	Germany	Other countries	Total
RTL Group	2,138	4,513	6,651	2,168	4,337	6,505
Penguin Random House	265	3,371	3,636	257	3,167	3,424
Gruner + Jahr	913	442	1,355	948	492	1,440
BMG	46	554	600	34	511	545
Arvato	1,697	2,478	4,175	1,630	2,470	4,100
Bertelsmann 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

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.

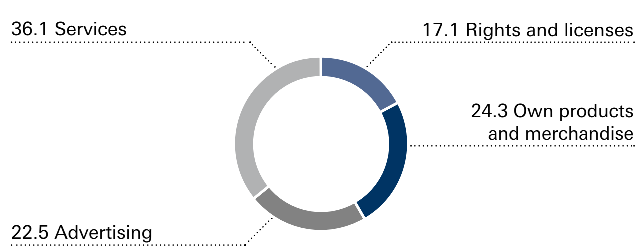
The revenue share generated by the growth businesses increased to 36 percent overall (previous year: 34 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses decreased to 3 percent (previous year: 4 percent). The growth businesses comprise those 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 businesses. 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:

Consolidated Revenues by Region in percent



Consolidated Revenues by Category in percent



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

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.

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 EBIDTA in 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

Financial Targets

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

1) After modifications.

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.

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 has fixed-interest rates and €10 million has 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.

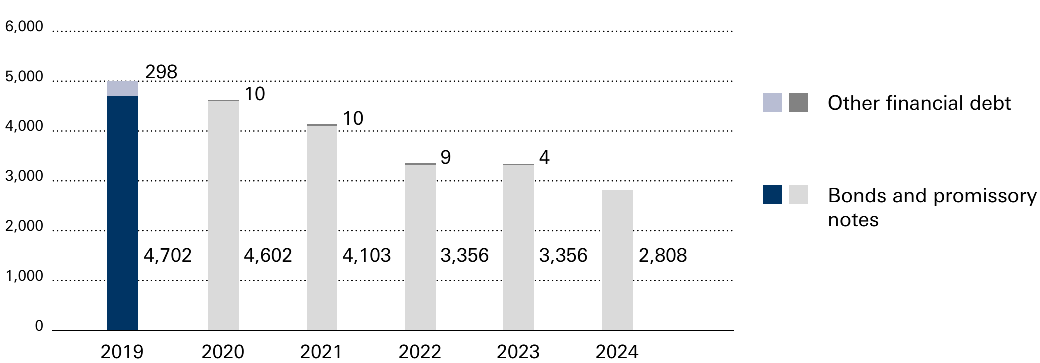
Credit Facilities

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.

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

Maturity Structure of Financial Debt in € millions



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

€-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).

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.

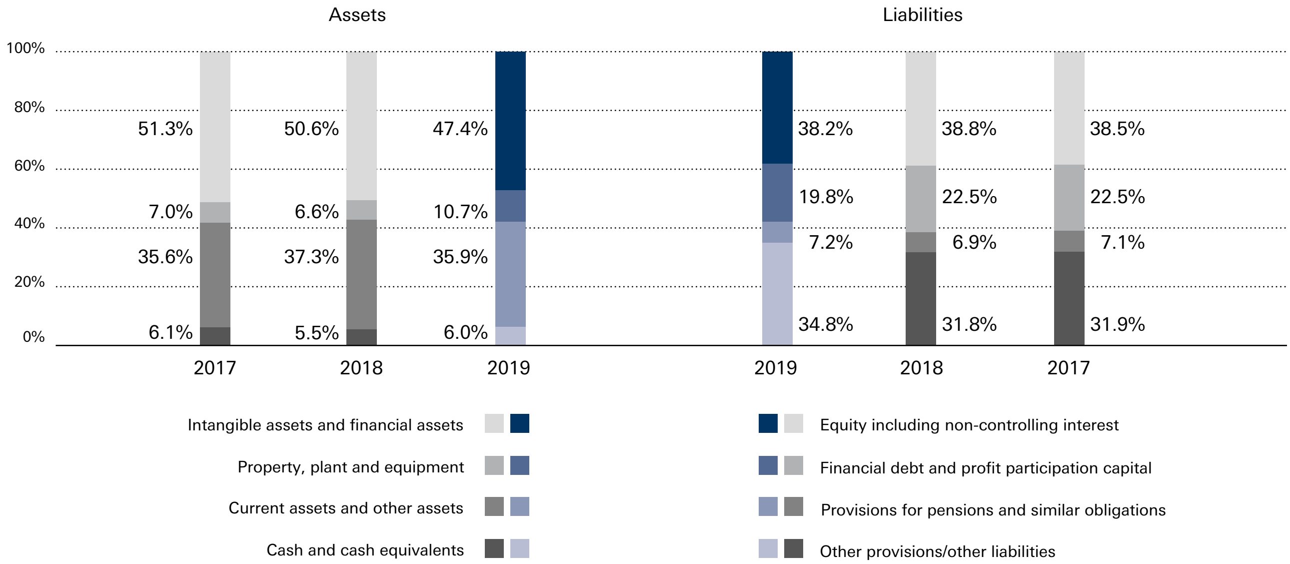
Investments

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



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, the joint streaming service of Groupe M6, TF1 and France Televisions, 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.

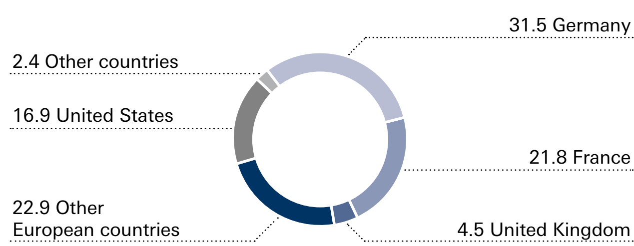
In France, Groupe M6's revenues fell slightly, while earnings remained stable. The decrease in revenue was mainly due to the sale of the soccer club Girondins de Bordeaux in 2018, which was almost completely compensated by higher TV ad sales following the acquisition of Lagardère's TV operations in September 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.

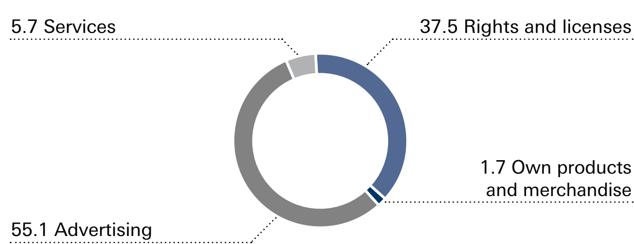
RTL Group contributed to the Bertelsmann Content Alliance in Germany with numerous projects and expanded its group-wide audio business. The German Ad Alliance gained additional partners. In the field of advertising technology, the activities of the RTL Group subsidiaries Smartclip and SpotX were strategically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

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

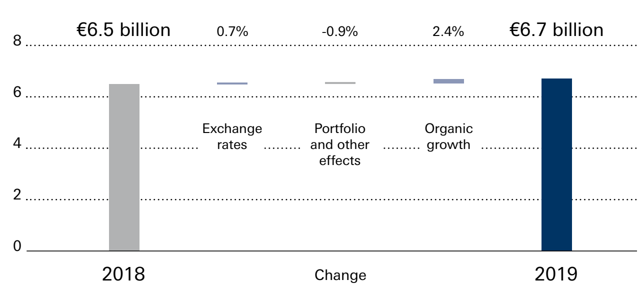
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



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 US 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 US 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.

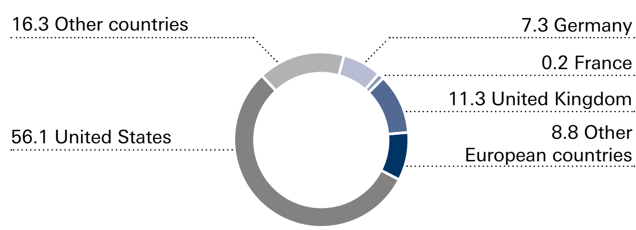
Penguin Random House UK also had a very strong publishing performance, and revenue grew significantly. The publishers placed 43 percent of all the titles on the "Sunday Times" bestseller lists. Their top-selling titles included "Veg" by Jamie Oliver, "Becoming" by Michelle Obama and "The Testaments" 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.

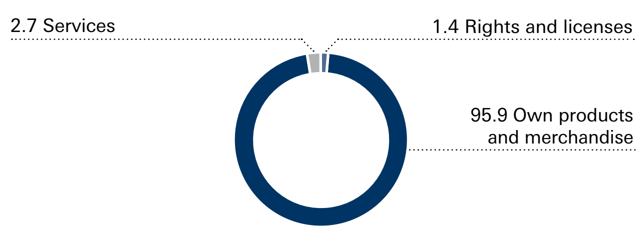
Munich-based Verlagsgruppe Random House enhanced its market-leading position with a strong bestseller performance and rising backlist revenues. It placed 414 titles on the "Spiegel" bestseller lists, 23 of them at #1. The year's top-selling titles were "Die Sonnenschwester" ("The Sun Sister") by Lucinda Riley, "Der Ernährungskompass" ("The Diet Compass") 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.

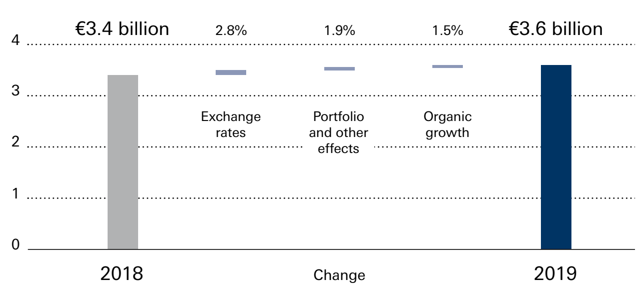
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

Gruner + 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.

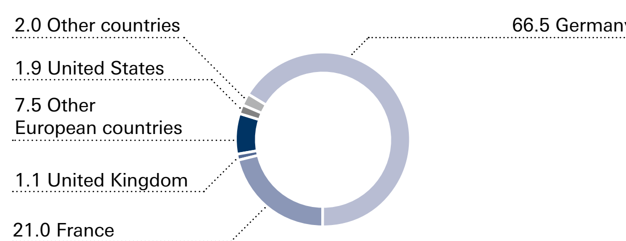
In its core countries, G+J once again significantly increased the digital revenue contribution. It now stands at 33 percent (previous year: 27 percent). One growth driver was the AppLike marketing platform, which posted strong increases in both revenues and earnings. Meanwhile, the digital offerings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

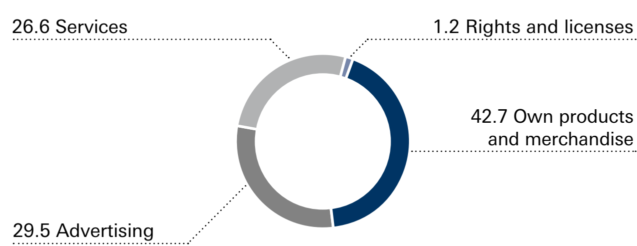
G+J France's earnings were well above the previous year. This was due to, among other things, the digital businesses' earnings performance. DDV Mediengruppe was able to slightly increase its revenues; its result was below the previous year, due to cost factors among other things. Territory, Europe's 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 coordinating 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.

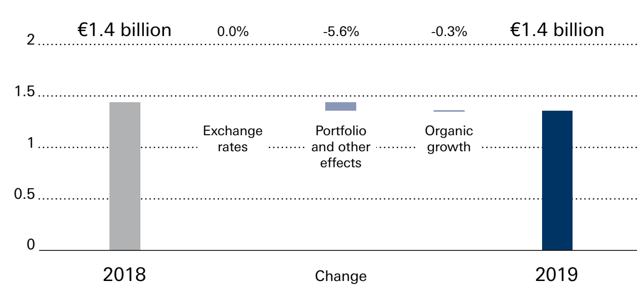
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



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 Savorett and Kontra K. BMG signed new record contracts with The Shires, Natalie Imbruglia, Rufus Wainwright, KSI, Huey Lewis & The News, Seeed 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.

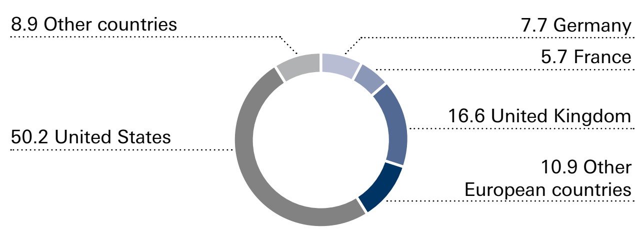
In the publishing business, BMG's distinctive focus on established artists such as AC/DC, Mick Jagger and Keith Richards of the Rolling Stones, Roger Waters, and Steven Tyler of Aerosmith continued to pay off. In the year under review, they made significant contributions to revenues. Number-one albums 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.

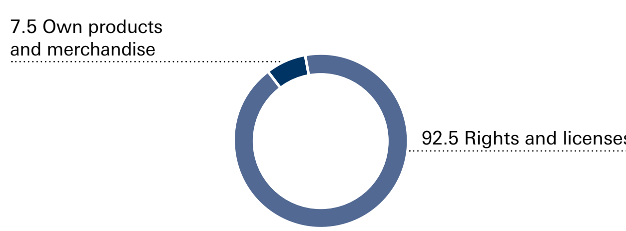
BMG strengthened its collaboration with Bertelsmann subsidiaries in the areas of TV, audio and film production, books and magazines. The Bertelsmann Content Alliance aims to develop and market media content and formats Group-wide.

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.

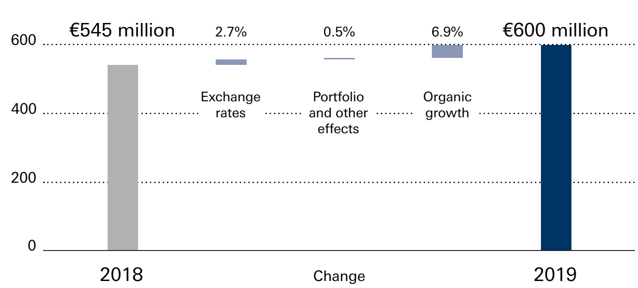
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



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).

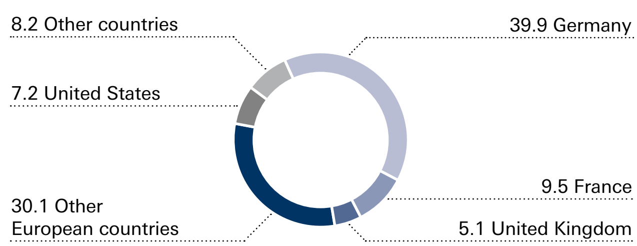
In January, Bertelsmann and Morocco's Saham Group completed the merger of their global CRM businesses. The two partners each own a 50 percent stake in the new company, which will operate globally as Majorel and be fully consolidated at Bertelsmann. Majorel saw a positive business performance last year. 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.

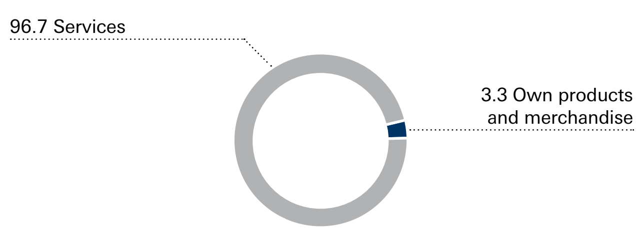
Likewise, revenues and operating profit at Arvato Financial Solutions (AFS) developed positively in the reporting period, exceeding the previous year's results. This development was primarily supported by a steeply positive business trend in the receivables management segment in the GSA region. For example, 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 multicloud 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).

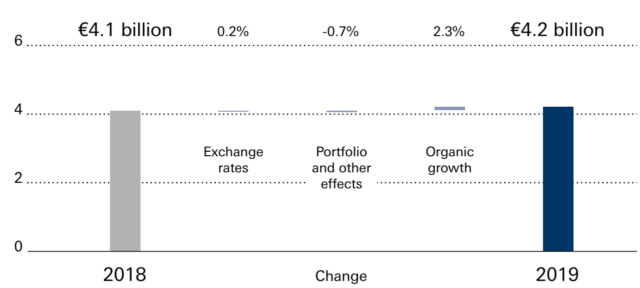
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



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).

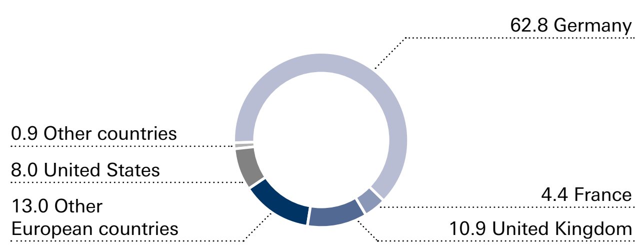
In April 2019, Bertelsmann reorganized the BPG. Since then a new, cross-divisional organizational structure has been implemented in Germany, Switzerland and Austria (BPG GSA), and collaboration between the individual printing companies in the group has been stepped up significantly. In April, it was 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 multipartner rewards program DeutschlandCard also recorded a very positive performance.

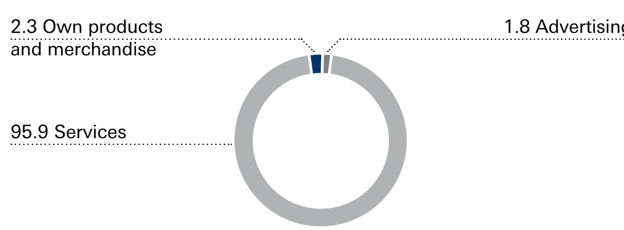
The group's printing activities in the United Kingdom recorded a slight decline in operating profit. At the Liverpool site, the first offset printing press started operation in spring 2019. Meanwhile, the printing businesses in the United States recorded significant revenue and earnings losses in 2019. 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.

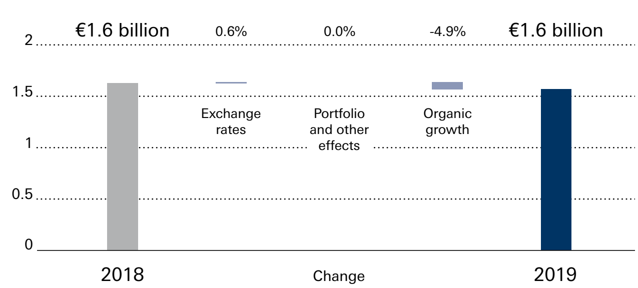
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



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).

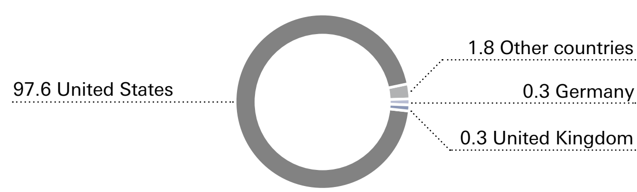
The e-learning provider Relias, which specializes in online continuing education and training for the healthcare sector, increased its customer base to around 11,200 institutions in 2019. During the course of the year, the healthcare division of the educational provider OnCourse Learning, acquired in 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 careers entirely online.

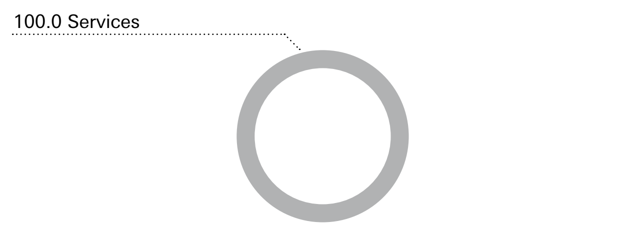
The online learning platform Udacity, in which Bertelsmann holds a significant stake, further developed its range of courses in the technology vertical and introduced new Nanodegrees for data engineering, cloud computing and artificial intelligence. Udacity continued to expand its business with corporate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

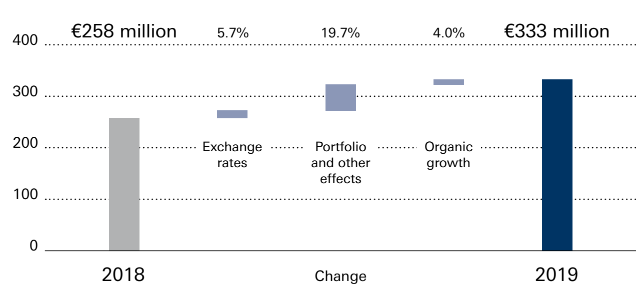
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



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, the Bertelsmann Content Alliance initiated the 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

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

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

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

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

measurements, restructuring expenses and/or results from disposals of investments. This means operating EBITDA is a meaningful performance indicator.

BVA

BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value orientation is reflected in strategic investment, portfolio planning and the management of 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 the 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

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

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 light-of-use assets not included in special items	(930)	(670)
Operating EBIT	1,979	1,916
Cash Conversion Rate (in percent) Operating free cash flow/Operating EBIT	97	91

will be adjusted for the Bertelsmann Investment division; hence, capital costs will be neutralized.

Cash Conversion Rate

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

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.

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

Leverage Factor

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

Leverage Factor

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.

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.

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

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 that 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 monetarization (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 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 February 22, 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 February 6, 2019, the CNMC notified the Statement of Objections in which it assumes proven that specific commercial practices by Atresmedia are restrictive of competition. On May 28, 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 June 28, 2019. On November 12, 2019, the CNMC Board took its decision and imposed a fine of €38.2 million. On January 10, 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 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 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 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.

*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.

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).

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

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

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

Results of Operations of Bertelsmann SE & Co. KGaA

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 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

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 and 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 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 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 the 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 third parties by 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.

Consolidated Financial Statements

Consolidated Income Statement

in € millions	Notes	2019	2018
Revenues	1	18,023	17,673
Other operating income	2	455	473
Cost of materials	13	(5,663)	(5,535)
Royalty and license fees		(1,580)	(1,593)
Personnel costs	3	(5,645)	(5,658)
Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets	4	(1,051)	(847)
Other operating expenses	5	(2,877)	(2,954)
Results from investments accounted for using the equity method	11	124	57
Impairment and reversals on investments accounted for using the equity method	11	(51)	(2)
Results from disposals of investments		90	6
EBIT (earnings before interest and taxes)		1,825	1,620
Interest income	6	13	15
Interest expenses	6	(117)	(115)
Other financial income	7	24	27
Other financial expenses	7	(229)	(143)
Financial result		(309)	(216)
Earnings before taxes from continuing operations		1,516	1,404
Income tax expense	8	(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:			
Bertelsmann shareholders			
Earnings from continuing operations		728	752
Earnings from discontinued operations		1	1
Earnings attributable to Bertelsmann shareholders		729	753
Non-controlling interests			
Earnings from continuing operations		362	351
Earnings from discontinued operations		–	–
Earnings attributable to non-controlling interests		362	351

Consolidated Statement of Comprehensive Income

in € millions	Notes	2019	2018
Group profit or loss		1,091	1,104
Items that will not be reclassified subsequently to profit or loss			
Remeasurement component of defined benefit plans		(224)	(60)
Changes in fair value of equity instruments		(2)	3
Share of other comprehensive income of investments accounted for using the equity method		(1)	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Exchange differences			
– changes recognized in other comprehensive income		78	94
– reclassification adjustments to profit or loss		6	20
Cash flow hedges			
– changes in fair value recognized in other comprehensive income		8	23
– reclassification adjustments to profit or loss		(3)	2
Share of other comprehensive income of investments accounted for using the equity method		(4)	(2)
Other comprehensive income net of tax	17	(142)	80
Group total comprehensive income		949	1,184
attributable to:			
Bertelsmann shareholders		602	816
Non-controlling interests		347	368

Consolidated Balance Sheet

in € millions	Notes	12/31/2019	12/31/2018 (adjusted)
Assets			
Non-current assets			
Goodwill	9	8,537	8,427
Other intangible assets	9	2,436	2,590
Property, plant and equipment and right-of-use assets	10	2,935	1,670
Investments accounted for using the equity method	11	652	658
Minority stakes and other financial assets	12	1,320	1,143
Trade and other receivables	14	89	59
Other non-financial assets	15	922	851
Deferred tax assets	8	1,087	1,051
		17,978	16,449
Current assets			
Inventories	13	1,745	1,735
Trade and other receivables	14	4,523	4,443
Other financial assets	12	63	71
Other non-financial assets	15	1,092	1,002
Current income tax receivables		178	156
Cash and cash equivalents	16	1,636	1,405
		9,237	8,812
Assets held for sale		102	82
		27,317	25,343
Equity and liabilities			
Equity	17		
Subscribed capital		1,000	1,000
Capital reserve		2,345	2,345
Retained earnings		5,509	5,129
Bertelsmann shareholders' equity		8,854	8,474
Non-controlling interests		1,591	1,364
		10,445	9,838
Non-current liabilities			
Provisions for pensions and similar obligations	18	1,967	1,738
Other provisions	19	178	135
Deferred tax liabilities	8	95	127
Profit participation capital	20	413	413
Financial debt	21	4,612	4,638
Lease liabilities	22	1,116	32
Trade and other payables	23	363	353
Other non-financial liabilities	23	379	395
		9,123	7,831
Current liabilities			
Other provisions	19	214	299
Financial debt	21	388	660
Lease liabilities	22	276	7
Trade and other payables	23	4,840	4,718
Other non-financial liabilities	23	1,908	1,839
Current income tax payables		78	88
		7,704	7,611
Liabilities related to assets held for sale		45	63
		27,317	25,343

The figures from the previous year have been adjusted. Further details are presented in the section "Acquisitions and Disposals."
Upon initial application of IFRS 16, lease liabilities are reported separately. As of December 31, 2018, only the amounts accounted for under finance leases in accordance with IAS 17 are reported.

Consolidated Cash Flow Statement

in € millions	2019	2018
Group earnings before interest and taxes	1,825	1,621
Taxes paid	(424)	(534)
Depreciation and write-ups of non-current assets	1,118	855
Results from disposals of investments	(90)	(7)
Gains/losses from disposals of non-current assets	(3)	(62)
Change in provisions for pensions and similar obligations	(95)	(113)
Change in other provisions	(3)	(20)
Change in net working capital	(34)	(178)
Fair value measurement of investments	(143)	(157)
Other effects	(61)	32
Cash flow from operating activities	2,090	1,437
– thereof discontinued operations	–	–
Investments in:		
– intangible assets	(313)	(295)
– property, plant and equipment	(323)	(325)
– financial assets	(317)	(258)
– purchase prices for consolidated investments (net of acquired cash)	(317)	(556)
Disposals of subsidiaries and other business units	228	113
Disposals of other fixed assets	330	191
Cash flow from investing activities	(712)	(1,130)
– thereof discontinued operations	1	1
Issues of bonds and promissory notes	75	942
Redemption of bonds and promissory notes	(309)	(400)
Proceeds from/redemption of other financial debt	(67)	(160)
Redemption of lease liabilities[1]	(247)	(8)
Interest paid	(260)	(196)
Interest received	25	27
Dividends to Bertelsmann shareholders	(180)	(180)
Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))	(263)	(356)
Change in equity	81	(59)
Other effects	17	18
Cash flow from financing activities	(1,128)	(372)
– thereof discontinued operations	–	–
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

1) The figure for the comparative period includes exclusively principal payments for leases previously accounted for under finance leases in accordance with IAS 17.

Changes in Net Liabilities Arising from Financing Activities

in € millions	2019	2018
Net liabilities arising from financing activities on 1/1[1]	(5,262)	(3,479)
Cash flow from operating activities	2,090	1,437
Cash flow from investing activities	(712)	(1,130)
Interest, dividends and changes in equity, additional payments (IAS 32.18(b))	(597)	(764)
Exchange rate effects and other changes in net liabilities arising from financing activities	(275)	4
Net liabilities arising from financing activities on 12/31	(4,756)	(3,932)

Net liabilities arising from financing activities are the balance of the balance sheet positions “Cash and cash equivalents,” “Financial debt” and “Lease liabilities.”
1) As a result of the initial application of IFRS 16, net liabilities arising from financing activities include lease liabilities amounting to €1,330 million as of January 1, 2019, which were previously classified as operating leases. As of January 1, 2018, and as of December, 31, 2018, the amounts accounted for under finance leases in accordance with IAS 17 are included in this item.

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital	Capital reserve[1]	Retained earnings						Bertelsmann shareholders' equity	Non-controlling interests	Total
			Other retained earnings	Accumulated other comprehensive income[2]							
				Exchange differences	Available-for-sale financial assets	Fair value reserve	Cash flow hedges	Share of other comprehensive income of investments accounted for using the equity method			
Balance on 1/1/2018	1,000	2,345	4,631	(196)	69	n/a	(22)	15	7,842	1,285	9,127
Adjustment	–	–	59	–	(69)	10	–	(8)	(8)	(3)	(11)
Balance on 1/1/2018[3]	1,000	2,345	4,690	(196)	n/a	10	(22)	7	7,834	1,282	9,116
Group profit or loss	–	–	753	–	n/a	–	–	–	753	351	1,104
Other comprehensive income	–	–	(67)	110	n/a	3	19	(2)	63	17	80
Group total comprehensive income	–	–	686	110	n/a	3	19	(2)	816	368	1,184
Dividend distributions	–	–	(180)	–	n/a	–	–	–	(180)	(293)	(473)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	6	1	n/a	–	–	–	7	(8)	(1)
Equity transactions with shareholders	–	–	(174)	1	n/a	–	–	–	(173)	(301)	(474)
Other changes	–	–	(2)	–	n/a	(1)	–	–	(3)	15	12
Balance on 12/31/2018	1,000	2,345	5,200	(85)	n/a	12	(3)	5	8,474	1,364	9,838
Balance on 1/1/2019	1,000	2,345	5,200	(85)	n/a	12	(3)	5	8,474	1,364	9,838
Adjustment	–	–	(38)	–	n/a	–	–	–	(38)	(12)	(50)
Balance on 1/1/2019[4]	1,000	2,345	5,162	(85)	n/a	12	(3)	5	8,436	1,352	9,788
Group profit or loss	–	–	729	–	n/a	–	–	–	729	362	1,091
Other comprehensive income	–	–	(205)	80	n/a	(2)	4	(4)	(127)	(15)	(142)
Group total comprehensive income	–	–	524	80	n/a	(2)	4	(4)	602	347	949
Dividend distributions	–	–	(180)	–	n/a	–	–	–	(180)	(254)	(434)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(13)	8	n/a	–	–	–	(5)	126	121
Equity transactions with shareholders	–	–	(193)	8	n/a	–	–	–	(185)	(128)	(313)
Other changes	–	–	3	–	n/a	(2)	–	–	1	20	21
Balance on 12/31/2019	1,000	2,345	5,496	3	n/a	8	1	1	8,854	1,591	10,445

1) The capital reserve mainly includes share premiums received from the issue of ordinary shares in excess of their par values.
2) As of December 31, 2019, €4 million related to assets classified as held for sale in accordance with IFRS 5. As of December 31, 2018, no significant amounts related to assets classified as held for sale in accordance with IFRS 5.
3) The adjustments resulted from the initial application of the financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of January 1, 2018.
4) The adjustments result from the initial application of the financial reporting standard IFRS 16 Leases as of January 1, 2019. In accordance with the transitional provisions of IFRS 16, prior-year comparatives have not been adjusted.

Segment Information (Continuing Operations)

in € millions	RTL Group 2019	RTL Group 2018	Penguin Random House 2019	Penguin Random House 2018	Gruner + Jahr 2019	Gruner + Jahr 2018	BMG 2019	BMG 2018	Arvato 2019	Arvato 2018
Revenues from external customers	6,586	6,494	3,636	3,424	1,319	1,420	597	542	4,112	4,033
Intersegment revenues	65	11	–	–	36	20	3	3	63	67
Divisional revenues	6,651	6,505	3,636	3,424	1,355	1,440	600	545	4,175	4,100
Operating EBITDA	1,439	1,402	561	528	157	140	138	122	549	377
EBITDA margin[1]	21.6%	21.5%	15.4%	15.4%	11.6%	9.7%	23.0%	22.5%	13.2%	9.2%
Impairment (-)/reversals (+) on intangible assets, property, plant and equipment and right-of-use assets	(3)	(105)	–	–	(1)	(46)	–	–	(9)	(6)
Results from investments accounted for using the equity method	64	58	2	(2)	10	9	–	–	10	7
Invested capital	6,735	6,438	2,582	2,370	619	667	1,927	1,885	1,894	1,619

Further details on segment reporting are presented in note 27 "Segment Reporting."
1) Operating EBITDA in percent of revenues.
2) The business development of Bertelsmann Investments is determined primarily on the basis of EBIT. EBIT amounted to €107 million (previous year: €96 million).

Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	2019	2018
EBIT from continuing operations	1,825	1,620
Special items		
– impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations	27	173
– adjustment to carrying amounts on assets held for sale	7	6
– impairment (+)/reversals (-) on other financial assets at amortized cost	9	–
– impairment (+)/reversals (-) on investments accounted for using the equity method	51	2
– results from disposals of investments	(90)	(6)
– fair value measurement of investments	(143)	(157)
– restructuring and other special items	293	278
Amortization/depreciation, impairment and reversals on intangible assets, 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 from continuing operations	2,909	2,586

	Bertelsmann Printing Group		Bertelsmann Education Group		Bertelsmann Investments[2]		Total divisions		Corporate		Consolidation		Continuing operations	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	1,405	1,468	333	257	13	12	18,001	17,650	22	23	–	–	18,023	17,673
	163	171	–	1	–	–	330	273	34	32	(364)	(305)	–	–
	1,568	1,639	333	258	13	12	18,331	17,923	56	55	(364)	(305)	18,023	17,673
	68	85	84	37	(1)	(3)	2,995	2,688	(86)	(95)	–	(7)	2,909	2,586
	4.4%	5.2%	25.2%	14.5%	-4.6%	-25.8%	16.3%	15.0%	n/a	n/a	n/a	n/a	16.1%	14.6%
	(14)	(3)	(101)	(25)	–	–	(128)	(185)	–	–	(1)	2	(129)	(183)
	–	–	39	(5)	–	(10)	125	57	–	–	(1)	–	124	57
	106	187	1,292	1,422	1,059	899	16,214	15,487	136	124	2	(21)	16,352	15,590

Information by Geographical Area (Continuing Operations)

	Germany		France		United Kingdom		Other European countries		United States		Other countries		Continuing operations	
in € millions	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenues from external customers	5,806	5,859	2,213	2,336	1,180	1,152	3,413	3,336	4,211	3,896	1,200	1,094	18,023	17,673
Non-current assets[1]	3,461	3,220	1,337	1,092	1,362	1,301	3,481	3,267	3,841	3,530	426	277	13,908	12,687

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

Information on Revenue Sources (Continuing Operations)

	Own products and merchandise		Services		Advertising		Rights and licenses		Continuing operations	
in € millions	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenues from external customers	4,385	4,349	6,508	6,375	4,043	4,061	3,087	2,888	18,023	17,673

General Principles

The Bertelsmann SE & Co. KGaA Consolidated Financial Statements as of December 31, 2019, were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) that are applicable in the European Union (EU-IFRS). The supplementary requirements set out in section 315e of the German Commercial Code (HGB) were also met. The Consolidated Financial Statements are prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million). For the sake of clarity, certain items in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet and the consolidated cash flow statement are combined. These items are disclosed and explained in greater detail in the notes.

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

Bertelsmann is a media, services and education company that operates in about 50 countries around the world. 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). Further information on the main activities of Bertelsmann SE & Co. KGaA and its subsidiaries is presented in detail in the Combined Management Report.

Impact of New Financial Reporting Standards

With the exception of the new financial reporting standard IFRS 16 Leases, the initial application of new financial reporting standards and interpretations had no material impact on the Bertelsmann Group. Application of the standard is mandatory for financial years beginning on or after January 1, 2019.

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out principles for recognition, measurement, presentation and disclosure requirements for leases. The changes mainly affect lessee accounting and generally require lessees to recognize all leases and the related contractual rights and obligations as a right-of-use asset and a lease liability on the lessee's balance sheet. Short-term leases with a lease term of up to one year, and leases covering low-value assets for which the Bertelsmann Group does not recognize right-of-use assets or lease liabilities, constitute an exception. The new standard replaces the previous straight-line recognition of operating lease expenses in accordance with IAS 17 with the recognition of depreciation expenses for the right-of-use asset and interest expenses on the lease liability.

On the date of initial accounting, lease liabilities are recognized at the present value of the outstanding lease payments. The present value is determined using maturity-, currency- and risk-specific incremental borrowing rates. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability, and reducing the carrying amount to reflect the lease payments made. Right-of-use assets are measured at cost less any accumulated depreciation and accumulated impairment losses. Cost comprises the amount of lease liabilities recognized, the initial direct costs and the lease payments made at or before the commencement date of the lease, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life or lease term. The initial application of IFRS 16 took place in accordance with the transitional provisions of IFRS 16 using the modified retrospective method. The prior-year comparatives were therefore not adjusted. At the transition date, the new financial reporting standard was applied to all contracts previously classified as leases in accordance with IAS 17 and IFRIC 4. On the date of initial application, current knowledge was used in assessing extension or termination options. The lease liability as of January 1, 2019, was recognized at the present value of outstanding lease payments using maturity-currency- and risk-specific incremental borrowing rates. The starting point for determining the incremental borrowing rates are risk-free interest rates for government bonds specific to the country and term. These interest rates are supplemented by a specific risk premium for Bertelsmann SE & Co. KGaA and a risk premium specific to the lease. This lease-specific risk premium takes into account in particular that lease contracts are not entered into by Bertelsmann SE & Co. KGaA itself but by its subsidiaries, and also takes into account the different payment profile of a leasing contract as opposed to a government bond with a final maturity. The weighted average incremental borrowing rate used to determine the lease liability as of January 1, 2019, was 3.0 percent.

The following table shows a reconciliation of the rental and lease commitments for real estate and movables already in use as of December 31, 2018, to the opening balance of lease liabilities as of January 1, 2019:

in € millions	
Rental and lease commitments for real estate and movables already in use on December 31, 2018	1,367
Practical expedients for short-term leases and leases for low-value assets	(17)
Adjusted estimates of extension options and termination options	191
Other	(1)
Commitments from operating leases (undiscounted)	**1,540**
Discounting effect	(210)
Commitments from operating leases (discounted)	**1,330**
Carrying amount of finance lease liabilities on December 31, 2018	39
Carrying amount of lease liabilities on January 1, 2019	**1,369**

For individual real estate leases, the right-of-use asset was recognized at an amount as if IFRS 16 had been applied since the commencement date of the lease. In all other cases, the right-of-use assets corresponded to the amount of the related lease liability on the date of initial application, adjusted by the amounts for any prepaid or accrued lease payments. In addition, the right-of-use asset was adjusted by the amounts recognized as provisions for onerous leases of €28 million on the balance sheet as of December 31, 2018. In this regard, an impairment test was not carried out on the right-of-use assets on the date of initial application. Initial direct costs were not taken into account in the measurement of the right-of-use assets on the date of initial application. Furthermore, the new provisions were not applied in individual cases where the lease ended by December 31, 2019.

As part of the transition to IFRS 16 as of January 1, 2019, right-of-use assets of €1,245 million (including €35 million from finance leases existing as of December 31, 2018) and lease liabilities of €1,369 million (including €39 million from finance leases existing as of December 31, 2018) were recognized. The cumulative effect of initial application of IFRS 16 amounting to €-50 million was recognized directly in equity. The vast majority of leases concern rental properties in the RTL Group, Penguin Random House and Arvato divisions. In addition, leases also exist for technical equipment and machinery, vehicles and other fixtures, and furniture and office equipment. In the consolidated income statement, the change in recognition of expenses from leases resulted in an increase in operating EBITDA of an estimated €0.3 billion compared to the financial year 2018. This is due to the replacement of the operating lease expenses formerly included in other operating expenses with depreciation of right-of-use assets and other financial expenses from the compounding of the lease liability shown in the financial result. In the financial year 2019, the change in recognition of lease payments in the consolidated cash flow statement results in an improvement of the cash flow from operating activities. The cash flow from financing activities is reduced by a corresponding amount.

Details on the accounting and measurement policies applied on leases in accordance with IFRS 16 since January 1, 2019, are presented on page 65. Further details on right-of-use assets are presented in note 10 "Property, Plant and Equipment and Right-of-Use Assets" and on lease liabilities in note 22 "Lease Liabilities."

Impact of Issued Financial Reporting Standards that Are Not Yet Effective

The Bertelsmann Group has not opted for early adoption of any additional standards, interpretations or amendments that have been issued by the IASB or the IFRS IC but are not yet mandatory.

Consolidation

Principles of Consolidation

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

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

Joint ventures in accordance with IFRS 11 and associates are included in the Consolidated Financial Statements using the equity method in accordance with IAS 28. Associates are companies over which Bertelsmann exercises a significant influence. This is generally the case for voting rights between 20 percent and 50 percent. Smaller shareholdings are accounted for using the equity method if there is a significant influence in accordance with IAS 28.6. When changing the accounting treatment of investments to the equity method, IFRS 3 is applied correspondingly so that the fair value of the previously held interest is used in determining the cost of the investment accounted for using the equity method on the transition date. The difference between the fair value and the carrying amount of the previously held interest is recognized in profit or loss. The portfolio of investments held by the Bertelsmann Investments division includes, among others, investments in associates recognized at fair value through profit or loss in accordance with IAS 28.18 in conjunction with IFRS 9. When applying the equity method to an associate or a joint venture that is an investment entity, Bertelsmann, which is a non-investment entity, generally retains as investor the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

The Bertelsmann Group recognizes immaterial investments in accordance with IFRS 9.

Scope of Consolidation

Bertelsmann is the majority shareholder of RTL Group, with an interest of 75.4 percent, and Penguin Random House with an interest of 75 percent. Gruner + Jahr, BMG, Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments are each wholly owned by Bertelsmann.

Composition of Scope of Consolidation

	Subsidiaries		Joint ventures[2]		Associates[2]		Total	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
RTL Group	282	299	15	14	42	41	339	354
Penguin Random House	114	102	–	–	1	1	115	103
Gruner + Jahr	80	101	1	4	1	1	82	106
BMG	65	73	–	1	–	–	65	74
Arvato	204	196	4	4	2	1	210	201
Bertelsmann Printing Group	37	39	1	1	–	–	38	40
Bertelsmann Education Group	21	31	–	–	4	4	25	35
Bertelsmann Investments	12	12	1	1	–	–	13	13
Corporate[1]	46	48	–	–	–	–	46	48
Total	861	901	22	25	50	48	933	974

1) Including Bertelsmann SE & Co. KGaA.
2) The joint ventures and associates included in the table are investments accounted for using the equity method.

Changes in Scope of Consolidation

	Germany	France	United Kingdom	Other European countries	United States	Other countries	Total
Consolidated on 12/31/2018	280	114	136	198	93	153	974
Additions	7	7	8	17	3	16	58
Disposals	21	10	9	14	15	30	99
Consolidated on 12/31/2019	266	111	135	201	81	139	933

A total of 191 (previous year: 209) companies were excluded from the scope of consolidation. These consist of the associates in the portfolio of the Bertelsmann Investments division and entities without significant business operations and of negligible importance for the financial position and financial performance of the Bertelsmann Group. The complete list of the Bertelsmann Group's shareholdings will be published in the "Bundesanzeiger" ("Federal Gazette") as an annex to these Consolidated Financial Statements in accordance with section 313 (2) of the German Commercial Code and will be available at the General Meeting.

Acquisitions and Disposals

In the financial year 2019, the cash flow from acquisition activities totaled €-317 million (previous year: €-556 million), of which €-293 million (previous year: €-508 million) related to new acquisitions during the reporting period less cash and cash equivalents acquired. The consideration transferred in accordance with IFRS 3 amounted to €326 million (previous year: €375 million) taking into account contingent consideration of €3 million (previous year: €8 million). In addition, put options were recognized in the amount of €8 million (previous year: €9 million) in connection with the acquisitions.

In April 2019, Penguin Random House acquired an interest of 100 percent in the British children's publishing company Little Tiger Group, based in London, United Kingdom. The Little Tiger Group is made up of five imprints mainly active in the preschool sector, and will work closely with Random House Children's Books. With this acquisition, Penguin Random House further expands its leading position in the English-language children's and young adult book sector. The consideration transferred amounted to €40 million and comprises a purchase price payment already made in the amount of €38 million and a contingent consideration in the amount of €2 million. The purchase price allocation resulted in goodwill of €16 million, mainly representing improved distribution through Penguin Random House Publisher Services and international sales expansion. Goodwill is not tax-deductible and was allocated to the Penguin Random House Venture cash-generating unit of the Penguin Random House division. In the financial year 2019, transaction-related costs amounted to less than €1 million and have been recognized in profit or loss.

In September 2019, Groupe M6, which belongs to RTL Group, acquired a 100 percent interest in Jeunesse TV SAS, Lagardère Thématiques SAS (renamed Jeunesse Thématiques SAS) and LTI Vostok LLC (together referred to as "Gulli"). The acquisition represents a strategic opportunity for Groupe M6 to complement its offering for families and to strengthen its overall position, in particular through the Gulli brand. The consideration transferred amounted to €214 million, net of cash acquired. At the time the Consolidated Financial Statements were authorized for issue, the purchase price allocation was at a very preliminary stage. In particular, the valuations had not been finalized yet. As a result, the fair values of identifiable assets, especially intangible assets, and liabilities acquired have only been determined provisionally and have not been recognized accordingly. The accounting for the acquisition will be finalized in 2020, within one year of the date of acquisition, based on facts and circumstances that existed at the date when control was assumed. The purchase price allocation resulted in preliminary goodwill of €193 million, which is not tax-deductible and was allocated to the Groupe M6 cash-generating unit of the RTL Group division. In the financial year 2019, transaction-related costs amounted to less than €1 million and have been recognized in profit or loss.

In addition, the Bertelsmann Group made several acquisitions in the financial year 2019, none of which was material on a stand-alone basis or in total. Payments net of acquired cash and cash equivalents amounted to €-44 million; the consideration transferred in accordance with IFRS 3 for these acquisitions amounted to €62 million taking into account contingent consideration of €1 million. The other acquisitions resulted in goodwill totaling €40 million, which reflects synergy potential and is partly tax-deductible. Transaction-related costs amounted to €3 million in the financial year 2019 and have been recognized in profit or loss.

The purchase price allocations consider all the facts and circumstances prevailing as of the respective dates of acquisition that were known prior to preparation of the Consolidated Financial Statements. In accordance with IFRS 3, should further facts and circumstances become known within the 12-month measurement period, the purchase price allocation will be adjusted accordingly.

The following table shows the fair values of the assets and liabilities of the acquisitions on their dates of initial consolidation based on the purchase price allocations, some of which are currently preliminary:

Effects of Acquisitions

in € millions	Little Tiger Group	Gulli	Other	Total
Non-current assets				
Goodwill	16	193	40	249
Other intangible assets	14	–	22	36
Property, plant and equipment and right-of-use assets	1	2	13	16
Trade and other receivables	–	1	7	8
Other non-current assets	–	7	3	10
Current assets				
Inventories	5	20	11	36
Trade and other receivables	11	24	51	86
Other current assets	1	1	8	10
Cash and cash equivalents	3	10	7	20
Liabilities				
Provisions for pensions and similar obligations	–	(2)	–	(2)
Financial debt	–	(1)	(5)	(6)
Lease liabilities	(1)	–	(8)	(9)
Other financial and non-financial liabilities	(10)	(31)	(56)	(97)
Fair value of pre-existing interests	–	–	(12)	(12)
Non-controlling interests	–	–	(19)	(19)

Since initial consolidation, all new acquisitions in accordance with IFRS 3 in the financial year 2019 have contributed €186 million to revenue and €10 million to Group profit or loss. If consolidated as of January 1, 2019, these would have contributed €246 million to revenue and €13 million to Group profit or loss. On the acquisition date, the fair value of the acquired receivables was €94 million. Of that amount, €88 million is attributable to trade receivables and €6 million to other receivables. Trade receivables are impaired in the amount of €10 million, so that the gross amount of trade receivables amounts to €98 million. The other receivables were not impaired, so that the fair value is equal to the gross amount.

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

In November 2018, Bertelsmann Education Group acquired an interest of 100 percent in the US online education provider OnCourse Learning. The initial accounting for the acquisition had not yet been completed in the last financial year. In accordance with IFRS 3.49, goodwill from the acquisition of OnCourse Learning was increased by €17 million to €380 million. The increase results mainly from the adjustment of the consideration transferred in the amount of €16 million and from further minor adjustments of the fair values of the acquired intangible assets in the amount of €1 million. The consolidated balance sheet figures from the previous year have been adjusted accordingly.

In April 2019, Mediengruppe RTL Deutschland, which belongs to RTL Group, sold its interests held in Universum Film GmbH (Universum), a home entertainment and theatrical distribution company, for €91 million. Net of transaction-related costs, the sale resulted in a gain of €63 million recognized in the item "Results from disposals of investments."

In May 2019, the Bertelsmann Education Group sold its membership interest in OnCourse Learning Financial Services, and in the following month its interest in OnCourse Learning Real Estate (together referred to as "OCL entities"), for a total of €123 million. Net of transaction-related costs, the transactions resulted in an overall gain of €10 million recognized in the item "Results from disposals of investments."

After considering the cash and cash equivalents disposed of, the Bertelsmann Group recorded cash flows in the amount of €228 million (previous year: €113 million) from all disposals. The disposals resulted in a gain from deconsolidation of €72 million (previous year: €-4 million), which is recognized in the item "Results from disposals of investments." The following table shows their impact on the Bertelsmann Group's assets and liabilities at the time of deconsolidation:

Effects of Disposals

in € millions	Universum	OCL entities	Other	Total
Non-current assets				
Goodwill	13	79	42	134
Other intangible assets	5	33	37	75
Property, plant and equipment and right-of-use assets	–	2	17	19
Other non-current assets	14	–	1	15
Current assets				
Inventories	30	–	4	34
Other current assets	13	5	38	56
Cash and cash equivalents	6	2	28	36
Liabilities				
Provisions for pensions and similar obligations	6	–	17	23
Financial debt	8	2	4	14
Lease liabilities	–	1	2	3
Other financial and non-financial liabilities	38	10	71	119

Discontinued Operations

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

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

The carrying amounts of the assets classified as held for sale and related liabilities are presented in the following table:

Assets Held for Sale and Related Liabilities

in € millions	12/31/2019	12/31/2018
Assets		
Non-current assets		
Goodwill	44	13
Other intangible assets	4	6
Property, plant and equipment and right-of-use assets	8	–
Investments accounted for using the equity method	1	–
Other non-current assets	3	16
Current assets		
Inventories	9	35
Trade and other receivables	20	12
Other current assets	7	1
Cash and cash equivalents	7	–
Impairment on assets held for sale	(1)	(1)
Assets held for sale	102	82
Equity and liabilities		
Non-current liabilities		
Provisions for pensions and similar obligations	–	5
Financial debt	–	6
Trade and other payables	–	1
Current liabilities		
Other provisions	1	1
Financial debt	–	2
Trade and other payables	25	46
Other current liabilities	19	2
Liabilities related to assets held for sale	45	63

As of December 31, 2019, the carrying amounts of the assets classified as held for sale and related liabilities are mainly attributable to the RTL Group division. RTL Group is currently conducting sales negotiations with Global Savings Group regarding the sale of its cashback company iGraal. Closing of the transaction is expected in the first half of 2020.

For disposal groups, which were measured at fair value less costs to sell, impairment losses were recognized in the amount of €7 million, which were attributable to planned or completed disposals in the Gruner + Jahr division. The fair values are based on level 3 of the hierarchy of non-recurring fair values. Valuations for level 3 are based on information from the contract negotiations. The impairment losses are recognized in profit or loss in the item "Other operating expenses."

Foreign Currency Translation

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

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

Euro Exchange Rates for Significant Foreign Currencies

		Average rates		Closing rates	
Foreign currency unit per €1		2019	2018	12/31/2019	12/31/2018
Australian dollar	AUD	1.6096	1.5799	1.5995	1.6220
Canadian dollar	CAD	1.4872	1.5301	1.4598	1.5605
Chinese renminbi	CNY	7.7366	7.8077	7.8205	7.8751
British pound	GBP	0.8777	0.8847	0.8508	0.8945
US dollar	USD	1.1206	1.1817	1.1234	1.1450

Accounting and Measurement Policies

Recognition of Income and Expense

Revenues from contracts with customers are recognized in accordance with IFRS 15. Under this standard, a contract-based five-step model is used to first identify and distinguish the relevant contracts with customers. In a next step, the separate performance obligations explicitly or implicitly stipulated in the contract are identified, and the contract is examined for fixed and variable consideration in order to use this as a basis for determining the respective transaction price. In doing so, constraining estimates of variable consideration are adequately taken into account. If more than one separate performance obligation is identified in a contract, the transaction price is then allocated to the identified performance obligations using the method of relative stand-alone selling prices, which are generally determined as prices on the markets relevant for the respective customers. Revenue recognition occurs upon satisfaction of the performance obligation either at a point in time or over time, depending on the underlying business model. If necessary, the extensive principal-agent considerations presented in IFRS 15 are also adequately taken into account in analyzing the contracts.

The prioritization of the five steps depends on the design of the underlying business model. Based on the underlying revenue sources in the Bertelsmann Group, the following key aspects are taken into consideration for revenue recognition:

- Own products and merchandise: As a rule, the revenues resulting from these contracts are recognized at a point in time when control is transferred. Depending on the underlying respective terms of sale, this is generally upon delivery to the customer. Expected returns from sales of products, mainly from physical books and magazines, are shown as liabilities in the balance sheet position "Trade and other payables." Return assets are presented in the balance sheet position "Other non-financial assets." In certain business models at Gruner + Jahr, giveaways to customers meet the criteria of a separate performance obligation. Any giveaways to an agent are capitalized as costs to obtain a contract and are amortized over the expected term of the subscription.
- Services: Services are generally rendered over a period of time, and the revenue is recognized based on an appropriate output method or input method for measuring progress. If permissible, revenues are recognized in the amount of the invoice if this amount corresponds to the value of the performance provided. Revenue from financial services is presented separately as revenue if it results primarily from interest rate effects.
- Advertising: Advertising services are generally rendered over a period of time, and revenue is recognized on the basis of an appropriate output method for measuring progress. If several performance obligations are identified in an advertising contract, the transaction price is allocated on the basis of the relative stand-alone selling prices.
- Rights and licenses: The timing of revenue recognition for business models generating revenue from licenses depends on whether the license represents a right to access the intellectual property through the entire licensing period or a right to use when the license is granted. In particular, the underlying contracts are analyzed to determine whether the customer is exposed to significant changes to the intellectual property or whether the intellectual property remains in the condition defined upon entering into the contract throughout the term of the contract with regard to its content and scope. While revenues from licenses granted for a right to use are realized at the date of the transfer of control, revenues from licenses for rights to access are realized over a period of time throughout the term of the contract. The majority of licenses granted in the TV business represent a right to use the intellectual property at the date the license is granted. As a result, revenue is recognized at the point in time the license is granted to the licensee. In contrast, rights to access are used extensively in the music business, and these revenues recognized are throughout the term of the contract.

IFRS 15 stipulates some practical expedients of which the following are applied in the Bertelsmann Group:

- Costs of obtaining contracts are not capitalized if the underlying asset is amortized in no more than 12 months.
- The value of consideration is not adjusted for the effects of a material financing component if the financing component pertains to a period of no more than 12 months.
- For contracts with an original duration of not more than 12 months and for contracts for which revenue can be recognized according to the amount invoiced for simplification purposes, no disclosure of the aggregated transaction price is provided.

Payments received before satisfaction of the corresponding performance obligation are recognized as contract liability. If contractual provisions make the invoicing of services completed to date causally dependent on the need to provide further goods or services, a contract asset is recognized. Receivables from contracts with customers are generally due in less than 12 months.

Interest income and expenses relating to financial assets measured at amortized cost are recognized on an accrual basis using the effective interest method in accordance with IFRS 9. Dividends are only recognized in profit or loss when the right to receive payment of the dividend is established. Other income is recognized when the economic benefits are probable and the amount can be measured reliably. Expenses are deferred on the basis of underlying facts or the period of time to which they relate.

Goodwill

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

Other Intangible Assets

Non-current, internally generated intangible assets are capitalized at cost in accordance with IAS 38 if the corresponding requirements have been met. Intangible assets acquired separately are carried at acquisition cost less accumulated amortization and accumulated impairment losses, also in accordance with IAS 38. Intangible assets acquired as part of a business combination are initially recognized at fair value on the acquisition date in accordance with IFRS 3. Intangible assets with finite useful life are amortized on a straight-line basis over their estimated useful life. Impairment and reversals are determined by applying the requirements for impairment testing in accordance with IAS 36. As a rule, capitalized software has a useful life of between three and five years. Acquired customer relationships are amortized over a period of two to 15 years, while the amortization period for trademarks and music and publishing rights is three to 25 years. Licenses are amortized on a straight-line basis over the term of the license agreement or depending on performance (based on the ratios of income from use generated in the reporting period to the estimated total income from use over the entire useful life). Intangible assets with indefinite useful life are not amortized. Instead, they are subject to at least annual impairment testing in accordance with IAS 36 and, if applicable, written down to their recoverable amount.

Property, Plant and Equipment

Items of property, plant and equipment are accounted for in accordance with IAS 16 and carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined on a straight-line basis over the estimated useful life of the asset. In the financial year 2019, depreciation was generally based on the following useful lives:

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

Land is not subject to depreciation.

Impairment

Goodwill and intangible assets with indefinite useful life are tested for impairment in accordance with IAS 36 annually as of December 31 and if a triggering event occurs. Intangible assets with finite useful life, property, plant and equipment and right-of-use assets are tested for impairment at the end of each reporting period in accordance with IAS 36 only if there are any indications of impairment. An impairment loss in accordance with IAS 36 has occurred when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal and value in use are generally determined using the discounted cash flow method, which is based on future cash flow forecasts, which are part of company forecasts. Due to the introduction of IFRS 16, the models used to determine the recoverable amount and the carrying amount were adjusted accordingly. Corresponding to the consideration of the right-of-use assets recognized in the balance sheet for determining the carrying amount, the lease payments are not deducted when determining the recoverable amount. In addition, there are effects on the cost of capital as a result of an IFRS 16-related change in the level of indebtedness of the peer companies used. For assets held for sale, only the fair value less costs to sell is used as a basis for comparison.

For determining the value in use, estimated future cash inflows or outflows from future restructurings or from improvement or enhancement of the cash-generating units' performance are excluded unless, as of the end of the reporting period, the cash-generating unit is committed to the restructuring and related provisions have been made. If an active market exists, the market price or, if applicable, the price in the most recent comparable transaction, is used for fair value measurement. If there is no active market, the fair value less costs of disposal is generally calculated using the discounted cash flow method. If it is not possible to allocate cash flows to assets, the relevant impairment losses are determined on the basis of cash flows attributable to the cash-generating unit to which the assets belong. Projected cash flows are based on internal estimates for three planning periods. Generally, two further detailed planning periods are applied in addition. For periods beyond this detailed horizon, a perpetual annuity is recognized, taking into account individual business-specific growth rates. Discounting is generally based on the weighted average cost of capital (WACC) after tax. Specific WACCs are derived for cash-generating units with different risk profiles. The Bertelsmann Group performs sensitivity analyses on the cash-generating units, especially on those where the headroom between the recoverable amount and the carrying amount is low.

If the reasons for an impairment loss recognized in prior periods no longer exist, the impairment loss is reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized. The latter does not apply to goodwill. The impairment loss and reversals of impairment losses are both recognized immediately in profit or loss.

Leases

Generally, for all leases with the Bertelsmann Group as a lessee the related contractual rights and obligations are recognized on the balance sheet as a right-of-use asset and a lease liability. On the date of initial accounting, lease liabilities are recognized at the present value of the outstanding lease payments. The lease payments include fixed payments less any lease incentives due from the lessor, variable lease payments linked to an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the exercise is reasonably certain and penalty payments for terminating the lease, if the lease term reflects the exercise of the termination option. Variable lease payments linked to sales are recognized in profit or loss in the period when the conditions for the payments have been met. The present value is determined using maturity-, currency- and risk-specific incremental borrowing rates. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. Right-of-use assets are measured at cost less any accumulated depreciation and accumulated impairment losses. Cost comprises the amount of lease liabilities recognized, the initial direct costs and the lease payments made at or before the commencement date of the lease, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life or lease term. Short-term leases with a lease term of up to one year, and leases for low-value assets for which the Bertelsmann Group does not recognize right-of-use assets or lease liabilities, constitute an exception. For such leases, the payments are recognized on a straight-line basis as expenses in the income statement under “Other operating expenses.”

Financial Assets

In accordance with the IFRS 9 classification and measurement approach for financial assets, there are three classification categories for financial assets in the Bertelsmann Group:

- at amortized cost,
- at fair value with changes in fair value through other comprehensive income (FVOCI) and
- at fair value with changes in fair value through profit or loss (FVTPL).

The allocation to the respective classification categories is based on the following criteria:

- the entity’s business model for managing the financial assets and
- contractual cash flow characteristics of the financial asset.

Financial assets are recognized initially at fair value, taking into account transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets recognized at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial instruments depends on the classification categories:

- At amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the principal amount outstanding are measured at amortized cost. This category mainly comprises trade receivables and other financial receivables. Any gain or loss arising on derecognition and impairment losses are recognized directly in profit or loss.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest on the principal amount outstanding, are measured at fair value with changes in fair value through other comprehensive income. The Bertelsmann Group held no debt instruments measured at fair value through other comprehensive income. Bertelsmann exercises the option for measurement of equity instruments at fair value through other comprehensive income mainly for individual immaterial investments. With deferred taxes taken into consideration, the gains and losses resulting from fluctuations in the fair value of these equity instruments are recognized through other comprehensive income. Gains and losses from the fair value are not reclassified to profit or loss after derecognition of the equity instruments. Dividends from such equity instruments continue to be recognized in profit or loss.
- FVTPL: Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. With deferred taxes taken into consideration, the gains and losses resulting from fluctuations in the fair value are recognized in profit or loss.

Impairment and measurement of expected credit losses:
Bertelsmann applies the expected credit loss (ECL) model in accordance with IFRS 9 for debt instruments at amortized cost and for contract assets. Accordingly, the amount of expected credit losses recognized as a loss allowance depends on the extent to which the default risk has increased since initial recognition. According to the so-called general approach, a distinction is made between the following two measurement bases:

- 12-month ECL: At initial recognition and if the default risk has not increased significantly from the initial recognition of the debt instrument, a loss allowance is recognized for expected credit losses within the next 12 months.
- Lifetime ECL: If the default risk has increased significantly, a loss allowance for expected credit losses is recognized for the entire life of the debt instrument.

A default of a financial asset is assumed at the latest when the counterparty fails to make contractual payments within 90 days of when they fall due, unless reasonable and supportable information is available that justifies a different time of overdue payment.

For trade receivables and contract assets, Bertelsmann uses a simplified approach to measure expected credit losses. According to this, the loss allowance is measured using lifetime expected credit losses. For this purpose, impairment matrices based on historic bad debt losses, maturity bands and expected credit losses were prepared. The impairment matrices were created for division-specific or business unit-specific groups of receivables, each with similar default patterns. In addition, separate risk assessments are performed. Contract assets have substantially the same risk characteristics as trade receivables for the same types of contracts, so that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Measurement at Fair Value

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

Inventories

Inventories – including raw materials and supplies, finished goods, work in progress and merchandise – are accounted for in accordance with IAS 2 and recognized at the lower of historical cost or net realizable value at the end of the reporting period. Similar inventories are measured at average cost or using the FIFO (first-in, first-out) method. In addition, inventories include all short-term film, television and similar rights that are intended for broadcast or sale within the Group's normal operating cycle. In particular, this includes films and TV shows currently in production, co-productions and acquired broadcasting rights. The carrying amount of such items at the end of the reporting period is the lower of historical cost or net realizable value. The consumption of film and television rights starts from the date of initial broadcast and depends either on the number of planned broadcasts or the expected revenues. The broadcast-based consumption of film and television rights is as follows:

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

The consumption of inventories and current film and television rights, changes in inventories of work in progress and finished goods as well as own costs capitalized, are recognized in the income statement in the position "Cost of materials."

Income Taxes

In accordance with IAS 12, current income taxes are calculated on the basis of the respective entity-specific taxable income of the financial year. For the calculation of current and deferred taxes, the applicable tax laws and tax jurisdictions of the respective country in which the consolidated Group companies are registered are considered. In the case of existing tax groups and tax-transparent entities, current and deferred taxes are accounted for in accordance with the applicable tax requirements in each case, and from the perspective of the formally applicable company laws. Accordingly, current and deferred taxes within Consolidated Financial Statements are recognized on the level of the entity carrying the tax liability.

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amounts shown on the IFRS consolidated balance sheet, and for as yet unused tax loss carryforwards and tax credits. Deferred tax assets are recognized only to the extent it is probable that taxable income will be available against which the deductible temporary difference can be utilized. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities resulting from business combinations are recognized, with the exception of temporary differences on goodwill not recognizable for tax purposes. The tax rates applied for computation are those expected as of the date of reversal of temporary differences and use of tax loss carryforwards, respectively. As a rule, deferred taxes are recognized in profit or loss unless they relate to items recognized in other comprehensive income. In this case, deferred taxes are recognized in other comprehensive income.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes net exchange differences and gains and losses from the fair value measurement of equity instruments with changes through other comprehensive income (IFRS 9 classification category FVOCI) and of derivatives used to hedge future cash flows (cash flow hedges) in accordance with IFRS 9.

In addition, in accordance with IAS 28.10, changes in other comprehensive income for entities accounted for using the equity method are recognized. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the returns implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized in the retained earnings in the year in which these gains and losses are incurred as part of the reconciliation of total comprehensive income for the period in the statement of changes in equity. Deferred taxes on the aforementioned items are also recognized directly in equity.

Provisions

Provisions for pensions and similar obligations are calculated using the projected unit credit method in accordance with IAS 19. The net interest expense included in pension expense is recognized in the financial result. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the returns implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized immediately in equity under other comprehensive income and are not reclassified to profit or loss in a subsequent period (recycled). With the exception of the other personnel-related provisions calculated in accordance with IAS 19, all other provisions are recognized in accordance with IAS 37. Provisions are measured in the amount of the most likely outcome. Non-current provisions are discounted. The discount rates take into account current market expectations and, if necessary, specific risks for the liability. As a rule, income from the reversal of provisions is generally included in the income statement line item to which the provision was previously charged.

Financial Liabilities

Trade payables and other primary financial liabilities, including profit participation certificates, are initially measured at their fair value less transaction costs. Subsequent measurement is based on amortized cost using the effective interest method, unless the financial liability is classified as initially recognized at fair value through profit or loss. Future payments related to put options issued by the Bertelsmann Group on the equity interests of subsidiaries are accounted for as a financial liability. The liability is initially recognized at the present value of the redemption amount with a corresponding charge directly to equity. In the case of a business combination with the transfer to the Bertelsmann Group of the risks and rewards of the non-controlling interests underlying the put option, the goodwill increases by a corresponding amount upon initial recognition. Subsequent measurement of liabilities from put options is recognized in profit or loss.

Derivative Financial Instruments

As set out in IFRS 9, all derivative financial instruments are recognized at fair value on the balance sheet. Derivative financial instruments are recognized as of the transaction date. When a contract involving a derivative is entered into, it is initially determined whether it serves to hedge a balance sheet item (fair value hedge) or to hedge future cash flows (cash flow hedge). Some derivatives do not meet the requirements included in IFRS 9 for recognition as hedges, despite this being their economic purpose (stand-alone hedge).

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

1. Fair value hedge: Changes in the fair value of these derivatives used to hedge assets or liabilities are recognized in profit or loss; the corresponding gain or loss on the change in fair value of the underlying balance sheet item is also directly included in the income statement.
2. Cash flow hedge: The effective portion of the changes in the fair value of derivatives used to hedge future cash flows is recognized in other comprehensive income. The amounts carried here are included in the initial measurement when an underlying non-financial asset or a non-financial liability is received (basis adjustment). In other cases, the reclassification of the previously recognized gains and losses from equity to the income statement is performed when the hedged underlying transaction affects profit or loss. The ineffective portion of the changes in the fair value of the hedging instrument is recognized in profit or loss.

3. Stand-alone hedge: Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss.

In the financial year 2019, no hedge transactions were recognized with fair value hedges. Likewise, no hedge of net investment in foreign operations was made.

Share-Based Payments

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

Non-Current Assets Held for Sale and Related Liabilities

Non-current assets or disposal groups are classified as held for sale if the associated carrying amount will be recovered principally through a sale transaction and not from continued use. These non-current assets and the associated liabilities are presented in separate balance sheet positions in accordance with IFRS 5. They are measured at the lower of the carrying amount or fair value less costs to sell. Depreciation/amortization is not recognized if a non-current asset is classified as held for sale or forms part of a disposal group that is classified as held for sale. Components of entities that fulfill the requirements of IFRS 5.32 are classified as discontinued operations and thus are carried separately in the income statement and cash flow statement. All the changes in amounts made during the reporting period that are directly connected with the sale of a discontinued operation in any preceding period are also stated in this separate category. If a component of an entity is no longer classified as held for sale, the results of this entity component that were previously carried under discontinued operations are reclassified to continuing operations for all the reporting periods shown.

Significant Accounting Judgments, Estimates and Assumptions

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

- Recognition of income and expense: In the event of return rights, mostly for print products, estimates must be made with regard to the anticipated return volume, as revenues are recognized taking the anticipated returns into account. Return ratios determined using statistical methods are used to identify the anticipated returns. The transaction prices to be determined using the contract-based five-step model defined in IFRS 15 often include both fixed and variable consideration. The variable components are determined on the basis of estimates, which are made and updated in accordance with constraint conditions. For various business models, qualitative estimates must be made as part of principal-agent considerations as to who is to be regarded as a customer of a Bertelsmann company and whether a Bertelsmann company is to be regarded as principal or agent in a transaction.

- Control of entities in which the Bertelsmann Group holds less than half of the voting rights: Management considers that the Bertelsmann Group has de facto control of Groupe M6, which belongs to RTL Group, even though it holds less than 50 percent of the voting rights. RTL Group is the major shareholder of Groupe M6, while the balance of other holdings remains highly dispersed, and the other shareholders have not organized their interest in such a way that they intend to vote differently from the Bertelsmann Group. In addition, the Bertelsmann Group has a majority in relevant governing bodies and the decision-making rights over the relevant activities of Groupe M6 resulting from this majority. Furthermore, management considers that the Bertelsmann Group also has control of the CRM company Majorel, which belongs to Arvato, with 50 percent of the voting rights. Bertelsmann Group has a majority in relevant governing bodies and the decision-making rights over the relevant activities of the company resulting from this majority and therefore includes it as a subsidiary in the Consolidated Financial Statements.
- Significant influence although the Bertelsmann Group holds less than 20 percent of the equity shares in another entity: Although the Bertelsmann Group holds less than 20 percent of the equity shares of Atresmedia, management considers that the Group exercises a significant influence on Atresmedia in view of the representation of RTL Group on the Board of Directors and other governing bodies of Atresmedia.
- Investments in equity instruments: The measurement of various investments in equity instruments recognized at fair value that are not based on prices quoted on active markets is based on observable prices obtained as part of the most recently implemented qualified financing rounds, taking into account the life and developmental cycle of the respective entity, or on valuations obtained on the basis of established financial methods using risk-adjusted discount rates. Further adjustments are made for financial instruments with contractual lockups.
- Trade and other receivables: Calculation of loss allowance for accounts receivable is based on historical credit loss rates for groups of financial assets with similar credit risk characteristics and on forward-looking information, including customer-specific information and forecasts of future economic conditions.
- Advance payments: Sales estimates and assumptions on future sales success are also made in connection with advances paid to authors to secure exploitation rights for their publications.
- Impairment: Management estimates of cash flow, on which impairment tests are based, are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments, EBITDA margins and growth rates. A combination of long-term trends, industry forecasts and in-house knowledge, with special emphasis on recent experience, is used in forming the assumptions about the development of the various relevant markets in which the Bertelsmann Group operates. The relevant markets are an area highly exposed to the general economic conditions. The state of the relevant markets is just one of the key operational drivers the Bertelsmann Group uses when assessing individual business models. The most important assumptions include estimated growth rates, the weighted average cost of capital and tax rates. All these different elements are variable, interrelated and difficult to isolate as the main driver of the various business models and respective valuations. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. The growth rates applied are based on long-term real growth rates for the relevant economies, growth expectations for the relevant sectors and long-term inflation forecasts for the countries in which the cash-generating units operate. The values allocated to the key assumptions are in line with external sources of information. The figures obtained using the respective discount rates reflect the recoverable amount of the cash-generating units. Material changes in the market or competitive environment may impair the value of cash-generating units. Details on impairment

testing for intangible assets (including goodwill) in the Bertelsmann Group are presented in note 9 “Intangible Assets.” In addition, in the case of sports and film rights, estimates are made with regard to anticipated revenues.

- Pension obligations: Pension obligations are measured using the projected unit credit method. Using this approach, biometric calculations, the prevailing long-term capital market interest rates and, in particular, assumptions about future salary and pension increases are taken into account. As a result of the decrease in the discount rate for measuring provisions for pensions, actuarial losses amounting to €502 million before related tax effects were recognized in the item “Remeasurement component of defined benefit plans.” Details on the assumptions made in pension accounting are presented in note 18 “Provisions for Pensions and Similar Obligations.”
- Provisions for onerous contracts and warranties are also based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation, whether an outflow of resources is probable and whether it is possible to reliably determine the amount of the obligation are generally based on the expertise of in-house or third-party specialists. More recent information could change the estimates and thus impact the Group’s financial position and financial performance. The legal and regulatory environment in which Bertelsmann operates does not bear significant litigation risks. With regard to risk provisioning, a provision for potential losses from litigation is recognized when the risks of a loss are considered probable and when a reliable estimate of the anticipated financial impact is possible. For significant contingent liabilities for which the possibility of a future loss is more than remote but less than probable, the Bertelsmann Group estimates the possible loss where the Group believes that an estimate can be made. Contingent liabilities from litigation that were of subordinate significance from a Group perspective existed at the end of the reporting period. Management regularly reviews the recognition, measurement and use of provisions along with the disclosure requirements for contingent liabilities.
- Leases: Some real estate lease contracts include extension and/or termination options. Payments from these optional periods are included in the lease liability, provided it is reasonably certain that the lease will be extended beyond the non-cancellable lease period or that a termination option will not be exercised. In assessing whether an option to extend or terminate will be exercised, management considers all facts and circumstances that are associated with an economic incentive to exercise the option or not to exercise it. These include, in particular, the amount of lease payments compared to market prices in the optional period, completed or expected leasehold improvements, and the importance of the underlying asset to the Bertelsmann Group’s operations.

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

Assessments of the ability to realize uncertain tax positions and future tax benefits are also based on assumptions and estimates. Recognition of an asset or liability from an uncertain tax position is performed in accordance with IAS 12 if payment or refund of an uncertain tax position is probable. Measurement of the uncertain tax position is at its most likely amount. Deferred tax assets are only carried to the extent that it is probable that they can be utilized against future taxable profits. When assessing the probability of the ability to use deferred tax assets in the future, various factors are taken into account, including past earnings, company forecasts, tax forecast strategies and loss carryforward periods. Information relating to the ability to realize tax benefits is presented in note 8 “Income Taxes.”

Assumptions are also made for fair value measurement of other financial assets and financial liabilities. In this regard, Bertelsmann uses various financial methods that take into account the market conditions and risks in effect at the end of the respective reporting periods. The inputs to these models are taken from observable markets where possible, but where these are not available, fair value measurement is based on assumptions by management. These assumptions relate to input factors such as cash flows, discount rate, liquidity risk and default risks. If a right to early termination or repayment exists for financial debt, whether this is actually intended is taken into account when determining the remaining term.

Estimates and assumptions also relate to the share-based payments. The conditions of the cash-settled share-based payment transactions and the stock option plans are presented in greater detail in the section "Share-Based Payments" in note 17 "Equity."

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

Notes to the Income Statement and the Balance Sheet

1 Revenues

In the financial year 2019, Group revenues of €17,783 million were generated from contracts with customers in accordance with IFRS 15 (previous year: €17,455 million). The other revenues amounting to €240 million (previous year: €218 million) not in the scope of IFRS 15 resulted almost entirely from financial services in the Arvato division. The following table shows the revenues from contracts with customers in accordance with IFRS 15 by division and broken down by revenue source, geographical area and timing of revenue recognition. The categorization of revenue sources and geographical areas shown corresponds to that used in segment reporting. By contrast, the revenues reported reflect exclusively the revenues in accordance with IFRS 15 and consequently differ in amount from the breakdown of revenues in segment reporting.

Revenue from Contracts with Customers

	2019							
in € millions	RTL Group	Penguin Random House	Gruner + Jahr	BMG	Arvato	Bertelsmann Printing Group	Bertelsmann Education Group	Total divisions[1)]
Revenue Sources								
Own products and merchandise	117	3,488	563	45	137	32	–	4,382
Services	373	97	351	–	3,735	1,347	333	6,236
Advertising	3,628	–	389	–	–	26	–	4,043
Rights and licenses	2,468	51	16	552	–	–	–	3,087
	6,586	3,636	1,319	597	3,872	1,405	333	17,748
Geographical Areas								
Germany	2,072	264	877	46	1,504	883	1	5,647
France	1,439	9	278	34	391	62	–	2,213
United Kingdom	294	410	14	99	208	153	1	1,179
Other European countries	1,509	321	99	65	1,136	182	–	3,312
United States	1,114	2,038	25	300	295	113	325	4,210
Other countries	158	594	26	53	338	12	6	1,187
	6,586	3,636	1,319	597	3,872	1,405	333	17,748
Timing								
Point in time	2,245	3,537	844	142	192	55	–	7,015
Over time	4,341	99	475	455	3,680	1,350	333	10,733
	6,586	3,636	1,319	597	3,872	1,405	333	17,748

1) Excluding Bertelsmann Investments and Corporate activities.

in € millions	RTL Group	Penguin Random House	Gruner + Jahr	BMG	Arvato	Bertelsmann Printing Group	Bertelsmann Education Group	Total divisions[1]
				2018				
Revenue Sources								
Own products and merchandise	144	3,280	618	48	222	34	–	4,346
Services	379	90	406	–	3,593	1,400	257	6,125
Advertising	3,647	–	380	–	–	34	–	4,061
Rights and licenses	2,324	54	16	494	–	–	–	2,888
	6,494	3,424	1,420	542	3,815	1,468	257	17,420
Geographical Areas								
Germany	2,159	257	928	34	1,448	888	1	5,715
France	1,459	14	315	21	459	68	–	2,336
United Kingdom	244	366	10	134	212	185	–	1,151
Other European countries	1,472	287	129	66	1,096	190	–	3,240
United States	972	1,966	20	239	326	123	250	3,896
Other countries	188	534	18	48	274	14	6	1,082
	6,494	3,424	1,420	542	3,815	1,468	257	17,420
Timing								
Point in time	2,169	3,327	928	140	295	61	–	6,920
Over time	4,325	97	492	402	3,520	1,407	257	10,500
	6,494	3,424	1,420	542	3,815	1,468	257	17,420

1) Excluding Bertelsmann Investments and Corporate activities.

During the reporting period, the revenues from contracts with customers comprise performance obligations fulfilled at a certain point in time of €7,015 million (previous year: €6,920 million) and performance obligations fulfilled over a certain period of time of €10,733 million (previous year: €10,500 million). If revenue is recognized at a point in time, the respective timing of revenue recognition is determined by the contractually agreed terms of sale. For performance obligations satisfied over time, a sufficient measure of progress is determined generally based on output methods to recognize revenue accordingly. Input methods are used to determine revenue recognition in business models for which they more accurately measure progress. Revenues amounting to €7 million (previous year: €12 million) result from performance obligations already satisfied in previous periods. Bertelsmann makes use of practical expedients set out in IFRS 15 and does not disclose any unsatisfied performance obligations for contracts with an original duration of no more than 12 months, or for contracts for which revenue can be recognized according to the amount invoiced for simplification purposes. As of December 31, 2019, Bertelsmann expects future revenues from existing long-term service level agreements of €1,210 million (previous year: €718 million), which will be attributable to unsatisfied (or partially unsatisfied) performance obligations as of the balance sheet date and is expected to be recognized in the amount of €451 million (previous year: €307 million) in the next financial year and in the amount of €759 million (previous year: €411 million) in the following years.

2 Other Operating Income

in € millions	2019	2018
Fair value measurement of investments	143	157
Income from reimbursements	77	60
Income from sideline operations	50	45
Gains from disposals of non-current assets	12	76
Foreign exchange gains	–	3
Sundry operating income	173	132
	455	473

The item "Fair value measurement of investments" mainly relates to financial instruments held in the portfolio of the Bertelsmann Investments division. Bertelsmann Investments assigns its minority stakes in start-ups and fund-of-fund investments to the fair value through profit or loss category in accordance with IFRS 9. Further details are presented in note 12 "Minority Stakes and Other Financial Assets." In the previous year, the item "Gains from disposals of non-current assets" included mainly a capital gain of €35 million from the sale of intangible assets by Groupe M6, which belongs to RTL Group.

3 Personnel Costs

in € millions	2019	2018
Wages and salaries	4,507	4,464
Statutory social security contributions	701	719
Expenses for pensions and similar obligations	131	141
Profit sharing	96	116
Other employee benefits	210	218
	5,645	5,658

The contributions paid by the employer to state pension plans amounted to €367 million (previous year: €371 million) in the financial year 2019.

4 Amortization/Depreciation, Impairment and Reversals on Intangible Assets and Property, Plant and Equipment and Right-of-Use Assets

in € millions	2019	2018
Amortization/depreciation, impairment and reversals on		
– intangible assets	514	570
– property, plant and equipment and right-of-use assets	537	277
	1,051	847

Further details on amortization/depreciation, impairment and reversals shown are presented in note 9 "Intangible Assets" and note 10 "Property, Plant and Equipment and Right-of-Use Assets."

5 Other Operating Expenses

in € millions	2019	2018
Administrative expenses	1,102	1,336
Selling and transmission expenses	645	610
Advertising costs	406	393
Loss allowances on receivables, loans and non-financial assets	257	192
Consulting and audit fees	168	183
Operating taxes	104	116
Losses on disposals of non-current assets	9	16
Adjustment to carrying amounts on assets held for sale	7	6
Foreign exchange losses	6	–
Sundry operating expenses	173	102
	2,877	2,954

The item "Administrative expenses" includes repair and maintenance costs of €195 million (previous year: €197 million) and costs for IT services of €204 million (previous year: €168 million). In the financial year 2019, expenses from short-term leases in the amount of €48 million and expenses from leases for low-value assets in the amount of €10 million are also included in this item. In the previous year, administrative expenses also comprised payments recognized as expenses from operating leases of €275 million, associated services and incidental costs of €37 million and contingent lease payments of €8 million. The item "Loss allowances on receivables, loans and non-financial assets" comprises mainly loss allowances on advance payments for royalties and licenses of the Penguin Random House division amounting to €199 million (previous year: €167 million).

6 Interest Income and Interest Expenses

in € millions	2019	2018
Interest income		
Interest income on cash and cash equivalents	5	4
Other interest income	8	11
	13	15
Interest expenses		
Interest expenses on financial debt	(108)	(104)
Interest expenses on interest rate derivatives	(1)	(1)
Other interest expenses	(8)	(10)
	(117)	(115)

7 Other Financial Income and Expenses

in € millions	2019	2018
Other financial income		
Financial income from put options	10	–
Minority interests in partnerships	–	4
Non-operating foreign exchange gains	3	2
Sundry financial income	11	21
	24	27
Other financial expenses		
Net interest on defined benefit plans	(32)	(30)
Interest expenses on lease liabilities	(43)	–
Dividend entitlement on profit participation certificates	(44)	(44)
Minority interests in partnerships	(11)	(10)
Other non-operating expenses from derivatives	(65)	(34)
Sundry financial expenses	(34)	(25)
	(229)	(143)

To better reflect the economic content, income and expenses from non-operating foreign currency hedging transactions are offset against the results from the measurement of the economically hedged items in foreign currency, and are recognized as non-operating foreign exchange gains or losses. In the financial year 2019, the net results from these non-operating foreign currency transactions of €68 million (previous year: €35 million) were offset against the net results from hedged foreign currency transactions amounting to €-65 million (previous year: €-33 million).

8 Income Taxes

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

Income Taxes

in € millions	2019	2018
Earnings before income taxes (total)	1,517	1,405
Current income taxes from continuing operations	(375)	(394)
Deferred income taxes from continuing operations	(51)	93
Income taxes from continuing operations	(426)	(301)
Current income taxes from discontinued operations	–	–
Deferred income taxes from discontinued operations	–	–
Income taxes from discontinued operations	–	–
Total income taxes	(426)	(301)
Net income after income taxes (total)	1,091	1,104

Tax loss carryforwards of €612 million (previous year: €397 million) were utilized in the financial year 2019, reducing current tax expenses by €141 million (previous year: €92 million). Of the tax loss carryforwards utilized, €6 million (previous year: €31 million) was due to German corporate income tax, €6 million (previous year: €22 million) was due to German trade tax and €600 million (previous year: €344 million) was due to foreign income taxes. These amounts include €19 million (previous year: €58 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past.

These relate in the amount of €4 million to German corporate tax (previous year: €0 million), in the amount of €4 million to German trade tax (previous year: €0 million) and to foreign income taxes in the amount of €11 million (previous year: €58 million). As a result of this utilization, current tax expense decreased by €4 million (previous year: €12 million).

Deferred tax assets and liabilities resulted from the following items and factors. Due to the introduction of IFRS 16 and the associated changes to the structure of the consolidated balance sheet, the financial years 2018 and 2019 are presented in separate tables.

Deferred Taxes

	12/31/2019		
in € millions	Assets	Equity and liabilities	thereof recognized in profit or loss in the financial year
Goodwill	37	93	10
Other intangible assets	131	317	101
Property, plant and equipment and right-of-use assets	50	421	(69)
Investments accounted for using the equity method	1	–	–
Minority stakes and other financial assets	22	45	15
Inventories	228	4	(11)
Trade and other receivables	257	76	42
Other non-financial assets	54	106	(14)
Cash and cash equivalents	1	6	–
Provisions for pensions and similar obligations	906	333	(12)
Other provisions	126	59	(31)
Financial debt	3	129	(75)
Lease liabilities	432	3	83
Trade and other payables	112	46	27
Other non-financial liabilities	15	9	(11)
Loss carryforwards/tax credits	264		(106)
Total	2,639	1,647	(51)
Offset	(1,552)	(1,552)	
Carrying amount	1,087	95	

	12/31/2018		
in € millions	Assets	Equity and liabilities	thereof recognized in profit or loss in the financial year
Intangible assets	291	494	7
Property, plant and equipment	46	33	3
Financial assets	18	54	(26)
Inventories	76	7	18
Receivables	138	27	12
Advance payments and other assets	173	131	(2)
Provisions	840	291	(31)
Financial debt	15	66	(9)
Liabilities	9	7	(8)
Advance payments and other liabilities	85	26	27
Loss carryforwards/tax credits	369		102
Total	2,060	1,136	93
Offset	(1,009)	(1,009)	
Carrying amount	1,051	127	

No deferred tax liabilities were recognized for temporary differences in connection with investments in subsidiaries in the amount of €507 million (previous year: €504 million) as Bertelsmann can control their reversal, and it is probable that these temporary differences will not be reversed in the foreseeable future. Current and deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and meet the criteria for offsetting. The term of the deferred taxes on temporary differences is mostly long-term.

Information on amounts of income tax relating to other comprehensive income is presented in note 17 "Equity."

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

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

Expiration

in € millions	12/31/2019	12/31/2018
Tax loss carryforwards		
To be carried forward for more than 5 years	5,847	5,845
To be carried forward for up to 5 years	65	132
Temporary differences	145	116
Tax credits		
To be carried forward for more than 5 years	2	2
To be carried forward for up to 5 years	1	1

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

Reconciliation to Actual Tax Expense

in € millions	2019	2018
Earnings before income taxes from continuing operations	1,516	1,404
Income tax rate applicable to Bertelsmann SE & Co. KGaA	31.00%	31.00%
Expected tax expense from continuing operations	(470)	(435)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment to different national tax rates	5	21
Effect of changes in tax rate and tax law	(5)	(7)
Non-tax-deductible impairment on goodwill	(7)	(46)
Tax effects in respect of results from disposals of investments	31	1
Current income taxes for previous years	(5)	7
Deferred income taxes for previous years	16	33
Effects of measurements of deferred tax assets	14	123
Permanent differences	5	10
Other adjustments	(10)	(8)
Total of adjustments	44	134
Actual tax expense from continuing operations	(426)	(301)

The income tax rate applicable to Bertelsmann SE & Co. KGaA consists of corporate income tax, the solidarity surcharge and trade tax. In the current financial year, income taxes reached a normalized level compared with the previous year, particularly as a result of lower positive measurement effects of deferred taxes. The effects from the measurement of deferred tax assets in the previous year are attributable to the planned use of previously unrecognized loss carryforwards and tax credits.

Effective Income Tax Rate

	2019	2018
Corporate income tax including solidarity surcharge	15.83%	15.83%
Trade tax	15.17%	15.17%
Effective income tax rate	31.00%	31.00%

9 Intangible Assets

		Other intangible assets					
in € millions	Goodwill	Music and film rights	Other rights and licenses	Internally generated intangible assets	Advance payments	Total	Total
Cost							
Balance on 1/1/2018	8,403	2,902	2,065	982	14	5,963	14,366
Exchange differences	57	37	26	15	–	78	135
Acquisitions through business combinations	500	19	200	11	–	230	730
Other additions	–	98	131	45	23	297	297
Reductions through disposal of investments	(26)	–	(93)	(2)	–	(95)	(121)
Other disposals	–	(13)	(75)	(10)	–	(98)	(98)
Reclassifications in accordance with IFRS 5	(13)	(14)	(2)	–	–	(16)	(29)
Reclassifications and other changes	(3)	34	43	14	(23)	68	65
Balance on 12/31/2018	8,918	3,063	2,295	1,055	14	6,427	15,345
Exchange differences	55	48	30	8	–	86	141
Acquisitions through business combinations	249	–	36	–	–	36	285
Other additions	–	119	128	42	26	315	315
Reductions through disposal of investments	(121)	–	(31)	(16)	–	(47)	(168)
Other disposals	–	(112)	(47)	(17)	–	(176)	(176)
Reclassifications in accordance with IFRS 5	(44)	–	(94)	(8)	–	(102)	(146)
Reclassifications and other changes	1	41	(15)	61	(11)	76	77
Balance on 12/31/2019	9,058	3,159	2,302	1,125	29	6,615	15,673
Accumulated amortization							
Balance on 1/1/2018	319	1,452	1,125	908	–	3,485	3,804
Exchange differences	3	12	10	16	–	38	41
Amortization	–	179	170	44	–	393	393
Impairment losses	173	1	3	3	–	7	180
Reversals of impairment losses	–	(1)	(1)	(1)	–	(3)	(3)
Reductions through disposal of investments	–	–	(41)	(1)	–	(42)	(42)
Other disposals	–	(14)	(58)	(8)	–	(80)	(80)
Reclassifications in accordance with IFRS 5	–	(8)	(2)	–	–	(10)	(10)
Reclassifications and other changes	(4)	3	46	–	–	49	45
Balance on 12/31/2018	491	1,624	1,252	961	–	3,837	4,328
Exchange differences	2	11	15	7	–	33	35
Amortization	–	181	166	53	–	400	400
Impairment losses	27	–	86	1	–	87	114
Reversals of impairment losses	–	–	–	–	–	–	–
Reductions through disposal of investments	–	–	(3)	(12)	–	(15)	(15)
Other disposals	–	(111)	(44)	(16)	–	(171)	(171)
Reclassifications in accordance with IFRS 5	–	–	(58)	(4)	–	(62)	(62)
Reclassifications and other changes	1	33	(4)	41	–	70	71
Balance on 12/31/2019	521	1,738	1,410	1,031	–	4,179	4,700
Carrying amount on 12/31/2019	8,537	1,421	892	94	29	2,436	10,973
Carrying amount on 12/31/2018	8,427	1,439	1,043	94	14	2,590	11,017

Other rights and licenses include brands and publishing rights, acquired customer relationships along with acquired software, and other licenses. In the financial year, BMG acquired music catalogs in the amount of €49 million, €21 million of which related to various music catalogs in the United Kingdom, €15 million to various music catalogs in the United States, and €11 million to various music catalogs in Germany. Internally generated intangible assets mostly include own film and TV productions and internally generated software.

As in the previous year, no intangible assets were subject to restrictions on disposal as of the end of the reporting period. In the financial year 2019, an impairment of €74 million was recognized on customer relationships recognized as an intangible asset due to the loss of an important customer within the cash-generating unit Education Services.

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

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

	Goodwill		Other intangible assets with indefinite useful life	
in € millions	12/31/2019	12/31/2018	12/31/2019	12/31/2018
RTL Group	5,216	5,043	127	127
RTL Group, Group level	2,123	2,123	–	–
Fremantle	1,047	1,050	–	–
Television Germany	968	936	–	–
Groupe M6	662	510	127	127
RTL Nederland	159	159	–	–
SpotX	126	123	–	–
StyleHaul	–	–	–	–
Other	131	142	–	–
Penguin Random House	1,009	952	–	–
Penguin Random House Venture	959	904	–	–
Random House Germany	50	48	–	–
Gruner + Jahr	436	479	–	–
Magazines and digital business Germany	290	334	–	–
Magazines and digital business International	129	129	–	–
Newspapers	17	16	–	–
BMG	364	361	–	–
Arvato	543	535	–	–
Financial Solutions	420	419	–	–
Other	123	116	–	–
Bertelsmann Printing Group	40	40	–	–
Print US	23	23	–	–
Other	17	17	–	–
Bertelsmann Education Group	921	1,008	–	–
Online Learning	889	872	–	–
Education Services	26	51	–	–
Other	6	84	–	–
Bertelsmann Investments	9	9	–	–
	8,537	8,427	127	127

Intangible assets with indefinite useful life are primarily Groupe M6 trademark rights in France (€120 million; previous year: €120 million). In determining that the M6 brand has an indefinite useful life, management has considered various factors such as the past and expected longevity of the brand, the impact of possible changes in broadcasting technologies, the impact of possible evolutions of the regulatory environment in the French television industry, the current and expected audience share of the M6 channel, and management's strategy to maintain and strengthen the trademark "M6." As of December 31, 2019, based on the analysis of these factors, there is no foreseeable limit to the period of time over which the M6 brand is expected to generate cash inflows.

For the purpose of impairment testing in accordance with IAS 36, goodwill from a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. The recoverable amount of the impairment test for RTL Group's goodwill recognized at Group level was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2019, the market price of RTL Group S.A. shares on the Frankfurt Stock Exchange was €43.98 (previous year: €46.70). No impairment was identified for goodwill carried. In addition, the value in use was calculated using a discounted cash flow method (level 3) based on a WACC of 5.8 percent (previous year: 5.8 percent) and a long-term growth rate of 0.5 percent (previous year: 1.0 percent). The value in use determined exceeded the fair value determined from the stock market price. The recoverable amount for the goodwill impairment test of the cash-generating unit Groupe M6 was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2019, the market price of Métropole Télévision shares on the Paris Stock Exchange was €16.78 (previous year: €14.04). No impairment was identified for goodwill carried. In addition, the value in use was calculated using a discounted cash flow method (level 3) based on a WACC of 5.9 percent (previous year: 6.2 percent) and a long-term growth rate of 0.0 percent (previous year: 0.7 percent). The value in use determined exceeded the fair value determined from the stock market price.

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

The cash flow forecasts underlying the impairment testing of the individual cash-generating units bearing material goodwill are based on the following assumptions relating to the market development for the beginning of the detailed planning period:

- 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, 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 market segment. At the same time, significant growth is anticipated in the recording rights market 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.

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

Overview of Growth and Discount Rates

	Growth rate in % for the year		Discount rate in % for the year	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
RTL Group				
Fremantle	1.8	1.8	7.6	7.1
Television Germany	0.5	1.0	5.6	5.8
RTL Nederland	0.0	1.0	5.4	5.8
SpotX	2.0	2.0	10.1	10.1
StyleHaul	–	–	–	27.5
Other	0.0–2.0	0.0–2.0	5.7–10.6	6.4–11.8
Penguin Random House				
Penguin Random House Venture	0.5	0.5	8.1	9.6
Random House Germany	0.5	0.5	6.5	7.2
Gruner + Jahr				
Magazines and digital business Germany	0.0	0.0	5.8	5.5
Magazines and digital business International	0.0	0.0	6.1	5.8
Newspapers	0.0	0.0	5.8	6.3
BMG	2.0	2.0	6.1	6.0
Arvato				
Financial Solutions	1.0	1.0	5.6	6.3
Other	1.0	1.0	7.4–9.4	6.4–8.2
Bertelsmann Printing Group				
Print US	0.0	0.0	7.4	8.8
Other	0.0	0.0	5.3–6.0	5.5–6.8
Bertelsmann Education Group				
Online Learning	2.5	2.5	8.9	10.6
Education Services	1.0	1.0	9.0	11.4
Other	2.0	2.0	9.1	10.6–11.7
Bertelsmann Investments	4.0	5.0	13.7	18.0

In the financial year 2019, impairment losses on goodwill amounted to €27 million (previous year: €173 million). Impairment losses on goodwill and other intangible assets with indefinite useful lives are recognized in the income statement under “Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets.”

The impairment loss is fully attributable to the cash-generating unit Education Services. Due to the loss of an important customer, the cash flow forecasts were adjusted and the recoverable amount of €102 million was lower than the carrying amount. Impairment losses were measured on the basis of the following assumptions: The discount rate was 9.0 percent (previous year: 11.4 percent) and the long-term growth rate was 1.0 percent (previous year: 1.0 percent).

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

10 Property, Plant and Equipment and Right-of-Use Assets

With initial application of IFRS 16, right-of-use assets from leased property, plant and equipment are capitalized. The balance sheet position “Property, plant and equipment and right-of-use assets” comprises property, plant and equipment owned by the Bertelsmann Group and right-of-use assets from leased property, plant and equipment.

Property, Plant and Equipment and Right-of-Use Assets

in € millions	2019
Owned property, plant and equipment	1,654
Right-of-use assets from leased property, plant and equipment	1,281
	2,935

Property, Plant and Equipment

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Cost					
Balance on 1/1/2018	1,910	2,453	1,372	55	5,790
Exchange differences	2	9	3	1	15
Acquisitions through business combinations	–	–	3	–	3
Other additions	36	55	118	114	323
Reductions through disposal of investments	(14)	(12)	(18)	(1)	(45)
Other disposals	(43)	(92)	(150)	(1)	(286)
Reclassifications in accordance with IFRS 5	–	–	(2)	–	(2)
Reclassifications and other changes	32	44	22	(88)	10
Balance on 12/31/2018	1,923	2,457	1,348	80	5,808
Adjustment	(80)	(3)	(9)	–	(92)
Balance on 1/1/2019[1]	1,843	2,454	1,339	80	5,716
Exchange differences	10	17	9	1	37
Acquisitions through business combinations	–	2	5	–	7
Other additions	33	49	152	93	327
Reductions through disposal of investments	–	–	(4)	–	(4)
Other disposals	(32)	(91)	(95)	(2)	(220)
Reclassifications in accordance with IFRS 5	(47)	–	(19)	–	(66)
Reclassifications and other changes	17	47	37	(104)	(3)
Balance on 12/31/2019	1,824	2,478	1,424	68	5,794
Accumulated depreciation					
Balance on 1/1/2018	1,028	2,124	980	–	4,132
Exchange differences	2	8	3	–	13
Depreciation	56	80	135	–	271
Impairment losses	–	3	3	–	6
Reversals of impairment losses	–	–	–	–	–
Reductions through disposal of investments	(7)	(8)	(11)	–	(26)
Other disposals	(31)	(91)	(144)	–	(266)
Reclassifications in accordance with IFRS 5	–	–	(1)	–	(1)
Reclassifications and other changes	2	9	(2)	–	9
Balance on 12/31/2018	1,050	2,125	963	–	4,138
Adjustment	(50)	(2)	(5)	–	(57)
Balance on 1/1/2019[1]	1,000	2,123	958	–	4,081
Exchange differences	6	15	7	–	28
Depreciation	54	80	135	–	269
Impairment losses	1	8	2	–	11
Reversals of impairment losses	–	–	–	–	–
Reductions through disposal of investments	–	–	(3)	–	(3)
Other disposals	(27)	(87)	(90)	–	(204)
Reclassifications in accordance with IFRS 5	(28)	–	(16)	–	(44)
Reclassifications and other changes	–	1	1	–	2
Balance on 12/31/2019	1,006	2,140	994	–	4,140
Carrying amount on 12/31/2019	818	338	430	68	1,654
Carrying amount on 12/31/2018	873	332	385	80	1,670

1) The adjustments result from the initial application of the financial reporting standard IFRS 16 Leases as of January 1, 2019. In accordance with the transitional provisions of IFRS 16, prior-year comparatives have not been adjusted.

As of the end of the reporting period, property, plant and equipment totaling €10 million (previous year: €14 million) were subject to restrictions on disposals. Impairment losses totaling €11 million were recognized for property, plant and equipment (previous year: €6 million).

Right-of-Use Assets

The vast majority of leases concern rental properties in the RTL Group, Penguin Random House and Arvato divisions. In addition, leases also exist for technical equipment and machinery, vehicles and other fixtures, furniture and office equipment. The existing lease contracts have different terms and a number of property leases include extension or termination options in order to maximize operational flexibility in terms of managing the assets used in the Group's operations. Details on the corresponding lease liabilities are presented in note 22 "Lease Liabilities."

The following table shows depreciation and impairment, additions and other changes to the right-of-use assets in the financial year 2019 as well as the carrying amounts of the right-of-use assets from leased property, plant and equipment as of December 31, 2019:

Change in Right-of-Use Assets

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Total
Carrying amount of leased property, plant and equipment on 1/1/2019	1,199	10	36	1,245
Additions	257	3	20	280
Depreciation and impairment	(234)	(4)	(19)	(257)
Other changes	18	(3)	(2)	13
Carrying amount of leased property, plant and equipment on 12/31/2019	1,240	6	35	1,281

In the financial year 2018, finance leases primarily relating to long-term agreements for office space were recorded for the following assets in accordance with IAS 17:

in € millions	Acquisition costs	Net carrying amount
Land, rights equivalent to land and buildings	80	30
Technical equipment and machinery	3	1
Other equipment, fixtures, furniture and office equipment	9	4
	92	35

11 Interests in Other Entities
Subsidiaries with Material Non-Controlling Interests

In the Group's view, material non-controlling interests relate to RTL Group, the publishing group Penguin Random House and the company Majorel. The proportion of ownership interests held by non-controlling interests in RTL Group, based in Luxembourg, is 24.0 percent after treasury shares (previous year: 24.3 percent). At RTL Group itself, material non-controlling interests relate to the subsidiary Groupe M6, based in Paris, France. The Bertelsmann Group has a 48.4 percent interest (previous year: 48.3 percent) in Groupe M6. Of the non-controlling interests of RTL Group, €496 million (previous year: €470 million) is attributable to Groupe M6. The publishing group Penguin Random House, formed due to the merger of Random House and Penguin as of July 1, 2013, consists of the two legal groups Penguin Random House LLC, based in Wilmington, Delaware, United States, which bundles all the publishing units in the United States; and Penguin Random House Limited, based in London, United Kingdom, comprising all other publishing units. To better reflect the substance of the Bertelsmann Group's investment in the two groups, both groups are considered as a single entity. In October 2017, Bertelsmann acquired, in addition to its existing 53 percent, another 22 percent of the shares in Penguin Random House from Pearson, the British media and education company. The remaining shares in the company remained with Pearson. In December 2019, Bertelsmann announced the full acquisition of the trade book publisher Penguin Random House. In this regard, Bertelsmann will acquire the remaining 25 percent interest from its British co-shareholder Pearson, increasing its own investment to 100 percent. The purchase price for the share package is US$675 million. The acquisition of shares is subject to the necessary official approvals. The transaction is expected to be completed during the second quarter of 2020. The German Verlagsgruppe Random House, which is already wholly owned by Bertelsmann, will become part of Penguin Random House once regulatory approvals have been obtained. Bertelsmann anticipates that the full integration will result in the realization of value-enhancing synergies. The transaction will be accounted for as an equity transaction in accordance with IFRS 10. As of December 31, 2019, the proportion of ownership interests held by non-controlling interests in Penguin Random House is 25 percent (previous year: 25 percent).

Change in Bertelsmann Shareholders' Equity

In January 2019, Bertelsmann's customer relationship management businesses (Arvato CRM) and the Morocco-based Saham Group were merged to form the new CRM company Majorel, based in Luxembourg. Each partner holds 50 percent of the shares in Majorel, which is one of the market leaders in Europe, Africa and the Middle East, coupled with a strong presence in America and Asia. The merger gives Bertelsmann access to the growth markets of the African continent. Bertelsmann has a majority in the relevant governing bodies and the resulting decision-making authorities over the relevant activities of Majorel and includes it as a subsidiary in the Consolidated Financial Statements. Under the transaction, the Saham Group made a valuation compensation payment in the amount of €100 million in addition to the CRM businesses it contributed. The transaction was accounted for as an equity transaction in accordance with IFRS 10. The difference between the consideration received in the amount of €125 million and the carrying amount attributable to the derecognized shares in Arvato CRM businesses of €105 million was recognized in shareholders' equity.

in € millions	Change in Bertelsmann shareholders' equity
Fair value of consideration received (including valuation compensation payment)	125
Derecognized shares in Arvato CRM businesses	(105)
Increase in Bertelsmann shareholders' equity	20
– thereof increase in other retained earnings	12
– thereof increase in the reserve of exchange differences	8

The Saham Group's contribution of the CRM businesses was accounted for in the Bertelsmann Consolidated Financial Statements as a business combination in accordance with IFRS 3. In this connection, €13 million attributable to non-controlling interests in the businesses contributed by the Saham Group was included in other changes in equity.

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

Financial Information for Subsidiaries with Material Non-Controlling Interests

	RTL Group		Penguin Random House		Majorel
in € millions	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019
Non-current assets	7,050	6,530	2,297	1,838	245
Current assets	4,013	3,907	2,276	2,080	479
Non-current liabilities	1,677	1,290	1,514	1,132	144
Current liabilities	3,457	3,482	1,759	1,700	342
Bertelsmann shareholders' equity	4,696	4,506	1,080	924	117
Non-controlling interests	1,233	1,159	220	162	121

in € millions	2019	2018	2019	2018	2019
Revenues	6,651	6,505	3,329	3,134	1,211
Profit or loss	856	789	321	313	15
– thereof of non-controlling interests	289	279	81	78	8
Total comprehensive income	845	829	318	348	3
– thereof of non-controlling interests	285	290	78	84	2
Dividends to non-controlling interests	184	219	67	134	–
Cash flow from operating activities	1,077	861	508	352	50
Cash flow from investing activities	(359)	(78)	(118)	(26)	(106)
Cash flow from financing activities	(759)	(626)	(397)	(517)	(36)
Increase/(decrease) in cash and cash equivalents	(41)	157	(7)	(191)	(92)

Investments Accounted for Using the Equity Method

The investments accounted for using the equity method relate to joint ventures in the amount of €33 million (previous year: €40 million) and to associates in the amount of €619 million (previous year: €618 million).

Investments in Joint Ventures

As of December 31, 2019, investments in 22 (previous year: 25) individually immaterial joint ventures were accounted for in the Consolidated Financial Statements. The following table shows summarized financial information on these joint ventures. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Joint Ventures

in € millions	12/31/2019	12/31/2018
Non-current assets	37	51
Current assets	69	57
Non-current liabilities	9	9
Current liabilities	58	54

in € millions	2019	2018
Earnings after taxes from continuing operations	27	27
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	27	27

Investments in Associates

As of December 31, 2019, investments in 50 (previous year: 48) associates were accounted for in the Consolidated Financial Statements. As in the previous year, the investment of RTL Group in Atresmedia, based in San Sebastián de los Reyes, Spain, is individually material for the Group. As of December 31, 2019, the ownership is 18.7 percent after treasury shares (previous year: 18.7 percent). As of December 31, 2019, the stock market value of Atresmedia, which is listed on the Madrid Stock Exchange, amounted to €786 million (previous year: €985 million). As of December 31, 2019, the fair value less costs of disposal amounted to €139 million (previous year: €174 million), which is assigned to level 1 fair value measurement. Management considers that the current share price of Atresmedia does not reflect its earnings potential, which is expected to include new digital and platform revenue streams and further content and channel exploitation opportunities. Therefore, the recoverable amount of Atresmedia on December 31, 2019, was based on the value in use determined using a discounted cash flow model. The further reduction of the share price, the evolution of the Spanish TV advertising market, the decrease in consumption of linear TV and the operating performance constituted trigger events for performing impairment testing on December 31, 2019. The assumptions used in the valuation as of December 31, 2019, consider the following risks resulting in a significant decrease of terminal EBITDA margin compared to previous financial projections: an ongoing challenging economic environment in Spain combined with increased competition and continued dependence on linear television. This dependence continues to exist despite promising developments in the content and streaming business. The current valuation resulted in an impairment loss of €50 million as of December 31, 2019. As of December 31, 2019, the carrying amount after impairment is €198 million. The impairment loss was measured on the basis of the following assumptions: a discount rate of 9.3 percent (December 31, 2018: 8.4 percent) and a long-term growth rate of 0.0 percent (December 31, 2018: 1.0 percent).

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

Financial Information on Individually Material Associates

	Atresmedia	
in € millions	12/31/2019	12/31/2018
Non-current assets	583	609
Current assets	699	750
Non-current liabilities	356	345
Current liabilities	486	593
Equity	440	421

in € millions	2019	2018
Revenues	1,039	1,042
Earnings after taxes from continuing operations	120	88
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	120	88
Dividends received from the associate	19	21

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

Reconciliation to Carrying Amount

in € millions	12/31/2019	12/31/2018
Equity	440	421
Proportionate equity	82	79
Goodwill	166	166
Impairment on investments accounted for using the equity method	(50)	–
Carrying amount	198	245

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

Financial Information on Individually Immaterial Associates

in € millions	12/31/2019	12/31/2018
Non-current assets	390	414
Current assets	179	205
Non-current liabilities	55	48
Current liabilities	120	168

in € millions	2019	2018
Earnings after taxes from continuing operations	75	14
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	(4)	(1)
Total comprehensive income	71	13

The total carrying amount of the investments in all individually immaterial associates amounts to €421 million (previous year: €373 million) as of December 31, 2019. Of that amount, €104 million was attributable to the investment in the online learning platform Udacity (previous year: €108 million). Although at 19.0 percent (previous year: 19.1 percent) the interest is less than 20 percent, the Bertelsmann Group exercises a significant influence in Udacity due to representation within the Board of Directors. In the financial year 2019, the share of earnings attributable to Udacity amounted to €-6 million (previous year: €-10 million). The investment was tested for impairment as of December 31, 2019. Taking into account current growth targets, recognition of impairment was not required for Udacity. In the event of an increase in the discount rate by 1.6 percentage points and a decrease in the long-term growth rate of 2.2 percentage points, the recoverable amount would fall below the carrying amount.

Of the total carrying amount of the investments in all individually immaterial associates, an additional €124 million (previous year: €96 million) is attributable to the three University Venture Funds, which invest in high-growth companies in the education sector. Bertelsmann holds between 47.3 percent and 100 percent of the shares in these funds. As operational management and investment decisions in particular are the responsibilities of the respective fund managers, there is significant influence, but control as defined by IFRS 10 does not exist despite an ownership interest of over 50 percent in some cases.

Results from Investments Accounted for Using the Equity Method

in € millions	2019	2018
Income from investments accounted for using the equity method	139	92
– joint ventures	29	29
– associates	110	63
Expenses from investments accounted for using the equity method	(15)	(35)
– joint ventures	(2)	(2)
– associates	(13)	(33)
Results from investments accounted for using the equity method	124	57
– joint ventures	27	27
– associates	97	30

In the financial year 2019, dividends received from investments accounted for using the equity method amounted to €85 million (previous year: €86 million).

12 Minority Stakes and Other Financial Assets

	Current		Non-current	
in € millions	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Loans	22	23	86	55
Fund-of-fund investments	–	–	317	173
Minority stakes in start-ups	–	–	705	685
Other financial assets	3	–	190	211
Derivative financial instruments	38	48	22	19
	63	71	1,320	1,143

The item “Minority stakes in start-ups” is mainly attributable to minority stakes purchased by the Bertelsmann Investments division. The fair value of its listed investments is measured on the basis of their market values and of its unlisted investments, if possible, on the basis of observable prices obtained as part of the most recently implemented qualified financing rounds which meet the minimum requirements for volume and participants, taking into account life and development cycles of the entity. Fund-of-fund investments, which are also held by the Bertelsmann Investments division, are measured at fair value through profit or loss. The measurement of their fair values is based on the valuations of the external management as presented in regular reporting and taking into account a fungibility discount. The gains and losses resulting from changes in the fair value are recognized as other operating income in the item “Fair value measurement of investments” for both minority stakes in start-ups and fund-of-fund investments. The changes in carrying amounts recognized in profit or loss of the financial instruments held by the Bertelsmann

Investments division amounted to €128 million during the reporting period (previous year: €152 million).

Bertelsmann exercises the option granted by IFRS 9 to measure equity instruments at fair value through other comprehensive income mainly for individual immaterial investments and investments in affiliates, which are recognized in "Other financial assets."

As of the end of the reporting period, financial assets totaling €42 million (previous year: €32 million) were subject to restrictions on disposals.

13 Inventories

in € millions	12/31/2019	12/31/2018
Program rights	1,074	1,095
Raw materials and supplies	103	118
Work in progress	104	102
Finished goods and merchandise	311	277
Advance payments	153	143
	1,745	1,735

In the financial year 2019, write-downs on inventories were recognized in the amount of €-134 million (previous year: €-147 million). In addition, reversals of write-downs on inventories were recognized in the amount of €101 million (previous year: €102 million). These are due to broadcasting factors for program rights and also increased prices in some markets. As in the previous year, no inventories were subject to restrictions on disposal as of the end of the reporting period.

In the financial year 2019, the broadcast-based consumption of program rights recognized in profit or loss amounted to €2,222 million (previous year: €2,120 million). Expenses for raw materials and supplies amounting to €939 million (previous year: €954 million) were recognized, and the cost for merchandise amounted to €170 million (previous year: €214 million). Changes in inventories of work in progress and finished goods amounted to €66 million (previous year: €70 million). In addition, own costs capitalized of €62 million (previous year: €49 million) were recognized.

14 Trade and Other Receivables

in € millions	12/31/2019	12/31/2018
Non-current		
Trade receivables	45	28
Contract assets	–	–
Other receivables	44	31
Current		
Trade receivables	3,698	3,692
Contract assets	40	34
Receivables from participations	30	28
Other receivables	755	689

Trade receivables are due for payment generally within 12 months. The item "Contract assets" covers the conditional right to consideration for complete satisfaction of the contractual obligations in accordance with IFRS 15. As of January 1, 2018, this item amounted to €33 million. The item "Other receivables" includes receivables of €458 million (previous year: €379 million) from the Arvato Financial Solutions business unit, which were recognized in relation to the receivables management service provided. In addition, the item comprises receivables in the amount of €92 million (previous year: €103 million), relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of conducting its financial services and then resold.

15 Other Non-Financial Assets

in € millions	12/31/2019	12/31/2018
Non-current		
Other non-financial assets	922	851
Current		
Other non-financial assets	1,092	1,002
– advance payments	556	489
– deferred items	196	224
– other tax receivables	130	100
– sundry non-financial assets	210	189

The non-current other non-financial assets relate to advance payments for royalties and licenses in the amount of €851 million (previous year: €778 million). Loss allowances are generally recognized for advance payments for royalties and licenses if no recoupment is expected. The amount of these allowances is based on management estimates of future sales volumes and price changes using historical data. Costs for obtaining and fulfilling contracts with customers are recognized and are immaterial, both individually and in total. The same applies to the amount of amortization and impairment losses recognized for these costs in the reporting period.

16 Cash and Cash Equivalents

in € millions	12/31/2019	12/31/2018
Bank balances and cash on hand	1,610	1,369
Cash equivalents	26	36
	1,636	1,405

Cash equivalents include short-term, highly liquid securities with a term to maturity on acquisition of not more than three months. As of the end of the reporting period, cash and cash equivalents totaling €7 million (previous year: €7 million) were subject to restrictions on disposals.

17 Equity
Subscribed Capital

Number of shares	12/31/2019	12/31/2018
Ordinary shares	83,760	83,760
Total shares	83,760	83,760

Compared with the previous year, the subscribed capital of Bertelsmann SE & Co. KGaA remained unchanged at €1,000 million and comprises 83,760 registered shares (ordinary shares). As of December 31, 2019, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) held 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the other 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls the voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and of the general partner Bertelsmann Management SE.

In the financial years 2019 and 2018, a dividend amounting to €180 million (a dividend of €2,149 per ordinary share in each year) was distributed to the shareholders.

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

Changes to Components of Other Comprehensive Income after Taxes

in € millions	2019				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	(305)	81	(224)	(205)	(19)
Changes in fair value of equity instruments	(2)	–	(2)	(2)	–
Share of other comprehensive income of investments accounted for using the equity method	(1)	–	(1)	(1)	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Exchange differences	84	–	84	80	4
Cash flow hedges	8	(3)	5	4	1
Share of other comprehensive income of investments accounted for using the equity method	(4)	–	(4)	(3)	(1)
Other comprehensive income net of tax	(220)	78	(142)	(127)	(15)

in € millions	2018				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	(110)	50	(60)	(67)	7
Changes in fair value of equity instruments	3	–	3	3	–
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Exchange differences	114	–	114	110	4
Cash flow hedges	36	(11)	25	19	6
Share of other comprehensive income of investments accounted for using the equity method	(2)	–	(2)	(2)	–
Other comprehensive income net of tax	41	39	80	63	17

Share-Based Payments

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

There are various free share plans at Groupe M6, which belongs to RTL Group, open to directors and certain employees. The number of free shares granted to participants is approved by the Supervisory Board of Métropole Télévision SA in accordance with the authorization given by the General Meeting of Shareholders.

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

Granting and Vesting Conditions (Groupe M6)

Free share plans	Maximum number of free shares granted (in thousands)[1]	Remaining options (in thousands)	Vesting conditions
July 2017	307.20	–	2 years of service + performance conditions
July 2017	217.66	217.66	3 years of service + performance conditions
October 2017	8.92	8.92	3 years of service + performance conditions
July 2018	313.40	291.20	2 years of service + performance conditions
July 2018	247.10	241.04	3 years of service + performance conditions
July 2019	298.17	297.17	2 years of service + performance conditions
July 2019	246.50	246.50	3 years of service + performance conditions
Total	1,638.95	1,302.49	

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

The free share plans are subject to performance conditions. The plans granted in July 2017, in October 2017, in July 2018 and in July 2019 are subject to Groupe M6 achieving its target growth in net consolidated result over the financial years 2017, 2018 and 2019, respectively. The second plan in July 2017, the plan in October 2017, the second plan in July 2018 and the second plan in July 2019 are subject to a cumulative performance requirement over three years.

At the end of the year, 1,302,495 free shares are exercisable against 1,083,884 the beginning of the year. During the year, 544,667 free shares were granted, with 287,600 being exercised and 38,456 being forfeited.

Free share plans outstanding at the end of the year have the following terms:

Conditions for Free Share Plans (Groupe M6)

Expiry date	Number of shares (in thousands) 2019	Number of shares (in thousands) 2018
Free share plans		
2019	–	297
2020	517	540
2021	785	247
	1,302	1,084

As of December 31, 2019, the market price of Métropole Télévision shares on the Paris Stock Exchange was €16.78 (previous year: €14.04).

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

Fair Values of Free Share Plans (Groupe M6)

					Personnel costs in € millions	
Grant date	Share price	Risk-free interest rate	Expected return	Option life	2019	2018
Free share plans						
7/28/2016	16.24 €	-0.10%	5.50%	2 years	–	3.9
7/27/2017	20.59 €	-0.17%	4.31%	2 years	3.2	4.0
10/2/2017	20.59 €	-0.17%	4.31%	2 years	0.1	0.1
7/25/2018	16.92 €	-0.10%	5.66%	2 years	3.4	1.4
7/30/2019	15.35 €	-0.30%	6.97%	2 years	1.2	–
Total					7.9	9.4

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

18 Provisions for Pensions and Similar Obligations

in € millions	12/31/2019	12/31/2018
Defined benefit obligation	1,884	1,669
Obligations similar to pensions	83	69
	1,967	1,738

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

In the case of defined contribution plans, the company makes payments into an external pension fund or another welfare fund through a statutory, contractual or voluntary model. The company has no obligation to provide further benefits once it has made these payments, so no provisions are recognized. Expenses for defined contribution plans in the amount of €53 million were recognized in the financial year 2019 (previous year: €49 million).

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

Net Defined Benefit Liability Recognized in the Balance Sheet

in € millions	12/31/2019	12/31/2018
Present value of defined benefit obligation of unfunded plans	951	818
Present value of defined benefit obligation of funded plans	3,677	3,302
Total present value of defined benefit obligation	4,628	4,120
Fair value of plan assets	(2,786)	(2,502)
Impact from asset ceiling	1	1
Net defined benefit liability recognized in the balance sheet	1,843	1,619
– thereof provisions for pensions	1,884	1,669
– thereof other assets	41	50

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

Defined Benefit Plans

in € millions	12/31/2019	12/31/2018
Flat salary plans/plans with fixed amounts	2,397	2,228
Final salary plans	1,492	1,256
Career average plans	521	424
Other commitments given	162	160
Medical care plans	56	52
Present value of defined benefit obligation	4,628	4,120
– thereof capital commitments	284	253

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

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

Furthermore, one Group company participated in a multi-employer plan with other non-affiliated companies until December 31, 2014. As the relevant information required to account for this as a defined benefit plan was neither available on time nor available to a sufficient extent, this benefit plan was carried in the Consolidated Financial Statements in line with the requirements for defined contribution benefit plans. In the financial year 2015, the withdrawal from the plan with retrospective effect from January 1, 2015, was declared. A provision of €16 million has already been recognized in 2014 for the lump-sum settlement of the obligation and is shown in the balance sheet position "Other provisions" under other employee benefits. The negotiations concerning the agreement of the withdrawal modalities started in the first half of 2017 are still ongoing. However, short-term withdrawal for a lump sum is no longer considered likely. As a result, the provision was recalculated accordingly and amounts to €15 million as of December 31, 2019. Since April 2017, the company has been making monthly contribution payments, which are expected to amount to €1 million in the financial year 2020.

The provisions are determined using actuarial formulas in accordance with IAS 19. The amount of provisions depends on the employees' length of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, in which the benefit entitlement earned is allocated to each year of service, thus assuming an increasing cost of service in comparison to the entry age normal method. When identifying the present value of the pension obligation, the underlying interest rate is of material importance. In the Bertelsmann Group, this is based on the "Mercer Yield Curve Approach." With this approach, separate spot-rate yield curves are created for the eurozone, the United Kingdom and the United States on the basis of high-quality corporate bonds. In order to appropriately present the time value of money in accordance with IAS 19.84, the basis does not consider either spikes for which the risk estimate may be substantially higher or lower, or bonds with embedded options that distort interest rates. Biometric calculations of domestic plans are based on the 2018 G mortality tables of Heubeck-Richttafeln-GmbH. Comparable country-specific calculation methods are used for foreign plans.

Further significant actuarial assumptions were made as follows:

Actuarial Assumptions

	12/31/2019		12/31/2018	
	Germany	Foreign	Germany	Foreign
Discount rate	1.38%	2.05%	2.08%	2.91%
Rate of salary increase	2.25%	2.87%	2.25%	3.05%
Rate of pension increase	1.54%	2.78%	1.55%	2.96%

An increase or decrease in the assumptions set out above compared to the assumptions actually applied would have had the following effects on the present value of the defined benefit obligation as of December 31, 2019:

Effect of Actuarial Assumptions

in € millions	Increase	Decrease
Effect of 0.5 percentage point change in discount rate	(364)	416
Effect of 0.5 percentage point change in rate of salary increase	43	(39)
Effect of 0.5 percentage point change in rate of pension increase	176	(158)
Effect of change in average life expectancy by 1 year	197	(193)

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

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

Development of the Defined Benefit Plans

	Defined benefit obligation (I)		Fair value of plan assets (II)		Net defined benefit balance (I)-(II)[1]	
in € millions	2019	2018	2019	2018	2019	2018
Balance on 1/1	4,120	4,173	2,502	2,591	1,618	1,582
Current service cost	59	61	–	–	59	61
Interest expenses	92	89	–	–	92	89
Interest income	–	–	60	59	(60)	(59)
Past service cost	(10)	2	–	–	(10)	2
Income and expenses for defined benefit plans recognized in the consolidated income statement	**141**	**152**	**60**	**59**	**81**	**93**
Income/expense on plan assets excluding amounts included in net interest income and net interest expenses	–	–	206	(162)	(206)	162
Actuarial gains (-) and losses (+)						
– changes in financial assumptions	502	(64)	–	–	502	(64)
– changes in demographic assumptions	4	34	–	–	4	34
– experience adjustments	5	(22)	–	–	5	(22)
Remeasurements for defined benefit plans recognized in the consolidated statement of comprehensive income	**511**	**(52)**	**206**	**(162)**	**305**	**110**
Contributions to plan assets by employer	–	–	24	41	(24)	(41)
Contributions to plan assets by employees	3	3	3	3	–	–
Pension payments	(155)	(148)	(32)	(25)	(123)	(123)
Cash effects from settlements	–	(6)	–	(6)	–	–
Change of consolidation scope	(31)	(1)	(11)	–	(20)	(1)
Changes in foreign exchange rates	36	4	36	2	–	2
Other changes	3	(5)	(2)	(1)	6	(3)
Other reconciling items	**(144)**	**(153)**	**18**	**14**	**(161)**	**(166)**
Balance on 12/31	4,628	4,120	2,786	2,502	1,843	1,619
thereof						
Germany	3,577	3,234	1,913	1,761	1,664	1,472
United Kingdom	593	476	627	525	(34)	(48)
United States	215	191	175	147	40	45
Other European countries	210	192	57	57	154	135
Other countries	33	27	14	12	19	15

1) For calculating the "Net defined benefit balance," the effects of the asset ceiling in accordance with IAS 19 amounting to €1 million (previous year: €1 million) are taken into account in the item "Other changes."

Of the contributions to plan assets, €9 million (previous year: €12 million) pertains to Germany. Employer contributions to plan assets are expected to total €14 million in the next financial year. Reimbursement rights for defined benefit obligations in Germany amount to €32 million (previous year: €24 million) and are recognized in the balance sheet position "Trade and other receivables."

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

Expenses for Defined Benefit Plans

in € millions	2019	2018
Current service cost	59	61
Past service cost and impact from settlement	(10)	2
Net interest expenses	32	30
Net pension expenses	81	93

The portfolio structure of plan assets is composed as follows:

Portfolio Structure of Plan Assets

in € millions	12/31/2019	12/31/2018
Debt instruments[1]	1,708	1,713
Equity instruments[1]	583	511
Cash and cash equivalents	206	28
Qualifying insurance policies	164	141
Other funds	105	85
Derivatives	12	13
Property	8	11
Fair value of plan assets	2,786	2,502

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

The plan assets in the Bertelsmann Group are used exclusively for the fulfillment of benefit obligations. To avoid a concentration of risk, plan assets are invested in various classes of investments. The majority of plan assets are managed by Bertelsmann Pension Trust e.V. under a contractual trust arrangement (CTA) for pension commitments of Bertelsmann SE & Co. KGaA and some of the German subsidiaries. There is no funding requirement for the CTA. A contribution of €6 million was made to plan assets during the reporting period. The trust assets were invested in accordance with the investment guideline of the beneficiary, using a long-term total return approach. This approach is based on the aim of using strategic asset allocation to generate a suitable return in the long term regardless of short-term market fluctuations and/or crises. The management board of the pension trust is responsible for the investment and regularly informs the beneficiary of the status and performance of the pension assets.

The weighted average duration of the pension obligations on December 31, 2019, was 17 years (previous year: 16 years).

The maturity profile of the anticipated undiscounted pension payments is presented in the following table:

Maturity Profile of Pension Payments

in € millions	Expected pension payments
2020	160
2021	158
2022	167
2023	168
2024	180
2025–2029	927

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

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

Breakdown of Obligations Similar to Pensions

in € millions	12/31/2019	12/31/2018
Provisions for severance payments	37	32
Provisions for employee service anniversaries	29	27
Provisions for old-age part-time schemes	12	6
Other	5	4
Obligations similar to pensions	83	69

19 Other Provisions

in € millions	12/31/2018	12/31/2018 of which > 1 year	Additions	Reversal	Usage	Other effects	Change of consolida-tion scope	Accrued interest	12/31/2019	12/31/2019 of which > 1 year
Onerous contracts	164	61	44	(22)	(72)	(27)	1	1	89	19
Litigation	83	40	24	(17)	(4)	–	–	–	86	50
Restructuring	77	4	109	(12)	(49)	(5)	–	–	120	62
Other employee benefits	26	–	5	(1)	(2)	–	–	–	28	15
Other	84	30	27	(15)	(18)	(9)	–	–	69	32
	434	135	209	(67)	(145)	(41)	1	1	392	178

The provisions for onerous contracts concern RTL Group in the amount of €64 million (previous year: €89 million) and were recognized mainly for program rights. Of that amount, a total of €46 million (previous year: €74 million) relates to Mediengruppe RTL Deutschland and an additional €17 million (previous year: €15 million) to Groupe M6. On January 1, 2019, the provisions for onerous contracts from leases recognized in the previous year in the amount of €28 million were offset against the corresponding right-of-use assets in accordance with the transitional provisions of IFRS 16. These provisions were mainly attributable to Penguin Random House.

Provisions for litigation totaling €69 million (previous year: €71 million) pertain mainly to RTL Group companies. They cover expected losses from partly multiannual court proceedings and extrajudicial disputes. Please refer to the risk report in the Combined Management Report for information on antitrust litigation. In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions in the amount of €120 million (previous year: €77 million) are recognized for various restructuring programs within the Bertelsmann Group. The additions relate in the amount of €54 million mainly to the Bertelsmann Printing Group division. In April 2019, Bertelsmann restructured its global printing business. A provision recognized for the decision made during restructuring to close the Bertelsmann Printing Group Prinovis site in Nuremberg in spring 2021 amounted to €51 million as of December 31, 2019. A further €50 million of the additions relate to various restructuring measures in the RTL Group, Gruner + Jahr and Arvato divisions.

The provisions for other employee benefits in the amount of €15 million (previous year: €16 million) relate to an obligation in connection with the withdrawal from a multi-employer plan. Further details are presented in note 18 "Provisions for Pensions and Similar Obligations." The item "Other" includes a provision in the amount of €22 million (previous year: €22 million) for compensation obligations from pension entitlements for employees at the Prinovis location in Ahrensburg toward Axel Springer SE.

20 Profit Participation Capital

in € millions	12/31/2019	12/31/2018
Profit participation capital 1992	23	23
Profit participation capital 2001	390	390
	413	413

The market value of the 2001 profit participation certificates with a closing rate of 353.40 percent on the last day of trading in the past financial year on the Frankfurt Stock Exchange was €1,005 million (previous year: €901 million with a rate of 317.01 percent) and, correspondingly, €34 million for the 1992 profit participation certificates with a rate of 201.50 percent (previous year: €33 million with a rate of 193.00 percent). The market values are based on level 1 of the fair value hierarchy. Further information on profit participation capital is presented in detail in the Combined Management Report.

21 Financial Debt

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

Current and Non-Current Financial Debt

	Current		Non-current			
			Remaining term in years			
in € millions	12/31/2019	12/31/2018	1 to 5 years	> 5 years	12/31/2019	12/31/2018
Bonds	–	100	1,793	2,584	4,377	4,372
Promissory notes	100	210	–	225	225	249
Liabilities to banks	134	248	4	–	4	8
Other financial debt	154	102	6	–	6	9
	388	660	1,803	2,809	4,612	4,638

As of the financial year 2019, finance lease liabilities reported in the 2018 Annual Report will be shown as lease liabilities on the consolidated balance sheet. Further details on lease liabilities are presented in note 22 "Lease Liabilities."

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

In July 2019, Bertelsmann issued a promissory note of €75 million with a term of seven years, €65 million of which is at a fixed rate and €10 million at a floating rate. The fixed-rate promissory note of €150 million due for repayment in February 2019 was repaid on time. In May 2019, a maturing fixed-rate promissory note loan of €60 million was repaid on time. In addition, Bertelsmann repaid on time the floating-rate note of €100 million due in November 2019. At the end of the reporting period, the Group had bonds, private placements and promissory notes outstanding with a nominal volume of €4,725 million (previous year: €4,960 million).

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

Bonds and Promissory Notes

Interest rate; emission; maturity; fixed interest	Nominal amount	Carrying amount 12/31/2019	Carrying amount 12/31/2018	Fair value 12/31/2019	Fair value 12/31/2018
		in € millions			
0.110%; 2017; 2019; fixed-interest promissory note	150	–	150	–	150
4.207%; 2012; 2019; fixed-interest promissory note	60	–	60	–	61
3-Mon.-EURIBOR + 40 Bp.; 2014; 2019; floating-rate note	100	–	100	–	100
0.774%; 2015; 2020; fixed-interest promissory note	100	100	100	101	102
0.250%; 2017; 2021; fixed-interest bond[1]	500	499	498	503	502
2.625%; 2012; 2022; fixed-interest bond[1]	750	747	746	802	811
1.500%; 2017; 2024; fixed-interest bond	50	50	50	53	52
1.750 %; 2014; 2024; fixed-interest bond[1]	500	498	497	538	525
1.250%; 2018; 2025; fixed-interest bond[1]	750	743	743	790	750
1.787%; 2015; 2025; fixed-interest promissory note	150	150	149	164	159
1.125%; 2016; 2026; fixed-interest bond[1]	500	496	495	526	496
1.000%; 2019; 2026; floating- and fixed-interest promissory note[2]	75	75	–	78	–
3.700%; 2012; 2032; fixed-interest bond	100	99	99	135	126
3.000%; 2015; 2075; fixed-interest hybrid bond[1]	650	648	647	691	636
3.500%; 2015; 2075; fixed-interest hybrid bond[1]	600	597	597	669	578
		4,702	4,931	5,050	5,048

1) Listed.
2) €10 million floating rate (6-month EURIBOR + 100 bp).

The documentation of the bonds from Bertelsmann SE & Co. KGaA in 2012, 2014, 2016, 2017 and 2018 is within the framework of a base documentation for debt issuance programs. The hybrid bonds and promissory notes as well as the unlisted bond of 2017 were issued on the basis of separate documentation. The bonds mainly have a rating of "Baa1" (Moody's) and "BBB+" (Standard & Poor's). The debt issuance program was last updated in April 2018. Transaction costs and agreed discounts or premiums are taken into account in the interest result over the term, impacting the carrying amount of the bonds and promissory notes. These led to a difference to the nominal volume of €23 million (previous year: €29 million) at the end of the year.

As a rule, the quoted prices at the end of the reporting period are used to determine the fair value of the bonds issued. On December 31, 2019, the cumulative fair value of the listed bonds totaled €4,519 million (previous year: €4,298 million), with a nominal volume of €4,250 million (previous year: €4,250 million) and a carrying amount of €4,228 million (previous year: €4,223 million). The stock market prices are based on level 1 of the fair value hierarchy.

The fair values of private placements and promissory notes are determined using actuarial methods based on yield curves adjusted for the Group's credit margin. The interest premium results from the market price for credit-default swaps at the end of the respective reporting periods. Fair value is measured on the basis of discount rates ranging from -0.29 percent to 0.82 percent. The fair values of the private placements and promissory notes are based on level 2 of the fair value hierarchy.

Credit Facilities

The Bertelsmann Group has access to a syndicated loan agreement entered into with major international banks in the amount of €1,200 million (previous year: €1,200 million), which was renewed early in July 2019 to extend to 2024. Bertelsmann SE & Co. KGaA can draw down this credit facility using floating-rate loans in euros, US dollars and pounds sterling, based on EURIBOR or LIBOR, on a revolving basis. In addition, Bertelsmann has access to further bilateral credit facilities in the amount of €200 million (previous year: €470 million), which can also be drawn down using floating-rate loans, based on EURIBOR, on a revolving basis. As of December 31, 2019, the credit facilities were taken out in the amount of €20 million (previous year: €150 million).

22 Lease Liabilities

The maturities of lease liabilities as of December 31, 2019, are presented in the table below.

Maturity Analysis for Lease Liabilities

		Undiscounted cash flows			
in € millions	Carrying amount	Up to 1 year	1 to 5 years	Over 5 years	Total
	1,392	315	728	558	1,601

As of December 31, 2019, potential future cash outflows of €341 million were not included in the lease liabilities, as it could not be assumed with reasonable certainty that the leases would be extended (or would not be terminated). Future payments arising from short-term leases and leases for low-value assets are not recognized as right-of-use assets and lease liabilities. For such leases, the payments are recognized on straight-line basis as expenses (further explanations are presented in note 5 "Other operating expenses"). Expenses from variable lease payments not included in the lease liability were immaterial. The same applies for income from subleasing right-of-use assets and the resulting lease payments expected in the future. As of December 31, 2018, lease liabilities amounted to €39 million. These exclusively comprised items previously accounted for under finance leases in accordance with IAS 17. No subleases were in place as part of finance lease agreements as of December 31, 2018. Details on the corresponding right-of-use assets are presented in note 10 "Property, Plant and Equipment and Right-of-Use Assets."

23 Liabilities

in € millions	12/31/2019	12/31/2018
Non-current		
Trade payables	174	174
Derivative financial instruments	83	28
Sundry financial payables	106	151
Contract liabilities	9	11
Sundry non-financial payables	370	384
Current		
Trade payables	3,642	3,530
Refund liabilities	456	440
Derivative financial instruments	44	28
Sundry financial payables	698	720
Contract liabilities	601	595
Sundry non-financial payables	1,307	1,244
– personnel-related liabilities	721	699
– tax liabilities	225	196
– social security liabilities	118	116
– deferred items	18	19
– other	225	214

The item “Contract liabilities” includes payments received by Bertelsmann in advance; that is, prior to satisfaction of the contractual obligations in accordance with IFRS 15. They are recognized as revenue as soon as the contractual obligation has been rendered. Accordingly, revenues amounting to €530 million were recognized in the financial year 2019 (previous year: €405 million), which were included in the balance of contract liabilities at the beginning of the financial year. As in the previous year, as of the end of the reporting period the contract liabilities are primarily attributable to services to be provided by the Arvato division, as a rule in the following period. As of January 1, 2018, contract liabilities amounted to €538 million.

In accordance with IFRS 15, the item “Refund liabilities” mainly comprises liabilities for expected returns of the Penguin Random House and Gruner + Jahr divisions of €309 million (previous year: €296 million). Correspondingly, in the balance sheet position “Other non-financial assets,” an asset for an immaterial amount is recognized for the customers’ right to recover products from customers upon settling the refund liability. The item “Sundry non-financial payables” includes, among others things, payables of €97 million (previous year: €97 million) from the Arvato Financial Solutions business unit, which were recognized in relation to the receivables management service provided. In addition, the item comprises payables in the amount of €113 million (previous year: €103 million) relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of conducting its financial services and then resold. Non-current sundry financial payables also include liabilities from put options relating to shareholders with non-controlling interests of €24 million (previous year: €46 million), minority interests in partnerships of €33 million (previous year: €45 million) and liabilities from the acquisition of assets in the amount of €31 million (previous year: €22 million). Current sundry financial payables also comprise liabilities from the acquisition of assets in the amount of €75 million (previous year: €94 million) and liabilities to participations in the amount of €23 million (previous year: €18 million).

24 Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities as of December 31, 2019, are broken down as follows:

Contingent Liabilities and Other Commitments

in € millions	12/31/2019
Commitments from agreements for productions and co-productions, contracts for TV licenses and broadcasting rights, as well as other rights and licenses	1,770
Commitments from royalty agreements	1,025
Commitments from assets under construction and not recognized lease contracts	157
Purchase commitments for inventories	38
Commitments for the acquisition of intangible assets and property, plant and equipment	17
Guarantees	15
Other	269
	3,291

Of the commitments from agreements for productions and co-productions, contracts for TV licenses and broadcasting rights, as well as other rights and licenses, €1,770 million pertains to RTL Group. Commitments from royalty agreements relate to Penguin Random House in the amount of €897 million and to BMG in the amount of €124 million. Commitments from assets under construction and not recognized lease contracts comprise leases not yet commenced, but to which the lessee is committed.

The following off-balance-sheet liabilities existed as of December 31, 2018:

in € millions	12/31/2018
Rental and lease commitments for already used real estate and movables	1,367
Commitments from assets under construction	238
Guarantees	15
Other commitments	3,408
	5,028

Of other commitments, €2,386 million pertains to RTL Group as of December 31, 2018. These relate to supply agreements for productions and co-productions, contracts for TV licenses and broadcasting rights, as well as other rights and services. As of December 31, 2018, a further €832 million of other commitments pertains to Penguin Random House, which represents the portion of obligations to authors for which no payments have yet been made and where future payments are contingent upon other events (such as delivery and acceptance of manuscripts). Other commitments of €17 million are for the acquisition of property, plant and equipment as of December 31, 2018.

Since January 1, 2019, rental commitments with the exception of commitments from short-term leases and leases for low-value assets have been accounted for as lease liabilities. Further details are presented in the section "Impact of New Financial Reporting Standards."

As of December 31, 2018, the following minimum lease payments existed for all the long-term rental commitments classified as operating leases in accordance with IAS 17:

Minimum Lease Payments for Operating Leases

in € millions	12/31/2018
Nominal amount	
Up to 1 year	283
1 to 5 years	664
Over 5 years	420
	1,367
Present value	1,161

These commitments largely concerned real estate leases. As of December 31, 2018, commitments were partially offset by expected minimum lease payments from subleases with a nominal amount of €11 million. The net present values, calculated considering country-specific interest rates, showed all the net payments required to settle the obligation.

25 Additional Disclosures on Financial Instruments

Both the following tables show the carrying amounts and measurement categories of financial assets and financial liabilities in accordance with IFRS 9 as of December 31, 2019:

Carrying Amounts and Measurement Categories of Financial Assets

in € millions	12/31/2019	12/31/2018
Financial assets measured at amortized cost		
– loans	71	70
– trade receivables	3,743	3,720
– receivables from participations	30	28
– sundry financial receivables	737	649
– bank balances and cash on hand	1,610	1,369
– cash equivalents	18	36
Financial assets measured at fair value through other comprehensive income		
– other financial assets	68	74
Primary financial assets measured at fair value through profit or loss		
– loans	37	8
– fund-of-fund investments	317	173
– minority stakes in start-ups	705	685
– sundry financial receivables	8	25
– other financial assets	125	137
– cash equivalents	8	–
Derivative financial instruments	60	67
Continuing involvement	54	46
	7,591	7,087

Carrying Amounts and Measurement Categories of Financial Liabilities

in € millions	12/31/2019	12/31/2018
Financial liabilities measured at amortized cost		
– profit participation capital	413	413
– bonds and promissory notes	4,702	4,931
– liabilities to banks	138	256
– other financial debt	160	111
– trade payables	3,816	3,704
– liabilities to participations	23	18
– other	1,151	1,215
Primary financial liabilities measured at fair value through profit or loss	32	31
Derivative financial instruments	127	56
Continuing involvement	54	46
	10,616	10,781

The fair values of the bonds and promissory notes are presented in note 21 "Financial Debt." The carrying amounts of the other financial assets and liabilities measured at amortized cost represent a reasonable approximation of fair value.

Financial Assets Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Total on 12/31/2019
Financial assets measured at fair value	140	10	1,118	1,268
Primary and derivative financial assets held for trading	–	34	–	34
Derivatives with hedge relation	–	26	–	26
	140	70	1,118	1,328

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Total on 12/31/2018
Financial assets measured at fair value	110	9	983	1,102
Primary and derivative financial assets held for trading	–	51	–	51
Derivatives with hedge relation	–	16	–	16
	110	76	983	1,169

It is possible to allocate the financial instruments measured at fair value in the balance sheet to the three levels of the fair value hierarchy by category, based on the tables showing carrying amounts and measurement categories for the respective financial year. The financial assets of levels 1 and 3 mainly pertain to investments held by the Bertelsmann Investments division, which were recognized at fair value.

Financial Assets Measured at Fair Value Based on Level 3

in € millions	Financial assets measured at fair value	Primary and derivative financial assets held for trading	Total
Balance on 1/1/2019	983	–	983
Total gain (+) or loss (-)	225	–	225
– in profit or loss	229	–	229
– in other comprehensive income	(4)	–	(4)
Purchases	459	–	459
Sales/settlements	(406)	–	(406)
Transfers out of/into level 3 (including first-time classification on level 3)	(143)	–	(143)
Balance on 12/31/2019	1,118	–	1,118
Gain (+) or loss (-) for assets still held at the end of the reporting period	84	–	84

in € millions	Financial assets measured at fair value	Primary and derivative financial assets held for trading	Total
Balance on 1/1/2018	428	–	428
Total gain (+) or loss (-)	208	–	208
– in profit or loss	197	–	197
– in other comprehensive income	11	–	11
Purchases	276	–	276
Sales/settlements	(133)	–	(133)
Transfers out of/into level 3 (including first-time classification on level 3)	204	–	204
Balance on 12/31/2018	983	–	983
Gain (+) or loss (-) for assets still held at the end of the reporting period	180	–	180

Financial Liabilities Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Total on 12/31/2019
Financial liabilities measured at fair value through profit or loss	–	–	32	32
Primary and derivative financial liabilities held for trading	–	122	–	122
Derivatives with hedge relation	–	5	–	5
	–	127	32	159

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Total on 12/31/2018
Financial liabilities measured at fair value through profit or loss	–	–	31	31
Primary and derivative financial liabilities held for trading	–	52	–	52
Derivatives with hedge relation	–	4	–	4
	–	56	31	87

Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial liabilities measured at fair value through profit or loss	Total
Balance on 1/1/2019	31	31
Total gain (-) or loss (+)	1	1
– in profit or loss	1	1
– in other comprehensive income	–	–
Purchases	7	7
Settlements	(7)	(7)
Transfers out of/into level 3	–	–
Balance on 12/31/2019	32	32
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	1	1

in € millions	Financial liabilities measured at fair value through profit or loss	Total
Balance on 1/1/2018	44	44
Total gain (-) or loss (+)	(8)	(8)
– in profit or loss	(8)	(8)
– in other comprehensive income	–	–
Purchases	9	9
Settlements	(14)	(14)
Transfers out of/into level 3	–	–
Balance on 12/31/2018	31	31
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	(4)	(4)

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

Level 2:
For measuring the fair value of unlisted derivatives, Bertelsmann uses various financial methods reflecting the prevailing market conditions and risks at the respective balance sheet dates. Irrespective of the type of financial instrument, future cash flows are discounted at the end of the reporting period based on the respective market interest rates and yield curves at the end of the reporting period. The fair value of forward exchange transactions is calculated using the average spot prices at the end of the reporting period and taking into account forward markdowns and markups for the remaining term of the transactions. The fair value of interest rate derivatives is calculated on the basis of the respective market rates and yield curves at the end of the reporting period. The fair value of forward commodity transactions is derived from the stock exchange listings published at the end of the reporting period. Any mismatches to the standardized stock exchange contracts are reflected through interpolation or additions.

Level 3:
If no observable market data is available, fair value measurement is based primarily on cash flow-based valuation techniques. As a rule, so-called qualified financing rounds are used for minority stakes in the Bertelsmann Investments division. Listed financial instruments with contractual lockups are also based on level 3.

The measurement of financial assets and financial liabilities according to level 2 and level 3 requires management to make certain assumptions about the model inputs, including cash flows, discount rate and credit risk, as well as the life and development cycle of start-up investments.

Financial assets and liabilities are offset on the balance sheet if master netting agreements or similar agreements allow the Bertelsmann Group and the counterparty to reach settlement on a net basis. Settlement on a net basis is thus legally valid both as part of ordinary business activities and in the event of payment default by one of the parties. In addition, Bertelsmann enters into transactions in financial derivatives that do not meet the criteria for offsetting on the balance sheet, as future events determine the right to offset. As in the previous year, in general the requirements for offsetting the financial instruments reported on the balance sheet are not met, so that no material offsetting was carried out as of December 31, 2019.

Credit Risk

In accordance with IFRS 9, Bertelsmann uses a simplified approach to measure expected credit losses on trade receivables and contract assets. According to this, the loss allowance is measured using lifetime expected credit losses. For this purpose, impairment matrices based on historic bad debt losses, maturity bands and expected credit losses were prepared. The impairment matrices were created for division-specific or business unit-specific groups of receivables, each with similar default patterns. In addition, separate risk assessments are performed. Contract assets have substantially the same risk characteristics as trade receivables for the same types of contracts, so that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Based on this, the loss allowance as of December 31, 2019, was determined as follows for both trade receivables and contract assets:

Credit Risk for Trade Receivables and Contract Assets

in € millions	Collective impairment Not overdue	Overdue 1 to 30 days	Overdue 31 to 90 days	Overdue more than 90 days	Individual impairment
Expected loss rate	0.34%	0.86%	1.75%	11.54%	n/a
Trade receivables and contract assets	2,345	465	171	130	878
Loss allowance for expected credit losses	(8)	(4)	(3)	(15)	(149)
Balance on 12/31/2019	2,337	461	168	115	729

in € millions	Collective impairment Not overdue	Overdue 1 to 30 days	Overdue 31 to 90 days	Overdue more than 90 days	Individual impairment
Expected loss rate	0.47%	1.37%	2.04%	14.16%	n/a
Trade receivables and contract assets	2,365	439	147	113	878
Loss allowance for expected credit losses	(11)	(6)	(3)	(16)	(126)
Balance on 12/31/2018	2,354	433	144	97	752

The expected loss rates correspond to the average rates for the respective division-specific or business unit-specific groups of receivables. In the financial year 2019, impairment losses and reversals of €-18 million (previous year: €-7) were recognized on trade receivables and contract assets. The following table shows a reconciliation from the opening balance to the closing balance of loss allowances for trade receivables and contract assets in the financial year 2019.

Reconciliation of Loss Allowance for Trade Receivables and Contract Assets

in € millions	2019	2018
Balance on 1/1	(162)	(162)
Additions	(57)	(55)
Usage	11	12
Reversal	39	48
Change of consolidation scope	(7)	(5)
Exchange rate effect	(3)	–
Balance on 12/31	(179)	(162)

Bertelsmann applies the general approach for all other financial assets that are subject to the expected credit loss model. The following table shows a reconciliation from the opening balances to the closing balances of loss allowances for the corresponding financial instruments.

Reconciliation of Loss Allowance for Other Financial Assets

in € millions	Loans	Sundry financial receivables	Purchased or originated financial assets which are credit impaired	Total
Balance on 1/1/2019	(39)	(63)	(16)	(118)
Additions	(18)	(31)	(5)	(54)
Usage	15	6	3	24
Reversal	9	11	2	22
Change of consolidation scope	3	2	–	5
Exchange rate effect	–	–	–	–
Balance on 12/31/2019	(30)	(75)	(16)	(121)
– thereof 12-month expected credit loss	(1)	(24)	n/a	(25)
– thereof lifetime expected credit loss but not credit impaired	–	(48)	n/a	(48)
– thereof lifetime expected credit loss and credit impaired	(29)	(3)	n/a	(32)

in € millions	Loans	Sundry financial receivables	Purchased or originated financial assets which are credit impaired	Total
Balance on 1/1/2018	(43)	(61)	(16)	(120)
Additions	(2)	(18)	(13)	(33)
Usage	5	2	3	10
Reversal	2	8	10	20
Change of consolidation scope	(1)	6	–	5
Exchange rate effect	–	–	–	–
Balance on 12/31/2018	(39)	(63)	(16)	(118)
– thereof 12-month expected credit loss	(25)	(19)	n/a	(44)
– thereof lifetime expected credit loss but not credit impaired	(1)	(34)	n/a	(35)
– thereof lifetime expected credit loss and credit impaired	(13)	(10)	n/a	(23)

The impairment loss identified for cash and cash equivalents was immaterial in both the financial year 2019 and the previous year.

As in the previous year, the carrying amount of all receivables, loans and securities constitutes the Bertelsmann Group's maximum default risk as of the end of the reporting period.

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

Maturity Analysis for Non-Derivative Financial Liabilities

in € millions	Carrying amount	Undiscounted cash flows			
		Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	413	–	413	–	413
Fixed-interest bonds and promissory notes	4,692	100	1,800	2,815	4,715
Floating-rate bonds and promissory notes	10	–	–	10	10
Liabilities to banks	138	134	4	–	138
Other financial debt	160	154	6	–	160
Trade payables	3,816	3,642	168	6	3,816
Liabilities to participations	23	23	–	–	23
Other	1,237	1,131	73	33	1,237
Balance on 12/31/2019	10,489	5,184	2,464	2,864	10,512
Profit participation capital	413	–	413	–	413
Fixed-interest bonds and promissory notes	4,831	210	1,350	3,300	4,860
Floating-rate bonds and promissory notes	100	100	–	–	100
Liabilities to banks	256	248	7	1	256
Finance lease liabilities	39	7	34	–	41
Other financial debt	111	102	9	–	111
Trade payables	3,704	3,530	160	14	3,704
Liabilities to participations	18	18	–	–	18
Other	1,293	1,141	88	64	1,293
Balance on 12/31/2018	10,765	5,356	2,061	3,379	10,796

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

The maturity analysis for lease liabilities as of December 31, 2019, is presented in note 22 “Lease Liabilities.”

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

Future Interest Payments

	Undiscounted interest payments			
in € millions	Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	45	90	–	135
Bonds and promissory notes	94	310	117	521
Liabilities to banks	3	–	–	3
Other financial debt	2	2	–	4
Balance on 12/31/2019	144	402	117	663
Profit participation capital	45	136	–	181
Bonds and promissory notes	95	346	167	608
Liabilities to banks	5	–	–	5
Other financial debt	2	3	–	5
Balance on 12/31/2018	147	485	167	799

Financial Services Related to Receivables Sold

In certain individual cases, Bertelsmann sells receivables purchased from third parties to financial intermediaries. The receivables sold relate primarily to short-term receivables, some covered by credit insurance, that Arvato Financial Solutions acquires from third parties in the course of conducting its financial services, and some of which it resells to financial intermediaries on an ongoing basis. This business can be changed at any time during the year. As part of the contractual agreements on the sale of receivables, substantially neither all the rewards nor all risks that are associated with the receivables were transferred or retained. This relates in particular to possible defaults and late payments of receivables sold, so that a receivable was accounted for in the amount of the continuing involvement of €54 million (previous year: €46 million). The carrying amount of the associated liability is €61 million (previous year: €52 million). The underlying volume of receivables sold amounts to €379 million as of the end of the reporting period (previous year: €340 million).

Risk Management of Financial Instruments

Financial Risk Management

The Bertelsmann Group is exposed to various forms of financial risk through its international business operations. Above all, this includes the effects of changes in foreign exchange rates and interest rates. Bertelsmann's risk management activities are designed to effectively mitigate these risks. The Executive Board establishes basic risk management policy, outlining general procedures for hedging currency and interest rate risk and the utilization of derivative financial instruments. The Central Financial Department advises subsidiaries on operating risk and hedges risks using derivative financial instruments as necessary. However, subsidiaries are not obliged to use the services provided by this department for their operating risks. Some subsidiaries, such as RTL Group in particular, have their own finance departments. They report their hedge transactions to the Central Finance Department each quarter. Further information on financial market risks and financial risk management is presented in the Combined Management Report.

Currency Risk

Bertelsmann is exposed to exchange rate risk in various foreign currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against foreign currency risks in the local reporting currency by signing forward agreements with banks that have a high credit rating. Loans within the Bertelsmann Group that are subject to currency risk are hedged using derivatives. If foreign currency transactions designated as hedged items adequately meet effectiveness requirements, hedge accounting as defined by IFRS 9 is applied under the cash flow hedge model. A number of subsidiaries are based outside the eurozone. The resulting translation risk is managed through the relationship of economic financial debt to operating EBITDA of key currency areas. Over the long term, the Group aims to achieve a reasonable relationship between financial debt and results of operations for each currency area. Bertelsmann's focus is on the maximum leverage factor permitted for the Group.

Interest Rate Risk

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

Liquidity Risk

Liquidity risks may arise through a lack of rollover financing (liquidity risk in a narrow sense), delayed receipt of payment and unforeseen expenditure (budgeting risk). Budgeting risk is determined by comparing deviations in actual spending with budget and reserve amounts. In a narrow sense, liquidity risk depends on the volume of debt due within a given period. Liquidity risk is monitored on an ongoing basis with reference to the budget for current and future years. New and unplanned transactions (e.g., acquisitions) are continuously tracked. The maturity profile of financial assets and liabilities is also reconciled on a regular basis. Budget risks are managed through effective cash management and constant monitoring of projected versus actual cash flows. Debt maturities are also diversified to ensure that rising financing costs do not have a short-term impact. Credit facilities with banks are also maintained for unplanned expenditures.

Counterparty Risk

The Bertelsmann Group is exposed to default risks in the amount of the invested cash and cash equivalents and the positive fair value of the derivatives in its portfolio. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with a high credit rating (“core banks”). The credit ratings of core banks are constantly monitored and classified on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.). Counterparty limits determined on the basis of credit ratings refer to cash holdings and positive fair values of the derivatives in its portfolio. The drawdown of limits is monitored on a regular basis. Funds are invested in very short-term portfolios in some cases to preserve flexibility in the event of credit rating changes. In addition, some tri-party transactions with banks have been concluded to reduce default risks. These tri-party transactions are collateralized investments, and the banks provide predefined securities as collateral. As in the previous year, there were no tri-party transactions outstanding at the end of the reporting period; as in the previous year, no collateral had been provided. Processing these transactions and managing and valuing the collateral is performed by a clearing agent. Default risks arising from trade receivables are partially mitigated through credit insurance coverage. The Bertelsmann Group has obtained credit collateralization in the amount of €632 million for these receivables (previous year: €713 million).

Capital Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financing security, return on equity and growth. The Group’s indebtedness is based specifically on the requirements for a credit rating of “Baa1/BBB+.” Financial management at Bertelsmann is conducted using quantified financing objectives that are a central factor in ensuring the Group’s independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are broadly defined performance indicators. The key performance indicator for limiting economic debt within the Bertelsmann Group is a maximum leverage factor of 2.5. On December 31, 2019, the leverage factor was 2.6 (previous year: 2.7). In addition, the coverage ratio is to remain above four. The coverage ratio amounted to 8.5 on December 31, 2019 (previous year: 11.1). The equity ratio is not to fall below 25 percent of total assets. Management of the equity ratio is based on the definition of equity in IFRS. Although minority interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes. In the financial year 2019, the equity ratio was 38.2 percent (previous year: 38.8 percent), meeting the internal financial target set by the Group.

Interest Rate and Currency Sensitivity

For the analysis of interest rate risk, a distinction is made between cash flow and present value risks. Financial debt, cash and cash equivalents and interest rate derivatives with variable-interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates impact the Group’s interest result almost immediately. In contrast, medium- and long-term interest rate agreements are subject to a greater degree of present value risk. The accounting treatment of present value risks depends on the respective financial instrument or a hedging relationship documented in conjunction with a derivative (micro-hedge). Upon initial recognition, originated financial debt is measured at fair value less transaction costs. Subsequent measurement is based on amortized cost. Changes in fair value are limited to opportunity effects, as changes in interest rates have no effect on the balance sheet or the income statement. The recognition of originated financial debt at fair value is only permitted for transactions for which a micro-hedge is documented in accordance with IFRS 9 in conjunction with the conclusion of an interest rate or exchange rate hedge transaction involving derivatives. In this case, changes in the fair value of the respective items are recognized in the income statement in order to substantially balance out the offsetting effects of the fair value measurement of the related derivatives. For derivative financial instruments, the effects of changes in interest rates are recognized in the income statement. In the case of documented hedging relationships (cash flow hedges), however, these effects are taken directly to equity.

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

Sensitivity Analysis of Cash Flow and Present Value Risks

	12/31/2019		12/31/2018	
in € millions	Shift +1%	Shift (1)%	Shift +1%	Shift (1)%
Cash flow risks (income statement)	12	(12)	10	(10)
Present value risks (income statement)	12	(12)	17	(17)
Present value risks (equity)	–	–	–	–

The analysis of foreign currency sensitivity includes the Group's financial debt and operating transactions at the end of the reporting period and the hedging relationships entered into. The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent appreciation of the euro versus all foreign currencies, and is presented after tax. A uniform devaluation of foreign currencies would have resulted in a change in the carrying amount recognized in profit or loss of €-7 million (previous year: €-2 million). Thereof, €-2 million (previous year: €-1 million) relates to fluctuations in the US dollar exchange rate with a net exposure of US$39 million (previous year: US$19 million). Shareholders' equity would have changed by €-22 million (previous year: €-34 million) as a result of fluctuations in the fair values of documented cash flow hedges. Thereof, €-24 million (previous year: €-37 million) relates to fluctuations in the US dollar exchange rate on the basis of a documented cash flow hedge volume of US$389 million (previous year: US$605 million). If there had been a uniform increase in the value of foreign currencies, this would have led to opposite changes in these amounts for the Bertelsmann Group.

Financial Derivatives

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

The majority of the financial derivatives at the end of the reporting period with a nominal volume of €5,734 million (previous year: €5,233 million) are used to hedge currency rate risks from intercompany financing activities. These financial derivatives account for a total of €3,723 million and 65 percent, respectively (previous year: €3,390 million and 65 percent) as of the end of the reporting period. A total of €1,531 million and 27 percent, respectively (previous year: €1,363 million and 26 percent) is due to financial derivatives used to hedge currency rate risks from operating activities as of the end of the reporting period. Financial derivatives are also used to hedge against interest rate risks from interest-bearing receivables and liabilities. Financial derivatives are used exclusively for hedging purposes.

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

Nominal Volume and Fair Values of Financial Derivatives

in € millions	12/31/2019 Nominal volume < 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	3,249	1,182	823	5,254	(74)
Interest rate derivatives					
Interest rate swaps	–	480	–	480	7
Other derivative financial instruments	–	–	–	–	–
	3,249	1,662	823	5,734	(67)

in € millions	12/31/2018 Nominal volume < 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	2,682	1,411	660	4,753	8
Interest rate derivatives					
Interest rate swaps	–	480	–	480	3
Other derivative financial instruments	–	–	–	–	–
	2,682	1,891	660	5,233	11

The option offered in IFRS 13.48 (net risk position) is used for measuring the fair value of financial derivatives. To identify the credit exposure from financial derivatives, the respective net position of the fair values with the contractual partners is used as a basis, as these values are managed based on a net position in view of their market or credit default risks. Currency forwards are used to hedge the foreign currency risk relating to the purchase and sale of program rights and output deals for the TV business. Bertelsmann hedges between 80 percent and 100 percent of the short-term (within one year) future cash flows, and between 10 percent and 80 percent of the longer-term (two to five years) future cash flows. As a rule, the derivatives used are recognized as hedging instruments in connection with cash flow hedges, taking into account the volume of the cash flows to be hedged. The effective portion of changes in the fair value of cash flow hedges is recognized in other comprehensive income until the effects of the hedged underlying transaction affect profit or loss, or until a basis adjustment occurs. The amount of €-4 million relating to cash flow hedges (previous year: €3 million) was reclassified from other comprehensive income to the income statement. These are amounts before tax. The portion remaining in other comprehensive income as of December 31, 2019, will thus mainly impact the income statement in the next years. As in the previous year, no ineffective portion of the cash flow hedges existed. The effects of non-designated components of a cash flow hedge (e.g., the forward component of a foreign currency derivative with a designation on a spot basis) in the amount of €16 million (previous year: €10 million) were recognized immediately in profit or loss.

The following table provides an overview of the carrying amounts of the derivative financial instruments, which correspond to their fair values. A distinction is made between derivatives that are included in an effective hedging relationship in accordance with IFRS 9 and those that are not.

Derivative Financial Instruments

in € millions	Carrying amount on 12/31/2019	Carrying amount on 12/31/2018
Assets		
Forward contracts and currency swaps		
– without hedge relation	27	48
– in connection with cash flow hedges	26	16
Interest rate swaps		
– without hedge relation	7	3
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–
Equity and liabilities		
Forward contracts and currency swaps		
– without hedge relation	122	52
– in connection with cash flow hedges	5	4
Interest rate swaps		
– without hedge relation	–	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–

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

Liabilities from Derivatives with Gross Settlement

	Remaining term of liabilities		
in € millions	Up to 1 year	1 to 5 years	Over 5 years
Cash outflow	(2,399)	(989)	(1,048)
Cash inflow	2,353	894	886
Balance on 12/31/2019	(46)	(95)	(162)
Cash outflow	(1,644)	(967)	(660)
Cash inflow	1,617	889	554
Balance on 12/31/2018	(27)	(78)	(106)

26 Cash Flow Statement

The Bertelsmann consolidated cash flow statement has been prepared in accordance with IAS 7 and is used to evaluate the Group's ability to generate cash and cash equivalents. Cash flows are divided into those relating to operating activities, investing activities and financing activities. Cash flows from operating activities are presented using the indirect method, whereby EBIT is adjusted for the effects of a non-cash nature, any deferrals or accruals of past or future operating receipts or payments, and items of income or expenses associated with investing cash flows. In addition, cash flows arising from income taxes are classified as cash flows from operating activities as well as other cash flows that are neither investing nor financing.

The management of Group operations of the Bertelsmann Group utilizes indicators that include operating EBITDA and are thus before interest, taxes, amortization/depreciation, impairment and reversals, and special items. Operating results and the resulting cash flow from operating activities should therefore be consistent and comparable. Accordingly, the net balances of interest paid and interest received during the financial year are shown in the cash flow statement as part of financing activities.

The change in provisions for pensions and similar obligations represents the balance of personnel costs for pensions and similar obligations and company payments for these obligations (further explanations are presented in note 18 "Provisions for Pensions and Similar Obligations"). Contributions to pension plans totaling €24 million (previous year: €41 million) were also included in this item. "Other effects" of the cash flow from operating activities include the adjustments of results from investments accounted for using the equity method, taking into account dividends received from these investments, and adjustments in connection with non-cash income and expenses.

The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in the scope of consolidation. Items in the consolidated cash flow statement thus cannot be reconciled with changes in items reported on the consolidated balance sheet. Investing activities include payments for investments in non-current assets and purchase price payments for acquisitions as well as proceeds from the disposal of non-current assets and investments. Further explanations concerning acquisitions made during the financial year are presented in the section "Acquisitions and Disposals." Disposals made during the financial year are also presented separately in that section. Financial debt of €6 million (previous year: €192 million) was assumed during the reporting period. Gaining and losing control of subsidiaries or other businesses resulted in the disposal of financial liabilities amounting to €14 million (previous year: €2 million). The amount recognized under "Disposals of other fixed assets" is mainly attributable to several transactions conducted in the Bertelsmann Investments division, including the sale of the investment in the tech company Bigo.

Cash flow from financing activities includes changes in equity, financial debt, lease liabilities and dividend payments affecting cash, as well as interest paid and interest received (including interest paid due to leases). The item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €185 million (previous year: €214 million) and payments in the amount of €-252 million (previous year: €-374 million). The payments include the repayment of a bank loan of €150 million by Bertelsmann SE & Co. KGaA. In the previous year, the payments were attributable among other things to the redemption of financial debt in the amount of €-165 million in connection with the acquisition of the interest in OnCourse Learning. In the previous year, the other receipts and payments mainly related to short-term loans at short maturities and correspondingly high turnover rates. As in the previous year, the item "Other effects" mainly includes changes affecting cash in connection with hedge transactions. Total cash outflows from leases amounted to €-288 million in the financial year 2019. The item "Change in equity" amounts to €81 million and results mainly from the transaction in connection with Majorel (further details are presented in note 11 "Interests in Other Entities"). In the previous year, the item amounted to €-59 million and mainly comprised €-29 million from the exercise of the put option for the interest in Relias Learning. A further €-18 million related to the acquisition of treasury shares by Groupe M6.

The following table shows the cash changes and non-cash changes of liabilities arising from financing activities as of December 31, 2019:

Changes in Liabilities Arising from Financing Activities

		Cash changes	Non-cash changes				
in € millions	1/1/2019[1]		Acquisitions through business combinations	Disposals through business combinations	Exchange rate effects	Other changes	12/31/2019
Bonds	4,472	(100)	–	–	–	5	4,377
Promissory notes	459	(134)	–	–	–	–	325
Liabilities to banks	256	(120)	2	–	–	–	138
Lease liabilities	1,369	(288)	9	(3)	18	287	1,392
Other financial debt	111	53	4	(14)	–	6	160
Liabilities arising from financing activities	6,667	(589)	15	(17)	18	298	6,392

1) The lease liabilities as of January 1, 2019, include both lease liabilities from the initial application of IFRS 16 in the amount of €1,330 million and lease liabilities from finance leases in the amount of €39 million, which were recognized in the item "Other financial liabilities" as of December 31, 2018, in accordance with IAS 17.

As of December 31, 2019, the other non-cash changes in lease liabilities mainly relate to lease contracts newly concluded in the financial year 2019.

The following table shows the cash changes and non-cash changes in financial debt as of December 31, 2018:

		Cash changes	Non-cash changes			
in € millions	12/31/2017		Acquisitions through business combinations	Exchange rate effects	Other changes	12/31/2018
Bonds	3,725	742	–	–	5	4,472
Promissory notes	659	(200)	–	–	–	459
Liabilities to banks	324	(87)	1	18	–	256
Finance lease liabilities	47	(9)	–	–	1	39
Other financial debt	164	(240)	191	1	(5)	111
Total financial debt	4,919	206	192	19	1	5,337

27 Segment Reporting

IFRS 8 Operating Segments requires that external segment reporting must be based on the internal organizational and management structure, and on management and reporting indicators used internally. The Bertelsmann Group comprises eight operating reportable segments (RTL Group, Penguin Random House, Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments), differentiated according to the type of products and services offered and which are reported by segment managers to the Executive Board of Bertelsmann Management SE in its role as the chief operating decision-maker in accordance with IFRS 8. Corporate is mainly responsible for activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, corporate communications and management, internal control and strategic development of the Group, securing the required financing, risk management and optimization of the Group's investment portfolio.

Intersegment eliminations are included in the column "Consolidation."

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

Operating EBITDA serves as a key performance indicator for a sustainable determination of operating result. Assessment of the operating segments' performance is also based on this performance indicator. Operating EBITDA represents the operating earnings generated by the respective segment management before interest and taxes, as well as amortization/depreciation, impairment and reversals, and it is adjusted for special items. Elimination of these special items allows the determination of a normalized performance indicator, thus simplifying forecasting and comparability. Segment amortization/depreciation, impairment and reversals relate to property, plant and equipment and right-of-use assets, and to intangible assets as set out in notes 9 "Intangible Assets" and 10 "Property, Plant and Equipment and Right-of-Use Assets." For segment reporting, intercompany leases are presented as operating leases with income and expenses recognized using the straight-line method in accordance with IFRS 8, in line with internal management. The business development of Bertelsmann Investments is determined primarily on the basis of EBIT.

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

Tabular segment information is presented on page 52 f.

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

Reconciliation of Segment Information to Group Profit or Loss

in € millions	2019	2018
Operating EBITDA from continuing operations	2,909	2,586
Amortization/depreciation, impairment and reversals on intangible assets, 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)
Special items	154	296
EBIT from continuing operations	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

28 Related Party Disclosures

For the Bertelsmann Group, related parties as defined in IAS 24 are those persons and entities that control or exercise a significant influence over the Bertelsmann Group, and those persons and entities controlled or jointly controlled by the Bertelsmann Group, or over which it exercises a significant influence. Accordingly, certain members of the Mohn family, the members of the Executive Board of Bertelsmann Management SE as the general partner, and the Supervisory Board of Bertelsmann SE & Co. KGaA, including close members of their families and including the companies that are controlled or jointly managed by them, and the joint ventures and associates forming part of the Bertelsmann Group and their subsidiaries, are defined as related parties. Furthermore, Bertelsmann Pension Trust e.V. is considered a related party (further details on this are presented in note 18 "Provisions for Pensions and Similar Obligations").

Bertelsmann Verwaltungsgesellschaft mbH (BVG), Gütersloh, a holding company with no operating activities, has control of the Bertelsmann Group. Johannes Mohn GmbH has informed Bertelsmann SE & Co. KGaA that it directly owns more than 50 percent of the shares in Bertelsmann Management SE and of Bertelsmann SE & Co. KGaA. Reinhard Mohn Verwaltungsgesellschaft mbH continues to own more than one-quarter of the shares in Bertelsmann Management SE and in Bertelsmann SE & Co. KGaA, respectively.

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

Remuneration for key management personnel includes the following:

Remuneration for Key Management Personnel

in € millions	2019	2018
Short-term employee and termination benefits	19	26
Post-employment benefits	2	4
Other long-term benefits	9	13

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

Transactions with Related Parties

in € millions	Parent and entities with significant influence	Key members of management	Joint ventures	Associates	Other related parties
2019					
Goods delivered and services provided	–	1	68	44	–
Goods and services received	–	(2)	(32)	(38)	(1)
Receivables against	–	–	31	41	–
Amounts owed to	–	58	72	20	17
2018					
Goods delivered and services provided	–	1	64	29	–
Goods and services received	–	(2)	(35)	(29)	(2)
Receivables against	–	–	24	40	–
Amounts owed to	–	65	62	14	36

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

As of December 31, 2019, guarantees for associates were entered into in an immaterial amount (previous year: €0 million). As in the previous year, Bertelsmann has no share in the contingent liabilities of its associates. As of December 31, 2018, there was a contribution obligation in the amount of €31 million to a Brazilian fund set up by Bertelsmann along with the investment company Bozano Investimentos and other partners, investing in educational companies, with a particular focus on healthcare. As of December 31, 2019, there were no comparable contribution obligations to the fund. Contribution obligations of €9 million exist to University Ventures Funds as of December 31, 2019. Capital contributions to associates of €3 million (previous year: €21 million) were made in the financial year 2019. In addition, capital distributions from associates amounting to €18 million were made in the financial year 2019, almost all of which were attributable to University Ventures Funds (previous year: €0 million). As of December 31, 2019, loans amounting to €8 million were granted to associates (previous year: €9 million). As in the previous year, no loans were received from associates. As in the previous year, no significant expenses were recognized for bad or doubtful debts due from associates in the financial year 2019.

As of December 31, 2019, joint ventures have no obligations to the Bertelsmann Group from leases entered into but not yet commenced (previous year: obligations from operating leases in accordance with IAS 17 in the amount of €3 million). Contingent liabilities from joint ventures amounted to €18 million as of December 31, 2019 (previous year: €22 million). As of the end of the reporting period, commitments for RTL Group joint ventures existed in the amount of €7 million (previous year: €10 million). As in the previous year, no expenses were recognized for bad or doubtful debts due from joint ventures in the financial year 2019. As of December 31, 2019, loans of €2 million were granted to joint ventures (previous year: €1 million). Loans were received from joint ventures in the amount of €23 million (previous year: €2 million). As in the previous year, no capital contributions were made to joint ventures.

29 Events after the Reporting Period

In March 2020, Bertelsmann agreed to a €675 million syndicated credit facility with a term of up to 18 months. Bertelsmann SE & Co. KGaA can draw down this credit facility using floating-rate loans in euros and US dollars based on EURIBOR or LIBOR. The credit facility is intended for general corporate financing as well as to cover a short-term funding requirement in connection with the acquisition of the remaining interest in Penguin Random House.

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

The following subsidiaries took advantage of the exemption regulations set out in section 264 (3) of the German Commercial Code (HGB) relating to additional requirements for limited liability companies to prepare annual financial statements and a management report, and the requirements for audit of and publication by limited liability companies for the financial year ended December 31, 2019.

Name of the entity	Place
"I 2 I" Musikproduktions- und Musikverlagsgesellschaft mbH	Cologne
3 C Deutschland GmbH	Heilbronn
adality GmbH	Munich
Ad Alliance GmbH	Cologne
Applike GmbH	Hamburg
arvato CRM Healthcare GmbH	Berlin
arvato direct services GmbH	Gütersloh
arvato distribution GmbH	Harsewinkel
arvato eCommerce Beteiligungsgesellschaft mbH	Gütersloh
arvato eCommerce Verwaltungsgesellschaft mbH	Gütersloh
arvato infoscore GmbH	Baden-Baden
arvato Logistics, Corporate Real Estate & Transport GmbH	Gütersloh
arvato media GmbH	Gütersloh
Arvato Payment Solutions GmbH	Verl
arvato SCM Consumer Products GmbH	Gütersloh
Arvato SCM Kamen GmbH	Gütersloh
arvato services Dresden GmbH	Dresden
arvato services Gera GmbH	Gera
arvato services Leipzig GmbH	Leipzig
arvato services solutions GmbH	Gütersloh
arvato services Suhl GmbH	Suhl
Arvato Supply Chain Solutions SE	Gütersloh
arvato systems GmbH	Gütersloh
arvato Systems perdata GmbH	Leipzig
arvato Systems S4M GmbH	Cologne
Audio Alliance GmbH	Berlin
AVE Gesellschaft für Hörfunkbeteiligungen mbH	Berlin
AZ Direct Beteiligungs GmbH	Gütersloh
AZ Direct GmbH	Gütersloh
BAG Business Information Beteiligungs GmbH	Gütersloh
BAI GmbH	Gütersloh
BDMI GmbH	Gütersloh
BePeople GmbH	Gütersloh
Bertelsmann Accounting Services GmbH	Gütersloh
Bertelsmann Accounting Services Schwerin GmbH	Schwerin
Bertelsmann Aviation GmbH	Gütersloh
Bertelsmann Capital Holding GmbH	Gütersloh
Bertelsmann China Holding GmbH	Gütersloh
Bertelsmann Transfer GmbH	Gütersloh
Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung	Gütersloh
BFS finance GmbH	Verl

Name of the entity	Place
BFS finance Münster GmbH	Münster
BFS health finance GmbH	Dortmund
BMG Production Music (Germany) GmbH	Berlin
BMG RIGHTS MANAGEMENT (Europe) GmbH	Berlin
BMG RIGHTS MANAGEMENT GmbH	Berlin
Campaign Services Neckarsulm GmbH	Neckarsulm
Campaign Services Offenbach GmbH	Frankfurt am Main
CBC Cologne Broadcasting Center GmbH	Cologne
Chefkoch GmbH	Bonn
COUNTDOWN MEDIA GmbH	Hamburg
Der Audio Verlag GmbH	Berlin
DeutschlandCard GmbH	Munich
Digital Media Hub GmbH	Cologne
Direct Analytics GmbH	Gütersloh
direct services Gütersloh GmbH	Gütersloh
DIVIMOVE GmbH	Berlin
DPV Deutscher Pressevertrieb GmbH	Hamburg
Eat the World GmbH	Berlin
Erste TD Gütersloh GmbH	Gütersloh
Erste WV Gütersloh GmbH	Gütersloh
European SCM Services GmbH	Gütersloh
FremantleMedia International Germany GmbH	Potsdam
GGP Media GmbH	Pößneck
G+J Digital Ventures GmbH	Berlin
G+J Electronic Media Sales GmbH	Hamburg
G+J Enterprise GmbH	Hamburg
G+J Innovation GmbH	Hamburg
G+J Lifestyle GmbH	Hamburg
G+J LIVING Digital GmbH	Hamburg
G+J Medien GmbH	Hamburg
G+J Vermietungsgesellschaft Sächsischer Verlag mbH	Dresden
G+J Wirtschaftsmedien Verwaltungs GmbH	Hamburg
G+J Zweite Grundstücksbeteiligungsgesellschaft München mbH	Munich
Global Assekuranz Vermittlungsgesellschaft mit beschränkter Haftung	Gütersloh
Gruner + Jahr Communication GmbH	Hamburg
Gruner + Jahr GmbH	Hamburg
Henri-Nannen-Schule Gruner+Jahr/ DIE ZEIT GmbH	Hamburg
infoNetwork GmbH	Cologne
informa HIS GmbH	Wiesbaden
informa Solutions GmbH	Baden-Baden
infoscore Business Support GmbH	Baden-Baden

Name of the entity	Place
infoscore Consumer Data GmbH	Baden-Baden
infoscore Finance GmbH	Baden-Baden
infoscore Forderungsmanagement GmbH	Verl
infoscore Portfolio Management International GmbH	Gütersloh
infoscore Tracking Solutions GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
IP Deutschland GmbH	Cologne
mbs Nürnberg GmbH	Nuremberg
MEDIASCORE Gesellschaft für Medien- und Kommunikationsforschung mbH	Cologne
Mediengruppe RTL Deutschland GmbH	Cologne
Mohn Media Energy GmbH	Gütersloh
Mohn Media Mohndruck GmbH	Gütersloh
MSP Medien-Service und Promotion GmbH	Hamburg
NETLETIX GmbH	Munich
Next Level Integration GmbH	Cologne
Prinovis Ahrensburg Weiterverarbeitung und Logistik GmbH	Hamburg
Prinovis GmbH	Gütersloh
Prinovis Klebebindung GmbH	Nuremberg
PRINOVIS Service GmbH	Hamburg
Print Service Gütersloh GmbH	Gütersloh
Probind Mohn media Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Random House Audio GmbH	Cologne
Reinhard Mohn GmbH	Gütersloh
Relias Learning GmbH	Berlin
rewards arvato services GmbH	Munich
RM Buch und Medien Vertrieb GmbH	Gütersloh
RTL Group Central & Eastern Europe GmbH	Cologne
RTL Group Deutschland Markenverwaltungs GmbH	Cologne
RTL Group Financial Services GmbH	Potsdam
RTL Group GmbH	Cologne
RTL Group Licensing Asia GmbH	Cologne
RTL Group Vermögensverwaltung GmbH	Cologne
RTL Hessen GmbH	Frankfurt am Main
RTL interactive GmbH	Cologne
RTL Journalistenschule GmbH	Cologne
RTL Nord GmbH	Hamburg

Name of the entity	Place
RTL Radio Berlin GmbH	Berlin
RTL Radio Center Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
RTL Radio Luxemburg GmbH	Cologne
RTL Radiovermarktung GmbH	Berlin
RTL STUDIOS GmbH	Cologne
RTL West GmbH	Cologne
rtv media group GmbH	Nuremberg
smartclip Deutschland GmbH	Cologne
smartclip Europe GmbH	Düsseldorf
Sonopress GmbH	Gütersloh
Sparwelt GmbH	Berlin
SSB Software Service und Beratung GmbH	Munich
stern.de GmbH	Hamburg
stern Medien GmbH	Hamburg
TERRITORY Content to Results GmbH	Hamburg
TERRITORY EMBRACE GmbH	Bochum
TERRITORY MEDIA GmbH	Munich
TERRITORY webguerillas GmbH	Munich
TERRITORY webguerillas Nord GmbH	Hamburg
trnd DACH GmbH	Munich
trnd International GmbH	Munich
trndnxt GmbH	Munich
trndsphere blue GmbH	Munich
UFA Distribution GmbH	Potsdam
UFA Fiction GmbH	Potsdam
UFA Fiction Production GmbH	Potsdam
UFA Film und Fernseh GmbH	Cologne
UFA GmbH	Potsdam
Ufa Radio-Programmgesellschaft in Bayern mbH	Ismaning
UFA Serial Drama GmbH	Potsdam
UFA Show & Factual GmbH	Cologne
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlegerdienst München GmbH	Gilching
VIVENO Group GmbH	Gütersloh
Vogel Druck und Medienservice GmbH	Höchberg
VOX Holding GmbH	Cologne
VSG Schwerin - Verlagsservicegesellschaft mbH	Schwerin
webmiles GmbH	Munich

In addition, the exemption regulations set out in section 264b of the German Commercial Code (HGB) were used by the following companies for the financial year ended December 31, 2019:

Name of the entity	Place
"Alwa" Gesellschaft für Vermögensverwaltung mbH & Co. Grundstücksvermietung KG	Schönefeld
11 Freunde Verlag GmbH & Co KG	Berlin
AVE II Vermögensverwaltungsgesellschaft mbH & Co. KG	Cologne
AZ fundraising services GmbH & Co. KG	Gütersloh
Berliner Presse Vertrieb GmbH & Co. KG	Berlin
DDV Mediengruppe GmbH & Co. KG	Dresden

Name of the entity	Place
Deutsche Medien-Manufaktur GmbH & Co. KG	Münster
G+J Food & Living GmbH & Co. KG	Hamburg
G+J Immobilien GmbH & Co. KG	Hamburg
infoscore Portfolio Management GmbH & Co. KG	Verl
infoscore Portfolio Management II GmbH & Co. KG	Baden-Baden
LV-Publikumsmedien GmbH & Co. KG	Münster
Prinovis GmbH & Co. KG	Hamburg
Sellwell GmbH & Co. KG	Hamburg

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

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

Compensation of the Supervisory Board of Bertelsmann SE & Co. KGaA for the financial year 2019 amounted to €1,727,667 plus statutory value-added tax. Members of the Executive Board received total remuneration in the reporting period of €26,381,799, including €16,319,406 from Bertelsmann Management SE. Former members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG and their surviving dependents received compensation of €5,789,051, including €5,393,417 from Bertelsmann SE & Co. KGaA. The provision for pension obligations to former members of the Executive Board of Bertelsmann AG and Bertelsmann Management SE accrued at Bertelsmann SE & Co. KGaA and Bertelsmann Management SE amounts to €89,532,742. The members of the Executive Board and Supervisory Board are listed on pages 150 ff.

The fees for the Group auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft totaled €7 million during the financial year, of which €6 million was due to fees for the audit of the financial statements. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was paid a total of €1 million for other audit-related services, for tax consulting services and for further services. The audit fees primarily include fees for the auditor's review of the interim consolidated financial statements and the consolidated financial statements and the audit of the separate financial statements of Bertelsmann SE & Co. KGaA and its subsidiaries. The audit-related fees mainly cover statutory or voluntarily mandated attestation services by the auditor. Fees for other services cover fees for project-related consulting and due diligence services.

The following table shows the number of employees as of December 31, 2019, and on an annual average:

Number of Employees

	Number of employees (closing date)	Number of employees (average)
RTL Group	16,264	16,525
Penguin Random House	10,663	10,530
Gruner + Jahr	9,273	9,682
BMG	904	883
Arvato	77,342	76,219
Bertelsmann Printing Group	7,866	8,013
Bertelsmann Education Group	1,834	1,862
Bertelsmann Investments	433	319
Corporate	1,868	1,883
Total	126,447	125,916

32 Proposal for the Appropriation of Net Retained Profits

The general partner Bertelsmann Management SE and the Supervisory Board of Bertelsmann SE & Co. KGaA will propose to the General Meeting that the remaining net retained profits of Bertelsmann SE & Co. KGaA of €663 million be appropriated as follows:

Net Retained Profits for Bertelsmann SE & Co. KGaA

in Mio. €	
Retained earnings	663
Dividends to shareholders	(180)
Carried forward to the new financial year	483

The dividend per ordinary share thus amounts to €2,149.

The general partner Bertelsmann Management SE approved the Consolidated Financial Statements for submission to the Supervisory Board of Bertelsmann SE & Co. KGaA on March 16, 2020. The Supervisory Board's task is to review the Consolidated Financial Statements and declare whether it approves these.

Gütersloh, March 16, 2020

Bertelsmann SE & Co. KGaA
Represented by:
Bertelsmann Management SE, the general partner
The Executive Board

Thomas Rabe	Markus Dohle
Immanuel Hermreck	Bernd Hirsch

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the Bertelsmann Group and Bertelsmann SE & Co. KGaA, together with a description of the material opportunities and risks associated with the expected development of the Bertelsmann Group and Bertelsmann SE & Co. KGaA.

Gütersloh, March 16, 2020

Bertelsmann SE & Co. KGaA
Represented by:
Bertelsmann Management SE, the general partner
The Executive Board

Thomas Rabe	Markus Dohle
Immanuel Hermreck	Bernd Hirsch

Independent Auditor's Report

To Bertelsmann SE & Co. KGaA, Gütersloh

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Bertelsmann SE & Co. KGaA, Gütersloh, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bertelsmann SE & Co. KGaA, which is combined with the Company's management report, including the non-financial report pursuant to § [Article] 289b Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and § 315b Abs. 1 HGB, for the financial year from January 1 to December 31, 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1, 2019 through December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of goodwill
2. Recoverability of investments in associates
3. Pension provisions
4. Presentation of the Majorel Group

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① Goodwill amounting in total to EUR 8.5 billion (31.3% of consolidated total assets or 81.7% of consolidated equity) is reported in the Company's consolidated financial statements. Goodwill is tested for impairment by the Company once a year on December 31 of the respective financial year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant goodwill is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is initially determined on the basis of fair value less costs of disposal. If this amount is higher than the carrying amount, a calculation of the value in use is no longer required. Since there are normally no available prices from active markets (exception: quoted price of the RTL Group and Groupe M6) or comparable transactions from the recent past for the cash-generating units, their fair value less costs of disposal, as well as value in use, is generally determined using discounted cash flow models (DCF).

For this purpose, the adopted business plan of the Group forms the starting point for in general between three and five detailed planning periods which are extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account.

The discount rate used is the weighted average cost of capital ("WACC") for the respective group of cash-generating units.

The impairment test determined that, even after taking into account the fair value less costs of disposal, it was necessary to recognize write-downs amounting to a total of EUR 27 million with respect to the CGU Education Services.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the business plan of the Group, adopted by the Board of Directors and approved by the Supervisory Board, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, evaluated the specific average costs of capital derived, and assessed the calculation model.

In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company and carried out our own sensitivity analyses for those groups of cash-generating units with low headroom (recoverable amount compared with the carrying amount).

We verified that the necessary disclosures were made in the notes to the consolidated financial statements relating to groups of cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the relevant goodwill.

We assessed the recoverability of goodwill of the RTL Group and of Groupe M6 on the basis of the stock exchange quotation as of the balance sheet date.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and fall within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in section 9 of the notes to the consolidated financial statements.

❷ Recoverability of investments in associates

① The investments accounted for using the equity method reported in the Company's consolidated financial statements include investments in associates of EUR 0.6 billion.

A two-step impairment test is performed for investments in associates. The first step involves recognizing the investor's share in the impairment losses for the assets of the associate. If there are indications that the carrying amount of the investment in the associate may be impaired, the investment as a whole is tested for impairment in a second step and, if necessary, an additional impairment loss is recognized. This involves comparing the carrying amount of the relevant investment in an associate with the corresponding recoverable amount in the context of the impairment test. In general, the recoverable amount is initially determined on the basis of fair value less costs of disposal. If this amount is higher than the carrying amount, a calculation of the value in use is no longer required. Since, with the exception of Atresmedia, there are no available prices from active markets or comparable transactions from the recent past for the investments in associates, their fair value less costs of disposal, as well as value in use, is generally determined using discounted cash flow models (DCF).

For this purpose, the associate's business plan forms the starting point (three- and five-year detailed planning period). Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account in the associate's business plans. The discount rate used is the weighted average cost of capital ("WACC").

The recoverable amount of the investment in Atresmedia, which is material from the Group's point of view, is derived from the value in use.

The impairment test determined that it was necessary to recognize a write-down amounting to EUR 50 million with respect to the associate Atresmedia.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective associates, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the business plan for the associate, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amount calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model.

In order to reflect the uncertainty inherent in the projections, we reproduced the sensitivity analyses performed by the Company and carried out our own sensitivity analyses with respect to those investments in associates with low headroom (recoverable amount compared with the carrying amount). Taking into account the information available, we determined that the respective carrying amounts of the investments were adequately covered by the discounted future cash flows.

We assessed the measurement of the recoverable amount of the investment in Atresmedia on the basis of the value in use and evaluated the calculation for the impairment.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and fall within the ranges considered by us to be reasonable.

③ The Company's disclosures relating to the recognized investments in associates are contained in section 11 of the notes to the consolidated financial statements.

❸ Pension provisions

① In the consolidated financial statements of the Company a total of EUR 2.0 billion is reported under the "Provisions for pensions and similar obligations" balance sheet item.

The pension provisions comprise obligations from defined benefit pension plans amounting to EUR 4.6 billion and plan assets of EUR 2.8 billion (net defined benefit liability of EUR 1.8 billion recognized in the balance sheet, of which EUR 1.9 billion in pension provisions) and other obligations similar to pensions of EUR 0.1 billion. The majority of these provisions amounting to EUR 3.6 billion relates to old-age pension commitments in Germany. The other obligations relate primarily to the United Kingdom and the USA, including a small amount of obligations from medical care plans in the USA. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about future increases in salaries and pensions, average life expectancy (biometrics), and staff turnover. Furthermore, as of each balance sheet date the discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and terms which are consistent with the expected maturities of the obligations. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties. A large portion of the plan assets is managed by Bertelsmann Pension Trust e.V. as trustee in the context of a Contractual Trust Arrangement ("CTA") for pension commitments of Bertelsmann SE & Co. KGaA and several German subsidiaries.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

② As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. For the purposes of our audit of the fair value of the plan assets, we obtained relevant bank confirmations for the fund units included in the plan assets. We also compared the fair values of the assets included in the plan assets with their respective market prices on the basis of appropriate sample testing.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented to justify the recognition and measurement of the material pension provisions.

③ The Company's disclosures relating to pension provisions are contained in section 18 of the notes to the consolidated financial statements.

❹ Presentation of the Majorel Group

① During the financial year, the Company merged its customer relationship management business ("Arvato CRM") with the CRM business of the Morocco-based Saham Group to form the Majorel Group ("Majorel") and in doing so decreased its shareholding in the Arvato CRM businesses. Both shareholders ultimately each hold a 50% interest in Majorel. Majorel is included in the consolidated financial statements since the Company has rights to appoint the majority of members to the relevant decision-making bodies and thus controls Majorel within the meaning of IFRS 10.

The decrease in the shareholding was recognized directly in equity as a transaction between shareholders in accordance with IFRS 10. The consolidated equity attributable to the Bertelsmann shareholders (including the reclassification of OCI items) increased by a total EUR 20 million.

The acquisition of the customer relationship management businesses of the Saham Group was accounted for as a business combination in accordance with IFRS 3 using the acquisition method.

The Majorel Group makes a significant contribution to the consolidated financial statements of Bertelsmann SE & Co. KGaA, from the perspective of both revenue and assets. In our view, this matter was of particular importance for our audit due to the complexity of the overall transaction and the material effect on the amounts involved on the Group's net assets, financial position and results of operations.

2. As part of our audit and with respect to the presentation of the merger of the customer relationship management businesses to form the Majorel Group, we first obtained an understanding of the contractual bases and assessed the executive directors' decisions with regard to the accounting treatment.

   We then assessed whether Bertelsmann controls Majorel within the meaning of IFRS 10. For this purpose we examined, among other things, the management structures and the decision-making powers that Bertelsmann is able to exercise within the relevant decision-making bodies.

   With regard to the presentation in the statement of changes in equity, we reconciled the consideration received from the perspective of the Bertelsmann shareholders with the contractual agreements and other underlying documents, and assessed the addition to the non-controlling interests. We also verified and assessed the accounting treatment of the business combination with respect to the Saham CRM businesses.

   Based on our audit procedures, we were able to satisfy ourselves overall that the merger of the CRM businesses of Bertelsmann and the Saham Group was properly accounted for and that the executive directors' assumptions underlying this accounting treatment are substantiated and sufficiently documented.

3. The Company's disclosures relating to its assessment that it has control of Majorel are contained in the notes to the consolidated financial statements under "Significant accounting judgments, estimates and assumptions." The Company's disclosures relating to the effects of merging the customer relationship management businesses on the Group's equity accounts are contained in section 11 "Interests in other entities" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the consolidated financial statements and the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Group.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on May 21, 2019. We were engaged by the Supervisory Board on July 4, 2019. We have been the group auditor of Bertelsmann SE & Co. KGaA, Gütersloh, without interruption since the financial year 2011.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christian Landau.

Bielefeld, March 16, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christian Landau	Volker Voelcker
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Corporate Governance at Bertelsmann

The pursuit of responsible corporate governance is part of the Bertelsmann identity, and an important element of its corporate culture.

Bertelsmann SE & Co. KGaA is a capital market-oriented company but is unlisted. The company is therefore not subject to the statutory requirement to issue a formal declaration as per section 161 of the German Stock Corporation Act. Nevertheless, the recommendations and suggestions contained in the German Corporate Governance Code serve as guidelines for Bertelsmann SE & Co. KGaA. Because the German Corporate Governance Code as amended and adopted by the Government Commission on December 16, 2019, was not yet in force at the time this report was prepared, reference will be made to the German Corporate Governance Code as amended on February 7, 2017, as in the previous year's report.

Deviations from the provisions of the German Corporate Governance Code relate primarily to Bertelsmann's shareholder structure, in particular to those recommendations and suggestions in the Code that apply mainly to publicly held enterprises with large numbers of shareholders or anonymous shareholders, and above all to those recommendations concerning the organization of the Annual General Meeting and remuneration of the Executive Board and Supervisory Boards. Because it is not obligated to disclose Executive Board remuneration, Bertelsmann SE & Co. KGaA consequently also does not prepare a report on Executive Board remuneration.

Statutory Bodies of the Company

Bertelsmann's legal form is that of a Kommanditgesellschaft auf Aktien (KGaA) (partnership limited by shares). The statutory bodies of the KGaA are the General Meeting, the Supervisory Board and the general partner. The general partner serves as the management and representative body of the KGaA. In the case of Bertelsmann, this is Bertelsmann Management SE, a European stock corporation (Societas Europaea), represented by its Executive Board. Bertelsmann SE & Co. KGaA and Bertelsmann Management SE each have their own Supervisory Boards. The members of the Executive Board of Bertelsmann Management SE are appointed and monitored by the Supervisory Board of Bertelsmann Management SE (dual leadership structure). The Supervisory Board of Bertelsmann Management SE & Co. KGaA supervises the management of the business by Bertelsmann Management SE. The duties and responsibilities of the individual bodies are clearly defined in each case and are strictly separated from each other. Simultaneous membership in the Executive Board of Bertelsmann Management SE and the Supervisory Board of Bertelsmann Management SE & Co. KGaA is not permitted. The Bertelsmann boards are obliged to secure the continuity and independence of the company, and to enhance the enterprise value in the long term through responsible and sustainable corporate management.

Closed Group of Shareholders

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 Meetings of Bertelsmann SE & Co. KGaA and Bertelsmann Management SE. BVG is responsible for upholding the interests of the foundations invested in Bertelsmann and of the Mohn family as indirect shareholders in Bertelsmann SE & Co. KGaA, as well as ensuring the continuity of the company's management and Bertelsmann's corporate culture. BVG is controlled by a steering committee composed of three representatives of the Mohn family and three additional non-family members.

Corporate Management

Transparent structures and clear decision-making processes are characteristic for Bertelsmann's corporate management. The general partner, Bertelsmann Management SE, represented by its Executive Board, is responsible for independently managing the company. Its duties consist of determining the corporate objectives, the strategic direction of the Group, Group management, management training, and corporate planning and financing. The Executive Board provides the respective Supervisory Boards with regular, prompt and comprehensive reports on all matters that are relevant to business development and strategy implementation, planning, financial and earnings positions, the risk situation and risk management. It ensures compliance with the provisions of law and corporate guidelines within the Group. The members of the Executive Board bear joint responsibility for the overall management. Matters of fundamental significance and matters concerning the spheres of responsibility of multiple Executive Board members are addressed by the overall Executive Board. Notwithstanding this overall responsibility, the individual members of the Executive Board manage their departments as part of the duties stipulated by the overall Executive Board. The Executive Board Chairman coordinates the cooperation within the Executive Board and between the Executive Board and the Supervisory Boards, and has regular consultation meetings with the chairs of the two Supervisory Boards.

In addition, the Executive Board has established the Group Management Committee (GMC), which advises on important corporate strategy and development matters, and other issues that affect the Group as a whole. This committee currently has 18 members and includes members of the Executive Board as well as executives representing key businesses, countries, regions and select Group-wide functions.

The Supervisory Board of Bertelsmann SE & Co. KGaA supervises the management of the business by the general partner, and uses its extensive information and control rights for this purpose. In addition, the Supervisory Boards advise the Executive Board on strategic matters and significant transactions. The Executive and Supervisory Boards work in close, trusting cooperation and are able to reconcile the demands of effective corporate governance with the need for rapid decision-making processes. Fundamental matters of corporate strategy and their implementation are discussed openly and coordinated in joint sessions. Any significant measures to be taken by the Executive Board are subject to the approval of the Supervisory Board. The Supervisory Board reviews the Annual and Consolidated Financial Statements, the Combined Management Report of Bertelsmann SE & Co. KGaA and the Group, and the proposal for the appropriation of net retained earnings. It approves the Annual Financial Statements of Bertelsmann SE & Co. KGaA and the Consolidated Financial Statements, taking into account the results of the preliminary review conducted by the Audit and Finance Committee and the audit reports prepared by the auditor. The Bertelsmann SE & Co. KGaA and Bertelsmann Management SE shareholders exercise their rights and vote at the respective General Meetings. The General Meetings vote on matters such as amendments to the articles of association and the appropriation of net income, and elect the members of the respective Supervisory Boards. The members of the Executive and Supervisory Boards are obliged to serve the company's best interests in their work. For some time, the delegation of tasks to committees of experts has been an integral component of the Supervisory Boards' work at Bertelsmann. It serves to increase the monitoring efficiency and advisory expertise of the Supervisory Boards. The Supervisory Board of Bertelsmann Management SE has formed a Personnel Committee and a Program Committee, and the Supervisory Board of Bertelsmann SE & Co. KGaA has formed an Audit and Finance Committee and the Working Group of Employee and Management Representatives. The tasks of a Nomination Committee were also assigned to the Personnel Committee, in which capacity it recommends to the plenary session of the Supervisory Board suitable candidates for the Supervisory Board, to be nominated at the General Meeting. The Program Committee, instead of the Supervisory Board, decides on the approval of the Supervisory Board to enter into program supply deals – for example, for feature films, series or sports rights. The Audit and Finance Committee of the Supervisory Board of Bertelsmann SE & Co. KGaA is also involved in the accounting process, and monitors the effectiveness of the risk monitoring and risk management system, the internal control system and the internal auditing system. One focus of the Audit and Finance Committee is a review of the Annual and Consolidated Financial Statements, a detailed discussion of the auditor's reports, and the preparation of draft resolutions for submission to the plenary session of the Supervisory Board. Furthermore, the Committee addresses issues relating to compliance, in particular the effectiveness and proper functioning of the compliance organization, as well as with the related topics of integrity within the Group and audits of the Non-Financial Statement. Other important topics of the Audit and Finance Committee are data protection and cybersecurity in the Group. These committees prepare the topics to be addressed during the plenary meetings of the Supervisory Boards. The committee chairs – or, where applicable, their representatives – then report to the plenary meetings on the work performed. The Supervisory Boards' decision-making powers have been transferred to the committees to the extent permitted by law. The breadth and range of responsibilities and tasks delegated to these committees are continuously reviewed through various evaluation processes. The appropriate size of the Supervisory Boards and the experience and professional expertise of their members, who are drawn from a broad range of industries and areas of activity, are key factors in the effectiveness and independence of the work carried out by the Supervisory Board and reflect the specific ownership structure at Bertelsmann. With the exception of Supervisory Board members who are also members of the Mohn family (Dr. Brigitte Mohn, Christoph Mohn, Liz Mohn) and the employee representatives on the Supervisory Board (Kai Brettmann, Günter Göbel, Christiane Sussieck) or the representative of the Bertelsmann Management Representative Committee (Ian Hudson), the Supervisory Board considers all other members of the Supervisory Board (Prof. Dr. Werner Bauer, Dr. Thomas Buberl, Bernd Leukert, Gigi Levy-Weiss, Hans Dieter Pötsch, Bodo Uebber) to be independent for the purposes of the German Corporate Governance Code. Accordingly, the Supervisory Board has an appropriate number of independent members among the shareholders. For details of the work of the Supervisory Board, please refer to the Report of the Supervisory Board (p. 145 ff.).

Diversity in Practice

At a global company like Bertelsmann, diversity within the workforce is a key foundation for the Group's creativity and entrepreneurship, and is therefore essential for long-term economic success in its various markets.

Bertelsmann pursues the goal of promoting staff diversity in various facets and ascribes high importance to increasing diversity. A cross-divisional, international working group has been tasked with promoting diversity at all levels of the company (see "Combined Non-Financial Statement" within the Combined Management Report, p. 41 ff.). This includes a focus on increasing diversity within senior management. The 18 members of the senior management of the GMC originate from six different nations. Six members of this committee are women. The Supervisory Board supports the goal of having equal representation of women and men in management positions. Through development measures within the talent pool and standardized talent management processes, Bertelsmann promotes the sustainable structure of a diverse talent pipeline. To enhance diversity at the management levels, Bertelsmann aims to achieve the goal of one-third of positions in top and senior management across all divisions being occupied by women by the end of 2021.

Bertelsmann SE & Co. KGaA is an unlisted company and is not subject to parity codetermination. The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" does not apply to the two Supervisory Board bodies. Nevertheless, Bertelsmann supports the goal of this legislation. Three of the 13 Supervisory Board members are women. Even though the Supervisory Board will not be setting a target quota for women on the Supervisory Board for the time being, the share of women in new appointments should not go down. When candidates are nominated for election as new members of the Supervisory Board, consideration is always given to the aim of increasing the proportion of female members or members from other countries.

Integrity & Compliance

Corporate responsibility, lawful behavior and acting with integrity toward employees, customers, business partners and government agencies are an integral part of our value system at Bertelsmann. Bertelsmann has always been committed to the principle of adhering to laws and has internal policies on the prevention of risks and their consequences.

To ensure compliance, the Executive Board has established a compliance organization and the Integrity & Compliance program. It oversees this program and ensures that it is continuously improved. The Supervisory Board Audit and Finance Committee monitors the effectiveness and proper functioning of the compliance organization. The Executive Board established the Corporate Compliance Committee (CCC). Each year, the CCC submits an extensive report about compliance within the Group to the Executive and Supervisory Boards. It also provides ad hoc reports to the Executive and Supervisory Boards in the event of any significant compliance violations. The CCC is responsible for the effectiveness of measures designed to ensure compliance, and for promoting a culture of integrity and compliant conduct within the Bertelsmann Group. In particular, the CCC monitors investigations into compliance violations and the measures taken to prevent violations. The Integrity & Compliance department is responsible for the day-to-day work to ensure compliance, implementing Board-mandated compliance initiatives and managing the whistleblowing systems.

The Bertelsmann Integrity & Compliance program is based on the relevant standards for compliance management systems and helps mitigate risks in various ways. Its basic elements include, in particular, the Bertelsmann Code of Conduct, risk analysis, advice on compliance, communication and training measures, whistleblowing systems that give not only employees but also third parties the opportunity to report misconduct in the company without fear of reprisal, and case management. It also includes additional measures in specific subject areas, such as anti-corruption, antitrust law, foreign trade law and antidiscrimination.

The Executive Board has continuously developed and expanded Bertelsmann's compliance structure and organization over time, including during the financial year 2019. In 2019, Code of Conduct training for employees continued. Additional training was offered on topics such as anticorruption, antitrust law, foreign trade law, business partner compliance and antidiscrimination. Over the last few years, the interlinks between the compliance organization and the risk management system have been strengthened and the Supplier Code of Conduct has been approved. Guidelines on the compliance organization and the role of local Compliance Officers have been implemented continually since 2018.

All reports of compliance violations received were investigated, and appropriate actions were taken.

Executive Board Supervisory Board

Report of the Supervisory Board

Christoph Mohn
Chairman of the Supervisory Board of Bertelsmann SE & Co. KGaA

Dear shareholders,

The global economy continued to experience moderate growth in the financial year 2019, although the rate of expansion decreased somewhat, particularly in the more advanced economies. As expected, growth was uneven in markets relevant to Bertelsmann. The TV advertising markets reported declines in Germany, France, Belgium and Spain, but remained stable in the Netherlands and showed significant growth in Hungary. The video-on-demand markets in Germany, France and the Netherlands registered strong growth. The relevant markets for printed books achieved slightly positive growth overall. Publishing sales of e-books in the United States and the United Kingdom fell moderately, while the markets for audiobooks continued to exhibit strong growth. The magazine markets in Germany and France were characterized by strongly declining print advertising business and a moderate to significant decline in the circulation business, while the digital business again posted strong growth. The global music markets for publishing and recording rights and the related service markets continued to show sustained growth in sectors relevant to Bertelsmann. The European printing markets showed further decline, with the offset printing markets seeing more robust development than the gravure printing markets. The educational markets that are relevant to Bertelsmann, in contrast, continued to grow. In this diverse market environment, the Bertelsmann Group again increased its operating result and the revenue share represented by growth businesses while seeing slight organic revenue growth.

In the reporting period, the Supervisory Board of Bertelsmann SE & Co. KGaA again diligently fulfilled the duties incumbent upon it by law and under the articles of association and bylaws. Its members regularly advised and monitored the general partner, Bertelsmann Management SE, represented by its Executive Board, in the task of managing and directing the company's operations. This report covers the activities of the Supervisory Board of Bertelsmann SE & Co. KGaA. The activities of the Supervisory Board of Bertelsmann Management SE, which in turn serves as the Supervisory Board of the general partner of Bertelsmann SE & Co. KGaA, are not the subject of this report.

Advising and Monitoring the Executive Board of Bertelsmann Management SE

As part of its advisory and monitoring activities, the Supervisory Board of Bertelsmann SE & Co. KGaA was directly involved in important company decisions and transactions at an early stage, and discussed and reviewed these at length on the basis of reports from the Executive Board.

The general partner, represented by the Executive Board of Bertelsmann Management SE, provided the Supervisory Board with regular, prompt and comprehensive written and verbal reports on all significant issues of strategy, planning, business performance, intended business policies and other fundamental management issues. A wide range of topics and projects were presented for discussion at the meetings of the Supervisory Board. Reporting of the Executive Board concerned, but was not limited to, the position and development of the company, especially the current business and financial position, and material business transactions, particularly major planned investments and divestments. Instances where business performance deviated from official projections and targets were discussed in detail with the Supervisory Board, which reviewed these matters on the basis of the documentation submitted. The Supervisory Board regularly obtained information concerning financial debt levels. The Supervisory Board also focused on the risk situation and risk management. The internal control system, risk management system and internal auditing system were the subjects of regular reports and discussions. The Supervisory Board also received regular reports on corporate governance and compliance developments at Bertelsmann. The Executive Board and the Supervisory Board report jointly on corporate governance and compliance at Bertelsmann on pages 142–144. Another focus of the Supervisory Board's activities involved addressing management development and routine succession planning for the Executive Board.

Supervisory Board Plenary Meeting

In the plenary meetings, the Supervisory Board of Bertelsmann SE & Co. KGaA regularly heard reports from the Executive Board on the current business and financial position of the Group and of the individual divisions. They also heard reports on Group planning and material business transactions, particularly major planned investments and divestments. The Supervisory Board Chairman, who at the same time is the Chairman of the Supervisory Board of Bertelsmann Management SE, reported regularly and comprehensively to the plenary session of the Supervisory Board concerning the topics and the progress of discussions in the Supervisory Board of Bertelsmann Management SE. The Supervisory Board was kept regularly informed of the status of the implementation of the Group's strategy by the Executive Board. The Bertelsmann SE & Co. KGaA Supervisory Board and the Bertelsmann Management SE Executive Board discussed fundamental issues of strategic Group development and modifications to the Group strategy. To the extent stipulated by law and the articles of association and bylaws, the necessary decisions were made during the plenary meeting. In the financial year 2019, the Supervisory Board held four meetings and also met with the Executive Board for a two-day strategy retreat.

The first meeting of the Supervisory Board, on January 31, 2019, focused on discussing and subsequently passing resolutions regarding the Group budget for 2019 and on the report of the current business and financial situation. The Supervisory Board also deliberated over the further expansion of the Bertelsmann Group portfolio. Another topic was the consideration of RTL Group's investment request for the acquisition of 100% of the shares in Gulli, the leading French children's television channel.

At the following meeting, on March 22, 2019, in addition to routine reports, the Executive Board reported on the current business situation and on progress that had been made in implementing the Group strategy. A further agenda item was the approval of the Annual and Consolidated Financial Statements for 2018 and the Combined Management Report. At the recommendation of the Audit and Finance Committee, and after discussion with the auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the Supervisory Board approved the Annual and Consolidated Financial Statements for the financial year 2018 and the Combined Management Report of Bertelsmann SE & Co. KGaA. The proposal of the general partner for the appropriation of net income was also approved. Furthermore, the Supervisory Board followed the recommendations of the Audit and Finance Committee for the appointment of the auditor for the financial year 2019 and for the interim report, and resolved on its corresponding proposal to the Annual General Meeting. Other topics of the meeting included the discussion of the planned comprehensive and integrative strategy for the Group's printing business and the realignment of Bertelsmann Printing Group's management and organizational structure. The Supervisory Board was also briefed on the Corporate Learning segment with its innovative training and development offers for the Bertelsmann Group. Additionally, the Supervisory Board addressed the process of implementing the new Bertelsmann Essentials: "Creativity & Entrepreneurship."

The annual Strategic Planning Dialogue of the Executive Board and the Supervisory Board took place as part of the two-day meeting of the Supervisory Board on July 3 and 4, 2019. The Supervisory Board was first updated on the status of strategy implementation and the progress made in the transformation of the Group portfolio since the last Strategic Planning Dialogue. It assessed a steady increase in operative growth, an increasing share of revenue generated by digital and high-growth businesses, and a decline in Group businesses' dependency on advertising. The Group has also succeeded in further expanding its businesses in the growth regions of China, India and Brazil. The Supervisory Board discussed exemplary growth and innovation projects in the individual divisions, and model cooperation projects between individual businesses from different divisions. The HR strategy presented at the meeting constitutes a significant element in the successful implementation of the Group strategy. Based on the insights gained during the strategy retreat, the Supervisory Board believes that the Group is well positioned for the challenges of the future.

In the last Supervisory Board meeting of the financial year, on November 7, 2019, the Supervisory Board once again addressed the business and financial position of the Group and was given a report on the outlook for the overall financial year by the Executive Board. The report was very comprehensive, as was the subsequent discussion on the current progress made in implementing the Group's strategy and on the planned capital allocation. The Supervisory Board also discussed the results of the internal evaluation conducted in 2019 concerning its work. The work of the Bertelsmann Supervisory Board is, in its own estimation, progressing at a high level, also in comparison to other supervisory boards. Individual suggestions that were made during the evaluation process have been discussed and are set to be implemented.

As part of the public tendering and selection process conducted during the financial year 2019, the Supervisory Board discussed at its meeting on November 7, 2019, the Audit and Finance Committee's recommendation for an auditor for the financial year 2020 as well as for the financial year 2021. On the basis of this recommendation and the preference expressed by the Audit and Finance Committee up to that point, the Supervisory Board made the decision to present the following proposal to the Annual General Meeting for a vote: that the Berlin-based KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft be elected as auditor for the Annual Financial Statements and the Combined Management Report that is consolidated with the Group Management Report, as auditor for the Consolidated Financial Statements for the financial year 2020, and as auditor for a review of the interim consolidated financial statements and interim combined management report ("Interim Report") as of June 30, 2020.

The Supervisory Board Chairman maintained ongoing contact with the Executive Board outside the framework of Supervisory Board meetings, in particular with the Executive Board Chairman, in order to stay abreast of the current business situation and significant transactions. All Supervisory Board members attended at least half the Supervisory Board meetings convened. No potential conflicts of interest arose on the Supervisory Board. The Supervisory Board discussed the standards set out in the German Corporate Governance Code and Bertelsmann's compliance with the code. A joint report by the Supervisory and Executive Boards of Bertelsmann Management SE on corporate governance within the company is provided on page 142 ff. of this Annual Report. As an unlisted company, Bertelsmann does not issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act.

Supervisory Board Audit and Finance Committee

Within its sphere of responsibility, the Supervisory Board of Bertelsmann SE & Co. KGaA established the Audit and Finance Committee to perform its tasks efficiently. The Audit and Finance Committee has four members; the Chair of the Supervisory Board does not lead this committee. The Chair of the Audit and Finance Committee is Bodo Uebber. The German Corporate Governance Code stipulates that the Chair of the Audit and Finance Committee is independent as defined by the Code and has special knowledge and experience in the application of accounting standards and internal control procedures. All members of the Audit and Finance Committee are familiar with the sectors in which Bertelsmann SE & Co. KGaA operates.

In particular, and in accordance with its mandate for the reporting year, the Audit and Finance Committee discussed issues of corporate financing, the financial position of the Group, financial planning, fiscal policy and individual negative deviations of the performance of Group businesses from budgeted performance. The committee also extensively addressed the accounting process and monitored the effectiveness and functional capability of the risk monitoring and risk management system, the internal control system and the internal audit system. It also requested regular reports from the Head of Corporate Audit and Consulting. Furthermore, the Committee addressed issues relating to compliance, in particular the effectiveness and proper functioning of the compliance management system. In this connection, the Committee heard reports on significant compliance-related events in the Group. In addition, the Audit and Finance Committee reviewed at length the implementation of the EU General Data Protection Regulation (GDPR) at Bertelsmann, a process that has progressed well. During this part of the meeting, the Audit and Finance Committee was briefed on the further development of the data protection strategy and the structure of the data protection organization within the Group. An issue regularly addressed in the meetings of the Audit and Finance Committee was the situation and ongoing development of the Group's cybersecurity and IT security structure.

One focus of the Audit and Finance Committee in the financial year 2019 involved conducting and managing two separate public tendering processes for the auditor contract for reviewing the Annual and Consolidated Financial Statements of Bertelsmann SE & Co. KGaA in accordance with the regulations and provisions of the EU Audit Regulation No. 537/2014 (referred to subsequently as the "EU Audit Regulation") and the EU Statutory Audit Directive for the financial year 2020 as well as for the financial year 2021. Since PwC has served as auditor for Bertelsmann SE & Co. KGaA since the financial year 2011, the contract needed to be tendered for the financial year 2021 at the latest. The Audit and Finance Committee stipulated the structure of the selection process, including the timetable, the selection criteria and the applicable scoring model. The operational implementation of the selection process was delegated to a project team under the leadership of the Chief Financial Officer, whereby the Audit and Finance Committee reserved the right to make the final decision concerning all issues within the tendering process. An external consultant was commissioned to ensure compliance and provide support throughout the selection process. As part of a pre-qualification process, interested audit firms were invited to submit initial offers and an assessment was made concerning their fulfillment of minimum criteria. Before the full written offers were requested, the project team conducted several workshops with all concerned audit firms, who were also given access to a virtual data room. The tendering process also included presentations by the prospective audit teams, which were given in front of the project group and representatives of the Audit and Finance Committee. After a comprehensive review and evaluation of the final offers, the Audit and Finance Committee resolved in its meeting on August 28, 2019, to recommend that the Supervisory Board propose to the Annual General Meeting the nomination of either KPMG or PwC as auditor for the Annual Financial Statements, the Consolidated

Financial Statements and the Combined Management Report of the Group and of Bertelsmann SE & Co. KGaA for the financial year 2020. The Audit and Finance Committee expressed its preference for KPMG. The extensive explanation of the two nominations and the preference of the Audit and Finance Committee forms part of the written report submitted to the Supervisory Board about the tendering process. The Audit and Finance Committee convincingly stated that its recommendation did not involve any undue third-party influence and that the Committee made its decision freely. The simultaneous tendering process for the audit of the financial year 2021 was discontinued with the Supervisory Board's decision on November 7, 2019, to propose KPMG to the Annual General Meeting as auditor for the financial year 2020.

The Committee also focused on the auditing of the Annual Financial Statements and the Consolidated Financial Statements (see also the section "Audit of the Annual and Consolidated Financial Statements" below). The Audit and Finance Committee had already discussed the focal points of the 2018 audit with the auditor during the financial year 2018 and then finalized them in a Committee meeting. The key audit matters from the auditor's report were also discussed with the auditor in advance during the Committee meeting held at the end of January 2019. The Chair of the Audit and Finance Committee regularly discussed with the auditor in detail the provisional findings from the audit of the Annual and Consolidated Financial Statements for the financial year 2018 before the Committee's financial review meeting that took place on March 22, 2019. In this role, the Committee also addressed the independence of the auditor and additional services performed by the auditor. There was no indication of grounds for bias or a risk to independence. The 2019 Interim Report was extensively discussed with the Committee prior to its publication on August 28, 2019.

The Audit and Finance Committee of Bertelsmann SE & Co. KGaA met four times during the 2019 reporting period. An additional meeting was held via teleconference. The Chairman of the Audit and Finance Committee or his representative continuously updated the plenary session of the Supervisory Board on the work of the Committee through regular reports. The corresponding department heads were represented during the discussion of individual agenda items. In addition, the Chair of the Audit Committee held individual meetings with the responsible auditor.

Audit of the Annual and Consolidated Financial Statements for the Financial Year 2019

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, has served as auditor for Bertelsmann SE & Co. KGaA since the financial year 2011. The responsible German Public Auditors signing the audit have been Christian Landau since the financial year 2016 and Volker Voelcker since the financial year 2018.

PwC audited the Annual and Consolidated Financial Statements, prepared by the Bertelsmann Management SE Executive Board, and the Bertelsmann SE & Co. KGaA Group Management Report, which is combined with the company's management report, including the non-financial statement for the financial year January 1 through December 31, 2019. Each report received an unqualified auditor's opinion. The Annual Financial Statements were prepared in accordance with the German Commercial Code (HGB) and, as stipulated by section 315e HGB, the Consolidated Financial Statements of Bertelsmann SE & Co. KGaA were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditor was mandated by the Supervisory Board's Audit and Finance Committee to audit the Annual Financial Statements and Consolidated Financial Statements in accordance with the Annual General Meeting resolution. The auditor performed the audit in observance of German accepted auditing principles established by the German Institute of Independent Auditors (IDW). The auditor was additionally instructed to audit the risk early-warning system at Bertelsmann SE & Co. KGaA, which it found to be satisfactory in terms of section 91 (2) AktG (German Stock Corporation Act). The provisional results of key audit matters were discussed with the auditor in a video conference on March 10, 2020. The auditor of the Annual Financial Statements promptly submitted the audit reports and the other financial statement documents to all members of the Supervisory Board by the specified deadline in advance of the financial review meeting. On March 16, 2020, the auditor attended the financial review meetings of both the Audit and Finance Committee and the plenary session of the Supervisory Board, where he gave an extensive report and answered questions. He was able to confirm that, in the course of the audit, no significant weaknesses had been identified in the accounting-related internal control system. The Audit and Finance Committee discussed the Annual Financial Statements documents and audit reports in detail. The findings of the auditor of the Annual Financial Statements were carefully reviewed in an internal audit of the Annual and Consolidated Financial Statements. The Audit and Finance Committee reported comprehensively to the plenary session of the Supervisory Board concerning the audit of the Annual and Consolidated Financial Statements and the audit reports.

On March 16, 2020, the plenary session of the Supervisory Board reviewed and discussed the Annual Financial Statements, Consolidated Financial Statements and Combined Management Report in detail, taking into account the recommendations of the Audit and Finance Committee and those contained in the audit reports and following further discussion with the auditor. The Supervisory Board concurred with the audit findings. After its own final scrutiny of the Annual and Consolidated Financial Statements and the Combined Management Report, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – raised no objections. The financial statements prepared by the Bertelsmann Management SE Executive Board were thus approved. Moreover, the Supervisory Board approved the Report of the Supervisory Board for the Annual General Meeting and the Corporate Governance Report, as well as its resolution proposals concerning the agenda items for the ordinary Annual General Meeting on May 8, 2020. The Supervisory Board has furthermore reviewed the Bertelsmann Management SE Executive Board proposal as to the amount of net retained earnings for appropriation to shareholders, and concurs with said proposal. The amount of the dividend proposed by the Executive Board of Bertelsmann Management SE is appropriate, in the view of the Supervisory Board, in consideration of the level of net retained profits, the economic environment, the company's economic situation and the interests of the shareholders.

Changes in the Executive Board of Bertelsmann Management SE and in the Supervisory Board, Objectives for the Composition of the Supervisory Board

The business of Bertelsmann SE & Co. KGaA is managed by its general partner, Bertelsmann Management SE, represented by its Executive Board. No personnel changes were made to the composition of the Executive Board of Bertelsmann Management SE during the financial year 2019. However, as approved by the Personnel Committee of Bertelsmann Management SE, Thomas Rabe assumed the role of CEO of RTL Group S.A., effective April 1, 2019, alongside his role as Chairman of Bertelsmann Management SE.

The financial year also saw the following changes to the Supervisory Board: Murat Cetin left the Supervisory Board of Bertelsmann SE & Co. KGaA on February 28, 2019. Kasper Rorsted left the Supervisory Board of Bertelsmann SE & Co. KGaA on March 31, 2019. Ian Hudson will leave the Supervisory Board on April 30, 2020. The Supervisory Board would like to thank all three individuals for the many years of excellent and trusting cooperation. At present, all nine members of the Supervisory Board of Bertelsmann Management SE are also members of the currently 13-strong Supervisory Board of Bertelsmann SE & Co. KGaA.

The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" does not apply to the Supervisory Board of Bertelsmann SE & Co. KGaA as it is an unlisted company. However, the Supervisory Board does support the aim of the act. From a strategic point of view, the Supervisory Board also aims to properly fulfill its monitoring and consulting function by ensuring diversity among its members. The Supervisory Board will not at this time, however, set any target quota for women on the Supervisory Board. It firmly believes that suitable measures have been taken within the company in the areas of succession planning, management development and the selection processes to ensure the equal participation of men and women on an ongoing basis. In the Supervisory Board, the aim is to ensure that the existing proportion of women will not be reduced when new members are appointed. Ideally, the backgrounds of new members will show links to Bertelsmann's growth regions and markets. (See also the "Diversity in Practice" section in the Corporate Governance Report on page 143 f.) Apart from the three representatives of the Mohn family and the four employee representatives, the Supervisory Board of Bertelsmann SE & Co. KGaA consists exclusively of independent Supervisory Board members. The Supervisory Board recognizes the intention of the Government Commission on the German Corporate Governance Code in its call for a specification of targets for an age limit and a standard limit for length of service on the Supervisory Board. In view of Bertelsmann's particular shareholder structure and the age limit regulations already contained in the company's articles of association, the Supervisory Board does not feel it is necessary or appropriate to introduce further or more extensive specifications on age limit and length of service at Bertelsmann.

The Supervisory Board would like to express its gratitude for the great dedication and commendable performance of the Executive Board during the financial year 2019. The Supervisory Board also wishes to thank all employees of the Bertelsmann Group and its corporate management for their commitment and contribution to a successful financial year 2019.

Gütersloh, March 16, 2020

Christoph Mohn
Chairman of the Supervisory Board

Supervisory Board

Christoph Mohn
Chairman
Chairman of the Reinhard Mohn Stiftung
Managing Director, Christoph Mohn Internet Holding GmbH
- Bertelsmann Management SE (Chairman)

Prof. Dr.-Ing. Werner J. Bauer
Vice Chairman
Former Executive Vice President of Nestlé AG for Innovation, Technology, Research and Development
- Bertelsmann Management SE (Vice Chairman)
- Givaudan S.A. (Vice Chairman)
- LONZA S.A.
- SIG Combibloc Group AG

Kai Brettmann
Editorial Director, RTL Nord GmbH, Hamburg
Chairman of the RTL Group European Works Council
Chairman of the Mediengruppe RTL Deutschland Corporate Works Council
Chairman of the Works Council of RTL Nord

Dr. Thomas Buberl
Chief Executive Officer and Director, AXA S.A.
- Bertelsmann Management SE
- AXA XL Group Ltd. (until March 1, 2019)
- Equitable Holdings, Inc.
- Equitable Life Insurance Company
- MONY Life Insurance Company of America

Murat Cetin (until February 28, 2019)
Chairman of the Works Council, Arvato Direct Services Dortmund GmbH
Chairman of the General Works Council, Arvato Services CRM2
Chairman of the Corporate Works Council, Majorel Deutschland GmbH (since February 4, 2019)

Günter Göbel
Chairman of the Corporate Works Council, Bertelsmann SE & Co. KGaA

Ian Hudson (until April 30, 2020)
Chairman of the International Management Representative Committee of Bertelsmann SE & Co. KGaA (BMRC)
- Which? Limited

Bernd Leukert
Member of the Executive Board (since January 1, 2020) for Technology, Data and Innovation of Deutsche Bank AG (Executive Director and Member of Management Board since September 1, 2019)
- Bertelsmann Management SE
- Deutsches Forschungszentrum für Künstliche Intelligenz (DFKI) GmbH (until April 1, 2019)
- TomTom NV

- Membership of statutory domestic supervisory boards
- Membership of comparable domestic and foreign supervisory bodies of business enterprises

Gigi Levy-Weiss
Angel Investor
- • Bertelsmann Management SE
- • Beach Bum Ltd.
- • BrandShield Ltd.
- • Caja Elastic Dynamic Solutions Ltd.
- • Constru Ltd. (since July 18, 2019)
- • Correlsense Ltd. (until April 15, 2019)
- • Driveway Software Corporation
- • Elmik Touristic Services Ltd.
- • Fusic Ltd. (until April 29, 2019)
- • Hip Mobility, Inc. (since January 24, 2019)
- • Hola NFX UK, Ltd (until December 8, 2019)
- • IMA Ventures Ltd.
- • Inception VR, Inc.
- • Inception VR (Israel) Ltd.
- • Inception VR (UK) Ltd.
- • Jeeng Application Ltd.
- • Landa Holdings, Inc. (since September 23, 2019)
- • Mov.AI Ltd.
- • MyHeritage Ltd.
- • NFX Capital UK, Ltd
- • Papaya Gaming Ltd. (since April 30, 2019)
- • Premium Domains Ltd.
- • Reach Digital Inc.
- • SimilarWeb, Ltd
- • Tectonic Labs Ltd.
- • Theator Inc. (since August 5, 2019)
- • TrustMed Ltd.
- • Volunteer Directly Ltd.
- • Zengaming, Inc.

Dr. Brigitte Mohn
Member of the Executive Board, Bertelsmann Stiftung
- • Bertelsmann Management SE
- • Phineo gAG
- • Rhön-Klinikum AG
- • Stiftung RTL – Wir helfen Kindern e.V. (since April 1, 2019)
- • Clue by Biowink GmbH

Liz Mohn
Chairwoman of the Board of Bertelsmann Verwaltungsgesellschaft mbH (BVG)
Vice Chairwoman of the Executive Board, Bertelsmann Stiftung
- • Bertelsmann Management SE

Hans Dieter Pötsch
Chairman of the Supervisory Board, Volkswagen AG
Chairman of the Executive Board / Chief Financial Officer, Porsche Automobil Holding SE
- • AUDI AG, Ingolstadt
- • Autostadt GmbH, Wolfsburg
- • Bertelsmann Management SE
- • Dr. Ing. h.c. F. Porsche AG
- • TRATON SE, München (Chairman)
- • Wolfsburg AG
- • Porsche Austria Gesellschaft m.b.H., Salzburg
- • Porsche Holding Gesellschaft m.b.H., Salzburg
- • Porsche Retail GmbH, Salzburg

Kasper Rorsted (until March 31, 2019)
Chairman of the Executive Board, Adidas AG
- • Bertelsmann Management SE (until March 31, 2019)
- • Nestlé S.A.

Christiane Sussieck
Chairwoman of the Corporate General Works Council, Bertelsmann SE & Co. KGaA
Vice Chairwoman of the Corporate Works Council, Bertelsmann SE & Co. KGaA

Bodo Uebber
Former Member of the Executive Board, Daimler AG Finance & Controlling / Daimler Financial Services
- • Adidas AG (since May 9, 2019)
- • Bertelsmann Management SE
- • Daimler Financial Services AG (Chairman) (until May 22, 2019)
- • BAIC Motor Corporation Ltd. (until May 22, 2019)
- • Delta Topco Ltd. (until May 22, 2019)
- • Mercedes-Benz Grand Prix Ltd. (until May 22, 2019)

• Membership of statutory domestic supervisory boards
• Membership of comparable domestic and foreign supervisory bodies of business enterprises

Bertelsmann SE & Co. KGaA's Supervisory Board Committees 2019

Audit and Finance Committee
Bodo Uebber (Chairman)
Kai Brettmann
Christoph Mohn
Hans Dieter Pötsch

Working Group of Employee Representatives
Liz Mohn (Chairwoman)
Kai Brettmann
Murat Cetin (until February 28, 2019)
Günter Göbel
Ian Hudson (until April 30, 2020)
Christiane Sussieck

Bertelsmann Management SE's Supervisory Board Committees 2019

Personnel Committee
Christoph Mohn (Chairman)
Prof. Dr.-Ing. Werner J. Bauer
Liz Mohn
Hans Dieter Pötsch

Program Committee
Christoph Mohn (Chairman)
Prof. Dr.-Ing. Werner J. Bauer
Dr. Brigitte Mohn
Hans Dieter Pötsch

Executive Board

Thomas Rabe
Chairman
- Adidas AG (since May 9, 2019)
- Symrise AG[1] (Chairman until August 7, 2019, Member until December 31, 2019)
- Majorel Group Luxembourg S.A. (since January 4, 2019) (formerly ACR – Advanced Customer Relation S.à.r.l.)
- Penguin Random House LLC (Chairman)
- RTL Group S.A. (Chairman) (until March 31, 2019)

Markus Dohle
Chief Executive Officer, Penguin Random House
- Direct Group Grandes Obras S.L.
- Editora Schwarcz S.A.
- Frederick Warne & Co. LLC
- Golden Treasures LLC
- Penguin Random House Foundation, Inc.
- Penguin Random House Grupo Editorial S.A.U.
- Penguin Random House Grupo Editorial (USA) LLC
- Penguin Random House LLC
- Random House Children's Entertainment LLC
- Sasquatch Books LLC
- Sputnik 84, LLC

Immanuel Hermreck
Chief Human Resources Officer
- RTL Group S.A. (since January 1, 2019)

Bernd Hirsch
Chief Financial Officer
- Evotec AG, Hamburg[1] (until June 19, 2019)
- Symrise AG[1]
- Bertelsmann, Inc. (Chairman)
- Penguin Random House LLC
- RTL Group S.A.

- Membership of statutory domestic supervisory boards (blue bullet)
- Membership of comparable domestic and foreign supervisory bodies of business enterprises (red bullet)

1) External mandates.

Selected Terms at a Glance

Alternative Performance Measures

Additional financial measures that are not directly specified by financial reporting regulations. These are determined by means of a company-specific reconciliation and are based on mandatory (IFRS) measures.

Bertelsmann Value Added (BVA)

A performance indicator for assessing the profitability of operations and return on invested capital. 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. By deducting amortization, depreciation, impairment and reversals, and adjusting for special items, and after modifications and less a flat tax, NOPAT, which is used as the basis for calculating BVA, is determined. Cost of capital is the product of the weighted average cost of capital (WACC, where uniform WACC after taxes is 8 percent) and the level of capital invested (Group's operating assets less non-interest-bearing operating liabilities).

Cash Flow

A company's cash inflows and outflows during a specific period.

Contractual Trust Arrangement (CTA)

The concept of funding and insolvency protection of pension obligations by transferring assets into a structure similar to a trust. Assets are classified as plan assets under IFRS and are netted against the company's pension obligations.

Corporate Governance

The term for responsible corporate management and control in the interest of creating sustainable value.

Coverage Ratio

The (interest) coverage ratio is a financing target. It represents the ratio of operating EBITDA to financial result. Amounts reported in the Annual Financial Statements are modified in calculating the coverage ratio.

Equity Method

The equity method is a method of accounting to recognize associates and joint ventures, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

Goodwill

Goodwill represents the future economic benefits arising from those assets acquired in a business combination that are not individually identified and separately recognized.

IFRS

Abbreviation of International Financial Reporting Standards. Accounting standards intended to ensure internationally comparable accounting and reporting.

Leverage Factor

The leverage factor is the ratio of economic debt to operating EBITDA. In order to enable Bertelsmann's actual financial strength to be reflected on an economic level, the figures reported in the Consolidated Financial Statements are modified.

Operating EBITDA

Earnings before interest, taxes, amortization, depreciation, impairment and reversals, and special items.

Rating

An expression of the creditworthiness of a creditor or financial instrument by an agency specialized in evaluating credit risk.

SE & Co. KGaA

A partnership limited by shares (KGaA) with a European stock corporation (Societas Europaea, or SE) as the general partner. The general partner is responsible for the management and representation of the KGaA.

Special Items

Income and expense items that are distinguished by their nature, amount or frequency of occurrence, and the disclosure of which is relevant for assessing the earnings power of the company or its segments in the period affected. They include, for example, restructuring measures, impairments and capital gains or losses. Not included in the special items are disposal effects of strategic real estate transactions.

Syndicated Credit Facility

A credit facility involving a consortium of banks.

Financial Calendar

May 14, 2020
Announcement of figures for the first three months of 2020

September 1, 2020
Announcement of figures for the first half of 2020

November 12, 2020
Announcement of figures for the first nine months of 2020

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