

# 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