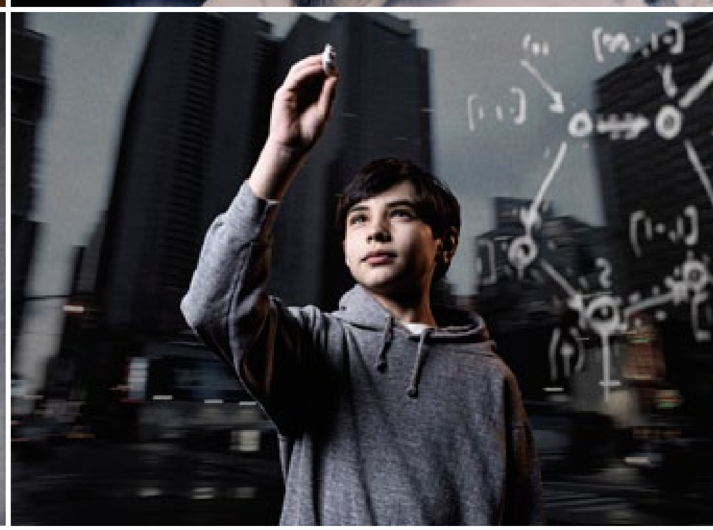


Annual Report

# 2012

BERTELSMANN

BERTELSMANN

Bertelsmann is an international media company whose core divisions encompass television (RTL Group), book publishing (Random House), magazine publishing (Gruner + Jahr), services (Arvato), and printing (Be Printers) in some 50 countries. In 2012, the company's businesses, with their more than 100,000 employees, generated revenues of €16.1 billion. Bertelsmann stands for a combination of creativity and entrepreneurship that empowers the creation of first-rate media, communications, and service offerings to inspire people around the world and to provide innovative solutions for customers.

www.bertelsmann.com

RTL GROUP

RANDOM HOUSE
BERTELSMANN

G+J

arvato
BERTELSMANN

BE PRINTERS

Corporate Investments
Corporate Center

# BERTELSMANN

## At a Glance

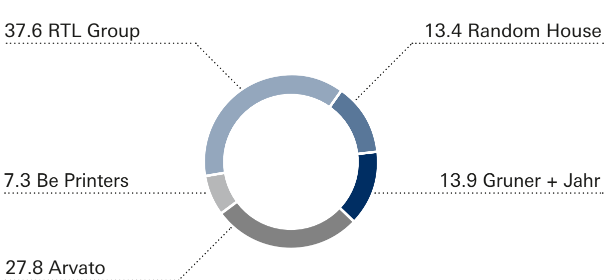
### Key Figures (IFRS)

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Business Development** | | | | | |
| Consolidated revenues | 16,065 | 15,368 | 15,065 | 15,364 | 16,118 |
| Operating EBIT | 1,735 | 1,755 | 1,825 | 1,424 | 1,568 |
| Operating EBITDA | 2,213 | 2,243 | 2,355 | 2,003 | 2,130 |
| Return on sales in percent [1] | 10.8 | 11.4 | 12.1 | 9.3 | 9.7 |
| Bertelsmann Value Added (BVA) [2] | 364 | 359 | 378 | 26 | 88 |
| Group profit | 619 | 612 | 656 | 35 | 270 |
| Investments | 655 | 956 | 753 | 662 | 1,095 |
| **Consolidated Balance Sheet** | | | | | |
| Equity | 6,079 | 6,149 | 6,486 | 5,980 | 6,231 |
| Equity ratio in percent | 32.2 | 33.9 | 34.7 | 30.9 | 31.0 |
| Total assets | 18,865 | 18,149 | 18,702 | 19,378 | 20,132 |
| Net financial debt | 1,218 | 1,809 | 1,913 | 2,793 | 3,445 |
| Economic debt [3] | 4,778 | 4,913 | 4,915 | 6,024 | 6,627 |
| Leverage factor | 2.3 | 2.4 | 2.3 | 3.2 | 3.2 |
| **Employees** (in absolute numbers) | | | | | |
| Germany | 38,434 | 37,519 | 36,462 | 36,930 | 38,421 |
| Other countries | 65,852 | 65,233 | 61,066 | 66,053 | 67,662 |
| Total | 104,286 | 102,752 | 97,528 | 102,983 | 106,083 |
| Dividends to Bertelsmann's shareholders | 180 | 180 | 180 | 60 | 120 |
| Distribution on profit participation certificates | 44 | 44 | 44 | 75 | 76 |
| Employee profit sharing | 92 | 107 | 108 | 65 | 75 |

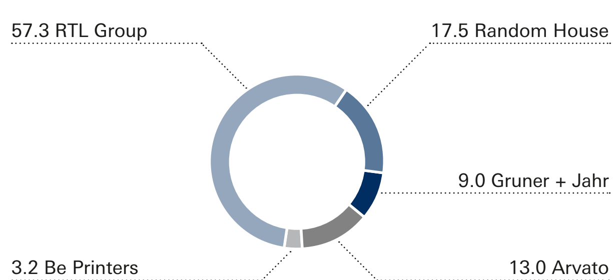
Figures adjusted for the financial year 2011; figures for the financial year 2010 as reported in the Annual Report 2011; before 2010 as reported in the respective financial year.

1) Based on operating EBIT.
2) Bertelsmann uses the BVA as a key performance indicator to evaluate the profitability of the operating business and the return on investment.
3) Net financial debt plus pension provisions (taking into account IAS 19.93A), profit participation capital, and net present value of operating leases.

### Total Revenues by Segments in percent [4]




### Operating EBIT by Segments in percent [4]




4) Based on total from segments not including Corporate Investments, Corporate, and Consolidation.

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
| --- | --- | --- | --- | --- | --- |
| Revenues | 6,002 | 5,814 | 5,591 | 5,410 | 5,774 |
| Operating EBIT | 1,065 | 1,121 | 1,102 | 793 | 927 |
| Employees (in absolute numbers) | 11,931 | 12,184 | 12,339 | 12,520 | 12,360 |

RTL Group is the leading European entertainment network, with interests in 53 TV channels and 28 radio stations in 10 countries and content production throughout the world. The TV portfolio of Europe's largest broadcaster includes RTL Television in Germany, M6 in France, the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia, and Hungary, and Antena 3 in Spain. The company also operates the joint venture channel Big RTL Thrill in India and has interests in National Media Group in Russia. RTL Group's flagship radio station is RTL in France, and it also owns or has interests in other stations in France, Germany, Belgium, the Netherlands, Spain, and Luxembourg. RTL Group's content production arm, Fremantle Media, is one of the largest international producers outside the United States. Each year, it produces 9,100 hours of programming across 62 countries. Bertelsmann owns an approximately 92 percent interest in RTL Group, making it the principal shareholder of the listed company.

www.rtl-group.com

RANDOM HOUSE
BERTELSMANN

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
| --- | --- | --- | --- | --- | --- |
| Revenues | 2,142 | 1,749 | 1,828 | 1,723 | 1,721 |
| Operating EBIT | 325 | 185 | 173 | 137 | 137 |
| Employees (in absolute numbers) | 5,712 | 5,343 | 5,264 | 5,432 | 5,779 |

Random House is the global leader in connecting authors with readers, and readers with the world. It is home to more than 50 Nobel Prize laureates, 100 Pulitzer Prize winners, and many of the most widely read and admired authors of our time. Together, its 200 editorially independent imprints in 15 countries form a commercial and literary powerhouse that publishes around 10,000 new titles, and sells more than 400 million copies in print, audio, and digital formats annually. More than 47,000 English-, German-, and Spanish-language Random House titles are available as e-books. Random House is comprised of colleagues working together to share their love of books as passionate supporters of their authors, booksellers, and readers. Random House is a wholly owned subsidiary of Bertelsmann.

www.randomhouse.com

Figures adjusted for the financial year 2011; figures for the financial year 2010 as reported in the Annual Report 2011; before 2010 as reported in the respective financial year.

G+J

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Revenues | 2,218 | 2,287 | 2,259 | 2,508 | 2,769 |
| Operating EBIT | 168 | 233 | 260 | 203 | 225 |
| Employees (in absolute numbers) | 11,585 | 11,822 | 11,637 | 13,571 | 14,941 |

The Gruner + Jahr printing and publishing house reaches readers and users in more than 30 countries with its more than 500 media activities, magazines, and digital offerings. Gruner + Jahr publications include "Stern" (Germany), "Brigitte" (Germany), "Geo" (Germany, Spain, France), "Capital" (Germany, France), "Gala" (Germany, France, Poland), "Eltern" (China, Germany, Spain, Poland), "P.M." (Germany), "Essen & Trinken" (Germany), and "National Geographic" (Germany, France, Poland, the Netherlands). Gruner + Jahr owns 59.9 percent of Motor Presse Stuttgart, one of Europe's biggest special-interest magazine publishers. The Brown Printing Company, a G+J subsidiary, is one of the largest offset printers in the United States. With non-domestic sales accounting for 55 percent of its revenue, G+J is one of the world's most international publishing companies. Bertelsmann owns 74.9 percent of shares in Gruner + Jahr; the Jahr publishing family in Hamburg owns 25.1 percent.

www.guj.com

arvato
BERTELSMANN

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Revenues | 4,449 | 4,201 | 5,225 | 4,826 | 4,993 |
| Operating EBIT | 241 | 269 | 347 | 345 | 369 |
| Employees (in absolute numbers) | 63,818 | 61,257 | 65,182 | 60,323 | 62,591 |

As a global BPO services provider, Arvato supports business customers all over the world in successfully shaping their customer relationships. More than 63,000 employees in almost 40 countries design and implement customized solutions for this purpose. These consist of processes such as marketing and CRM services, supply chain management and distribution as well as financial services – all of which are interlinked by integrated IT platforms. Arvato AG is a wholly owned subsidiary of Bertelsmann.

www.arvato.com

BE PRINTERS

## Corporate Investments
## Corporate Center

| in € millions[5] | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Revenues | 1,174 | 1,199 | – | – | – |
| Operating EBIT | 60 | 72 | – | – | – |
| Employees (in absolute numbers) | 6,380 | 7,068 | – | – | – |

Be Printers, the international printing group, produces magazines, catalogs, brochures, books, and calendars for its clients. The company also offers services in the areas of media creation and digital solutions. Be Printers operates gravure and offset printing plants in Germany and the UK (Prinovis), in Italy and Spain (Southern Europe) and in the United States and Colombia (Americas). The group has approximately 6,400 employees at its 18 production sites, and covers the full spectrum of contemporary printing technologies (gravure, web and sheet offset, digital). Be Printers has its headquarters in Hamburg (Germany).

Corporate Investments include the music rights company BMG as well as the BDMI and BAI funds, which invest in rapidly growing start-ups in the United States, Europe, and Asia. Through the University Ventures Fund, Bertelsmann is involved in innovative educational initiatives. Corporate Investments is also home to the club and direct marketing operations.

The responsibilities of the Corporate Center comprise in particular activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, as well as management, internal control, and strategic development of the Group, financing, risk management, and the optimization of the Group's portfolio.

www.beprinters.com

www.bertelsmann.com

5) With effect from January 1, 2012, Arvato's European gravure operations and offset printers in Southern Europe, the United States, and Colombia were merged into a separate division: Be Printers.

# Annual Report App

The Bertelsmann Annual Report is available as a free app on the Apple App Store or Android Market. This gives you convenient mobile access to all key figures and other information from financial year 2012, including the current structure of the Group.

The app works with iPad tablet computers, iPhone mobile digital devices versions iOS 5.0 and up, and Android devices versions 4.0 and up.

# Contents

## Company Information



## Financial Information

"Bertelsmann is an
ideal home for creative and
entrepreneurial talent."

**Dr. Thomas Rabe**
Chairman and CEO of Bertelsmann

# Dear Readers,
# Dear Friends of Bertelsmann,

The past year was a time of change for Bertelsmann: We have initiated a corporate reshaping that will make us a faster-growing, more digital, and more international company in the years ahead. It will be based primarily on a strategy with four cornerstones, and a business performance that will give us the necessary impetus to rapidly drive this transformation process forward. This Annual Report provides information about both – our performance in 2012 and our strategic priorities for the next few years ahead.

Bertelsmann had a solid business year in 2012. Despite a difficult economic environment, our revenue grew year on year by 4.5 percent to €16.1 billion. Most of this growth – about three-quarters of it – was attributable to organic effects. Positive impetus was provided mainly by the Random House book business, Mediengruppe RTL Deutschland's TV channels, our TV production arm Fremantle Media, as well as Arvato's financial and IT services.

At €1.74 billion, operating EBIT nearly matched the high level of the prior year. Record results by key profit centers across all divisions contributed to this – for example, Mediengruppe RTL Deutschland, Random House worldwide, Gruner + Jahr's China business, and Arvato Infoscore. However, there were declining sales in some important advertising markets – especially in print – and scheduled expenditure for the reshaping of our Group. Bertelsmann's ongoing high profitability was confirmed by the Group's overall return on sales of 10.8 percent.

While our Group result was impacted by high one-off expenses in structurally declining businesses, at €619 million, it was still slightly above the prior-year figure.

We also strengthened our financial position last year. Thanks to strong cash flow from operations we were able to reduce our net financial debt by a third. It now amounts to about €1.2 billion and stands in a good ratio to operating EBITDA. During the reporting period we also used the favorable market environment to place a €750 million benchmark bond.

This satisfactory operating and financial performance provides a strong foundation for Bertelsmann's strategic evolution. Given the limited long-term growth potential of our portfolio and a dynamically changing market environment, in the first half of last year we looked closely at how, during the next few years, we can make Bertelsmann a higher-growth, more digital, and more international company. In close consultation with all relevant Group entities – employee and management representatives, the Group Management Committee (GMC), the Executive Board, the Supervisory Board, and our shareholders – we developed a strategy that will serve to further develop our business in the years ahead based on four strategic thrusts: strengthening our core; digital transformation; building growth platforms; and expanding in growth regions.

I am very pleased that we have made significant progress in all these areas in a very short period of time.

The most noteworthy development in connection with **strengthening our core** is the announced combination of Random House with Penguin. We are confident of receiving all the necessary anti-trust approvals in the second half of the current financial year, allowing us to form a book publishing company that will set creative and commercial standards. The merger is not only one of the largest transactions in the recent history of Bertelsmann, but also demonstrates our commitment to shaping the consolidation of our most important core businesses at an early stage.

We also strengthened our core in many other areas. In 2012, RTL Group launched five new channels – more than ever before – including RTL Nitro in Germany and 6ter in France. The complete acquisition of Random House Mondadori has enhanced our position in the Spanish-language book market. And by forming our separate printing unit, Be Printers, we focused Arvato on the fast-growing services sector.

In the past year we also accelerated the **digital transformation** of our businesses. RTL Group expanded its activities in the field of next-generation TV. Across Europe, our video-on-demand services collectively generated more than 2.4 billion views – 25 percent more than the previous year. Random House now offers 47,000 titles as e-books. Gruner + Jahr recorded dynamic growth in digital marketing with EMS and Ligatus. And Arvato is seeing disproportionately strong growth with customers in the high-tech and IT industry, for example, due to the global online sales of Microsoft's new operating system, Windows 8. We will continue to step up these and other digital activities in the years ahead.

The same goes for the development of our **growth platforms**, where we achieved a major milestone this winter: the complete takeover of BMG, agreed at the beginning of March, will make music an integral part of Bertelsmann once again. Working in close partnership with KKR, we developed this company into the world's fourth-largest music publisher in less than five years. BMG is a prime example of our development of additional growth platforms not only because it meets our investment criteria – long-term growth potential, global reach, proven digital business model, scalability – but also because it represents an entrepreneurial and innovative approach to business building. We are pursuing a comparable model in the education sector, for example, a field where we already made some successful investments with our University Ventures Fund last year.

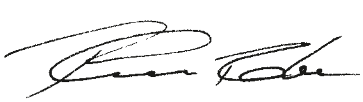
In the next few years, University Ventures will be increasingly active in the **growth regions** of Asia and Latin America, thereby supporting Bertelsmann's regional expansion. Our divisions already made good progress here in 2012: RTL Group launched a television channel in India. The upcoming combination with Penguin and the full acquisition of Random House Mondadori open up new options for Random House. Gruner + Jahr was not only more successful in China than ever before, but also successfully expanded in India. And Arvato strengthened its market position in China thanks to new customers. These efforts are now supported by three Corporate Centers in Beijing, Delhi, and São Paulo, as well as by investment funds that give Bertelsmann access to innovative start-ups in China, India, and Brazil, and which form a perfect complement to the activities of our Bertelsmann Digital Media Investments fund.

All this creates important preconditions for optimally developing Bertelsmann's creative and entrepreneurial capital going forward. Even in times of change, this remains the core of our value creation. The past year has shown, not least with the great success of our bestselling "Fifty Shades" trilogy, the added value a media company is capable of in the digital age, for example, in terms of selecting, marketing, and distributing high-quality, professionally curated content.

We will build on this progress over the next few years. Bertelsmann not only has a clear strategy, but also sufficient financial room for maneuver. The past year also saw some landmark personnel decisions at Bertelsmann. With Judith Hartmann as the Group's new CFO and Anke Schäferkordt as Co-CEO of RTL Group, we have further strengthened the diversity of the Executive Board and GMC. Achim Berg, a proven technology expert, will soon be taking over the helm of Arvato, and will further promote its focus on high-growth services. In addition, I look forward to the collaboration with Christoph Mohn, who has contributed his business expertise and deep understanding of Bertelsmann's corporate culture as Chairman of our Supervisory Board since January 1 of this year. I also sincerely thank his predecessor Gunter Thielen for our many years of cooperation and trust.

I hope you enjoy reading our Annual Report, and I am pleased by your interest in our company's development!

Yours sincerely,



Thomas Rabe

# Bertelsmann Executive Board

### Achim Berg
Member of Bertelsmann's Executive Board since April 1, 2013,
Chief Executive Officer of Arvato AG, Gütersloh.
Born on February 25, 1964, in Much (Germany).

### Anke Schäferkordt
Member of Bertelsmann's Executive Board since April 19, 2012,
Co-Chief Executive Officer of RTL Group, Luxembourg, and
CEO of Mediengruppe RTL Deutschland, Cologne.
Born on December 12, 1962, in Lemgo (Germany).

### Dr. Thomas Rabe
Member of Bertelsmann's Executive Board since January 1, 2006,
Chairman and Chief Executive Officer of Bertelsmann, Gütersloh,
since January 1, 2012.
Born on August 6, 1965, in Luxembourg.

### Markus Dohle
Member of Bertelsmann's Executive Board since June 1, 2008,
Chairman and Chief Executive Officer of Random House, New York.
Born on June 28, 1968, in Arnsberg (Germany).

### Dr. Judith Hartmann
Member of Bertelsmann's Executive Board since October 15, 2012,
Chief Financial Officer of Bertelsmann, Gütersloh.
Born on June 15, 1969, in Ludesch (Austria).

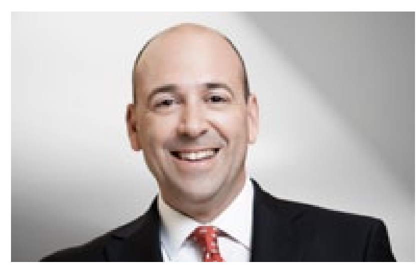
### Dr. Thomas Hesse
Member of Bertelsmann's Executive Board since February 1, 2012,
President Corporate Development and New Businesses of
Bertelsmann, Gütersloh.
Born on October 21, 1966, in Brussels (Belgium).

# The Bertelsmann Group Management Committee

The Group Management Committee (GMC) advises and supports the Executive Board on important issues of corporate strategy and development and other enterprise-wide topics. It is composed of the members of the Bertelsmann Executive Board and selected executives from the Bertelsmann Group. The GMC reflects Bertelsmann's diversity and internationality, as well as its most important markets. It is led by Thomas Rabe.

**Dr. Thomas Rabe**
Chairman and Chief Executive Officer of Bertelsmann

**Achim Berg**
Chief Executive Officer of Arvato AG



**Fernando Carro**
CEO Clubs and Direct Marketing of Bertelsmann

**Markus Dohle**
Chairman and Chief Executive Officer of Random House

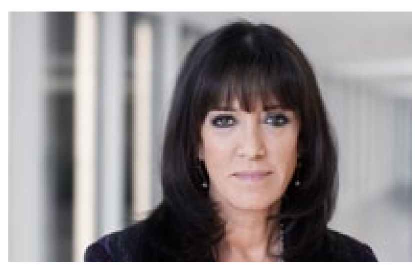
**Dr. Judith Hartmann**
Chief Financial Officer of Bertelsmann

**Dr. Immanuel Hermreck**
Executive Vice President Human Resources of Bertelsmann

**Dr. Thomas Hesse**
President Corporate Development and New Businesses of Bertelsmann

**Annabelle Yu Long**
Chief Executive Bertelsmann China Corporate Center and Managing Director Bertelsmann Asia Investments

**Guillaume de Posch**
Co-Chief Executive Officer of RTL Group



**Gail Rebuck**
Chairman and CEO of Random House Group UK

**Anke Schäferkordt**
Co-Chief Executive Officer of RTL Group and CEO of Mediengruppe RTL Deutschland

**Karin Schlautmann**
Executive Vice President Corporate Communications of Bertelsmann

**Nicolas de Tavernost**
CEO and Chairman of the Management Board of Groupe M6

# The Four Strategic Cornerstones

Last year, Bertelsmann announced its goal of making the Group a faster-growing, more digital, and more international company in the years ahead, and of gradually reshaping the Group over a period of five to ten years. Against this background, the Executive Board, Supervisory Board, and shareholders agreed on a strategy that involves four cornerstones: strengthening the core, digital transformation, building growth platforms, and expanding the Group's presence in growth regions.

## 1

### Strengthening the Core

## 2

### Digital Transformation

The formulation of this strategy was preceded by a detailed analysis which showed that Bertelsmann is acting from a position of strength – thanks to excellent market positions, strong profitability, and a solid business performance based on many creative successes. And yet there are internal and external factors that give rise to a need for action.

First, the existing portfolio has limited growth potential. Bertelsmann generates about 80 percent of its revenues in Europe – a region whose economic growth is rather modest when viewed in an international comparison. Furthermore, the portfolio is focused on traditional media businesses, some of which are undergoing structural change, or declining.

Second, the competitive environment for an international media and services company is changing with unprecedented momentum. The main drivers of this development are global megatrends such as ongoing digitization, the increasingly important role of emerging countries such as China, India, and Brazil, as well as the global increase in demand for accredited educational offers and high-quality outsourcing services.

In the years ahead, Bertelsmann aims to benefit from these megatrends and develop its portfolio in alignment with the aforementioned four strategic cornerstones. They will be the focus of our entrepreneurial activity over the next few years and therefore form the centerpiece of this year's Annual Report.

On the following pages we would like to introduce them to you in detail, in words and in pictures – more specifically in the form of best-practice examples from our divisions and in the form of photographs, with German photographer Jim Rakete presenting his personal view of Bertelsmann's four strategic cornerstones in four individually designed impressions. We hope you enjoy his motifs – and of course we wish you an interesting read!

3

## Growth Platforms

4

## Growth Regions


BRONX
Ford

1

**Strengthening the Core**

Strategy

# The Power of Creativity

Bertelsmann operates from a position of strength: the company occupies leading market positions and operates very profitably. To ensure that this remains so, Bertelsmann creates an environment that promotes, rewards, and safeguards creativity.

Television, radio, books, magazines, digital businesses, service providers – Bertelsmann does business in a wide variety of fields. However, all of the company's businesses have one thing in common: they require creativity – artistic, as well as entrepreneurial. So, for Thomas Rabe, Chairman and CEO of the company, strengthening Bertelsmann's core businesses primarily means strengthening creativity: "Creativity is the basis of all of our businesses, and the core of our value creation. We will therefore continue to invest in our creative businesses and expand them," says Rabe.

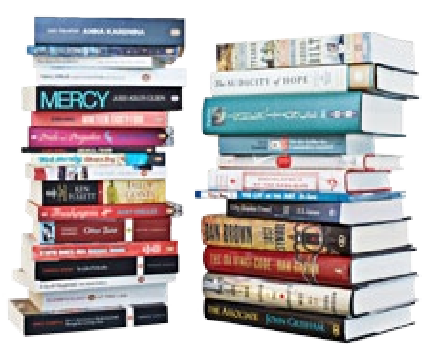
How this works in practice can be seen, for instance, in the TV sector: RTL Group is constantly developing new TV formats (including, most recently, the combinations of scripted reality show and daily drama that are very popular in social media, too, such as "Berlin – Tag & Nacht"), further expanding its families of channels to meet increasing audience fragmentation, and diversifying revenue sources. In Germany, for instance, it recently enlarged its broadcasting portfolio by launching the special-interest channel RTL Nitro. Television airtime can also be used for showing additional content such as home shopping or call-in offers. This allows for opening up growth opportunities even in mature markets. "Creativity and innovation are the key factors with which we can secure the future of Bertelsmann's core businesses," agrees Anke Schäferkordt, who is in charge of Bertelsmann's television business together with Guillaume de Posch.

### "An Environment Where Creativity Can Flourish"

The importance of media companies in an age in which digitization allows every person to produce and market content themselves is illustrated by the global success of the "Fifty Shades" trilogy by E L James. She initially self-published the novels, but they became mega-bestsellers with Random House's English-, German-, and Spanish-language acquisition, positioning, marketing, and distribution – in short, with the help of the publisher's creative energy and skill sets.

For Bertelsmann, creative successes are a prerequisite to commercial success. RTL Group's TV channels top the viewer ratings or come in at a strong number two in all of its European markets. The Random House publishing group sells more than one million books every day. The Gruner + Jahr publishing company reaches readers and users in more than 30 countries. And last year alone, Arvato's service center staff around the world handled more than 300 million calls for their customers.

“The idea is to create an environment where creativity can flourish,” says Thomas Rabe. Appropriate infrastructure is one of the key factors needed in order to make this possible, and to leverage the expertise of employees – another element in the strategic priority of “strengthening the core.” Against this background, last year Bertelsmann focused its Arvato services subsidiary on the rapidly growing services business for example.




Maximizing the potential of core businesses can also mean uniting one's own creative portfolios with that of other companies – i.e. exploiting existing consolidation opportunities without giving up one's claim to entrepreneurial leadership. An example of this is the future combination of Bertelsmann's book publisher Random House with Pearson's Penguin Group, announced in October 2012. “The planned merger will offer authors an unparalleled variety of publishing options and will foster even more effective publication of book content – in traditional as well as digital formats. These are the best preconditions for the future of these two great publishers – and for strengthening one of our core businesses: the book,” says Rabe.

## Copyright Protection in the Digital World

However, creativity must not only thrive – it must also be financially viable in order to be sustainable. This requires, among other things, a reliable legal framework which makes it possible to invest in digital content and new business models. Bertelsmann provides a diverse and growing group of platforms for artists and media professionals, who rightly demand that their work be fairly rewarded, especially in the digital world. “Creativity is the engine of our business. If the ideas that result from it are not protected, the foundation of our business is lost,” says Anke Schäferkordt.

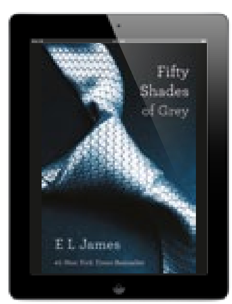
Because many digital revenue models are only commercially viable with the help of appropriate copyright frameworks, Bertelsmann is actively committed to building awareness of the value of intellectual property, asserting copyright protection in the digital world, and taking immediate action against any illegal distribution of its creators' content.

# 1

## Strengthening the Core
Highlights 2012

# Book Publishing Passion to the Power of 70 Million

No other series had as big an impact in the book publishing world in 2012 as the "Fifty Shades" trilogy. Its origin dates back to several fan fiction posts that were later reconceived and rewritten as a series of novels. What helped turn those novels into megahits, selling more than 70 million copies in their Random House English-, German-, and Spanish-language multi-country editions in less than a year? A good part of the success is attributable to the creative energies of Random House – one of Bertelsmann's core businesses.




From Australia to Argentina, the picture was much the same: "Fifty Shades of Grey" and its two sequels "Fifty Shades Darker" and "Fifty Shades Freed" broke sales records around the world. "Random House published the trilogy in three languages and in 15 countries," says Random House Chairman and CEO Markus Dohle, "and we are proud to have worked in partnership with E L James to create a global phenomenon that is part of cultural and lifestyle conversations everywhere."

World's bestselling author E L James

While Random House had high expectations for the trilogy, no one anticipated the propulsive, sustained level of sales the books would later come to enjoy – least of all the author herself, E L James. James, whose real name is Erika Leonard, began her writing career by posting fan fiction on a website dedicated to Stephenie Meyer's "Twilight" series. She then reimagined the work as a series of novels about a 21-year-old female student, Anastasia, who feels passionately drawn to Christian Grey, a successful businessman. The first book in the trilogy, "Fifty Shades of Grey," was eventually published as an e-book by a small Australian publisher. The word-of-mouth excitement about that volume eventually reached readers in New York, where Anne Messitte, the publisher at Random House's Vintage imprint, had her ear to the ground and was quick to act. Messitte, working in concert with Knopf Doubleday President Anthony Chirico, was instrumental in helping to secure English- and Spanish-language rights for the books. Soon after, Verlagsgruppe Random House acquired German rights from James's agent.

### Record Pace at Random House

"In the 'Fifty Shades' trilogy we spotted a cultural phenomenon building in the early stages," recalls Messitte. "Our strategy was to maximize the phenomenon by taking the books, which could have been seen as strictly romance-genre publications, and publishing them as novels with


broad appeal for a more general female readership. All of our publishing efforts, from marketing to PR messaging to retail positioning, emanated from that strategic idea: reaching a mainstream audience." In order to exploit the immense interest in these books – especially on social networks – Random House worked at a record pace. "A process that would have taken months was compressed into weeks," says Messitte.

Speed and hard work paid off. The books were produced as trade paperbacks and e-books, and were backed up by targeted marketing and numerous author interviews arranged by Vintage – including appearances by James on popular American TV shows. Reader demand exploded to such an unprecedented extent that it launched a global debate on its subject matter. Each week brought a new print run, sometimes in excess of 900,000 copies.

Publishing, financing, marketing, and global distribution by Random House – in a nutshell, the creative know-how of the Bertelsmann division – turned the series into a multi-language hit. These are tasks and objectives the author could never have managed on her own, without the help of a major publishing house. E L James is convinced: "Without the support of Random House, my books would never have been such a success." In the UK, where the author lives, "Fifty Shades of Grey" became the bestselling book since records began, and the trilogy won a National Book Award. The North American and British success was repeated by Random House's German and Spanish publishing divisions later in 2012.

## Speed, Instinct, Intuition

So, what are the lessons to be learned from the success of "Fifty Shades"? "The 'Fifty Shades' books were not on submission to us and the author was not widely known. So, the first lesson is that publishers have to look beyond traditional routes and consider different strategies when it comes to acquisitions and publications," says Chirico. "This was an instance where a publisher acted swiftly to arrange a meeting with the author and her agent, and then just as quickly we structured a deal to bring the books to market as soon as possible. So, instinct and intuition will continue to play a forward role in book publishing, but they go hand-in-hand with personal relationships, response time, maximizing digital and print delivery, operational excellence, and having strong creative teams working collaboratively across the company."

Expertise that are among Random House's key strengths as the world's largest trade publishing group.

# 1

## Strengthening the Core

Highlights 2012

# Kick-starting RTL Nitro

On April 1, 2012, Mediengruppe RTL Deutschland launched a digital free-to-air channel, RTL Nitro, mainly targeted at male viewers. Programming highlights include series like "Modern Family" and "Breaking Bad." "RTL Nitro perfectly complements our program line-up," says Anke Schäferkordt, CEO of Mediengruppe RTL Deutschland and Co-CEO of RTL Group. In December 2012, RTL Nitro's audience share had already reached 0.7 percent among 14- to 49-year-olds – the most successful channel launch in recent years. In total, RTL Group launched four new TV channels in Europe in 2012 – a three-digit million euro investment.

# "Brigitte": New Dual Leadership Revamps a Classic

In its nearly 60-year history, "Brigitte" has constantly managed to provide excellent entertainment, information, and inspiration to its readers. In their further development of Germany's leading women's magazine, the new joint chief editors Brigitte Huber and Stephan Schäfer are relying on the media brand's core elements – along with a new look, an emphasis on its journalistic strengths, and even more content, substance, and services.

## Growth with
# Integrated Printing Services

arvato BERTELSMANN

While the European printing industry continues to struggle with declining sales, the integrated print services provider Mohn Media once again celebrates double-digit growth. In particular, 2012 saw a significant expansion of its brochures business. Mohn Media provides a full range of services for large retail customers, from creation and media planning to print production and comprehensive logistics services. To meet the increased demand, the company made considerable investments in state-of-the-art production and distribution technologies during the past business year. Moreover, at year-end, several major customers renewed their contracts long-term.

## Improved
# Customer Solutions

BE PRINTERS

In 2012, Be Printers Southern Europe introduced a uniform sales structure in Spain (Eurohueco and Rotocobrhi) and Italy (Arti Grafiche and Eurogravure). The primary aim of the reorganization was to create synergy across sites and national borders and generate new business through cooperation. The unified sales teams for the Spain and Italy markets and the international market (including France and the UK) can now offer improved customer solutions thanks in part to the combination of offset and gravure, and their logistical flexibility.

2

**Digital Transformation**

Strategy

# Shaping Change

TV on tablets, reading on mobile devices, browsing a magazine by app – the digitization megatrend is changing the way people use media. Bertelsmann aspires to be at the forefront of this change. The transformation of media and service businesses into the digital world is therefore a strategic priority for the company.

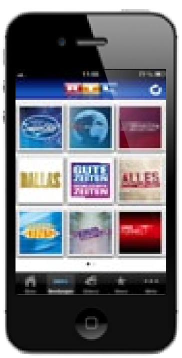
Bertelsmann publishes books – and has done so for more than 177 years. A look at how book content is created at Random House, Bertelsmann's book publishing division, reveals a nearly fully digitized process – right through the actual print and electronic copies purchased and read by consumers. More than 47,000 e-books in English, Spanish, and German are available from Random House, and Bertelsmann's book publishers now generate over 20 percent of their global revenues from digital business. In the United States, this figure is above 25 percent; with some bestsellers the ratio is even higher and the numbers are growing. "At Random House, from the beginning, we saw the digital transformation of the book business as a great opportunity," says Markus Dohle, Chairman and CEO of Bertelsmann's book division.

This not only applies to Random House. Digitization has well and truly arrived – as part of all our lives and at the heart of Bertelsmann's business activities. "The use of digital media has now reached the bulk of consumers," concludes Thomas Hesse, President Corporate Development and New Businesses at Bertelsmann. "The transformation to digital not only affects all of our businesses, it is already contributing substantially to our core businesses."

Ever more technically savvy devices like smartphones and tablets that deliver up-to-dateness, interactivity, and social networking are creating new opportunities, customers, and sales channels. Its success in publishing e-books demonstrates that Bertelsmann already occupies a leading role in actively shaping the transformation of media, by aligning its businesses to the new realities.

## 49 Million Visits in One Month

The same is happening in the other divisions, too. Bertelsmann's services arm Arvato delivers many digital services of all kinds daily for customers large and small.



RTL Group is not only continually expanding its video-on-demand sites, it is also building viewer loyalty with "second screen" offers such as the "RTL Inside" or "Devant ma TV" apps even when – as is increasingly the case – they are using their smartphone or tablet while watching TV. RTL Group's production subsidiary Fremantle Media also has a strong presence on online video networks like YouTube with original content and brand-extension channels.

Gruner + Jahr is working on catering to the precise interests of online users, for instance through Internet portals for specific topics or communities, such as "cooking" or "parenting and family life." In recent years, for example, the website Chefkoch.de has evolved into the largest food community platform in Europe. Last year the portal generated some 49 million visits in December alone.

## A Great Opportunity for Bertelsmann

Models like these illustrate why digitization is a great opportunity for Bertelsmann; and to maximize it, the company is focusing on enhanced exchange, collaboration, and transparency. Continuing training programs to strengthen the technological and digital know-how also help ensure high-level expertise throughout the company.

For Thomas Hesse, it is essential to achieve an accurate perception of what customers need: "We have learned that the digitization of the media and people's changing patterns of consumption is well under way, and that as a media company you have to deal with this proactively in order to reshape the future. A successful transformation to digital always means more than simply offering old wine in new bottles; it involves reinventing and upgrading our content and services. In the end, the product and service that prevails is the one that best meets the consumer's needs."

2

**Digital Transformation**

Highlights 2012

# A New Dimension in Television

Search for information, interact with formats and friends – and be able to watch any program anytime, anywhere. In an age of apps and social networks, television is increasingly developing into a TV experience that binds viewers even beyond the TV set. RTL Group is already taking advantage of this trend.

Its channels have released more than 220 apps, and many of them already provide a glimpse of the future of television: The "Devant ma TV" app ("In front of my TV"), available via the on-demand service Replay in France, serves up additional smartphone or tablet content that matches the TV situation minute by minute. For instance, if the participants in a cooking show are preparing a certain dish, the recipe for it appears. A candidate competes on a talent show, and users can immediately vote on their performance and discuss it with friends and other viewers on social networks.

"Multitasking while watching TV is undoubtedly on the rise. So we can either just let it happen, or take a more proactive approach," explains Valéry Gerfaud, Managing Director of M6 Web. "'Devant ma TV' enriches the program by adding a new content dimension." RTL Group's French subsidiary Groupe M6 noticed that features that encourage viewer interaction work very well: votes and polls. Participation rates are very high, with more than 50 percent of people who launch the application taking part.

## Digital Offerings Provide New Sources of Revenue

Transforming television into the digital world in precisely this way is the declared goal of Anke Schäferkordt and Guillaume de Posch, Co-CEOs of RTL Group: "We want to be wherever our viewers are – so the digital transformation of the TV industry is extremely important for RTL Group."

They both agree that the Bertelsmann division's many digital offerings are not just nice extras to garnish the actual TV program, but increasingly serve as new sources of revenue, too. For instance, RTL Group is working on installing advertising tailored to individual users on its TV platforms. "In parallel, we are already exploring other sources of revenue, such as subscription-funded services," say Schäferkordt and de Posch.

How these can be a success is shown in France, where most of M6's shows and series can be found on the ad-financed Internet platform M6 Replay directly after they air on television. With a market share of 24 percent on IPTV, the service is the clear number one among France's catch-up TV sites, that is, websites that let users view TV content online. If you add in the site of its digital sister channel W9 and two of the group's smaller platforms, more than 600 million online video views were generated in 2012. Beyond M6's actual programming, US series are especially popular: with a special pass, many episodes can be watched on the site just 24 hours after they first air in the United States – a very exciting service for the channel's predominantly young target demographic.

A special interface that is identical for all of the Group's Replay services (M6, W9, 6ter) now lets viewers continue to watch exactly where they interrupted the program earlier: for example, they may watch the first third of a show on TV, the second later on their smartphone, and the final part on their tablet the next day. Together, all these offerings ensure that viewers never have to go without TV content, wherever they are – even if there is no TV set available.

## Strong Formats and Brands Are Key to Digital Transformation

One especially interesting observation is that online, users' viewing habits are even more frequently driven by well-known formats than on TV. Therefore, strong brands such as the "Idols" and "X Factor" franchises produced by RTL Group's production arm Fremantle Media are especially important in the transformation to digital; they are what keep viewers coming back – to whatever device.

So, Anke Schäferkordt and Guillaume de Posch have a clear strategy for the digital future of the TV business: "The value of our established TV formats and brands is key to building new business models. RTL Group's content and brands will be present wherever our audiences look for quality entertainment."

### The On-demand Family

Besides the on-demand sites in France, RTL Group offers similar services in other countries: In Germany, for example, the "Now" family generated around 602 million video views in 2012. And in the Netherlands, RTL XL is very popular, with the number of views increasing by 19 percent. In 2012, RTL Group's websites collectively generated 2.4 billion video views.

2

**Digital Transformation**
Highlights 2012

# Author Portals Offer
# Information and Transparency

RANDOM HOUSE
BERTELSMANN

In 2012, Random House launched dedicated websites in the United States and Canada to provide its authors and their agents with access to comprehensive, up-to-date, customized sales, royalties, and subsidiary rights deals for their newly published and backlist books. The Portals complement their authors' and illustrators' ongoing dialog and collaboration with their publishing teams. Created in-house, the Random House Author Portals also offer users diverse social media tools and resources to get closer to their readers, as well as grow their audience. At year-end, over 2,300 authors had signed on as Portal users.

# 200,000 Recipes
# on Chefkoch.de

G+J

Chefkoch.de continued its success story in 2012. Europe's largest food platform recorded around 49 million visits in December 2012, up by nearly 35 percent over the previous year. With more than 200,000 recipes on offer, Chefkoch.de has the perfect recipe for every occasion, requirement, and taste – and is accessible at all times, on the regular Internet as well as through the mobile app.

# Digital Registered Letters
## for the French Market

arvato BERTELSMANN

In 2012, Arvato invested in the expansion of digital technologies in France, especially in the field of electronic correspondence. For example, it teamed up with SFR Telecom to lay the foundations for introducing the first fully legally valid "Digital Legal Registered Letter" on the French market. In light of La Poste Group's monopoly on traditionally delivered mail, the "SFR evelop" is a significant innovation. The market potential is estimated at more than 200 million legally valid digital registered letters per year.

# Success in Digital Publishing

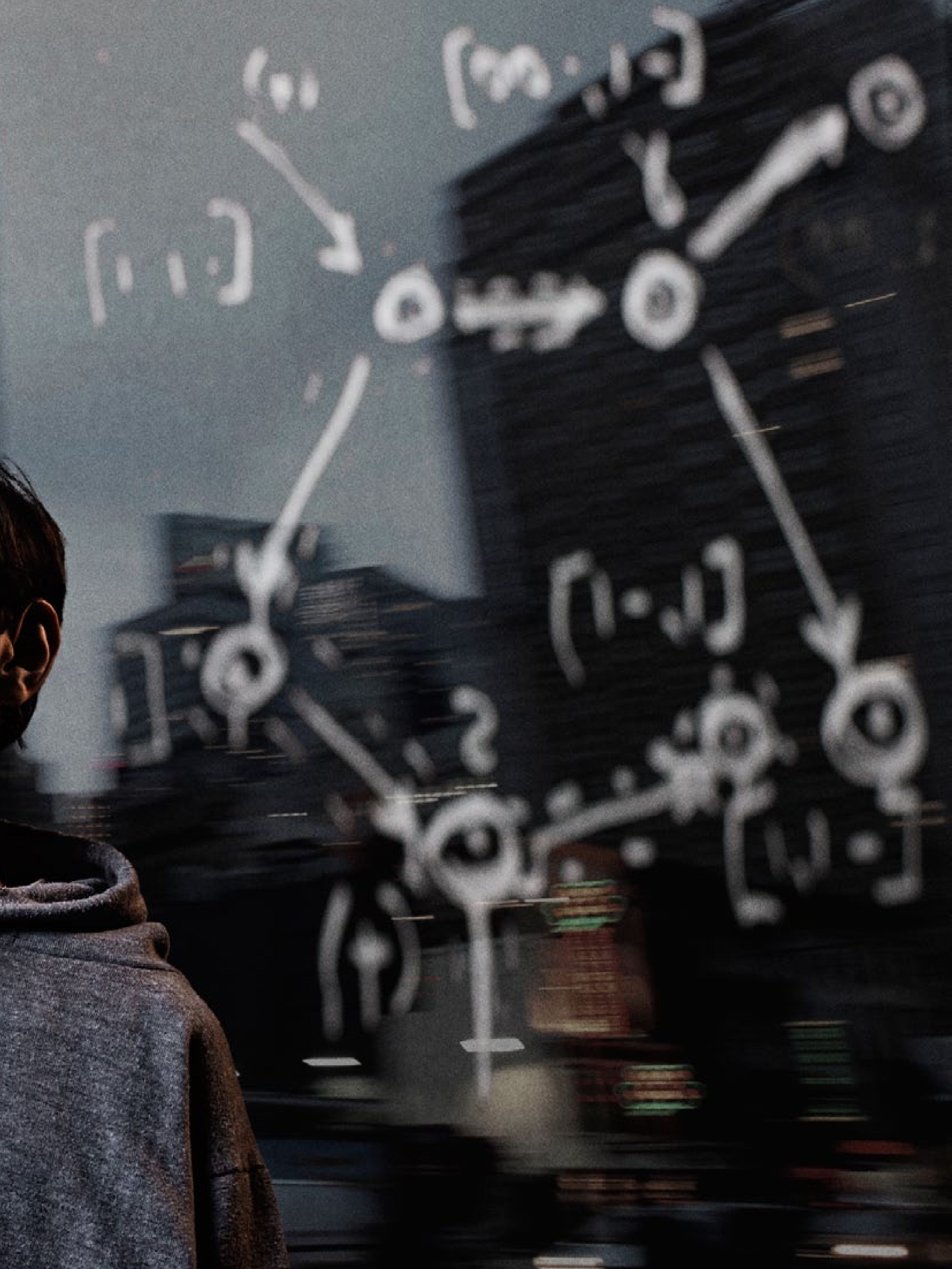
BE PRINTERS

The Be Printers subsidiary Prinovis has partnered with Siemens Communications to develop a customer solution in the field of digital publishing. The Prinovis eMagazine can be realized as a tablet app on all relevant technical platforms (iPhone, Android devices) and has all the high-performance features of a modern technical device. Prinovis also guarantees its clients rapid, cost-effective implementation. Zalando, the internationally successful e-commerce provider, became one of its first customers.

# Fund Investments
## Perform Well

**Corporate Investments**
**Corporate Center**

Several investments held by Bertelsmann Digital Media Investments (BDMI), which acts as a trend scout in the digital sector, and by Bertelsmann Asia Investments (BAI) saw strong growth in 2012: BDMI's investment in Skimlinks, which helps website operators to monetize content, increased its revenue by more than 80 percent last year and recorded over three billion page impressions in December alone. BAI took advantage of positive developments in the Asian markets to further expand its business. The fund injected new capital into four of its fast-growing holdings and also made four new investments. The shopping gateway Mogujie solidified its market leadership in the social e-commerce sector, grew its traffic by 200 percent, and powered transactions worth 30 million US dollars per month in 2012.



3

**Growth Platforms**
Strategy

# More than Promising Approaches

Bertelsmann is to become a faster-growing company in the years ahead. Specifically defined, high-potential lines of business, referred to as "growth platforms," will play a key role in this.

BMG artist Nena

In just four-and-a-half years, BMG Rights Management has become the world's fourth-largest music publisher with rights to over one million songs – a true success story. At the same time, the music rights company established in 2008 is a prime example of how small, promising businesses can quickly turn into supporting pillars at Bertelsmann.

Besides BMG, last year Bertelsmann systematically identified other growth platforms – lines of business that meaningfully complement the portfolio of an international media and services company and therefore hold great potential for the development of the Group.

As different as the various growth platforms of Bertelsmann are, there are key similarities: All of them should meet binding investment criteria. Specifically, this means that, among other things, they have an internationally proven and digitally established business model, operate in markets with high growth potential, are subject to only minor economic fluctuations, and are scalable – i.e. they generate increasing returns as their size increases.

## Content for TV and Beyond

One of the company's biggest growth platforms today is Fremantle Media. RTL Group's TV production arm produces popular shows like "The Price is Right" and "Idols" in 22 countries around the world. "Our strategy is to create content that works across several countries and can therefore be exported," says RTL Group Co-CEO Guillaume de Posch, whose responsibilities include the international TV production business. He feels it is important to exploit content not only for television, but also for other distribution channels. Mobile applications, or even live events and games, significantly increase the value of a self-created brand.

Arvato unites several growth platforms under its roof, as Bertelsmann's services division is benefiting from a globally growing demand for outsourcing solutions. Increasing cost and efficiency pressure is increasing the readiness in the

private and public sector to outsource services that are not part of their own core activities. The business process outsourcing sector, i.e. the outsourcing of entire business processes to external service providers, is forecast to grow by more than five percent per year worldwide through 2015.

Fields in which Arvato will also become even more active in the future include the globally booming e-commerce business and integrated financial services. Arvato is also further expanding its offerings for global customers in the IT and high-tech sector.

## Growth in Education

Another global trend is reflected in the activities of University Ventures, the only venture or growth equity fund specializing in higher education. Bertelsmann became its anchor investor at the beginning of 2012. The purpose of the fund is to launch innovative degree programs in Europe and the United States. "Demand for higher education – specifically degrees from accredited institutions – is growing constantly. Meanwhile, rapid advances in digitization are making it possible for very effective, high-quality education to be delivered online," says Ryan Craig, Managing Director of University Ventures. In the United States, more than three million people are already earning degrees online without ever setting foot on campus. There are obvious advantages to online study: an online degree should be less expensive, better tailored to individual needs, and more easily pursued while full-time employed.

## Investments in New Businesses

Figures like these illustrate why a significant share of Bertelsmann's investment funds will be invested in new businesses of this kind going forward. Thomas Rabe, Chairman and CEO of the company, says: "Activities in the defined business fields will help Bertelsmann grow at a faster pace in the next five to ten years."

This is an important goal of the Bertelsmann strategy, because, as Rabe states, "Growth is anything but an end in itself." Sustainable value creation, attractiveness as an employer, employee motivation – all these aspects which are crucial to a company's success are also closely linked to its growth profile, which is one reason why Bertelsmann is simultaneously making adjustments on several fronts.

3

**Growth Platforms**

Highlights 2012

# Digital Distribution on a Global Level

Available in over 140 countries: Bertelsmann's service provider subsidiary, Arvato, works behind the scenes to help with Windows 8 digital distribution.

Windows 8

October 26, 2012 marked not just the launch of Windows 8, but also, concurrently, the start of the biggest e-commerce project in Arvato's history. The preparations for the project were huge: "From the project management itself to IT development, building an IT infrastructure and associated security solutions, and establishing a payment system – handling all of this at various locations around the globe was an unprecedented undertaking for us," says Frank Schirrmeister, who as CEO of Arvato Hightech is responsible for the Windows 8 project.

In addition to the sale and digital distribution of the software, the Bertelsmann subsidiary is providing additional support services including delivery of back-up media and elements of customer support.

The international nature of the project allowed Arvato to activate its strong global network, by communicating with end users in 37 languages – from Arabic to Hebrew and Ukrainian, among others – and across 141 countries. Arvato employees involved in the project work at five international sites, with bases in Valencia and Louisville (United States), Herzebrock (Germany), Dublin (Ireland), and Singapore, allowing the company a strong representation across the globe.


## "Entering a Promising Market with a Bang"

The Bertelsmann subsidiary now aims to leverage its experience with Windows 8 to build its client portfolio. "A lot of entrepreneurial spirit and a quantum of courage helped us in our work with Microsoft on Windows 8; the project is undoubtedly a milestone in the history of Arvato, which we can use as a learning opportunity for working with other companies," says Schirrmeister.


Specifically, the project should help expand Arvato's customer base in several markets, particularly in the United States. Schirrmeister is convinced of Arvato's growth potential in the field of electronic software distribution: The physical distribution of software or games takes up to six weeks; digital delivery takes only hours. It is also more cost-effective. "We are entering an extremely promising market at the right moment, with a big bang."


## Courseware **Marketplace**

### Digital Training Materials

Besides the digital distribution of Windows 8, Arvato handles other tasks for Microsoft as well. For nearly 15 years now, the Bertelsmann subsidiary has supplied providers of computer software training with the necessary materials on behalf of its client. The successful partnership was further expanded in mid-2012. Since then, Arvato has handled this process in the digital as well as the physical domain. For example, customers can use an online platform – the Courseware Marketplace operated by Arvato, which has the same look and feel anywhere in the world – to assemble and buy individual training packages, and read or download them via the Skillpipe platform. By the same token, registered authors can post their self-created training materials for Microsoft products, or add comments.

3

**Growth Platforms**

Highlights 2012

## A Date
# with the World

With its worldwide creative network, Fremantle Media has the unique ability to develop and quickly roll out TV formats on a global scale. With local production operations in 22 countries, the company shares development expertise across different markets and its team of Flying Producers ensure shows are made consistently around the world. "Take Me Out" is a perfect example: From an idea in France, developed at international workshops, it was first broadcast in Australia and seamlessly rolled out to 24 territories. One arena, 30 single ladies, and one very brave man hoping for a dream date, "Take Me Out" is a unique dating show winning the hearts of viewers worldwide.

## Random House Television and Fremantle Media
# Partnership

Random House has begun a creative and strategic partnership with Bertelsmann sister company Fremantle Media to develop scripted television programming based on fiction and nonfiction books published by Random House's imprints worldwide. By also helping them develop and sell their original ideas for the full-range broadcast network, cable, and pay-television scripted formats, the arrangement, through Random House Television in the United States, will provide the company's authors with greater opportunities within the increasingly complex and interdependent global entertainment business.

## Ligatus –
# G+J's Digital Marketing

After its successful establishment in Germany, Austria, the Netherlands, France, Spain, Sweden, and Belgium, Ligatus continued to internationalize its business model by entering the Italian and Turkish markets in 2012. With a presence in many countries, and its versatile product portfolio, Ligatus is a leading international performance marketing company, and its focus on the premium market makes it a relevant partner for advertisers and publishers.

# Arvato Infoscore
## Saw Profitable Growth

arvato
BERTELSMANN

Arvato's financial services business, pooled in Infoscore, once again saw profitable and dynamic growth. The good performance of the core Collection and Finance businesses contributed to this, as did new approaches like the collaboration with the Dutch online payment solutions provider After Pay, launched in 2012, and the development of a variety of innovative services for energy and utility companies. Other positive effects resulted from the expansion of risk and receivables management activities in the Benelux countries.

# Pursuing a Megatrend
## Entering the Global Education Business

**Corporate Investments**
**Corporate Center**

Demand for education is increasing worldwide, and innovative new forms of delivery and programs – particularly online delivery – are revolutionizing this major industry and making education affordable and accessible to all. Bertelsmann entered this growth market in early 2012 as the anchor investor of the University Ventures Fund and has now successfully built a portfolio of higher education companies including the United States venture University Now, which offers inexpensive, accredited competency-based degree programs online, and Synergis Education, a service provider that helps universities build their online offerings.

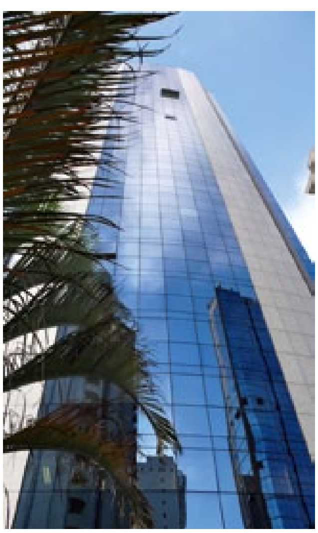
# BMG Continues on Expansionist Course

**Corporate Investments**
**Corporate Center**

BMG's rapid business development continued in 2012 with a series of impressive acquisitions and artist signings. The music rights company – now ranked number four worldwide – acquired several music catalogs and labels. The acquisitions also reflect a new strategic focus: beyond the marketing of publishing rights, BMG is now increasing its focus on the complete master rights, i.e. the rights to the recording of a song. This has been well received in the music business, with international artists such as Brian Ferry, Will.i.am, and Quincy Jones signing with BMG in 2012.

# On the Way to Becoming a Global Network

Bertelsmann operates in some 50 countries worldwide. Beyond the next few years, the core European markets, and the United States, there will be an increased focus on three growth regions: Brazil, India, and China. Bertelsmann is on its way to creating an unparalleled global network.



The Bertelsmann Corporate Center in São Paulo, Brazil.

The heart of Bertelsmann's Brazilian operations beats on the 10th floor of a slender 24-story office building in São Paulo. "This is the place from which we will grow our footprint in the region by systematically investing in new businesses," says Thomas Mackenbrock, who heads the Corporate Center that opened in June 2012 in this metropolis, a city that is home to more foreign companies than any other in the world.

With the inauguration of its newest Corporate Center, Bertelsmann now has established headquarters in each of the three countries that the company has defined as growth markets: Brazil, India, and China (known as the "BIC" countries). According to forecasts, by 2050, if not sooner, they will be the world's biggest economic powers. Their populations largely consist of a growing middle class – young, urban, and digitally savvy. The level of media consumption is correspondingly high. The media sector in the BIC countries is expected to grow by an average 12 percent annually through 2015.

Thomas Rabe at the opening of the new Corporate Center in New Delhi, India.

In these countries, investments will increasingly be channeled into fields where Bertelsmann wants to grow due to its strategic priorities. For instance, direct investments in digital media and education were initiated. At the same time, existing operations in the various countries will be further expanded. For both tasks, the three locally managed Corporate Centers serve as important regional contact points for providing local support to the divisions. In this way, and in combination with its activities in other markets, Bertelsmann is building an international network – a value proposition that makes Bertelsmann particularly attractive for various partners in these markets, which in turn are seeking contact with Europe and the United States.

## Thriving on the Ground

The Corporate Center locations in these three countries are hardly Bertelsmann's first steps in this direction: It already has approximately 3,300 employees in South America; 1,150 in India; and around 5,000 in China, where, over 20 years ago, the company became one of the first Western media groups to launch business operations.

All of the Group's divisions do business in the growth regions. RTL Group recently launched its first TV channel in India: Big RTL Thrill. The Random House book-publishing division created the preconditions for expanding into the Latin American book markets with its 100 percent acquisition of Random House Mondadori in late 2012. Gruner + Jahr is successful in consumer publishing, corporate publishing, and ad marketing in China and India, and is on an expansionist course on all channels – print and digital. And Arvato not only has a nationwide logistics network in China, but also has operations including e-commerce activities in India and distribution services in South America. Add to that instruments such as the investment fund BAI (Bertelsmann Asia Investments) – since 2008, Bertelsmann has held direct or indirect stakes in around 20 young start-up companies in China, which are closely related to existing businesses or operate in business fields in which Bertelsmann would like to expand further.

Inauguration of the new premises at the Bertelsmann China Corporate Center in Beijing.

## Divisions Will Significantly Expand Their Business

All of the Group's divisions will continue to significantly expand their business in the designated growth areas over the next few years. "10 years from now, Bertelsmann will be an entirely different company – based on the regional shifts, if nothing else," says Annabelle Long, who, with Fernando Carro, is responsible for the growth regions of Asia and South America on Bertelsmann's Group Management Committee. Both are convinced that Bertelsmann will succeed with its expansion in these countries: "We have the people, the companies, the partners, the projects, and the investment opportunities," adds Carro.

This is also true for the United States, another region in which Bertelsmann wants to step up its growth. The country is of major importance to the company for two reasons: The United States is not only the world's largest media market, but also the most innovative; many technologies and trends originate here. As far back as 2006, the Group formed the New York-based international venture capital fund Bertelsmann Digital Media Investments (BDMI), which buys holdings in innovative media companies to support and to benefit from their development at an early stage.

# 4

**Growth Regions**
Highlights 2012

# A Story of Growth in the Far East

## The 360-degree strategy pursued by Gruner + Jahr is designed to put its popular publications and corporate publishing offerings out there for readers and users on all media channels. This applies not only to its core markets in Europe, but also and especially to China and India – two countries where the Bertelsmann subsidiary has been growing for many years.

Gruner + Jahr's success in the Far East began deep in the West – in Paris, actually. In 1998 a small team of the publishing house in France began supplying articles and photos to the publisher of a car magazine in Shanghai. The Chinese economy was booming, and Chinese media companies were on the lookout for international content and foreign partners. G+J became increasingly active in the fastest-growing advertising market in the world, launching its own magazine there in 2000 and acquiring a stake in the ad-sales agency Boda, which is responsible for some of China's foremost fashion and lifestyle magazines, in 2006. It was the beginning of a great success story. Together with its partners, the Bertelsmann subsidiary is now the country's second-largest magazine publisher. It sells various popular G+J magazines such as "Auto, Motor und Sport" and "Geolino" in China, too, recently extended its corporate publishing activities there, and reported record sales and profits in 2012.

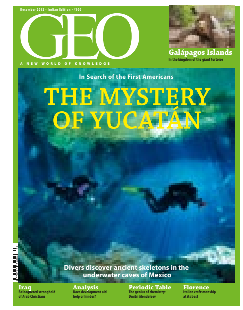


Like all Bertelsmann companies, G+J International relies on local management, for local managers know the customer preferences and the prevailing conditions in each country best. G+J's employees in China know full well the reasons behind G+J's success in their country: thoroughly prepared consumer journalism combined with useful advice on topics such as baby care, parenting, fashion, cosmetics, and cars. Beyond this, in its Chinese titles the Bertelsmann subsidiary also cultivates an international perspective that is very popular especially among readers in the rapidly growing middle class. For example, the little cover models on the parenting magazines are all Western babies, for a simple reason: "They stand out from the many competing Chinese parenting magazines featuring pictures of Chinese children on their covers," explains Zhu Zheng'ou, editor-in-chief of the magazine "Parents World."

### The Shift from Print to Digital

As the print market in China continues to grow, G+J has expanded its strategic growth focus in Asia to another medium over the last few years. Torsten-Jörn Klein, president of G+J International, says: "Of course, we are seeing a shift






to digital media use in China and India as well, and regard it as an opportunity we are actively involved in shaping. So in these growth regions as elsewhere, the transformation to digital is the focus of our strategic activities."

Indeed, the Internet is changing China rapidly, and developments on the mobile device market have further accelerated this trend: while there were 298 million Internet users and 118 million smartphone users in China in 2008, these numbers are predicted to rise to 721 million Internet users and 501 million smartphone users in 2013. E-commerce, online gaming, and digital media are the fastest growing sectors of the Chinese economy. They fuel the enthusiasm of the young, emerging middle class – and illustrate why this country has been defined as growth region for Bertelsmann, alongside India and Brazil and the world's largest media market, the United States.


G+J is already profiting from the trend toward ever-higher online advertising budgets in China. The online editions of well-known magazines – such as the popular women's portal rayli.com.cn – are constantly growing their traffic and are a firm component of the cross-media marketing strategy that the Bertelsmann subsidiary offers its advertising customers in China. Print, online, and mobile combine for a 360-degree strategy that helps G+J reach readers and users with a single brand on all media channels. This is true both for popular publications and for corporate publishing offers in the B2B segment.

## A Similar Strategy in India

For some years now, G+J has pursued a similar strategy in another Asian country: India. Here, too, the publishing group is active in three different segments – magazine publishing, corporate publishing, and digital marketing – and has managed to establish this broad range of business in under five years. Having entered the Indian market in 2008 with the first edition of "Geo India" to gain experience on the ground, the Bertelsmann subsidiary acquired a majority shareholding in the magazine publisher Maxposure, one of India's top three companies in the field of corporate publishing, in 2011. Last year, G+J also entered the digital marketing business in India by acquiring stakes in "Networkplay" and "Seventy-nine," because, in India as elsewhere, digital is one of the fastest-growing markets around.

So here too, together with its partners, G+J is in an excellent position to offer its corporate publishing clients as well as its magazine readers brands and formats on a wide range of media channels, creating ideal conditions for continuing its story of growth in the Far East.

4

**Growth Regions**
Highlights 2012

# Action in India
## with Big RTL Thrill

Big RTL Thrill launched on November 5, 2012 in India, a rapidly growing market with more than 146 million TV households. With the tagline “Action ka Baap” (“Ultimate Action Destination”), the joint venture channel between RTL Group and Reliance Broadcast Network targets male viewers. Big RTL Thrill offers content dubbed in Hindi from leading production companies, with key shows including “Fear Factor,” “Cobra 11,” and “Baywatch.” Big RTL Thrill initially went on air in the region of Uttar Pradesh, with phased expansion to other Hindi-speaking markets and South Asia to follow.

## Commitment to
# Spanish-language Market

With 100 percent ownership of its former 50/50 joint venture Random House Mondadori completed at year-end, Random House strengthened its access to the worldwide Spanish-language book market and its commitment to bring its authors’ writing to the widest possible readership internationally. E-book publishing leadership and traditional print-book growth will be Random House Mondadori’s chief priorities. The company’s organizational structures in Spain, Argentina, Mexico, Colombia, Chile, and Uruguay will be maintained, as will the editorial identities of their respective publishing programs.

# 100 Million
## Cell Phones Shipped in China

arvato
BERTELSMANN

The milestone was reached in early August 2012: A good three-and-a-half years after Arvato launched its mobile phone delivery business in China, the hundred millionth mobile phone left one of the company's own warehouses in China. Arvato now has branches in more than 55 locations in the country, and over 65,000 m² of warehousing capacity. With this extensive network – which is being steadily expanded – the company covers almost all Chinese provinces. Besides mobile communications providers, Arvato's customers in China include large retail chains.

# Corporate Centers
## Dedicated to Markets of the Future

**Corporate Investments**
**Corporate Center**

Bertelsmann is pushing forward its expansion in the world's growth regions and has opened two new Corporate Centers in Brazil and India in 2012. The two head offices will help develop existing business in South America and Asia and establish new activities – for example in the areas of education and digital media. In the first ever Bertelsmann China Conference, over a hundred of the company's top managers deliberated on the development of business in the People's Republic.

## Scoring with
# Educational Software from India

**Corporate Investments**
**Corporate Center**

Bertelsmann's first direct investment in India was the Indian online education platform WiZIQ, which offers cloud-based learning software for coaches, teachers, professors, and students, as well as for schools and colleges around the world. Within just a few years, more than 2.5 million students and 200,000 coaches in around 100 countries have signed up. The young company, in which Bertelsmann and the Indian private equity fund Kaizen have together invested the equivalent of four million US dollars, most recently grew its revenues by 200 percent year on year.

# Bertelsmann Essentials

The Bertelsmann Essentials convey the goals and basic values of our company's employees, executives, and shareholders and build on the Corporate Constitution. It is the responsibility of our executives to spread and epitomize these values and to serve as role models. The Bertelsmann Essentials reflect the common understanding of our corporate culture and are subject to constant review, revision, and improvement.

## Our Core Values

### Partnership

Our corporate culture is based on a mutually beneficial partnership between our employees and the company. Motivated individuals who identify with the company and its values are the driving force behind quality, efficiency, innovation, and growth within our corporation. The hallmarks of our participatory leadership approach are mutual trust and respect as well as the principle of delegation of responsibilities. Our employees enjoy autonomy to the greatest extent possible. They receive comprehensive information and participate in decision-making and our financial success. We are committed to the professional development of our employees and seek to provide long-term employment.

### Entrepreneurship

The principle of decentralization is at the heart of Bertelsmann's management philosophy. It enables our employees to act with flexibility, responsibility, efficiency, and entrepreneurial freedom. Our operating businesses are run by managers who act as entrepreneurs: They enjoy considerable independence and bear full responsibility for the performance of their companies. Our executives act not only in the best interests of their individual businesses, but are also committed to the interests of the Group as a whole.

## Our Mission

Bertelsmann is an international media corporation. We provide information, entertainment, and media services to inspire people's daily lives. We aspire to make a valuable contribution to society. We strive to be leaders in our markets and achieve returns on capital employed that guarantee growth and continuity of our corporation. Our joint efforts focus on creative content and customer relations. We seek to provide working conditions that are equitable and motivating for our employees. We commit ourselves to ensuring the continuity and ongoing progress of our corporation.

## Our Commitment

We expect everyone at Bertelsmann to adhere to this mission and these core values.

### Creativity

We provide a home for artists, authors, and creative talents in all of our fields of business, promoting their creative development and commercial success. We strive for the protection of intellectual property on a worldwide basis. We promote artistic freedom and freedom of thought, the protection of democracy and human rights, and the respect of traditions and cultural values. Consequently, the content we provide reflects a wide range of viewpoints and opinions. Continuous innovation and improvement, guided by customer needs and interests, are the cornerstones of our success.

### Citizenship

The continuity and development of Bertelsmann as an independent entity is ensured by the Bertelsmann Verwaltungsgesellschaft's (Bertelsmann Management Company's) control of the majority of voting rights. In the view of our shareholders, the possession of property creates an obligation to the community. They believe that, in a market economy, a corporation derives its legitimacy from making a valuable contribution to society. The work of the Bertelsmann Stiftung – to which the majority of Bertelsmann shares has been contributed – is also guided by this principle. Our businesses are managed in accordance with the spirit and the letter of the law. They maintain high standards of ethical conduct and act responsibly toward society and the environment.

# Corporate Responsibility

As one of the four Bertelsmann Essentials, citizenship – also known as corporate responsibility – has always been deeply rooted in Bertelsmann's corporate culture and therefore in our business as well. Bertelsmann considers itself to be a part of – and partner to – its community. When we refer to corporate responsibility, we are talking about more than a responsibility to society or to the community in a strict sense. We want to act responsibly in the long term – especially wherever our value creation and our stakeholders' expectations intersect: in our business environment, toward our employees, in our community, and in our treatment of the environment.

## Our Business Responsibility

Growth and corporate continuity form the basis of our corporate responsibility. This means generating profits and securing a return on capital that ensures such growth and continuity. Only in this way can we secure and create jobs, thereby contributing to prosperity in the countries and cities in which we operate worldwide. Our entrepreneurial actions follow the principles of good corporate management and are guided by ethical values.

## Our Responsibility to Employees

The idea of partnership between employees and their company guides our thoughts and actions – to the benefit of everyone involved: Bertelsmann's shareholders, management, and employee representatives share the basic understanding that a spirit of partnership not only promotes everyone's satisfaction and identification with the company and their individual jobs, but is also one of the key requirements for business success. For this reason, responsibility toward our employees has always been a special priority for us.


The Bertelsmann Corporate Responsibility portal presents comprehensive information about our social commitment. This includes our treatment of employees as partners; ethics and compliance; taking responsibility for our media content, products, and services; and the sustainable use of natural resources. Facts and figures demonstrate this commitment by Bertelsmann and its divisions and companies around the world.

www.bertelsmann.com/responsibility

## Our Responsibility to Society

Media are more than simply commodities. Media content is an economic as well as a cultural asset. This implies a special responsibility for us as media makers: we seek to contribute to a diverse media landscape by providing a wide variety of creative entertainment and information offerings. Responsible business conduct governs our daily business as a services company as well. Our goal is to bring economics in tune with ecology in cooperation with our customers and to make processes sustainable. Above and beyond this, we systematically target important societal issues, thereby increasing public attention on these issues. We work actively and supportively to promote a livable environment and against social ills in the communities in which we do business. We are especially committed to promoting literacy and media skills and next-generation talent in the media industry.

## Our Responsibility to the Environment

As an internationally operating media and services company, we depend on natural resources. This is as true for the printing and publication of books and magazines as it is for film and TV production, the manufacture of Blu-ray Discs, DVDs, and CDs, and the rendering of other services. Environmental and climate protection is part of our corporate responsibility and a key competitive factor. Our commitment to environmental and climate protection is strategically positioned through our international environmental task force, the "be green" team, comprised of representatives from all our divisions.

intajour International Academy of Journalism

## A Training Program to Strengthen Press Freedom

As a media company, Bertelsmann sees it as part of its social responsibility to promote press freedom and freedom of expression worldwide. For this reason we established the International Academy of Journalism (Intajour) in 2010. Its training program is aimed specifically at journalists from countries where press freedom is limited or there is a lack of comparable training opportunities. Participants learn how they can use the opportunities of digitization in their daily work. In 2012, 560 journalists from 90 countries applied for the program. Twelve Intajour "Fellows" from countries including Egypt, Pakistan, and Zimbabwe were selected for the second year, which ends in June 2013.

be green.
The environmental initiative of Bertelsmann

## Open Dialog with Stakeholders about Climate and Environmental Protection

Part of the Group-wide "be green" climate and environmental strategy is to increasingly inform and involve employees as well as maintain an open stakeholder dialog with academia, politics, our suppliers, customers, and the NGO sector. The meetings of the "be green" team, our company's environmental task force composed of environmental officers, heads of communications departments, and senior paper buyers, are regularly enriched by external stakeholders. Their suggestions help to further develop environmental and climate protection and to support Bertelsmann's global "be green Days." In 2012 discussions were held with NGO representatives about energy procurement and environmental management at Bertelsmann in order to develop existing potential for improvement.

Diversity Management

## Success Through Diversity

Bertelsmann now has operations in over 50 countries around the world, with employees from 94 different nations working in Germany alone. Variety and diversity are essential to our work and form the basis for our enduring success. We are therefore committed to a corporate culture that appreciates, values, and promotes these very similarities and differences in people. With this in mind, we strive to create the conditions necessary to optimize the further development of every employee’s potential.

Bertelsmann
Ethics & Compliance

## Commitment to Ethical and Compliance Culture

Bertelsmann is committed to ensuring compliance with the law and promoting an organizational culture that fosters ethical conduct. To this end, Bertelsmann has implemented a comprehensive Ethics & Compliance program. Its key pillars are a compliance organization with clear roles and responsibilities; monitoring of compliance risks; a Code of Conduct with principles and standards that provides guidance to all managers and employees in their decision-making; mechanisms for monitoring compliance with these standards, including a whistle-blowing system for raising concerns as well as procedures for investigation and resolution of alleged violations; and ongoing training and communication activities to ensure high awareness of these resources.

Take part!
Take action!

## Employees Actively Shape the Future of Our Company

Partnership also means involving employees in shaping the company – they are our partners in designing their tasks, their workplace, their company, and the Group as a whole. One important tool in this is the employee survey, which has been conducted at regular intervals for more than 30 years. We also offer a variety of instruments at the individual level that provide a framework for dialog in a spirit of partnership between managers and employees. Successful cooperation within a company also requires jointly supported agreements and, above all, strong stakeholders. Therefore, we support stakeholder dialog at the collective level.

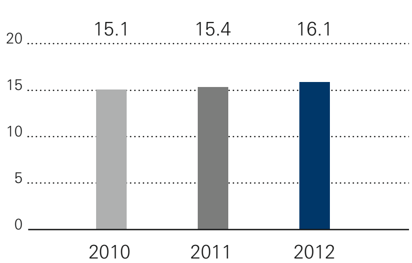
# Financial Information

# Group Management Report

## Financial Year 2012 in Review

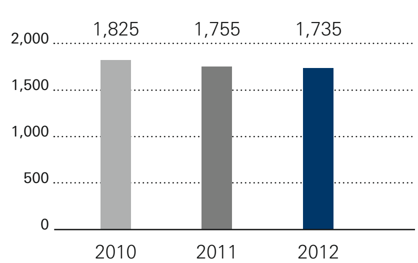
Bertelsmann achieved solid business development in 2012, thus creating a good basis for the strategic transformation of the Group into a faster-growing, more digital, and more international company over the next five to ten years. Group revenues from continuing operations rose, despite a difficult economic environment, by 4.5 percent to €16.1 billion (previous year: €15.4 billion); organic growth was 3.1 percent. The main impetus came from the book business, a strong television business in Germany, and the growth of services. Operating EBIT of €1,735 million was roughly in line with the previous year's high level (previous year: €1,755 million). Operating EBITDA was €2,213 million (previous year: €2,243 million). Record earnings at Random House, Mediengruppe RTL Deutschland, and Arvato Infoscore were offset by declining advertising revenues in a number of important advertising markets and budgeted expenses as part of the transformation of the Group. The return on sales of 10.8 percent maintained earnings at a good level. Group profit increased from €612 million in the previous year to €619 million, despite high special items from structurally declining businesses. A high level of cash generated by business activities in the period under review reduced net financial debt at year-end to €1,218 million (previous year: €1,809 million). Bertelsmann expects business development for 2013 to remain stable or to decline marginally in view of the rather weak economic growth, continuing uncertainty, and higher investments.

**Revenues** in € billions 1)



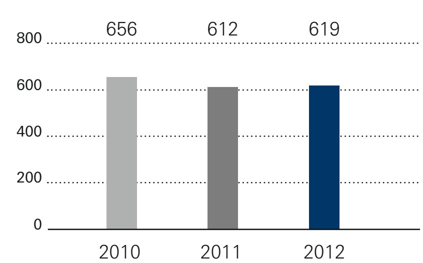

- Growth of 4.5 percent, organic growth of 3.1 percent
- Random House achieves record revenues; increased revenues at RTL Group and Arvato
- Lower revenues in structurally declining businesses (print, replication, and direct marketing)

**Operating EBIT** in € millions 1)




- Significant increase in earnings at Random House thanks to successful book titles
- Record earnings at Mediengruppe RTL Deutschland and Arvato Infoscore
- Weak advertising markets in Southern and Western Europe affect operating earnings
- Budgeted start-up losses resulting from digitization and new businesses

**Group Profit** in € millions




- Solid Group profit despite higher special items
- Elimination of negative earnings contributions from discontinued operations
- Financial result improved

1) Figures for financial year 2010 as reported in Annual Report 2011.

# Business and Economic Conditions

## Description of Business and Organizational Structure

Bertelsmann is active in the core business fields of media and services in around 50 countries worldwide. Its geographic core markets are in Western Europe, in particular Germany, France, the UK, and Spain, and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as China, India, and Brazil. The Bertelsmann divisions are RTL Group (television); Random House (books); Gruner + Jahr (magazines); Arvato (services); and Be Printers (printing).

Bertelsmann SE & Co. KGaA is a capital market-oriented but unlisted partnership limited by shares. As a Group holding company, it exercises central corporate functions such as the development of Group strategy, capital allocation, financing, and management development. Internal corporate management and reporting follow the Group's organizational structure, which consists of the operating divisions plus Corporate Investments and Corporate Center.

RTL Group is the leading European entertainment network with interests in 53 television channels and 28 radio stations in ten countries and content production throughout the world. The television portfolio of Europe's largest broadcaster includes RTL Television in Germany, M6 in France, and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia, Hungary, and India, as well as the participation in Grupo Antena 3 in Spain. With its subsidiary Fremantle Media, RTL Group is also one of the largest international companies outside the United States involved in the production, licensing, and distribution of TV content. RTL Group S.A. is a listed company in Brussels and Luxembourg.

The world's largest trade book publisher, Random House, is comprised of nearly 200 editorially independent imprints. The publishing group is represented in 15 countries with illustrious publishing houses such as Doubleday and Alfred A. Knopf (United States), Ebury and Transworld (UK), Plaza & Janés (Spain), Sudamericana (Argentina), and Goldmann (Germany). Each year Random House publishes around 10,000 new titles and sells over 400 million books worldwide. In addition to hard cover, paperback, and audio book formats, Random House now publishes over 47,000 e-book titles in English, German, and Spanish.

The printing and publishing company Gruner + Jahr is represented in over 30 countries with around 500 media activities, magazines, and digital businesses. Gruner + Jahr's largest foreign company is Prisma Média, the second-largest magazine publisher in France. Gruner + Jahr's publishing activities also include magazine, sales, and marketing operations in China, Italy, the Netherlands, Austria, Poland, Spain, the Adriatic Region, and Mexico.

As a global business process outsourcer, Arvato helps its business customers in a wide range of sectors to successfully manage their customer relationships. Arvato develops and implements custom solutions for this purpose in almost 40 countries. The wide range of services includes data management, customer service, customer relationship services, management of supply chains, digital delivery, financial services, qualified and customized IT services, and comprehensive design and distribution services for printed products and digital storage media.

The international printing group, Be Printers, offers a range of technical services for the printing industry such as gravure, web, and offset printing as well as digital printing. Be Printers operates in the core markets of Europe (Prinovis Germany and UK, Italy, and Spain) and America (United States and Colombia). Operations at 17 production locations produce magazines, catalogs, brochures, books, and calendars.

Bertelsmann's remaining operating activities are grouped under Corporate Investments. These include the participation in the music rights company BMG, education-related activities, and the club and direct marketing businesses including the direct marketing business Inmediaone. The funds for digital media, Bertelsmann Digital Media Investments (BDMI), and Bertelsmann Asia Investments (BAI), are also allocated to Corporate Investments.

## Change of Legal Form

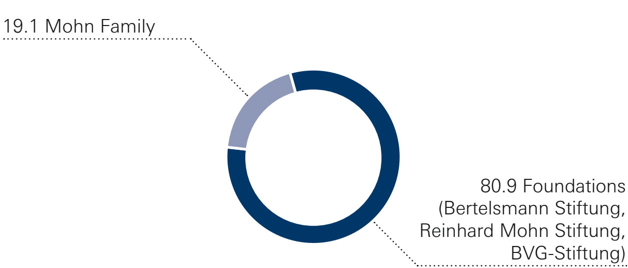
With its entry into the commercial register on August 20, 2012 the change of legal form from Bertelsmann AG to Bertelsmann SE & Co. KGaA was officially completed. The partnership limited by shares (KGaA) is an established legal form for businesses owned by families or foundations that is widely used in Germany today. On May 4, 2012, the Annual General Meeting of Bertelsmann AG resolved upon the Group's proposed change of legal form. This change in legal form effectively preserves the Group's identity. The conditions of ownership and the structure of the Bertelsmann Group will remain unchanged. The Boards of Bertelsmann SE & Co. KGaA as well as the management and supervisory structures are explained below.

As a KGaA, the business is managed by a personally liable partner (general partner). In the case of Bertelsmann SE & Co. KGaA, the 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 KGaA level, and the Executive Board, Supervisory Board, and the General Meeting at the level of the managing general partner (SE). The Supervisory Board of the KGaA is elected by the limited partners at the General Meeting. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls 100 percent of the voting rights at the General Meeting of the KGaA. As well as supervising the management of the business by the general partner, the Supervisory Board of the KGaA has extensive notification and supervision rights and also forms the Audit and Finance Committee. The members of the Bertelsmann Management SE Supervisory Board are elected by the General Meeting of Bertelsmann Management SE. BVG also exercises voting rights at the Bertelsmann Management SE General Meeting. The Supervisory Board of Bertelsmann Management SE supervises the Executive Board and advises it on strategic matters and important business transactions. The Executive Board is responsible for independently managing the company.

### 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). The shareholder structure and distribution of voting rights remain unchanged from the previous year.

**Ownership Structure – Shares** in percent




### Strategy

Bertelsmann develops media and communication solutions that excite people around the world and offer customers innovative solutions. Bertelsmann occupies leading market positions in its core sectors of television, books, newspapers, services, and print. Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability (see section "Value-Oriented Management System").

As part of a strategic realignment, Bertelsmann aims to achieve a more rapidly growing, digital, and international portfolio. Bertelsmann will increasingly focus on penetrating business segments according to defined investment criteria. These should complement the traditional businesses and provide a broader-based revenue structure overall. The Executive Board, Supervisory Board, and shareholders agreed to the new Group strategy in fall 2012 after comprehensive analyses and a Group-wide dialog process conducted over several months involving all relevant Group bodies. As well as a portfolio and competition analysis, the strategy is essentially based on four global megatrends which are significant for the further development of the existing businesses and are opening up new development opportunities for the Group: the continuing digitization, a two-speed global economy in established as well as emerging markets, an increasing global demand for high-quality education, and the shift toward business process outsourcing solutions.

On this basis, four strategic approaches were defined which will be used to realign Bertelsmann's strategy over the next few years: strengthening core businesses (investments in creative businesses, exploiting opportunities for consolidation), driving forward the digital transformation, developing growth platforms within the divisions and at the Group level (content rights management, education, and business information), and expanding in growth regions (China, India, and Brazil).

The success of Bertelsmann in the future will continue to be driven by content-based and entrepreneurial creativity which is why the Group continues to invest in the creative core of its businesses. Clear investment criteria apply to the development of the portfolio. Businesses in which Bertelsmann invests should have long-term stable growth, global reach, digital business models, scalability, and low vulnerability to economic cycles.

In financial year 2012, Bertelsmann already achieved considerable success in implementing its strategic priorities. RTL Group launched more new channels than ever before, including RTL Nitro in Germany and 6ter in France. In the book publishing sector, a merger was agreed between Random House and Penguin Group to push forward the digital transformation even faster, to develop new distribution channels, and to be able to build up new businesses in growth regions. The transaction is due to be completed in the second half of 2013, subject to approval from the antitrust authorities. Random House Mondadori was fully acquired in order to improve access to the South American book markets, among other things. Gruner + Jahr bundled the digital businesses in the core German market. Arvato focused on rapidly growing services by spinning off the main printing activities. Through the "University Ventures" education fund, Bertelsmann invested in the education business and acquired participations in innovative companies in Europe and in the United States, who are developing tailor-made educational programs or offering recognized online study courses in partnership with universities. BMG grew through the acquisition of further catalogs and artist signings. The Group also expanded its business activities in its declared growth markets of China, India, and Brazil.

Bertelsmann needs to have qualified employees at all levels of the Group to ensure its strategic and financial success. To achieve this, HR policy measures were defined and strategic steps taken in the period under review that are in accordance with and support the Group strategy (see section "Employees").

The compliance with and achievement of the strategic development priorities are continuously examined by the Executive Board at divisional level through regular meetings of the Strategy and Business Committee and as part of the Strategic Planning Dialog between the Executive Board and the Supervisory Board. In addition, relevant markets and the competitive environment are analyzed on an ongoing basis in order to draw conclusions concerning the further development of Group strategy. The Executive Board is also supported by the Group Management Committee (GMC) on issues of corporate strategy and development. This committee is composed of executives representing key businesses, countries, regions, and selected Group-wide functions.

## Value-Oriented Management System

The central performance indicator for assessing the profitability from operations and return on invested capital is Bertelsmann Value Added (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 and portfolio planning and the management of Group operations and is the basis for management compensation.

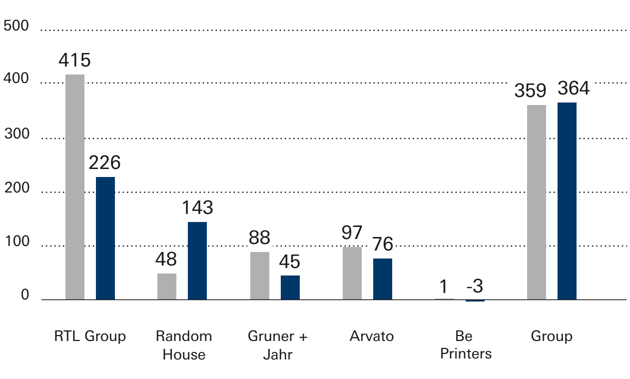
BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated as operating EBIT less a standard 33 percent flat rate of tax. Cost of capital is the product of the weighted average cost of capital and the level of capital invested. The uniform weighted average cost of capital after taxes is 8 percent. Invested capital is calculated on the basis of the Group's operating assets less non-interest-bearing operating liabilities. The present value of operating leases is also taken into account when calculating the invested capital. BVA in financial year 2012 was €364 million, compared to the previous year's figure of €359 million.

Operating EBIT not only affects BVA through NOPAT but is a relevant performance indicator in its own right. Operating EBIT is calculated before net interest expenses and taxes and adjusted for special items. This procedure yields a normalized, sustainable performance indicator that helps to improve predictability and comparability. Operating EBIT came to €1,735 million (previous year: €1,755 million) in the period under review.

Operating free cash flow also warrants attention alongside BVA and operating EBIT. The cash conversion rate is calculated as the ratio of operating free cash flow to operating EBIT and serves as a measure of cash generated from business activities. Operating free cash flow does not reflect interest, tax, or dividend payments, is already adjusted for replacement and expansion investments, and is adjusted for special items. The Group aims to maintain a cash conversion rate of 90 to 100 percent as a long-term average. The cash conversion rate in financial year 2012 was 107 percent (previous year: 100 percent) and therefore above the target corridor.

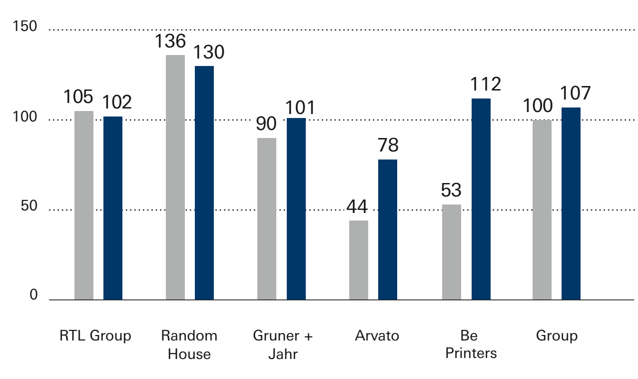
Bertelsmann's management and controlling system also includes the internal financial targets outlined under "Net Assets and Financial Position."

**BVA** in € millions[1)]




1) Figures adjusted for financial year 2011.

**Cash Conversion Rate** in percent[1)]




1) Figures adjusted for financial year 2011.

## Overall Economic Developments

The rate of growth of the global economy slowed during 2012. According to the Kiel Institute for the World Economy (IfW), the global real gross domestic product (GDP) rose by 3.2 percent in 2012 compared to growth of 3.8 percent in the previous year. In addition to the adjustment processes in the euro zone, the key factors behind the sluggish global economy were a lower growth dynamic in a number of threshold countries compared to previous growth rates.

In the period under review, the US economy remained on its moderate growth course. According to the US Bureau of Economic Analysis, the real GDP in the United States in 2012 was 2.2 percent compared to 1.8 percent in 2011. The key growth drivers were foreign trade and private consumption. The economy was also stimulated by the residential real estate market, which is slowly recovering.

In the wake of the subdued economic situation of several member states, the euro zone entered into recession in 2012. According to calculations by the Statistical Office of the European Union, GDP in real terms fell by 0.5 percent in 2012, having risen 1.4 percent in 2011. Declining domestic demand, high unemployment rates, and the consolidation measures implemented by indebted member states continue to hinder the economic recovery despite the latest political measures which have relieved the short-term pressure.

The economic expansion in Germany slowed progressively during 2012. According to the Federal Statistical Office, real GDP increased by 0.7 percent in 2012 compared to a rise of 3.0 percent in 2011. This is partly attributable to investment restraint by German companies in view of the continuing uncertain economic environment. Despite the weakness within the European sales markets, revenues from non-member countries helped to boost foreign trade. Private consumer spending and housing construction continued to generate economic growth.

## Developments in Relevant Markets

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

In Germany, the TV advertising market showed slight growth. The other European TV advertising markets, in contrast, clearly reflected local macroeconomic developments and largely declined in 2012, particularly those in Southern and Eastern Europe.

Overall, the book markets in the United States and the UK showed slight growth in 2012 which can be attributed, among other things, to the record-breaking success of the "Fifty Shades" trilogy by E L James published by Random House. The continuing strong growth of the e-book business and the exceptional bestseller performance compensated for the persistent decline of the physical book trade. Despite a decline in the retail book trade, the German book market proved stable overall thanks to the positive development of the digital business.

The magazine markets in Germany, France, and Spain in 2012 were characterized by sharply falling advertising business in some areas, while advertising marketing in China showed continued high growth. Magazine sales in the core European countries showed a slight decline due to a continuing downward trend in circulations.

The markets for services in the customer relationship management, supply chain management, finance, and IT sectors benefited from the ongoing trend toward outsourcing and posted significant growth. By contrast, the storage media markets declined significantly worldwide due to the increasing importance of digital forms of distribution.

The print markets for magazines, catalogs, and promotional materials in Europe continued to shrink overall in 2012. The print market for books in North America also declined further in 2012. These developments are creating ongoing price and volume pressure.

## Regulatory Environment

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

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

## Significant Events in the Financial Year

As of January 1, 2012, Arvato's European gravure printing activities and its offset printers in Southern Europe, the United States, and Colombia were combined into the independent division Be Printers. The reorganization will simplify Arvato's structure and enable it to focus more strongly on the rapidly growing services business. In May 2012 Bertram Stausberg was appointed as CEO of the new print unit Be Printers.

At the end of the successful fundraising phase, Bertelsmann announced the launch of the education sector University Ventures Fund I, L.P. on January 17, 2012. The fund joins other investors in forming partnerships with leading universities to spearhead courses of study and continuing education programs in Europe and the United States.

With effect from February 1, 2012 the Executive Board department of Corporate Development and New Businesses was created and Thomas Hesse was appointed to the Bertelsmann Executive Board with responsibility for the new department.

On February 20, 2012, RTL Group transferred all of its shares in the Greek Alpha Media Group to the co-shareholder and exited the Greek TV market.

The change of legal form from Bertelsmann AG to Bertelsmann SE & Co. KGaA announced in March 2012 was resolved at the Annual General Meeting of Bertelsmann AG on May 4, 2012. The change of legal form became effective when it was entered in the commercial register on August 20, 2012.

On April 18, 2012, Gerhard Zeiler resigned as CEO of RTL Group which meant that he also left the Bertelsmann Executive Board. Anke Schäferkordt, CEO of Mediengruppe RTL Deutschland, and Guillaume de Posch were appointed as new Co-CEOs of RTL Group. Anke Schäferkordt was appointed to the Bertelsmann Executive Board, Guillaume de Posch to the Bertelsmann Group Management Committee (GMC). In addition to the Bertelsmann Executive Board, the GMC is comprised of selected managers.

In July 2012, Bertelsmann issued a benchmark bond with a ten-year term in the amount of €750 million. In addition, the private placement performed in June 2012 for €75 million under the existing Debt Issuance Program with a term of 20 years was increased by €25 million in July 2012 to a total of €100 million.

On August 29, 2012, Bernd Buchholz, member of the Executive Board of Bertelsmann Management SE and CEO of Gruner + Jahr, resigned his mandate as member of the Bertelsmann Executive Board and resigned from the Gruner + Jahr Executive Board in September 2012.

As of October 15, 2012, Judith Hartmann is the new CFO of Bertelsmann. In this capacity, Judith Hartmann succeeds Thomas Rabe, who had held the office since the start of 2012 concurrently with his new role as Chairman and CEO of Bertelsmann.

In October 2012, Bertelsmann and Pearson announced that they will combine the activities of their respective book publishing companies, Random House and Penguin Group, under the name Penguin Random House. Bertelsmann will own 53 percent, Pearson 47 percent. The merger is subject to the approval of the responsible antitrust authorities. It is expected that the transaction will be able to be concluded in the second half of 2013 after the necessary official clearances have been obtained.

In November 2012, the print and publishing company Gruner + Jahr announced the partial closure of the business media publishing division. The "Financial Times Deutschland" newspaper closed after the last edition on December 7, 2012.

On November 30, 2012, Bertelsmann announced that Achim Berg will become CEO of Arvato AG and member of the Executive Board of Bertelsmann Management SE effective April 1, 2013. In these capacities, Achim Berg succeeds Rolf Buch, who resigned his mandate at the end of 2012.

In December 2012, Bertelsmann took over 100 percent of the shares in the book publishing group Random House Mondadori. The group operates in Spain and Latin America. Random House Mondadori was founded in 2001 as a 50/50 joint venture by the two publishing groups Random House and Mondadori.

# Results of Operations

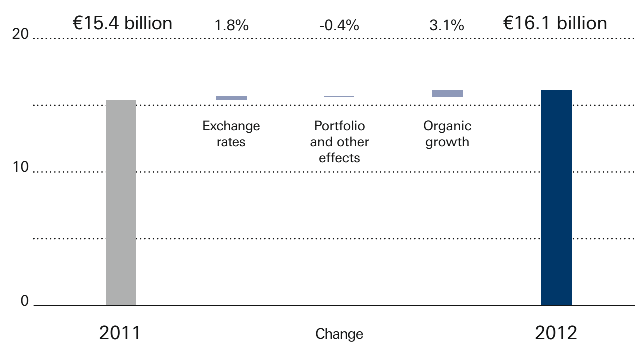
The following analysis of earnings performance relates to continuing operations as of December 31, 2012. No companies were classified as discontinued operations in the period under review. The book clubs in Russia and Ukraine as well as in the Czech Republic and Slovakia that were shown as discontinued operations in the previous year are once again integrated into continuing operations. Please refer to the section entitled "Performance of the Group Divisions" for a more detailed picture of the earnings situation.

## Revenue Development

Group revenues in financial year 2012 were €16.1 billion, 4.5 percent up on the previous year. The increase in revenue is primarily attributable to growth in TV production, a strong German television business, outstanding bestseller performance in the book publishing sector, and the continued growth of services. This was contrasted by lower advertising revenues in major European core markets and the structurally declining print and replication businesses. Organic growth in the Group was 3.1 percent when adjusted for portfolio and other effects as well as for exchange rate effects. The exchange rate effects were 1.8 percent and the portfolio and other effects were -0.4 percent.

RTL Group revenues rose 3.2 percent to €6,002 million (previous year: €5,814 million) in the period under review. This was mainly attributable to higher revenues at Fremantle Media and a positive business performance at Mediengruppe RTL Deutschland. By contrast, revenues in the core markets of France and the Netherlands declined. Thanks to an exceptional bestseller performance, Random House increased its revenues by 22.5 percent to €2,142 million (previous year: €1,749 million). Revenues at Gruner + Jahr were down 3.0 percent to €2,218 million (previous year: €2,287 million). Despite increasing revenues from new and digital businesses as well as positive currency effects, overall revenues fell due to the sharply declining advertising business in Germany, Austria, Poland, and Spain. Compared to the same period in the previous year, Arvato increased its revenues by 5.9 percent to €4,449 million (previous year: €4,201 million). In 2012, services in the finance and IT sectors in particular were very successful. On the other hand, replication revenues fell sharply. The print unit, Be Printers, posted a 2.1 percent drop in revenues to €1,174 million (previous year: €1,199 million) due to the structural decline of the print businesses. The revenues for businesses allocated to Corporate Investments fell by 7.1 percent to €471 million (previous year: €507 million). This development is largely attributable to the declining club and direct marketing businesses.

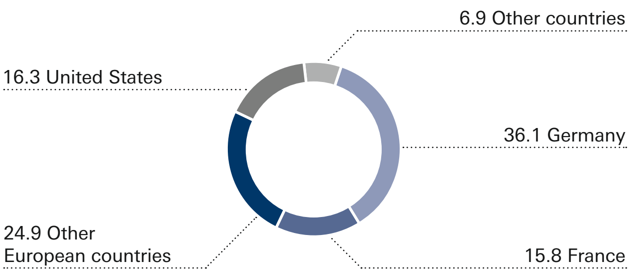
### Revenue Breakdown



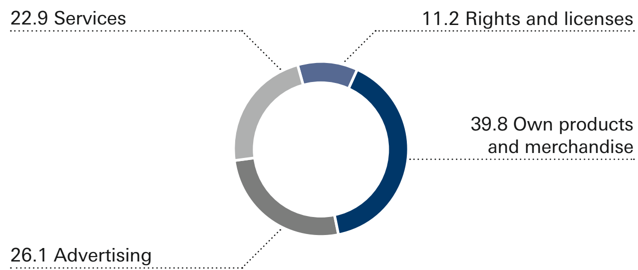

## Revenues by Division

| in € millions | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| | Germany | International | Total | Germany | International | Total |
| RTL Group | 2,110 | 3,892 | 6,002 | 2,013 | 3,801 | 5,814 |
| Random House | 288 | 1,854 | 2,142 | 276 | 1,473 | 1,749 |
| Gruner + Jahr | 993 | 1,225 | 2,218 | 1,015 | 1,272 | 2,287 |
| Arvato | 1,999 | 2,450 | 4,449 | 1,891 | 2,310 | 4,201 |
| Be Printers | 409 | 765 | 1,174 | 395 | 804 | 1,199 |
| Corporate Investments | 269 | 202 | 471 | 302 | 205 | 507 |
| Total revenues by division | 6,068 | 10,388 | 16,456 | 5,892 | 9,865 | 15,757 |
| Corporate Center/Consolidation | (263) | (128) | (391) | (272) | (117) | (389) |
| Continuing operations | 5,805 | 10,260 | 16,065 | 5,620 | 9,748 | 15,368 |

**Consolidated Revenues by Region** in percent




**Revenues by Category** in percent




There were only minor changes in the geographical breakdown of revenues from continuing operations compared to the previous year. The proportion of revenues generated in Germany was 36.1 percent compared to 36.6 percent in the previous year. The revenue share generated by France amounted to 15.8 percent (previous year: 17.1 percent). The share of total revenues generated by the other European countries amounted to 24.9 percent, compared to 26.4 percent in the previous year. The revenue share generated by the United States increased to 16.3 percent (previous year: 14.2 percent) and the other countries achieved a revenue share of 6.9 percent (previous year: 5.7 percent). This means that the proportion of total revenues attributable to countries other than Germany remained nearly unchanged at 63.9 percent (previous year: 63.4 percent). Year on year, there was only a slight change in the ratio of the four revenue streams (own products and merchandise, advertising, services, rights and licenses) to overall revenue.

## Results Breakdown

| in € millions | 2012 | 2011 |
|---|---|---|
| Operating EBIT by division | | |
| RTL Group | 1,065 | 1,121 |
| Random House | 325 | 185 |
| Gruner + Jahr | 168 | 233 |
| Arvato | 241 | 269 |
| Be Printers | 60 | 72 |
| Corporate Investments | (38) | (47) |
| Total operating EBIT by division | 1,821 | 1,833 |
| Corporate Center/Consolidation | (86) | (78) |
| Operating EBIT continuing operations | 1,735 | 1,755 |
| Special items | (405) | (322) |
| EBIT (earnings before interest and taxes) | 1,330 | 1,433 |
| Financial result | (315) | (398) |
| Earnings before taxes from continuing operations | 1,015 | 1,035 |
| Income taxes | (396) | (316) |
| Earnings after taxes from continuing operations | 619 | 719 |
| Earnings after taxes from discontinued operations | – | (107) |
| Group profit or loss | 619 | 612 |
| of which: Share of profit of Bertelsmann shareholders | 484 | 465 |
| of which: Non-controlling shareholders | 135 | 147 |

## Operating EBIT and Operating EBITDA

Bertelsmann achieved an operating EBIT of €1,735 million in financial year 2012 (previous year: €1,755 million). Return on sales was again in the double-digit range, reaching 10.8 percent after 11.4 percent in the previous year. The earnings were impacted during the year by the slowdown in important advertising markets due to the weak economy.

The operating EBIT of the RTL Group came to €1,065 million compared to €1,121 million in the same period last year. Earnings were affected by portfolio effects and decreasing TV advertising markets, in particular in France, the Netherlands, and Spain. This was contrasted by a markedly positive earnings performance at Mediengruppe RTL Deutschland. Random House benefited from the strong bestseller performance and reported a significant increase in operating EBIT to €325 million (previous year: €185 million). In addition, continued cost-cutting measures, higher book revenues, and lower returns had a positive effect on earnings. The operating EBIT of Gruner + Jahr fell from €233 million in the previous year to €168 million. This was mainly attributable to the decline in the advertising business in Germany, Austria, Poland, and Spain as well as continuous investments in new and digital businesses. At Arvato, the operating EBIT fell from €269 million in the previous year to €241 million as a result of the declining replication business and start-up losses for new businesses. The operating EBIT of Be Printers fell to €60 million (previous year: €72 million) due to lower capacity utilization as a result of the structurally declining demand in the print market and the reduction of the useful lives of property, plant and equipment. At Corporate Investments, the operating result improved to €-38 million compared to €-47 million in the previous year.

Operating EBITDA from continuing operations in financial year 2012 was €2,213 million (previous year: €2,243 million). The following table shows the breakdown of operating EBITDA by division:

### Operating EBITDA by Division

| in € millions | 2012 | 2011 |
|---|---|---|
| RTL Group | 1,253 | 1,311 |
| Random House | 352 | 211 |
| Gruner + Jahr | 213 | 279 |
| Arvato | 389 | 416 |
| Be Printers | 117 | 128 |
| Corporate Investments | (29) | (29) |
| Total operating EBITDA by division | 2,295 | 2,316 |
| Corporate Center/Consolidation | (82) | (73) |
| Operating EBITDA | 2,213 | 2,243 |

## Special Items

The special items in the period under review increased to €-405 million compared with €-322 million for the same period in the previous year. Most of the items relate to expenses in structurally declining businesses. A total of €-312 million (previous year: €-332 million) is attributable to print, replication, direct marketing, and Southern European media businesses; special items in the amount of €-47 million resulted from the partial closure of the business media publishing division at Gruner + Jahr.

The special items consisted of impairment losses totaling €-147 million, capital gains and losses of €12 million, and restructuring expenses and other special items totaling €-270 million. Impairments were carried out in particular for the Spanish operations of Gruner + Jahr and the Spanish TV channel Antena 3. As outlined, the restructuring expenses and other special items are attributable to structurally declining businesses. A detailed list of special items can be found in section 7 of the Notes to the consolidated financial statements.

## EBIT

Adjusting the operating EBIT for special items of €-405 million (previous year: €-322 million) resulted in an EBIT of €1,330 million. The deviation of €-103 million from the previous year's figure of €1,433 million is primarily attributable to the decline in operating EBIT and high special items.

## Group Profit or Loss

The year-on-year financial result improved by €83 million to €-315 million. The deviation stemmed mainly from lower earnings shares in partnerships held by non-controlling shareholders, particularly at Gruner + Jahr. Tax expenses from continuing operations rose from €-316 million in the previous year to €-396 million. This produced after-tax earnings from continuing operations of €619 million (previous year: €719 million).

Group earnings also amounted to €619 million (previous year: €612 million), as no companies are classified as discontinued operations in the period under review. The share held by non-controlling shareholders was €135 million (previous year: €147 million). The share of Group profit held by Bertelsmann shareholders was €484 million (previous year: €465 million). At the Annual General Meeting of Bertelsmann SE & Co. KGaA, a dividend payout of €180 million will be proposed for financial year 2012 (previous year: €180 million).

# Net Assets and Financial Position

## Financial Guidelines

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

Capital allocation is made centrally by Bertelsmann SE & Co. KGaA and its financing company, Bertelsmann U.S. Finance LLC. Bertelsmann SE & Co. KGaA provides the Group companies with liquidity and manages the issuance of guarantees and letters of comfort for Group companies. The Group consists largely of a single financial unit, thereby optimizing capital procurement and investment opportunities. The Group's balanced maturity profile with a high proportion of medium- and long-term maturities also helps to ensure financial flexibility.

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One key financial target is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA and limited to the defined maximum of 2.5. Economic debt is defined as net financial debt plus provisions for pensions, profit participation capital, and the net present value of operating leases. Like the operating EBITDA, the economic debt may be modified for calculation purposes if necessary.

As of December 31, 2012, the Group had a leverage factor of 2.3 (December 31, 2011: 2.4). As a result of a high level of cash generated by business activities, the net financial debt as of December 31, 2012 fell significantly to €1,218 million (December 31, 2011: €1,809 million). The continued decline in discount interest rates resulted in a further increase of €413 million in provisions for pensions to €2,151 million. In view of this, as of December 31, 2012 economic debt was only reduced slightly to €4,778 million from €4,913 million in the previous year.

Another key financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA (after modifications) to financial result, which is supposed to be above 4.0. The coverage ratio was 6.5 in the past financial year (previous year: 5.2) thanks to a lower operating EBITDA and an improved financial result. The Group's equity ratio of 32.2 percent was above the self-imposed minimum of 25 percent.

### Financial Targets

| | Target | 2012 | 2011 |
|---|---|---|---|
| **Leverage factor:** Economic debt/operating EBITDA[1] | < 2.5 | 2.3 | 2.4 |
| **Coverage ratio:** Operating EBITDA/financial result[1] | > 4.0 | 6.5 | 5.2 |
| **Equity ratio:** Equity to total assets (in percent) | > 25.0 | 32.2 | 33.9 |

1) After modifications.

## Bonds, Promissory Notes, US Private Placements

| Issue volume in millions | Issuer | Maturity | Type | Effective interest rate in % |
|---|---|---|---|---|
| USD 200 | Bertelsmann U.S. Finance LLC | 4/17/2013 | US private placement | 5.230% |
| EUR 750 | Bertelsmann SE & Co. KGaA | 1/16/2014 | Bond | 7.875% |
| EUR 500 | Bertelsmann SE & Co. KGaA | 2/25/2014 | Promissory note | 5.050% |
| EUR 30 | Bertelsmann SE & Co. KGaA | 3/24/2014 | Promissory note | 6.000% |
| USD 200 | Bertelsmann U.S. Finance LLC | 4/17/2015 | US private placement | 5.330% |
| EUR 500 | Bertelsmann SE & Co. KGaA | 10/6/2015 | Bond | 3.625% |
| EUR 1,000 | Bertelsmann SE & Co. KGaA | 9/26/2016 | Bond | 4.750% |
| EUR 60 | Bertelsmann SE & Co. KGaA | 5/4/2019 | Promissory note | 4.207% |
| EUR 750 | Bertelsmann SE & Co. KGaA | 8/2/2022 | Bond | 2.625% |
| EUR 100 | Bertelsmann SE & Co. KGaA | 6/29/2032 | Bond | 3.700% |

## Financing Activities

Bertelsmann bought back its own promissory notes with a nominal value of €30 million in financial year 2012. In addition, Bertelsmann swapped promissory notes falling due in 2014 with a nominal value of €60 million for promissory notes with the same value falling due in 2019. Moreover, Bertelsmann used the low interest rate in financial year 2012 to raise long-term capital. In June 2012, a private placement was carried out under the existing Debt Issuance Program in the amount of €75 million with a 20-year term and this was increased by a further €25 million in July 2012 to a total of €100 million. Also in July 2012, a benchmark bond with a ten-year term was issued in the amount of €750 million. The bond, which is listed in Luxembourg, has a fixed coupon of 2.625 percent. In September 2012, a bond with an issue volume of €500 million was redeemed; €45 million of this bond was already acquired in advance via the capital market.

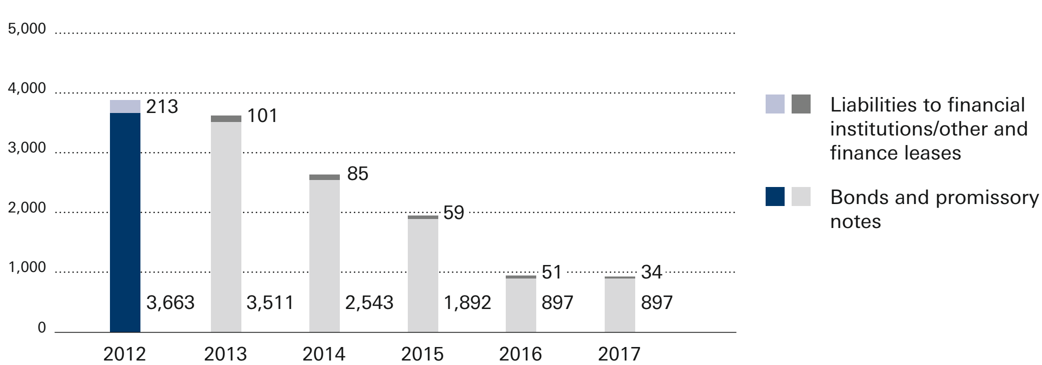
## Rating

Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The agency ratings facilitate access to the international capital markets and are therefore a key element of Bertelsmann's financial security. Bertelsmann is rated by Moody's as "Baa1" (outlook: stable) and by S&P as "BBB+" (outlook: stable). Both credit ratings are in the investment grade category and meet Bertelsmann's target rating. Bertelsmann's short-term credit quality rating is "P-2" from Moody's and "A-2" from S&P.

## Lines of Credit

In addition to the available liquidity, the Bertelsmann Group has access to a syndicated loan with a term through to 2017. This forms the backbone of the strategic credit reserve, and Bertelsmann can utilize this to draw down up to €1.2 billion of

## Maturity Structure of Financial Debt in € millions



revolving funds in euros, US dollars, and pounds sterling. As in the previous year, Bertelsmann did not make use of this line of credit in financial year 2012.

### Cash Flow Statement

The total earnings before interest and taxes is the starting parameter for preparing the Bertelsmann cash flow statement. In the period under review, Bertelsmann generated net cash from operating activities of €1,876 million (previous year: €1,791 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,861 million (previous year: €1,728 million), and the cash conversion rate was 107 percent (previous year: 100 percent), above the target corridor (see the section entitled "Value-Oriented Management System"). The cash flow from investing activities came to €-617 million (previous year: €-903 million). This included investments in intangible assets and fixed and financial assets of €567 million (previous year: €715 million). Proceeds from the sale of subsidiaries and other business units and disposal of other fixed assets increased year on year from €76 million to €93 million. The purchase prices for consolidated investments (net of acquired cash and cash equivalents) amounted to €-88 million (previous year: €-241 million).

The cash flow from financing activities came to an outflow of €-382 million in the period under review (previous year: €-1,137 million). The change is mainly attributable to long-term borrowing of financing instruments as reported under "Financing Activities." The line item "Change in equity" includes the outflow of funds for additional acquired shares in companies already fully consolidated, which totaled €12 million (previous year: €177 million). Dividends paid to the shareholders of Bertelsmann SE & Co. KGaA came to €-180 million (previous year: €-180 million). Dividends to non-controlling shareholders and other payments to shareholders came to €-213 million (previous year: €-272 million).

As of December 31, 2012, Bertelsmann had cash and cash equivalents of €2.7 billion (previous year: €1.8 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 showed a moderate year-on-year decline. The off-balance-sheet liabilities in place as of December 31, 2012 had no significant negative effects on the Group's net assets, financial position, and results of operation.

### Group Cash Flow Statement (Summary)

| in € millions | 2012 | 2011 |
|---|---|---|
| Cash flow from operating activities | 1,876 | 1,791 |
| Cash flow from investing activities | (617) | (903) |
| Cash flow from financing activities | (382) | (1,137) |
| Change in cash and cash equivalents | 877 | (249) |
| Currency effects and other changes in cash and cash equivalents | 5 | 7 |
| Cash and cash equivalents 1/1 | 1,778 | 2,020 |
| Cash and cash equivalents 12/31 | 2,660 | 1,778 |
| Less cash and cash equivalents included with assets held for sale | (2) | (14) |
| Cash and cash equivalents 12/31 (according to the Group balance sheet) | 2,658 | 1,764 |

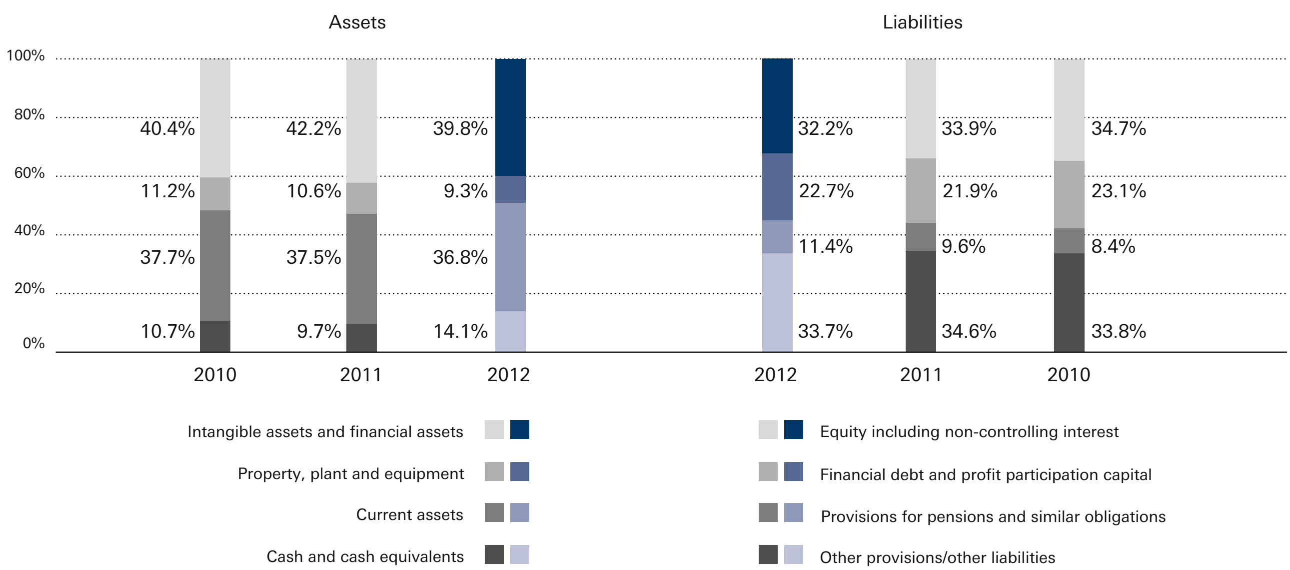
### Investments

As expected, total investments of €655 million in the cash flow statement during financial year 2012 were down on the previous year (€956 million). As in previous years, the majority of the €270 million investment in property, plant and equipment (previous year: €334 million) stemmed from Arvato. Investments in intangible assets came to €177 million (previous year: €173 million). These stemmed primarily from RTL Group and involved the acquisition of film rights. An amount of €120 million was invested in financial assets (previous year: €208 million). Purchase prices for consolidated investments (less acquired cash and cash equivalents) in the period under review totaled €88 million (previous year: €241 million) and related primarily to the full takeover of Random House Mondadori.

### Investments by Division

| in € millions | 2012 | 2011 |
|---|---|---|
| RTL Group | 251 | 371 |
| Random House | 53 | 28 |
| Gruner + Jahr | 49 | 55 |
| Arvato | 207 | 202 |
| Be Printers | 26 | 36 |
| Corporate Investments | 67 | 248 |
| Total investments by division | 653 | 940 |
| Corporate Center/Consolidation | 2 | 1 |
| Discontinued operations | – | 15 |
| Total investments | 655 | 956 |

### Balance Sheet



## Consolidated Balance Sheet

Total assets increased to €18.9 billion as of December 31, 2012 (previous year: €18.1 billion). The increase is primarily attributable to higher cash and cash equivalents of €2.7 billion (previous year: €1.8 billion). Equity came to €6.1 billion, which is in line with the previous year's figure. As a result of the increased total assets, the equity ratio fell slightly from 33.9 percent in the previous year to 32.2 percent. Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €5.3 billion (previous year: €5.3 billion). Provisions for pensions and similar obligations increased significantly from €1,738 million in the previous year to €2,151 million due to further declines in the long-term capital market interest rates that must be applied in discounting the obligations for which provisions must be set aside. Gross financial debt increased from €3,573 million to €3,876 million as of December 31, 2012 due to borrowing by means of long-term financing instruments reported under "Financing Activities." Apart from that, the balance sheet structure remained largely unchanged from the previous year.

## Profit Participation Capital

Profit participation capital had a nominal value of €301 million as of December 31, 2012, which is unchanged from the previous year. If the effective interest method is applied, the carrying amount of profit participation capital is €413 million as of December 31, 2012 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of notional profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of nominal value. The lowest closing rate of the 2001 profit participation certificates in financial year 2012 was 212.50 percent in January, their highest was 249.00 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 notional value, subject to the availability of sufficient Group profit and profit at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will be made for financial year 2012.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, have only 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, which is not used as an internal performance indicator. As the return on total assets for financial year 2012 was 6.39 percent (previous year: 6.37 percent), the payout on the 1992 profit participation certificates for financial year 2012 will be 7.39 percent of their notional value (previous year: 7.37 percent).

The payout distribution date for both profit participation certificates is expected to be in May 2013. 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

The leading European entertainment network faced a challenging economic environment in 2012. With the exception of Germany, TV advertising markets declined in almost every European country. RTL Group increased its revenues, while operating EBIT was slightly down year on year. Revenues increased by 3.2 percent to €6.0 billion in the reporting period (previous year: €5.8 billion), while operating EBIT declined by 5.0 percent to €1.1 billion (previous year: €1.1 billion). Return on sales was 17.7 percent (previous year: 19.3 percent). At year-end, RTL Group had 11,931 employees (December 31, 2011: 12,184). The Group underwent a change in leadership: Anke Schäferkordt and Guillaume de Posch have led RTL Group as co-CEOs since mid-April 2012.

The increase in revenues was primarily driven by the production arm Fremantle Media and a strong performance by Mediengruppe RTL Deutschland. Germany's record operating EBIT was offset by the effects of decreasing advertising markets in all other territories.

RTL Group maintained its leading position in the audience markets despite increasing fragmentation and the broadcast of sporting events such as soccer's European Championships and the Summer Olympics on competing channels. Advertising market shares were added in Germany and France.

Mediengruppe RTL Deutschland had its best business year ever, increasing its revenues as well as – and especially – its operating profit. The flagship company RTL Television maintained its market leadership in its main target demographic for the 20th consecutive year, retaining a significant lead over the competition. In April 2012, the unit successfully launched free-to-air digital channel RTL Nitro.

In France, decreasing advertising sales impacted Groupe M6 revenues and earnings. Operating EBIT was also impacted by higher program costs for soccer's European Championships. Meanwhile, the main channel, M6, increased its total audience share. In December, Groupe M6 launched the new digital channel 6ter.

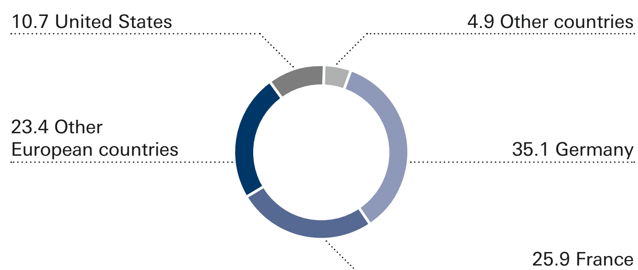
RTL Nederland reported lower revenues, and operating EBIT declined due to its exit from the radio business. The Dutch family of channels with the flagship RTL 4 maintained its clear market leadership among young viewers.

At Fremantle Media, a positive business performance, particularly in North America, and exchange rate effects led to increasing revenues, while operating EBIT declined slightly. Fremantle Media's show formats achieved high ratings in all major television markets. The company has been under the leadership of Cécile Frot-Coutaz since July.

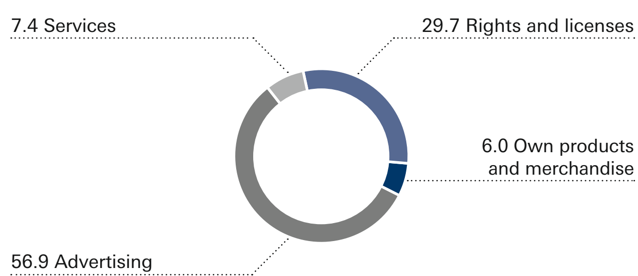
RTL Group's online platforms and mobile applications recorded steep growth and high traffic figures. The Group's channels also launched a number of new digital offerings. Fremantle Media developed several YouTube special-interest channels with professionally produced video content.

In February, the sale of RTL Group shares in Greece's Alpha Media Group was completed. In Spain, Grupo Antena 3 merged with its competitor La Sexta in October.

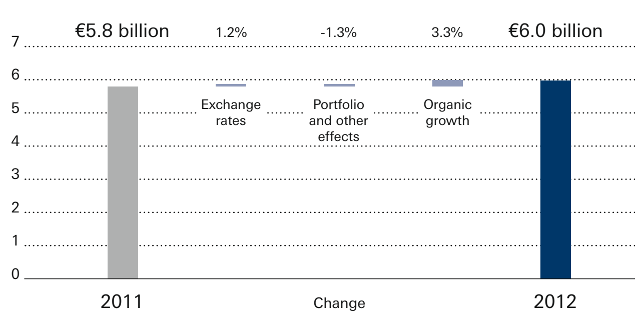
**Revenues by Region** in percent (without intercompany revenues)




**Revenues by Category** in percent




**Revenue Breakdown**



## Random House

The world's leading trade publishing group harnessed the power of its content portfolio, most notably the "Fifty Shades" trilogy, to achieve a record financial year in 2012. Revenues increased 22.5 percent to €2.1 billion (previous year: €1.7 billion), and operating EBIT rose significantly by 75.7 percent to €325 million (previous year: €185 million). Return on sales was 15.2 percent after 10.6 percent in the previous year. At year-end 2012, Random House had 5,712 employees (December 31, 2011: 5,343). In late October, Bertelsmann and Pearson announced the future combination of their trade book publishers, Random House and Penguin. Pending antitrust approvals, the transaction is scheduled to close in the second half of 2013.

During the reporting period, Random House posted year-on-year increases in revenue and operating EBIT across all its territories. Growth was driven primarily by numerous big-selling titles with cost management, a lower returns rate, and currency effects impacting favorably on the results.

From March to December 2012, Random House's English-, German-, and Spanish-language publishing divisions sold more than 70 million print, audio, and e-book editions of E L James's "Fifty Shades" trilogy, making it the fastest-selling series in the company's history. The novels were the year's biggest sellers in the United States, the world's largest book market, where Random House placed 252 titles on the 2012 "New York Times" bestseller lists, including 33 at number one. Among other top US titles were "Gone Girl" by Gillian Flynn; "Thomas Jefferson" by Jon Meacham; and John Grisham's "The Racketeer."

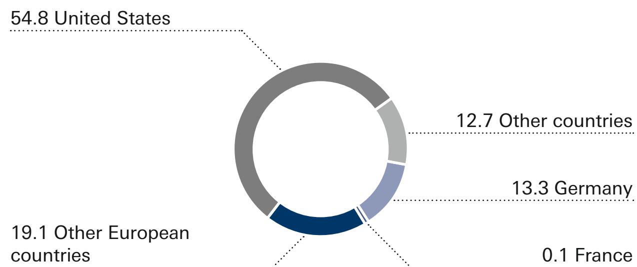
Random House Group UK contributed 28 number one bestsellers and almost one-quarter of all titles on the "Sunday Times" bestseller lists, led by the "Fifty Shades" trilogy; "A Wanted Man" by Lee Child; Rod Stewart's autobiography "Rod"; and "Private Games" by James Patterson.

Germany's Verlagsgruppe Random House recorded growth in a flat book market; results were lifted by paperback and e-book sales revenues. In the Spanish-language markets, Random House Mondadori also improved its revenues and operating EBIT despite the ongoing economic crisis in Spain. The publishing company has been wholly owned by Random House since December 2012: Bertelsmann acquired Mondadori's 50 percent stake in the company in order to expand Random House's position in Spain, as well as its access to the growing book markets of Latin America.

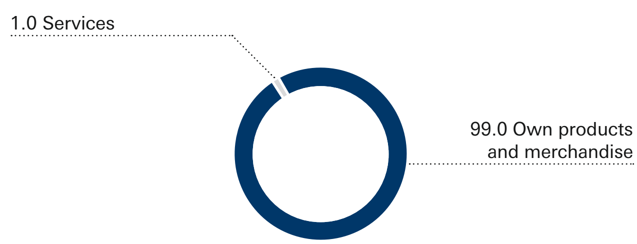
Random House further underscored its cutting-edge role in the transformation to digital with the expansion of its e-book catalog to over 47,000 titles, the launch of author portals, new apps, and the increasing integration of social media in its book marketing.

Random House authors won numerous prestigious awards in 2012, including a US National Book Award for Katherine Boo's "Behind the Beautiful Forevers."

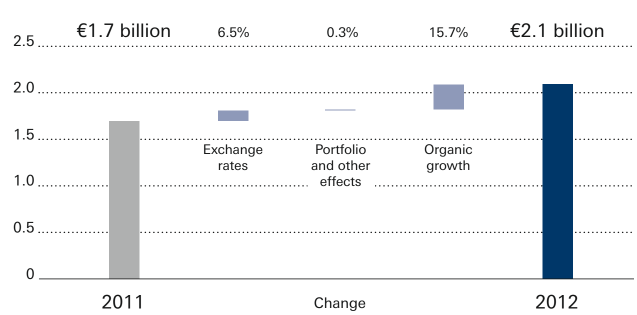
### Revenues by Region in percent (without intercompany revenues)




### Revenues by Category in percent




### Revenue Breakdown



## Gruner + Jahr

In 2012, the magazine publishing company Gruner + Jahr recorded a moderate drop in revenues and a marked fall in operating profit as the advertising markets declined. Revenues came to €2.2 billion after €2.3 billion in the previous year (-3.0 percent). Operating EBIT fell by 27.9 percent to €168 million (previous year: €233 million), also because of increased investment in the transformation to digital, new businesses, and structural adjustments. Return on sales was 7.6 percent (previous year: 10.2 percent). At year-end, Gruner + Jahr employed 11,585 people (December 31, 2011: 11,822). In September 2012 a change of leadership took place at Gruner + Jahr, and the company has since been jointly run by Julia Jäkel, Torsten-Jörn Klein, and Achim Twardy.

G+J Germany did not match the previous year's record results. While sales revenues were largely stable, the advertising business declined. The positive advertising and sales performance of several G+J titles and successful new launches such as "Couch" and "Women's Health" only partially offset this. Due to a lack of economic prospects, the business paper "Financial Times Deutschland" was discontinued in December. The associated high one-time expenses are included under special items. The titles "Impulse" and "Börse Online" were subsequently sold. The business magazine "Capital" will be continued in Berlin with a new editorial concept. The "Agenda" and "Life" publishing groups were restructured during the reporting period.

Gruner + Jahr's digital marketing agency EMS and the performance marketer Ligatus recorded dynamic growth; Ligatus also advanced its internationalization by entering the market in Turkey. Gruner + Jahr continued to work intensively on making its content and marketing offers available on all digital channels.

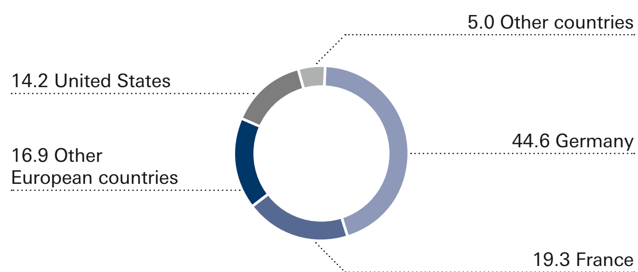
In France, Gruner + Jahr gained advertising and reader market shares in a tough economic environment. The transformation to digital was driven forward with several acquisitions and organic expansion. Against the backdrop of a structural decline in sales revenues, Prisma Média's revenues and earnings were slightly below the previous year's level. Verlagsgruppe News in Austria saw an advertising sales-related fall in revenues and earnings, and operations in Southern and Eastern Europe developed negatively in light of the continuing poor economic conditions. G+J Uitgevers in the Netherlands reported a solid revenue performance and strengthened its position in the fashion and beauty segment with the launch of the magazine "Vogue." Gruner + Jahr performed well in Asia and further expanded its operations in India by acquiring the online and mobile marketers Networkplay and Seventynine.

In China, the publishing group significantly expanded its corporate publishing business and achieved a record result overall.

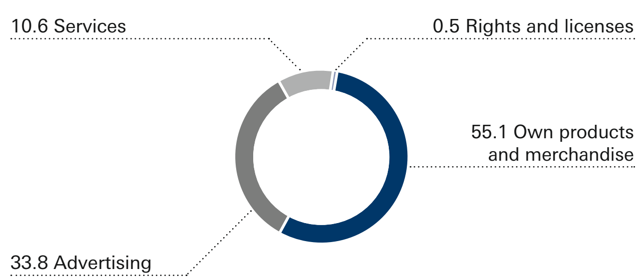
Dresdner Druck- und Verlagshaus once again reached a high level of revenues and earnings by successfully developing new business. The Brown Printing Company in the United States grew its revenues and earnings due to currency effects.

Numerous G+J journalists and authors won awards for their work during the reporting period.

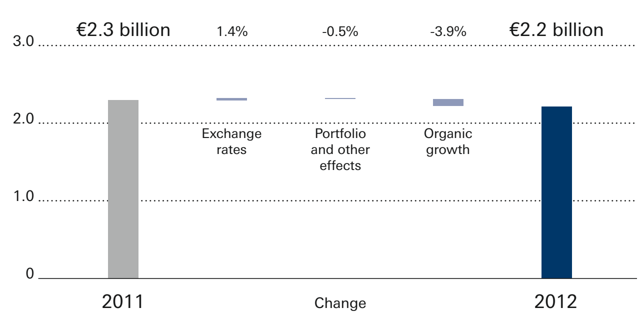
**Revenues by Region** in percent (without intercompany revenues)




**Revenues by Category** in percent




**Revenue Breakdown**



## Arvato

Arvato, the global business process outsourcing service provider, recorded dynamic revenue growth and a decline in operating EBIT in 2012. During the reporting period, the company's operations were reorganized to reinforce Arvato's focus on the high-growth services sector. The gravure printing operations and the international printers were spun off as of January 1, 2012, and now form the new Be Printers division. All figures, including those of the previous year, have been adjusted accordingly. Arvato is concentrating on the establishment and expansion of its businesses in the core European countries, as well as on global high-tech and Internet customers, e-commerce services, financial services, and emerging markets, particularly China. In November 2012, a change in leadership was announced: Rolf Buch left the company at year-end. Achim Berg will replace him as head of Arvato on April 1, 2013.

In 2012, Arvato's revenues increased by 5.9 percent to €4.4 billion (previous year: €4.2 billion). Operating EBIT fell by 10.4 percent to €241 million (previous year: €269 million). Return on sales was 5.4 percent after 6.4 percent the previous year. Arvato employed 63,818 people at year-end (December 31, 2011: 61,257).

Growth was mainly driven by IT services at Arvato Systems, Arvato Infoscore's integrated financial services in Europe, and the services business in North America and China. As expected, revenues from storage media replication continued to decline. Among other things, the operating EBIT reflects start-up losses in connection with the expansion of new businesses, including in the area of e-commerce.

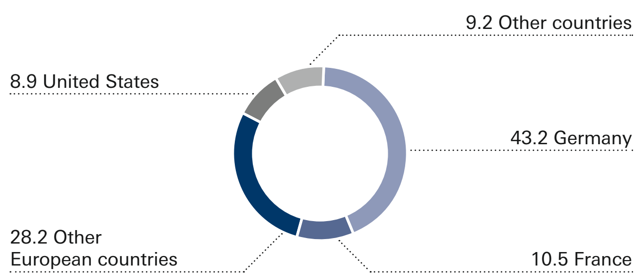
Arvato significantly improved its position in key growth markets and industries in 2012. In China, the company significantly expanded its in-house logistics network and its services business developed dynamically. In India, too, it expanded existing business relationships and acquired new customers.

In the core European markets, Arvato recorded a satisfactory business performance given the difficult economic situation, particularly in Southern Europe. Revenues from customers in the North American IT and high-tech industry increased significantly. For instance, Arvato took over the entire digital distribution process of the new operating system, Windows 8, for Microsoft.

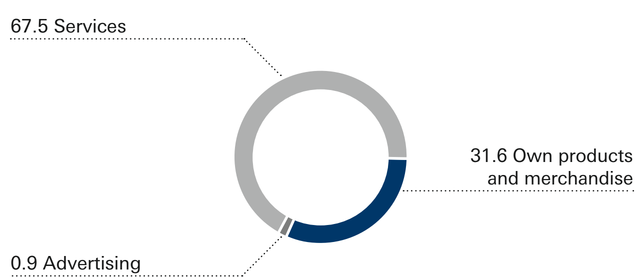
In the field of government services, Arvato entered into another major public-private partnership project with Slough Borough Council in the UK, and in France innovative solutions were realized for public sector businesses and institutions.

In the financial services segment, Arvato recorded profitable growth, among other things from new products such as online payment solutions, as well as through the establishment and development of innovative services for companies in the energy and utility industries.

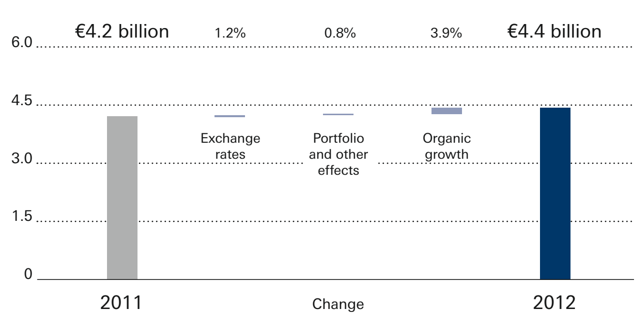
**Revenues by Region** in percent (without intercompany revenues)




**Revenues by Category** in percent




**Revenue Breakdown**



## Be Printers

Be Printers was established in 2012 when major printing activities were spun off from the Arvato division, and it has bundled the Group's gravure operations (including Prinovis) in Germany, the UK, and Southern Europe, as well as Bertelsmann's offset printing plants in Southern Europe, the United States, and Colombia. Bertram Stausberg has simultaneously managed Be Printers and Prinovis since May 2012. The division recorded largely stable revenues and a decline in operating profit in a difficult market. All figures for the previous year are presented on a comparable basis. Revenues for the financial year amounted to €1.2 billion, 2.1 percent less than in the previous year (€1.2 billion). Operating EBIT declined by 16.7 percent to €60 million (previous year: €72 million). Return on sales amounted to 5.1 percent (previous year: 6.0 percent). At year-end Be Printers employed 6,380 people (December 31, 2011: 7,068).

In the period under review, the Be Printers printing businesses were significantly affected by a fall in demand due to the increasing redistribution of advertising budgets to digital channels and declining print runs, as well as by continued price erosion due to high excess capacity. In the UK, upheavals faced by a major customer had a further negative effect. In Southern Europe, the repercussions of the local economic crisis also impacted the printers.

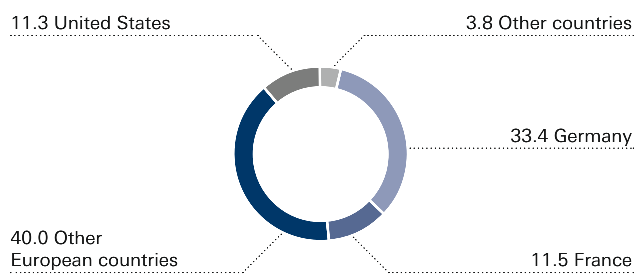
Be Printers responded by initiating programs to boost efficiency and reduce costs; expanding its range; and leveraging synergies. Also, a new digital press at OPM in the United States and more efficient rotary presses at German Prinovis locations served to increase competitiveness. The reduction of useful life for property, plant and equipment had a negative impact on earnings.

The Prinovis gravure group cushioned the negative market effects with cost management, improved sales activities, and the development of new products and services. The increasing market adjustment also had a positive impact on sales. Overall, however, Prinovis saw a decline of its revenues and earnings.

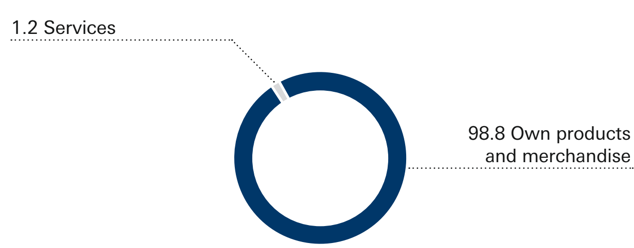
The Southern European printers also operated in a challenging market environment. In the reporting period a new management structure was introduced to create synergies and sales advantages. While the Spanish printers held their own comparatively well, the Italian offset printing firm Arti Grafiche and the Arti Grafiche Johnson calendar business were under considerable pressure. There were staff cuts in the offset sector. Printer Portuguesa was sold during the reporting period.

In the United States, Be Printers was able to win major new customers; however, the business showed a decline after adjustments for exchange rates. The concentration of machines and staff at the Berryville site generated positive cost effects.

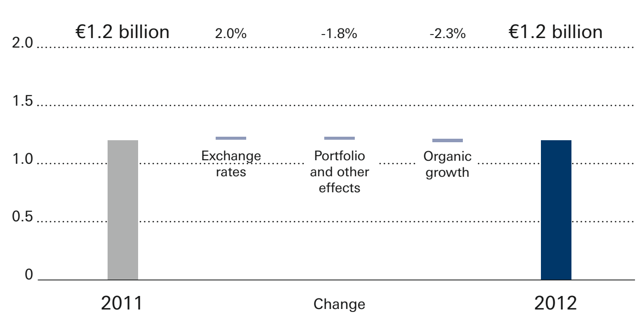
**Revenues by Region** in percent (without intercompany revenues)




**Revenues by Category** in percent




**Revenue Breakdown**



### Corporate Investments/Corporate Center

In 2012 the Corporate Investments division, which encompasses Bertelsmann's remaining operating activities, recorded revenues of €471 million (previous year: €507 million) and an operating EBIT of €-38 million (previous year: €-47 million).

The music rights company BMG, jointly operated by Bertelsmann and KKR, further expanded its market position through organic growth and acquisitions. BMG integrated the music publisher Bug Music in the reporting period, and acquired the publishers R2M and Dreyfus Music. In December 2012, the takeover of Universal/EMI's Mute catalog (recorded music), and Sony/EMI's Virgin/Famous catalog (music publishing) was agreed, subject to regulatory approval. Strategically, BMG increased its focus on the master rights business, and signed new contracts with many international and national artists.

At the beginning of the year, Bertelsmann entered the growth market of education. The Group joined other prominent investors in setting up the University Ventures Fund to launch innovative degree and continuing-education programs in Europe and the United States. Investments were made in the American education provider University Now, as well as in companies that offer online degree programs in partnership with accredited universities or that are developing customized – in some cases bilingual – degree programs for target groups such as Hispanics or physicians.

The Bertelsmann Digital Media Investments (BDMI) and Bertelsmann Asia Investments (BAI) funds further expanded their portfolios to a total of 61 shareholdings at the reporting date. For example, BDMI invested in the Spanish online marketing specialists "Whisbi" and in the New York-based Web publisher "Food52," while BAI invested in the leading Chinese used-car portal "UXP" and the popular mobile health platform "Chunyu." In both India and Brazil two investments were made in leading VC funds.

The club and direct marketing operations continued to decline in 2012. Revenues fell significantly. The businesses' results stabilized, but high restructuring costs were incurred. At the German clubs, the focus was on branch closures, cost measures, and the expansion of digital activities. The direct-sales company Inmediaone recorded a decline in orders. The Eastern European subsidiaries remain in the Group and were reincorporated under continued operations.

The Corporate Center supervised important strategic processes and provided assistance in the planned combination of Bertelsmann and Pearson's book publishing businesses into the new Penguin Random House group. The Corporate Center also actively supported the establishment of the Group Management Committee (GMC) and of a new Executive Board department for Corporate Development and New Businesses led by Thomas Hesse, as well as the appointment of Judith Hartmann as the Group's new CFO. During the year, the Corporate Center also managed the Group's change of legal form from Aktiengesellschaft (stock corporation) to SE & Co. KGaA (partnership limited by shares). In 2012 Bertelsmann opened two more Corporate Centers in India and Brazil to support the expansion of business activities there.

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

Overall, the development of Bertelsmann's business was very solid in financial year 2012. The strong German television business, outstanding bestseller performance in the book publishing sector, and the continued growth of service businesses offset the decline in other European advertising markets and structurally declining businesses.

Group revenues from continuing operations rose to €16.1 billion (previous year: €15.4 billion) in the period under review. Organic growth adjusted for portfolio and exchange rate effects was 3.1 percent. Operating EBIT came to €1,735 million, down from €1,755 million in the previous year. Record earnings at Random House, Mediengruppe RTL Deutschland, and Arvato Infoscore were offset by declining advertising revenues in a number of important advertising markets and budgeted expenses as part of the strategic transformation of the Group. The return on sales of 10.8 percent maintained earnings at a good level. Despite higher special items, the Group profit of €619 million was 1.1 percent above last year's level.

In financial year 2012, the Executive Board pushed ahead in implementing the Group's strategic realignment. Bertelsmann aims to achieve a more rapidly growing, digital, and international portfolio in the future. Four strategic approaches have been defined in order to achieve these objectives: strengthening the core businesses, driving forward the digital transformation, developing growth platforms, and expanding into growth regions. Major steps toward implementation were already made in the period under review. RTL Group expanded its family of channels significantly. In addition, the planned merger between Random House and Penguin Group makes it possible to advance the digital transformation even more rapidly, to develop new distribution channels, and to be able to build up new businesses in growth regions. The transaction is due to be completed in the second half of 2013, subject to approval from the antitrust authorities. Gruner + Jahr bundled the digital businesses in the core German market and Arvato focused on rapidly growing services by spinning off the main printing activities. The new Executive Board department, Business Development and New Businesses, which was formed in 2012, will support the further expansion of growth platforms and the development of new businesses in the growth regions.

Bertelsmann's net assets and financial position remain balanced. Liquidity of €2.7 billion as of December 31, 2012 provides sufficient financial security. The credit ratings from Moody's and S&P, which are important for the capital market, were in the target investment grade category at "Baa1/BBB+," respectively. Overall, Bertelsmann ended financial year 2012 satisfactorily and remains in a solid financial position.

## Significant Events after the Balance Sheet Date

On January 1, 2013, Christoph Mohn became the new Supervisory Board Chairman of Bertelsmann SE & Co. KGaA. In August 2012, the Board elected Christoph Mohn as the successor to Gunter Thielen, who resigned his office at the end of 2012 and left the Board. Parallel to this, the Supervisory Board of Bertelsmann Management SE (general partner of Bertelsmann SE & Co. KGaA) also elected Christoph Mohn as its new Chairman. In this capacity, Christoph Mohn also succeeded Gunter Thielen as of January 1, 2013.

In January 2013, Bertelsmann informed the RTL Group's Executive Board that the Group was reviewing opportunities to reduce its participating interest in the RTL Group via a capital market transaction. Any proceeds would be invested in a flexible way in new strategic growth businesses and thus support Bertelsmann's growth strategy. A final decision to sell the shares has not yet been taken.

In February 2013, the Prinovis Group, which is part of Be Printers, announced the closure of the Itzehoe gravure printing location in the second half of 2014. The decision was triggered primarily by the persistently difficult situation in the European gravure printing market due to high price pressure and low volumes. The closure of the location will mean financial burdens for the Group in the mid-double-digit million euro range.

On February 14, 2013, Bertelsmann reported that the formation of Penguin Random House had been cleared by the U.S. Department of Justice. The planned combination of the book publishing companies of Bertelsmann and Pearson into the new Penguin Random House publishing group was unconditionally approved by the U.S. Department of Justice. Since the announcement, the planned transaction has been undergoing review by antitrust authorities in various parts of the world.

On March 1, 2013, Bertelsmann announced its full takeover of the music rights company BMG after acquiring the remaining shares previously held by Kohlberg Kravis Roberts & Co. (KKR). The transaction, which is still subject to regulatory approval, is scheduled to close during the first half of this year.

On March 8, 2013, Bertelsmann reported that the formation of Penguin Random House had been cleared by the ACCC in Australia. The planned combination of the book publishing companies of Bertelsmann and Pearson into the new Penguin Random House publishing group was unconditionally approved by the ACCC. Since the announcement, the planned transaction has been undergoing review by antitrust authorities in various parts of the world.

## Non-Financial Performance Indicators

### Employees

At the end of the financial year, the Group had 104,286 employees worldwide (previous year: 102,752). The increase of 1,534 employees is attributable to both organic growth and acquisitions. In 2012, there were 1,254 people (previous year: 1,284) serving in trainee positions in Bertelsmann companies in Germany.

Implementing and developing the partnership-based corporate culture is one of the top priorities of Human Resources (HR). As part of the strategic reorganization of the Group which began in 2012, an intensive review of the Group's HR strategy was also carried out. A number of priority action areas for HR management were identified and corresponding initiatives launched on the basis of the Group strategy and a close dialog with Group executives. For example, the remuneration system for senior executives was revised. The system which had previously been dominated by certain objectives was extended to include other objective criteria, including a number of qualitative criteria. Thus, among other things, the quality of management performance is included as a criterion for determining variable remuneration.

Success was also achieved in the area of diversity. For the first time, two women have been appointed to the Bertelsmann Executive Board. Furthermore, the Group Management Committee (GMC) has members from seven countries including five women. In addition, Bertelsmann aims to promote diversity at all levels of the company; in order to achieve this goal, a Group-wide diversity strategy was developed and a global status quo analysis was carried out.

To highlight talented employees within the Group, the GMC addressed inter-divisional talent development. As a specific project designed to support talent development and diversity management, the Bertelsmann Sponsorship project was initiated in fall 2012. Over an 18-month partnership, selected junior executives from all divisions will be partnered with GMC members and provided with special support.

In addition, the Group has improved the training and continuing education courses that it offers. As a result, it was decided in spring 2012 to introduce a Group-wide learning management system. The system, which is geared to the needs of companies, creates transparency in respect of the continuing education courses that are available. In parallel, Bertelsmann University and Bertelsmann Academy are continuously working on the development of their portfolio of courses in line with the new Group strategy.

Partnership at Bertelsmann primarily means working with our employees to shape the company. However, this also requires shared agreements and, above all, strong stakeholders. For this reason, Bertelsmann encourages dialog between individual stakeholders as well as dialog between stakeholders and the Bertelsmann management. In view of this, the works councils of all Bertelsmann companies in Germany met at the Group dialog conference in March 2012 in order to exchange ideas about a number of key topics. The key topic of health, which was established at the conference, was explored in more depth in the annual review between the Corporate Works Council and the Bertelsmann Executive Board and supplemented with concrete measures. Based on the results of a comprehensive review of activities within Germany, it was decided to coordinate the existing individual measures more closely and to expand the company health management system.

Bertelsmann has been a leader in the area of employee profit sharing and profit participation since 1970. Thus, in 2012, a total of €107 million was distributed to employees based on the positive business results generated worldwide in the previous year.

### Corporate Responsibility

Corporate responsibility is firmly established in the Bertelsmann corporate culture as one of the four Bertelsmann Essentials. Since 1974, the company has regularly published an account of our commitment and activities in addition to our financial performance targets. In order to satisfy the growing demands of its stakeholders, Bertelsmann provides relevant information on key areas such as the collaborative relationship with employees, ethics and compliance, responsibility for media content, and the use of natural resources on the Bertelsmann Corporate Responsibility portal (www.bertelsmann.com/responsibility). Since 2008, the company has been a member of the UN Global Compact and, as part of the annual progress reporting, provides comprehensive information about the corporate responsibility measures that have already been realized and those that are planned. The individual divisions are especially active in employee responsibility, promoting reading and media literacy, aid and donation campaigns through the media, responsibility for content, and environmental and climate protection.

Bertelsmann's "be green" environmental initiative stands for social responsibility, optimized resource efficiency, and green growth potential. Supported by the independent Institute for Energy and Environmental Research (IFEU), Bertelsmann produces a regular carbon footprint and environmental impact report based on the globally acknowledged requirements of the GHG Protocol. For Bertelsmann, the carbon footprint report is an important component in the process of learning as a company to use resources even more efficiently and remain competitive over the long term. On June 5, 2012, UN World Environment Day, the global "be green Day" was held for the third time across the Group to make employees aware of the "be green" strategy: 55 locations in 16 countries took part – from Berlin to New York to Shanghai.

### Innovations

Businesses traditionally invest in the research and development of new products in order to ensure their long-term competitiveness. The media sector has a similar imperative to create innovative media content and media-related products and services in a rapidly changing environment. This means that for Bertelsmann, the key to success lies not only in traditional research and development activities but in its unique power of innovation. Long-term commercial success depends heavily on using flexible business models, investing in growth markets, and integrating new technologies. Innovative expertise is also an important driver of Bertelsmann's organic growth, so it is very important for the Group.

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

RTL Group's innovation management is focused on three core topics: developing and acquiring new, high-quality TV formats; using all digital distribution means; and working more closely and flexibly with its advertising customers. In 2012, the production subsidiary Fremantle Media launched a large number of initiatives to spearhead the development of new successful formats – particularly in the show, US fiction, children's entertainment, and gaming segments. In the digital age, expanding non-linear and mobile TV services is very important. As well as the rapidly growing, ad-financed catch-up TV services such as "RTL Now" in Germany and "M6 Replay" in France, the channels in the RTL Group are also working to establish pay models in the on-demand business. For example, viewers with a "Pass M6" subscription in France can watch new episodes of popular new US series just 24 hours after they are first broadcast on US television. TV content is also available as a mobile function on tablets and smartphones. The complementary use of TV and Internet via second screen services such as "RTL Inside" or "Devant ma TV" offers RTL Group numerous opportunities to create an even closer bond between its viewers, programs, and advertisers. Fremantle Media broadcasts its TV content on digital platforms such as Lovefilm, Netflix, and YouTube. The expansion of online video advertising is one of the key digital growth segments for RTL Group. For example, in October 2012, RTL Nederland took over Videostrip, which is the largest online video advertising network in the Netherlands. Synergy committees act as an organizational platform for exchanging information and knowledge in the decentralized RTL Group. These are made up of executives and experts from the RTL Group operating units and Corporate Center and hold meetings several times a year.

Random House continuously identifies and develops authors' new works, marketing them to the largest possible audience in all existing and emerging formats. The publisher already offers over 47,000 e-books worldwide, while developing innovative product formats and new digital services. Through the increased focus on social media activities, the publishing group provides its readers with new opportunities to discover content and exchange ideas with their favorite authors. In 2012, Random House also expanded its range of services offered for authors through the launch of a virtual information and service platform (Random House Author Portal) in the United States and Canada, through a TV partnership with Fremantle Media, and through investments in advanced analysis and research tools.

Gruner + Jahr continues to drive forward the innovative development of its core business. The development is closely oriented towards Gruner + Jahr's core competencies – high-quality independent journalism and excellent customer service. The same also applies to investments in the digital business where the focus is on targeting groups of readers and users to whom Gruner + Jahr now offers unique content. In 2012, the digital activities in Germany were bundled in organizational terms in order to be able to respond faster and therefore more efficiently to technological changes and to improve coordination. The main priority is the transformation of the journalistic content to all digital channels. Another focus is the expansion of mobile marketing. Gruner + Jahr is thereby following the high growth dynamic in the market for mobile end devices and services the increasing demand from advertising customers. In the international markets, the focus in 2012 was on acquisitive projects, particularly in France and India, as well as on the digital transformation. Through acquisitions in the online and mobile marketing segment, Gruner + Jahr consistently expanded its involvement in the Indian market. In addition to India, China also remained a focus of Gruner + Jahr's activities thanks to the high growth dynamic, with investments in print and digital businesses.

One particular emphasis at Arvato is to push the continuous launch and development of integrated services, advancing new business models while tapping into new application fields and markets. An innovative service portfolio is being developed based on specific customer requirements.

Be Printers is investing in and developing print-related solutions and products for its customers in order to strengthen the business relationship through additional offers. In 2012, innovations in the digital solutions sector were developed further. These primarily consist of the POS Marketing Terminal (customer terminal for retailers), the Prinovis eMagazine (apps for publishers, retailers, and e-commerce), and an investment in augmented reality. In addition, Be Printers is continuously working on concepts for the further development of print products, in particular looking at the interaction with digital media.

## Risks and Opportunities

### Risk Management System

The purpose of the Bertelsmann risk management system (RMS) is the early identification, evaluation, and control of internal and external risks. The internal control system (ICS), an integral component of the RMS, controls and monitors the risks that have been identified. The aim of the RMS is to identify, at an early stage, material risks to the Group so that countermeasures and controls can be implemented. Risks are potential internal and external developments that can negatively affect the achievement of strategic, operational, reporting-related and compliance-related objectives of the Group.

The risk management process complies with recognized national and international norms and is organized in subprocesses of identification, quantification, management, control, and monitoring. A major element of risk identification is the risk inventory that lists significant risks year by year, from the profit center level upward, and then aggregates them step by step at the division and Group levels. This ensures that risks are registered where their impact would be felt. There is also a Group-wide reassessment of critical risks every six months and quarterly reporting with negative feedback. 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. Identified and quantified risks are compared against management and control measures to determine the so-called net risk. A three-year risk assessment horizon is applied to enable the timely implementation of risk management measures. 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 Executive Board and Supervisory Board of Bertelsmann SE & Co. KGaA. Corporate risk management committees and divisional risk meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

Under section 91 (2) of Germany's Stock Corporation Act (AktG), the auditors inspect the risk early warning system for its capacity to identify developments early on that could threaten the existence of Bertelsmann SE & Co. KGaA, then report their findings to the Supervisory Board. Corporate Audit conducts ongoing reviews of the adequacy and functional capability of the RMS in the divisions of Random House, Arvato, and Be Printers as well as the Corporate Investments and Corporate Center segments. The risk management systems of RTL Group and Gruner + Jahr are evaluated by the respective internal auditing departments of those divisions and by external auditors. Any problems that are identified are promptly remedied through appropriate measures. The Bertelsmann Executive Board defined the scope and focus of the risk management system 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 is proper and reliable in accordance with applicable laws and that information is made available without delay. Reporting should also present a true and fair view of Bertelsmann's net assets, financial position, and results of operation. The following statements pertain to the consolidated financial statements (including the Notes and Management Report), interim reporting, and internal management reporting.

The ICS for the accounting process consists of the following areas: The Group's internal rules for accounting and the preparation of financial statements (e.g., IFRS manual, guidelines, circulars) are made available without delay to all employees involved in the accounting process. The consolidated financial statements are prepared in a reporting system that is uniform throughout the Group. Extensive automatic system controls ensure the consistency of the data in the financial statements. The system is subject to ongoing development through a documented change process. Systematized processes for coordinating intercompany business operations 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), then verified by external experts as required. Central contacts from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with the local subsidiaries to ensure IFRS-compliant accounting as well as compliance with reporting deadlines and obligations. These preventive measures are supplemented by specific controls in the form of analyses by the Corporate Financial Reporting department of Bertelsmann SE & Co. KGaA and RTL Group (for the preconsolidated subgroup). The purpose of such analyses is to identify any remaining inconsistencies. The Group- and division-level controlling departments are also integrated into the internal management reporting. Internal and external reporting are reconciled during the quarterly segment reconciliation process. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The findings of the external and internal auditors and Corporate Audit are promptly discussed with the affected companies, and solutions are developed. A Group-wide standardized questionnaire is used in an annual self-assessment to obtain a snapshot of the quality of the ICS in the key Group companies. The findings are discussed in Audit and Finance Committee meetings at the divisional level.

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

## Significant Risks to the Group

Bertelsmann is exposed to a variety of risks. The major risks to Bertelsmann identified in the risk reporting are outlined in the table below.

### Overview of Major Risks to the Group

| Type of risk | Potential financial loss (expected value) |
|---|---|
| Strategic and operational risks | |
| Changes in market environment | Significant |
| Customer risks | Significant |
| Cyclical development of economy | Significant |
| Supplier risks | Significant |
| Employee-related risks | Moderate |
| Pricing and discounting | Moderate |
| Audience and market share | Moderate |
| Technological challenges | Moderate |
| Legal and regulatory risks | Moderate |
| Financial market risks | Low |

Given the diversity of core business fields in which Bertelsmann is active and the corresponding diversity of risks to which the various divisions are exposed, the key strategic and operational risks to the Group identified below are broken down by business segment. This is followed by an outline of legal and regulatory risks and of financial market risks. These risks are largely managed at the corporate level.

### Strategic and Operational Risks

The rate of growth of the global economy slowed during 2012. There is continuing uncertainty over the future development of the European sovereign debt crisis even if there are signs that the situation is easing somewhat. The economic slowdown in important European core markets is having an increasing impact on business performance. Bertelsmann expects business development for 2013 to remain stable or to decline marginally in view of the rather weak economic growth, continuing uncertainty, and higher investments. In addition to the risk from economic development, other significant Group risks include the risks from changes in the market environment and customer and supplier risks. How these risks develop depends, among other things, to a large extent on changes in customer behavior due to factors such as the digitization of media, the development and implementation of products and services by current and future competitors, bad debt losses, and default and interference along the production chains in individual sectors such as IT. IT risks could emerge through external threats, but also through the complexity of non-standardized processes. Bertelsmann's exposure to employee-related risks and risks from pricing and discounting, audience and market shares, and technological challenges is moderate.

RTL Group is exposed to diverse risks. Economic development directly impacts the advertising market and therefore RTL Group revenue. A decrease in audience shares could lead to decreasing revenues. RTL Group actively monitors international market changes and program trends increasingly in the digital world, where audiences generally have more choice, while market entry barriers are reduced. Higher competition in program acquisition, ongoing audience fragmentation, and expansion of platform operators may also impact RTL Group's ability to generate revenues. Apart from potential cost increases triggered by content suppliers, the business can be impacted by the risk of losing key suppliers of content and customers. RTL Group's strategy is thus to further diversify its business by establishing complementary families of channels and utilizing the opportunities presented by digitization.

The book market is facing a transformation process. Particularly the transition to digital and the changing pricing models are creating both challenges and opportunities for Random House. The concentration on major customers represents a significant risk for Random House. Other risks arise from the entry of non-traditional publishers into the market and the decline in retail space in bricks-and-mortar bookstores. Higher paper prices on the supplier side and the economic uncertainty in markets, where Random House is active, are further risks. Random House is facing increased pressure on margins both for e-books as well as for physical books.

Apart from the economic development, the risks from a changing market environment constitute the greatest risks for Gruner + Jahr. A deterioration of the overall economic environment can lead to declining advertising and circulation revenues, and the probability of increasing bad debt losses and loss of customers is growing. Higher agency discounts as a result of the increasing use of trading models in the German advertising markets and the growing significance of digital advertising is leading to falling margins. There is also the risk of further losses in the overall advertising market share of its popular magazines. Given the increasing competition, there is a general threat of price declines in the print sector. On the supplier side, there is still a risk from rising paper prices that in some circumstances can only be passed along to customers to a limited extent.

Arvato sees itself particularly exposed to risks from a changing market environment, economic risks, as well as risks from customer and supplier relationships. The markets in which Arvato operates (primarily replication) are characterized by overcapacities and show sustained price pressure. In other areas, competitors are following Arvato's strategy by expanding their value chains. New competitors entering the market could intensify the competitive pressure and lead to lower margins. A worsening of the economic environment could result in declining revenues and thus lower contribution margins which would necessitate cost-cutting measures and capacity downsizing. On the procurement side is the risk that the procured intermediate products could be of inferior quality, leading to corresponding subsequent costs. Furthermore, rising energy prices in Germany, which can only be passed on to customers to a certain extent, and falling waste material revenues are putting pressure on Arvato's margins. Other risks include the loss of key customers and bad debt losses. The loss of key customers was a relatively minor risk in the past thanks, in particular, to active key account management, long-term contracts, and integrated service elements. The ongoing trend toward digitization entails further risks for individual customer segments of Arvato, particularly in manufacturing and distribution of physical media products.

The economic environment of Be Printers is characterized by shrinking markets and overcapacities. Risks can arise from a continuing market concentration leading to tougher price competition and lower margins. In structural terms, there is a greater dependence on a few major customers. A deterioration in the economic environment may lead to declining circulations with a negative impact on earnings. The same applies to the increasing spread of digital end devices which is resulting in a decline in printed media. There are further risks associated with rising raw materials prices – particularly for paper – that cannot be passed on to customers.

Corporate Investments includes, among other things, the Group's remaining book club and direct marketing activities. Other significant risks alongside economic risks include purchasing power, consumer behavior, customer activation, and retention.

Finally, it should be noted that due to demographic change a greater emphasis in the risk reporting is placed on employee-related risks such as a shift in the age distribution of the workforce, challenges in recruiting qualified personnel, and the departure of top executives. This risk applies to all segments.

### Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is always exposed to a variety of legal and regulatory risks ranging from litigation to varying interpretations of tax assessment criteria.

RTL II filed, in November 2008, legal actions against IP Deutschland, a wholly owned subsidiary of RTL Group, and Seven One Media ("SOM") as a result of the proceedings in 2007 of the German Federal Cartel Office against the discount scheme agreements ("share deals") offered by IP Deutschland and SOM. MTV Networks (Viacom) and Tele München TV (Tele 5) filed similar actions against IP Deutschland in August 2009 and in December 2009 respectively. RTL II, Viacom, and Tele 5's claims are currently limited to access to information on the basis of which the claimants want to evidence that they suffered damages from these discount schemes. Courts in Munich and Düsseldorf decided in first instance either to dismiss the claims or to order expert opinions.

At the end of January 2013, Kabel Deutschland (KDG) appealed a decision of the German Federal Cartel Office to settle a case in accordance with section 32b of the German Act Against Restraints of Competition following commitments of the channels of Mediengruppe RTL Deutschland to broadcast digital channels in standard quality unencrypted and to refrain from certain restrictions on the usage of digital signals in standard quality. KDG did not yet provide the reasoning of the appeal.

Since 2011, the EU Commission and the U.S. Department of Justice have been conducting proceedings against five publishing houses and Apple on grounds of alleged anticompetitive practices relating to the sale of e-books. No investigations into Random House/Bertelsmann are ongoing. In an initial move, three of the five book publishers implicated in the proceedings agreed to settlements with the U.S. Department of Justice and these have since been confirmed by the courts. The EU Commission has negotiated and agreed settlements with four book publishers and Apple. The Penguin Group and another publishing house subsequently reached a similar settlement with the U.S. Department of Justice. The EU Commission proceedings against the Penguin Group have not yet been completed. After the settlement is confirmed by the court and after completion of the planned merger, the new Penguin Random House company will also be bound to the settlement.

Foreign investments in media companies in the People's Republic of China are subject to restrictions. In order to comply with local legal provisions, some of the Bertelsmann participations in China are held by trustees. Bertelsmann has agreements with these trustees with respect to the securing of Bertelsmann's rights. This type of structure is common for investments in China and has been tolerated by the Chinese authorities for many years. However, a basic risk exists that it will not be possible to safeguard such structures through Chinese courts if the People's Republic should change its policies towards foreign investment and, for example, no longer recognize off-shore investments in general or in the media area in particular. In addition, it cannot be ruled out that Chinese authorities or courts in the future will interpret existing provisions differently from the previous practice. In the event that legal violations can be proven, in an extreme case, Bertelsmann could be exposed to considerable fines and the revocation of business licenses leading to immediate closure of participations in China.

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

### Financial Market Risks

As an international corporation, Bertelsmann is exposed to various forms of financial market risk, especially interest rate and currency risks. These risks are largely controlled centrally on the basis of guidelines established by the Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann uses currency derivatives mainly to hedge recorded and future transactions involving foreign currency risk. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount increasing over time. A number of subsidiaries are based outside the euro zone. The resulting translation risk is managed based on economic debt in relation to operating EBITDA (leverage factor). Bertelsmann's long-term focus is on the maximum leverage factor permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. Interest rate derivatives are used centrally for the balanced management of interest rate risk. The cash flow risk from interest rate changes is centrally monitored and controlled as part of interest rate management. The aim is to achieve a balanced ratio of different fixed interest rates by selecting appropriate maturity periods for the originated financial assets and liabilities affecting liquidity, and through the ongoing use of interest rate derivatives. The liquidity risk is regularly monitored on the basis of the planning calculation. The existing syndicated loan as well as appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in invested cash and cash equivalents and in the default of a counterparty in derivatives transactions. Financial transactions and financial instruments are restricted to a firmly defined group of banks with an excellent credit rating. The guidelines for investing cash and cash equivalents is continuously reviewed and expanded to reflect current economic developments. The financial investments are generally made on a short-term basis so that the investment volume can be reduced if the credit rating changes (see also further explanatory remarks on "Financial Risk Management" in section 25 of the Notes).

### Significant Changes Compared with the Previous Year

Overall, the Group risks are essentially the same as those existing as of December 31, 2011. Nonetheless, the significance of individual types of risk has changed. The highest uncertainty is now associated with the risks from changes in the market environment. Risks from audience and market shares and technological challenges have become more significant. The overall risk position increased compared with the previous year.

### Overall Risk

Thanks to the diversification of Group businesses, there are no concentration risks stemming from dependency on individual business partners or products in either procurement or sales. The Group's financial position is solid, with liquidity needs currently covered by ready cash and available lines of credit.

No risks endangering Bertelsmann's continued existence were identified in financial year 2012. Nor are there any substantial risks discernible from the current perspective that could threaten the continued existence of the Group.

### Opportunity Management System

An efficient opportunity management system enables Bertelsmann to increase its corporate success in the long term and to exploit potential in an optimum way. The opportunities are determined as possible internal company and external developments or events that can positively influence the expected business development. The opportunity management system, like the risk management system, is an integral component of the business processes and company decisions. During the planning process, the significant opportunities are determined each year, from the profit center level upward, and then aggregated step by step at the division and Group levels. By recording and controlling them on several reporting levels, opportunities that arise can be identified and used at an early stage. In addition, a transparent and inter-divisional overview of Bertelsmann's current opportunities position is created. A review of major changes in opportunities is conducted at divisional level every six months. In addition, the largely decentralized opportunity management is coordinated by central departments in the Group. The Executive Board department of Business Development and New Businesses continuously pursues strategic opportunity potential and seeks to derive synergies through targeted cooperations in the individual divisions. The inter-divisional experience transfer is reinforced by regular meetings of the Group Management Committee.

### Opportunities

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

Strategic opportunities can be derived primarily from the Group's four strategic approaches. Strengthening core businesses, driving forward the digital transformation, developing growth platforms, and expanding in growth regions constitute the most important growth opportunities for Bertelsmann (see section "Strategy"). Furthermore, there is potential for efficiency improvements, possibly more favorable economic development, and individual operational opportunities in the existing divisions. For RTL Group, the TV advertising markets in some core markets could develop better than expected. The many different application possibilities for the increasingly digital means of distribution allow RTL Group to target their end customers and advertising customers more effectively. At Random House, successful debut publications, strong market growth, and higher e-book revenues provide further opportunities. Gruner + Jahr has opportunities in international markets through new and digital businesses. Furthermore, the advertising and circulation revenues may develop better than expected. At Arvato, the ongoing trend toward outsourcing and the successful development of new businesses is creating opportunities. Above all, the global growth of e-commerce operations and the attractive sector of high-tech and Internet customers represents additional growth potential for Arvato. For Be Printers, opportunities lie in continuing to specifically address growing market segments. The existing innovation efforts in the individual divisions offer further potential opportunities which are presented in the section "Innovations."

Changes to the legal and regulatory framework may also create additional opportunities.

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

Overall, the global economy will slowly start to recover after the downturn. According to the winter forecast by the Kiel Institute for the World Economy (IfW), global production will expand 3.4 percent in 2013, after 3.2 percent growth in 2012. A key influencing factor remains the future development of the European sovereign debt crisis. Stronger global growth of 3.9 percent is again expected for 2014.

The IfW expects that the real economic growth in the United States will be about 1.5 percent in 2013 and about 2.5 percent in 2014. In the euro zone, the recession will initially continue and the real gross domestic product (GDP) will shrink by 0.2 percent in 2013. The economic development of the individual countries continues to show a very mixed picture. However, positive growth of 0.9 percent is already expected for 2014. For the UK, the IfW expects real economic growth of 0.6 percent in 2013 and 1.2 percent in 2014. Similarly, the German economy will not be able to avoid a temporary downturn. The IfW expects real GDP to grow by 0.3 percent in 2013, but the real increase is expected to be about 1.5 percent in 2014.

The forecast assumes that tensions in connection with the sovereign debt crisis in the euro zone will gradually ease, and business confidence will not be undermined by any further deterioration in the economic situation.

### Anticipated Development in Relevant Markets

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

In 2013 the uneven development of the advertising markets is expected to continue. The conservative expectations as well as the weak basic macroeconomic trends in a number of important core countries are also influenced by the low visibility in the advertising market. A generally stable development is expected for the book markets in the United States, the UK, and Germany; meanwhile, the shift to digital will continue. The magazine business in 2013 is expected to show a continued decline of the advertising and circulation markets in the core countries. In 2013, the services markets are expected to achieve growth similar to 2012, and the storage media markets are expected to decline at a faster rate due to the globally falling demand and increasing digitization. Meanwhile, the print markets for magazines, catalogs, and promotional materials in Europe and for books in the United States are expected to continue to decline in 2013.

### Expected Trend of Revenue and Earnings

Given the persistently uncertain economic environment, forecasts for the coming year are fraught with significant risks. The following expectations are based on a normalization of the overall economic situation and assume that most of the predictions of the research institutions will be realized.

The economic expectations for the geographic core markets of Western Europe and the United States form the basis of Bertelsmann's expected business development in financial years 2013 and 2014. The European advertising markets that are important for Bertelsmann are particularly affected by the uncertain economic situation. Correspondingly, an economic downturn would have a negative impact on advertising revenues. With the revenue and earnings share within the euro zone expected to remain at around 75 percent, the future development of Group revenues and operating EBIT is initially derived from the forecasted economic development. The IfW assumes that nominal GDP in the euro zone will increase by 1.7 percent in 2013 and 2.7 percent in 2014. The OECD predicts that nominal GDP in the euro zone will increase by 1.2 percent in 2013 and 2.4 percent in 2014. In real economic terms, the euro zone remains in recession. The IfW estimates that the European economy will shrink by 0.2 percent in real terms in 2013 and that the economic downturn will not end until 2014 when real growth of 0.9 percent is expected. In view of the subdued economic expectations and the remaining uncertainty, Bertelsmann's business performance in 2013 is expected to be in the range between the real and nominal GDP development of the euro zone. Furthermore, the expectations of a normalized business development in the book business are characterized by the exceptional bestseller performance in financial year 2012. It will not be possible to maintain the record figures achieved at Random House in 2012 in subsequent years. In view of this, Bertelsmann is expecting Group revenues to remain stable or to decline slightly. The operating EBIT will also be moderately below the previous year's figure in financial year 2013 due to budgeted start-up costs. With the anticipated economic recovery of the euro zone in 2014, slight growth of Group revenues and moderate growth of operating EBIT is expected. Irrespective of the continuing market uncertainty, the objective remains an average Group-level return on sales of at least 10 percent in 2013 and 2014. Investments in intangible assets and fixed and financial assets for financial year 2013 are expected to be in line with the 2012 level (€567 million). 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 is expected to be appropriate in the forecast period.

Looking to 2013, economic conditions remain challenging in line with local market conditions, and visibility continues to be limited. Facing this environment, RTL Group has a clear focus on maintaining its leadership positions and delivering financially while pursuing opportunities in broadcasting, content, and digital which will develop the business further in future years. If net advertising market and market shares of RTL Group remain unchanged, Bertelsmann would see RTL Group's revenue and operating EBIT on levels not materially different from the previous year. After its record year in 2012, Random House assumes that financial year 2013 will again show normalized revenues and operating EBIT. This means that revenues and operating EBIT will fall significantly year on year. The future business performance will be supported by a continuing stable situation in the book markets and constantly growing e-book sales. In financial year 2013, Gruner + Jahr expects advertising and circulation revenues in the European core markets to continue to decline. The moderate decline in revenues and the significant decline in operating EBIT can only be partially offset by the increasing business in the digital sector and in the growth regions of China and India. In financial year 2013, Arvato will profit from the solid growth of the service businesses and the expansion of new businesses. Revenue will only increase slightly, however, due to the declining replication businesses. Year on year, Arvato's operating EBIT should be slightly higher despite higher start-up losses for new businesses. In financial year 2013, Be Printers expects continued volume and price pressure in the print business and lower year-on-year revenues. Operating EBIT will also decline significantly despite further cost optimizations due to the reduction of the useful lives of property, plant and equipment.

If the economic expectations are not accurate, which cannot be excluded given the current situation on the financial markets and the possible consequences for the real economy, there is a risk that the actual development may vary greatly from the aforementioned expectations. For this reason, the Executive Board has made provisions for implementing contingency measures if the development is worse than expected. Given the fact that the divisions have prepared corresponding adjustments, it may be possible to absorb a major portion of the revenue decline through cost-cutting measures. In an extreme scenario, the expected compensation rate (cost decline compared to revenue decline) would be over 50 percent and the return on sales would be above 9 percent. Thanks to Bertelsmann's solid financial basis and adequate liquidity, the materialization of this scenario would initially have only a slight negative effect on Bertelsmann's net assets and financial position. Depending on the scope and duration of the economic slowdown, however, the effects on Bertelsmann's business development could be expected to be more negative.

These forecasts are based on Bertelsmann's current business strategy as outlined in the "Business and Economic Conditions" section. In general, the forecasts reflect a careful consideration of risks and opportunities and are based on operational planning and the medium-term outlook for the corporate divisions. All statements concerning potential economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying suppositions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

# Group Financial Statements

## Group Income Statement

| in € millions | Notes | 2012 | 2011 (adjusted) |
|---|---|---|---|
| Revenues | 1 | 16,065 | 15,368 |
| Other operating income | 2 | 482 | 550 |
| Changes in inventories | | 209 | 218 |
| Own costs capitalized | | 30 | 22 |
| Cost of materials | | (5,848) | (5,588) |
| Royalty and license fees | | (985) | (898) |
| Personnel costs | 3 | (4,768) | (4,524) |
| Amortization, depreciation and impairment charges for intangible assets and property, plant and equipment | 4 | (680) | (646) |
| Other operating expenses | 5 | (3,089) | (3,197) |
| Results from investments accounted for using the equity method | 6 | 3 | 28 |
| Impairments on investments accounted for using the equity method | 6 | (85) | (6) |
| Results from financial assets | 6 | (16) | 4 |
| Capital gains/losses | | 12 | 102 |
| EBIT (earnings before interest and taxes) | | 1,330 | 1,433 |
| | | | |
| Interest income | 8 | 22 | 46 |
| Interest expenses | 8 | (206) | (211) |
| Other financial income | 9 | 111 | 101 |
| Other financial expenses | 9 | (242) | (334) |
| Financial result | | (315) | (398) |
| | | | |
| Earnings before taxes from continuing operations | | 1,015 | 1,035 |
| Income taxes | 10 | (396) | (316) |
| Earnings after taxes from continuing operations | | 619 | 719 |
| | | | |
| Earnings after taxes from discontinued operations | | – | (107) |
| | | | |
| Group profit or loss | | 619 | 612 |
| | | | |
| attributable to: | | | |
| Bertelsmann shareholders | | | |
| Earnings from continuing operations | | 484 | 572 |
| Earnings from discontinued operations | | – | (107) |
| Earnings attributable to Bertelsmann shareholders | | 484 | 465 |
| | | | |
| Non-controlling interests | | | |
| Earnings from continuing operations | | 135 | 147 |
| Earnings from discontinued operations | | – | – |
| Earnings attributable to non-controlling interests | | 135 | 147 |

The figures from the previous year have been adjusted. Further details are presented in the section “Discontinued Operations” on page 95.

## Group Statement of Comprehensive Income

| in € millions | Notes | 2012 | 2011 |
|---|---|---|---|
| Group profit or loss | | 619 | 612 |
| | | | |
| Currency translation differences | | | |
| – Changes recognized in equity | | (10) | 32 |
| – Reclassification adjustments for gains (losses) included in profit or loss | | 9 | (4) |
| Available-for-sale financial assets | | | |
| – Changes in fair value recognized in equity | | 18 | (11) |
| – Reclassification adjustments for gains (losses) included in profit or loss | | (2) | (8) |
| Cash flow hedges | | | |
| – Changes in fair value recognized in equity | | (12) | 36 |
| – Reclassification adjustments for gains (losses) included in profit or loss | | (17) | (5) |
| Actuarial gains/losses on defined benefit plans | | (312) | (122) |
| Share of other comprehensive income of investments accounted for using the equity method | | (3) | 2 |
| Other comprehensive income net of tax | 18 | (329) | (80) |
| | | | |
| Group total comprehensive income | | 290 | 532 |
| | | | |
| attributable to: | | | |
| Bertelsmann shareholders | | 160 | 382 |
| Non-controlling interests | | 130 | 150 |

## Reconciliation to Operating EBIT (Continuing Operations)

| in € millions | Notes | 2012 | 2011 (adjusted) |
|---|---|---|---|
| EBIT from continuing operations | | 1,330 | 1,433 |
| Special items | 7 | | |
| Impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations | | 42 | 42 |
| Adjustment to carrying amounts on assets held for sale | | (8) | 97 |
| Impairment on other financial assets | | 28 | 9 |
| Impairments on investments accounted for using the equity method | | 85 | 6 |
| Capital gains/losses | | (12) | (102) |
| Fair value remeasurement of investments | | (18) | (4) |
| Restructuring and other special items | | 288 | 274 |
| Operating EBIT from continuing operations | | 1,735 | 1,755 |
| Operating EBITDA from continuing operations | 28 | 2,213 | 2,243 |

The figures from the previous year have been adjusted. Further details are presented in the section "Discontinued Operations" on page 95 of the Notes.

## Group Balance Sheet

| in € millions | Notes | 12/31/2012 | 12/31/2011 (adjusted) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 11 | 6,048 | 6,011 |
| Other intangible assets | 11 | 576 | 593 |
| Property, plant and equipment | 12 | 1,753 | 1,932 |
| Investments accounted for using the equity method | 13 | 456 | 583 |
| Other financial assets | 14 | 426 | 464 |
| Trade and other receivables | 16 | 111 | 128 |
| Other non-financial assets | 16 | 220 | 230 |
| Deferred tax assets | 10 | 1,206 | 1,148 |
| | | 10,796 | 11,089 |
| **Current assets** | | | |
| Inventories | 15 | 1,404 | 1,444 |
| Trade and other receivables | 16 | 3,266 | 3,122 |
| Other financial assets | 14 | 119 | 69 |
| Other non-financial assets | 16 | 498 | 495 |
| Current income tax receivable | | 115 | 77 |
| Cash and cash equivalents | 17 | 2,658 | 1,764 |
| | | 8,060 | 6,971 |
| Assets held for sale | | 9 | 89 |
| | | 18,865 | 18,149 |
| | | | |
| **Equity and Liabilities** | | | |
| **Equity** | 18 | | |
| Subscribed capital | | 1,000 | 1,000 |
| Capital reserve | | 2,345 | 2,345 |
| Retained earnings | | 1,918 | 1,962 |
| Bertelsmann shareholders' equity | | 5,263 | 5,307 |
| Non-controlling interests | | 816 | 842 |
| | | 6,079 | 6,149 |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | 19 | 2,151 | 1,738 |
| Other provisions | 20 | 122 | 97 |
| Deferred tax liabilities | 10 | 94 | 96 |
| Profit participation capital | 21 | 413 | 413 |
| Financial debt | 22 | 3,612 | 2,976 |
| Trade and other payables | 23 | 392 | 542 |
| Other non-financial liabilities | 23 | 253 | 228 |
| | | 7,037 | 6,090 |
| **Current liabilities** | | | |
| Other provisions | 20 | 419 | 443 |
| Financial debt | 22 | 264 | 597 |
| Trade and other payables | 23 | 3,655 | 3,373 |
| Other non-financial liabilities | 23 | 1,297 | 1,282 |
| Current income tax payable | | 113 | 134 |
| | | 5,748 | 5,829 |
| Liabilities included in assets held for sale | | 1 | 81 |
| | | 18,865 | 18,149 |

The figures from the previous year have been adjusted. Further details are presented in the section "Prior Year Information" on page 105.

## Group Cash Flow Statement

| in € millions | 2012 | 2011 (adjusted) |
|---|---|---|
| Group earnings before interest and taxes | 1,328 | 1,354 |
| Taxes paid | (385) | (338) |
| Depreciation, amortization, impairment and write-ups of non-current assets | 784 | 759 |
| Capital gains/losses | (10) | (48) |
| Change in provisions for pensions and similar obligations | (72) | (58) |
| Change in other provisions | – | 43 |
| Change in net working capital | 216 | 47 |
| Other effects | 15 | 32 |
| Cash flow from operating activities | 1,876 | 1,791 |
| – thereof from discontinued operations | – | (29) |
| Investments in: | | |
| – intangible assets | (177) | (173) |
| – property, plant and equipment | (270) | (334) |
| – financial assets | (120) | (208) |
| – purchase prices for consolidated investments (net of acquired cash) | (88) | (241) |
| Proceeds from disposal of subsidiaries and other business units | (9) | 4 |
| Proceeds from disposal of other fixed assets | 102 | 72 |
| Contribution to/withdrawals from pension plans | (55) | (23) |
| Cash flow from investing activities | (617) | (903) |
| – thereof from discontinued operations | – | (6) |
| Proceeds from bonds and promissory notes | 837 | – |
| Redemption of bonds and promissory notes | (487) | (222) |
| Proceeds from/redemption of other financial debt | (91) | (71) |
| Interest paid | (257) | (262) |
| Interest received | 21 | 43 |
| Dividends to Bertelsmann shareholders | (180) | (180) |
| Dividends to non-controlling shareholders and payments to partners in partnerships (IAS 32.18b) | (213) | (272) |
| Change in equity | (12) | (177) |
| Proceeds from release of interest swaps | – | 4 |
| Cash flow from financing activities | (382) | (1,137) |
| – thereof from discontinued operations | – | (5) |
| Change in cash and cash equivalents | 877 | (249) |
| Currency effects and other changes in cash and cash equivalents | 5 | 7 |
| Cash and cash equivalents 1/1 | 1,778 | 2,020 |
| Cash and cash equivalents 12/31 | 2,660 | 1,778 |
| Less cash and cash equivalents included with assets held for sale | (2) | (14) |
| Cash and cash equivalents 12/31 (according to the Group balance sheet) | 2,658 | 1,764 |

The figures from the previous year for discontinued operations have been adjusted according to IFRS 5.
Details of the Cash Flow Statement are presented in note 26.

## Changes in Net Financial Debt

| in € millions | 2012 | 2011 |
|---|---|---|
| Net financial debt at 1/1 | (1,809) | (1,913) |
| Cash flow from operating activities | 1,876 | 1,791 |
| Cash flow from investing activities | (617) | (903) |
| Interest, dividends, and changes in equity, additional payments (IAS 32.18b) | (641) | (848) |
| Currency effects and other changes in net financial debt | (27) | 64 |
| Net financial debt at 12/31 | (1,218) | (1,809) |

Net financial debt is net of the balance sheet positions “cash and cash equivalents” and “financial debt.”

## Group Statement of Changes in Equity

| | Subscribed capital | Capital reserve | Retained earnings | | | | | Bertelsmann shareholders' equity | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Other retained earnings | Other comprehensive income[1] | | | | | | |
| in € millions | | | | Currency translation differences | Available-for-sale financial assets | Cash flow hedges | Share of other comprehensive income of investments accounted for using the equity method | | | |
| Balance as of 1/1/2011 | 1,000 | 2,345 | 2,259 | (224) | 45 | 16 | 11 | 5,452 | 1,034 | 6,486 |
| Group profit or loss | – | – | 465 | – | – | – | – | 465 | 147 | 612 |
| Other comprehensive income | – | – | (122) | 33 | (25) | 29 | 2 | (83) | 3 | (80) |
| Group total comprehensive income | – | – | 343 | 33 | (25) | 29 | 2 | 382 | 150 | 532 |
| Dividend distribution | – | – | (180) | – | – | – | – | (180) | (199) | (379) |
| Changes in ownership interests in subsidiaries that do not result in a loss of control | – | – | (343) | (1) | – | – | – | (344) | (120) | (464) |
| Equity transactions with shareholders | – | – | (523) | (1) | – | – | – | (524) | (319) | (843) |
| Other changes | – | – | (3) | – | – | – | – | (3) | (23) | (26) |
| Balance as of 12/31/2011 | 1,000 | 2,345 | 2,076 | (192) | 20 | 45 | 13 | 5,307 | 842 | 6,149 |
| | | | | | | | | | | |
| Balance as of 1/1/2012 | 1,000 | 2,345 | 2,076 | (192) | 20 | 45 | 13 | 5,307 | 842 | 6,149 |
| Group profit or loss | – | – | 484 | – | – | – | – | 484 | 135 | 619 |
| Other comprehensive income | – | – | (310) | (5) | 22 | (28) | (3) | (324) | (5) | (329) |
| Group total comprehensive income | – | – | 174 | (5) | 22 | (28) | (3) | 160 | 130 | 290 |
| Dividend distribution | – | – | (180) | – | – | – | – | (180) | (161) | (341) |
| Changes in ownership interests in subsidiaries that do not result in a loss of control | – | – | (15) | – | – | – | – | (15) | (2) | (17) |
| Equity transactions with shareholders | – | – | (195) | – | – | – | – | (195) | (163) | (358) |
| Other changes | – | – | (9) | – | – | – | – | (9) | 7 | (2) |
| Balance as of 12/31/2012 | 1,000 | 2,345 | 2,046 | (197) | 42 | 17 | 10 | 5,263 | 816 | 6,079 |

1) Thereof, on December 31, 2012, a total of €4 million (previous year: €-3 million) is attributable to assets classified as held for sale according to IFRS 5.

# Notes to the Group Financial Statements

## Segment Information (Continuing Operations)

| in € millions | RTL Group 2012 | RTL Group 2011 (adjusted) | Random House 2012 | Random House 2011 (adjusted) | Gruner + Jahr 2012 | Gruner + Jahr 2011 (adjusted) | Arvato 2012 | Arvato 2011 (adjusted) |
|---|---|---|---|---|---|---|---|---|
| Revenues from external customers | 5,996 | 5,807 | 2,138 | 1,746 | 2,211 | 2,279 | 4,271 | 4,018 |
| Intersegment revenues | 6 | 7 | 4 | 3 | 7 | 8 | 178 | 183 |
| Divisional revenues | 6,002 | 5,814 | 2,142 | 1,749 | 2,218 | 2,287 | 4,449 | 4,201 |
| Operating EBIT | 1,065 | 1,121 | 325 | 185 | 168 | 233 | 241 | 269 |
| Special items | (89) | 4 | 8 | (37) | (118) | (31) | (48) | (93) |
| EBIT | 976 | 1,125 | 333 | 148 | 50 | 202 | 193 | 176 |
| Return on sales[1] | 17.7% | 19.3% | 15.2% | 10.6% | 7.6% | 10.2% | 5.4% | 6.4% |
| Depreciation and amortization | 185 | 180 | 27 | 25 | 44 | 46 | 148 | 148 |
| Impairments on intangible assets and property, plant and equipment[2] | 3 | 14 | – | 15 | 69 | 27 | 8 | 39 |
| – thereof in special items | – | 4 | – | 14 | 68 | 27 | 8 | 40 |
| Operating EBITDA | 1,253 | 1,311 | 352 | 211 | 213 | 279 | 389 | 416 |
| Results from investments accounted for using the equity method | 29 | 44 | (1) | – | 8 | 9 | (1) | – |
| Segment assets[3] | 8,579 | 6,436 | 1,630 | 1,652 | 1,320 | 1,395 | 2,419 | 2,347 |
| Segment liabilities | 2,533 | 2,453 | 724 | 701 | 598 | 541 | 1,428 | 1,330 |
| Invested capital | 6,046 | 3,983 | 906 | 951 | 722 | 854 | 991 | 1,017 |
| Investments accounted for using the equity method | 251 | 356 | 3 | 4 | 23 | 23 | – | 4 |
| Additions to non-current assets[4] | 203 | 339 | 61 | 32 | 35 | 50 | 210 | 197 |
| Number of employees (balance sheet date) | 11,931 | 12,184 | 5,712 | 5,343 | 11,585 | 11,822 | 63,818 | 61,257 |
| Number of employees (average) | 11,736 | 12,300 | 5,488 | 5,302 | 11,775 | 11,747 | 63,033 | 60,416 |

The figures from the previous year have been adjusted. Further details on the adjustment of information previously published are presented in note 27.
1) Operating EBIT as a percentage of divisional revenues.
2) Including write-ups.
3) Including 66 percent of the net present value of the operating leases.
4) Additions to property, plant and equipment and intangible assets (including goodwill).

## Information about Geographical Areas (Continuing Operations)

| in € millions | Germany 2012 | Germany 2011 (adjusted) | France 2012 | France 2011 (adjusted) | Other European countries 2012 | Other European countries 2011 (adjusted) | United States 2012 | United States 2011 (adjusted) | Other countries 2012 | Other countries 2011 (adjusted) | Continuing operations 2012 | Continuing operations 2011 (adjusted) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues from external customers | 5,805 | 5,620 | 2,540 | 2,621 | 3,995 | 4,053 | 2,617 | 2,186 | 1,108 | 888 | 16,065 | 15,368 |
| Non-current assets[1] | 2,553 | 4,704 | 1,085 | 1,087 | 3,644 | 1,577 | 872 | 944 | 223 | 224 | 8,377 | 8,536 |

1) Non-current assets comprise property, plant and equipment as well as intangible assets (including goodwill).
Details on segment information are disclosed in note 27.

| | Be Printers | | Other operating activities (Corporate Investments) | | Total Divisions | | Corporate Center | | Consolidation | | Continuing operations | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) |
| | 996 | 1,027 | 453 | 491 | 16,065 | 15,368 | – | – | – | – | 16,065 | 15,368 |
| | 178 | 172 | 18 | 16 | 391 | 389 | – | – | (391) | (389) | – | – |
| | 1,174 | 1,199 | 471 | 507 | 16,456 | 15,757 | – | – | (391) | (389) | 16,065 | 15,368 |
| | | | | | | | | | | | | |
| | 60 | 72 | (38) | (47) | 1,821 | 1,833 | (89) | (69) | 3 | (9) | 1,735 | 1,755 |
| | (102) | (86) | (44) | (63) | (393) | (306) | (8) | (19) | (4) | 3 | (405) | (322) |
| | (42) | (14) | (82) | (110) | 1,428 | 1,527 | (97) | (88) | (1) | (6) | 1,330 | 1,433 |
| | | | | | | | | | | | | |
| | 5.1% | 6.0% | (8.1)% | (9.3)% | 11.1% | 11.6% | – | – | – | – | 10.8% | 11.4% |
| | | | | | | | | | | | | |
| | 59 | 57 | 18 | 18 | 481 | 474 | 4 | 4 | – | – | 485 | 478 |
| | 100 | 59 | 11 | 13 | 191 | 167 | – | – | 4 | 1 | 195 | 168 |
| | 102 | 60 | 20 | 13 | 198 | 158 | – | – | 4 | – | 202 | 158 |
| | | | | | | | | | | | | |
| | 117 | 128 | (29) | (29) | 2,295 | 2,316 | (85) | (65) | 3 | (8) | 2,213 | 2,243 |
| | | | | | | | | | | | | |
| | – | – | (32) | (25) | 3 | 28 | – | – | – | – | 3 | 28 |
| | | | | | | | | | | | | |
| | 690 | 835 | 682 | 2,824 | 15,320 | 15,489 | 74 | 72 | (95) | (95) | 15,299 | 15,466 |
| | 242 | 274 | 218 | 229 | 5,743 | 5,528 | 68 | 74 | (55) | (49) | 5,756 | 5,553 |
| | 448 | 561 | 464 | 2,595 | 9,577 | 9,961 | 6 | (2) | (40) | (46) | 9,543 | 9,913 |
| | | | | | | | | | | | | |
| | 1 | 1 | 179 | 196 | 457 | 584 | – | – | (1) | (1) | 456 | 583 |
| | | | | | | | | | | | | |
| | 25 | 36 | 5 | 8 | 539 | 662 | 2 | 1 | (1) | (1) | 540 | 662 |
| | | | | | | | | | | | | |
| | 6,380 | 7,068 | 4,289 | 4,552 | 103,715 | 102,226 | 571 | 526 | – | – | 104,286 | 102,752 |
| | 6,576 | 7,170 | 4,395 | 4,573 | 103,003 | 101,508 | 566 | 520 | – | – | 103,569 | 102,028 |

## Information on Revenue Sources (Continuing Operations)

| | Own products and merchandise | | Advertising | | Services | | Rights and licenses | | Continuing operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € millions | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) | 2012 | 2011 (adjusted) |
| Revenues from external customers | 6,399 | 6,097 | 4,198 | 4,339 | 3,673 | 3,414 | 1,795 | 1,518 | 16,065 | 15,368 |

Details on segment information are disclosed in note 27.

## General Principles

The Bertelsmann SE & Co. KGaA consolidated financial statements as of December 31, 2012, were prepared in accordance with International Financial Reporting Standards (IFRS) applicable in the European Union. The supplementary requirements set out in section 315a of the German Commercial Code (HGB) have been met.
The consolidated financial statements are prepared in euros; all amounts are stated in millions of euros (€ millions). For the sake of clarity, certain items in the income statement and balance sheet are combined. These items are disclosed in greater detail and explained in the Notes.
Bertelsmann SE & Co. KGaA is a partnership limited by shares domiciled in Gütersloh, Germany. The address of the company's registered headquarters is: Carl-Bertelsmann-Strasse 270, 33311 Gütersloh. The main activities of Bertelsmann SE & Co. KGaA and its subsidiaries are presented in detail in the Group Management Report.

### Change of Legal Form from Bertelsmann AG to Bertelsmann SE & Co. KGaA

On August 20, 2012, Bertelsmann AG completed its transformation to the legal form of an SE & Co. KGaA, a partnership limited by shares. The change of legal form was performed as a so-called change of form while retaining identity, and nothing has changed with regard to the company's ownership structure and the structure of the Bertelsmann Group.

### Impact of New Accounting Standards

With the exception of the pronouncement on the amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets, no other pronouncements by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (previously IFRIC) were applicable in the Bertelsmann Group for the first time in the financial year 2012. First-time application of these requirements does not have a material impact on the Bertelsmann Group.

### Impact of Issued IFRS Standards that are not yet Effective

The IASB and the IFRS Interpretations Committee have issued the following new or amended accounting standards and interpretations, the application of which is not yet mandatory for Bertelsmann's consolidated financial statements for the financial year 2012:

- Improvements to IFRS 2009–2011 (issued in May 2012)
- Amendments to IAS 12 Income Taxes: Deferred Taxes – Recognition of Underlying Assets
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Revised version of IAS 27 Separate Financial Statements (revised in 2011)
- Revised version of IAS 28 Investments in Associates and Joint Ventures (revised in 2011)
- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
- Amendments to IAS 19 Employee Benefits
- Amendments to IAS 32 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 1 Government Loans
- Amendments to IFRS 7 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures
- Amendments to IFRS 10, IFRS 11, and IFRS 12 Transition Guidance
- Amendments to IFRS 10, IFRS 12, and IAS 27 Investment Entities
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRS 9 is only to be applied from 2015 and will replace IAS 39. This will have a far-reaching impact on the recognition and measurement of financial instruments. IFRS 10, IFRS 11, IFRS 12, and IAS 27 (revised 2011) as well as IAS 28 (revised 2011) are the result of the IASB's consolidation project and include new consolidation guidelines and disclosure requirements for the Notes for group companies. The previous definition of control and the resulting assessment criteria were revised in IFRS 10. In addition, IFRS 10 replaces consolidation requirements in the previous IAS 27 and SIC-12; however, the regulations on consolidation steps, the presentation of non-controlling interests, and accounting for changes in interests without a loss of control remain mostly unchanged. The renamed IAS 27 (revised in 2011) includes exclusively unchanged regulations to be applied to separate financial statements. The new IFRS 11 supersedes the currently applicable IAS 31, incorporates the current regulations in SIC-13 in the standard text, and removes proportionate consolidation for joint ventures with no replacement. In the future, accounting for joint ventures and the mandatory application of the equity method for joint ventures will be in line with the provisions of the renamed IAS 28 (revised in 2011) in the revised version. IFRS 12 summarizes all of the disclosure requirements for all interests in subsidiaries, joint ventures, and associates as well as structured entities in a single standard. Compared to the existing regulations, the disclosure requirements for consolidated and unconsolidated entities have been expanded significantly.

IFRS 13 Fair Value Measurement replaces existing regulations to measure fair value in the individual standards. The main changes compared to the existing regulations comprise the new definition of fair value, definition of the selling price as a valuation standard, and the measurement of debt using the transaction approach. In addition, IFRS 13, which is to be applied from 2013, requires additional disclosure in connection with measurement at fair value.

IAS 1, which is to be applied for financial years starting on or after July 1, 2012, and which refers to presentation of the other comprehensive income, was changed such that subtotals have to be formed for the components of other comprehensive income which can be recognized in profit or loss in future reporting periods (recycled) and those that cannot be recycled (non-recycled).

The revised version of IAS 19 to be applied from 2013 includes material changes compared to the current regulations in that actuarial gains and losses are to be recognized immediately in the other comprehensive income (removal of the so-called corridor method), recognition of changes and reductions to plans, and determination of the net interest component from pension obligations. The net interest component replaces interest expenses on defined benefit obligation and thereof independently determined expected return on plan assets determined separately according to the current regulations. The net interest component is determined based on the net defined benefit liability or the net defined benefit asset while using the interest rate derived at the start of the year. In addition, for many companies increased disclosures will be required in the Notes for employee benefits.

The Bertelsmann Group is currently reviewing the impact of IFRS 10, IFRS 11, and IFRS 12, which are to be applied from 2014. With regard to the first-time application of IFRS 13, according to preliminary estimates, no other material impact on the Group is expected other than the extensive information in the Notes. The removal of the corridor method in the revised IAS 19 will not result in any changes, as the Bertelsmann Group already uses the option offered in IAS 19 of recognizing actuarial gains and losses in other comprehensive income. Under application of the revised IAS 19, the top-up amounts for old-age part-time obligations will no longer be recognized as an expense immediately when the obligation is incurred but on a pro-rata basis through to the end of the active phase. The change to the determination of the net interest component from pension obligations would have led to minor other financial income of €7 million in 2012. The Group does not expect any material impact from the new calculation for the top-up amounts for old-age part-time obligations. The Group has initiated the requisite steps for the procurement of the additional information in the Notes.

There is no early adoption of these standards. The changes to IAS 32, IFRS 1, IFRS 7, and IFRIC 20, and improvements to IFRS (2009–2011) to be applied in future only relate to transactions in the Group to a minor extent and are not expected to have any material impact.

The Bertelsmann Group has not opted for early adoption of any additional standards, interpretations, or changes that have been issued but are not yet mandatory.

# Consolidation

## Principles of Consolidation

All subsidiaries that are controlled either directly or indirectly by Bertelsmann SE & Co. KGaA as defined by IAS 27 and conduct business operations are included in the consolidated financial statements. Control exists when Bertelsmann SE & Co. KGaA has the possibility or the actual ability, either directly or indirectly, to determine the financial and business policy of an entity in such a way as to obtain benefits from its activities. Total comprehensive income is allocated to the owners of the parent company and the non-controlling interests, even though this results in the non-controlling interests having a negative balance.

Material jointly controlled companies within the meaning of IAS 31 are proportionately consolidated. Material associates as defined by IAS 28 are included using the equity method. This is generally the case for voting rights between 20 and 50 percent. Smaller shareholdings are accounted for using the equity method if there is a significant influence in accordance with IAS 28.7. Accounting and measurement policies are applied uniformly for all consolidated financial statements within the Bertelsmann Group. The Bertelsmann Group recognizes immaterial participations at cost according to IAS 39.

In accordance with IFRS 3, business combinations are accounted for using the acquisition method. The consideration transferred as part of a business combination (previously: acquisition costs) is offset against the fair value of equity on the date of the acquisition. As a rule, acquisition-related costs are recognized in profit or loss. If applicable, contingent consideration is measured at the fair value that applies on the date of acquisition. If the consideration transferred exceeds the fair values of the acquirer's interest in the assets acquired and liabilities assumed, this difference is recognized in the balance sheet as goodwill. Negative goodwill is reflected as income in the period in which the acquisition is made. Deferred taxes from assets acquired and liabilities assumed in a corporate acquisition are carried and measured according to IAS 12. Subsequent measurement of the acquired assets and the liabilities taken over or entered into is performed in line with the other applicable IFRSs. Non-controlling interests are also measured at the proportionate fair value of the assets and liabilities. If the transferred consideration for the business combination or the fair values to be allocated to the identifiable assets and liabilities of the company acquired on the date of initial accounting can only be provisionally identified, the business combination is carried using these provisional values. Initial accounting is completed in line 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 they had already been completed on the date of acquisition. Investments in proportionately consolidated companies are measured using the same principles.

Investments in associated companies recognized using the equity method are accounted for the proportionate equity share of the investment measured at fair value at the acquisition date. The same method used for fully consolidated subsidiaries is applied when accounting for the difference between the acquisition cost at the date of acquisition and the share of net assets acquired. Losses of associates that exceed their carrying amounts are not recognized unless there is an obligation to make additional contributions.

All intercompany profits, losses, revenues, expenses, income, receivables, liabilities, and provisions falling within the scope of consolidation are eliminated. Deferred taxes are recognized on temporary differences arising on consolidation in accordance with IAS 12. Proportionate consolidation is performed on a pro-rata basis using the same principles. The Group's share of unrealized gains or losses on intercompany transactions between fully consolidated Group companies and associated companies is eliminated.

Changes in the parent's ownership interest in a subsidiary which 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 according to the requirements of IAS 27. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for in accordance with other IFRSs from the date when control is lost.

## Scope of Consolidation

The scope of consolidation including Bertelsmann SE & Co. KGaA consists of 835 (previous year: 847) companies. This figure includes 767 (previous year: 773) fully consolidated companies. 33 (previous year: 40) joint venture companies are recognized in the consolidated financial statements using proportionate consolidation. 35 associated companies are consolidated using the equity method (previous year: 34). A total of 221 (previous year: 225) affiliated companies without significant business operations were excluded from consolidation due to their negligible importance for the financial position, performance, and changes in the financial position of the Bertelsmann Group. These include 39 (previous year: 35) companies that would have been consolidated using the equity method.

Changes made during the past financial year to the companies included in the consolidated financial statements can be found in the table below.

The complete list of the Bertelsmann Group's shareholdings will be published in the "Bundesanzeiger" (Federal Gazette) as an annex to these financial statements in accordance with Section 313 (2) of the German Commercial Code and is presented at the General Meeting. The interests held by associated companies are not included in the list of shareholdings. Those subsidiaries disclosed in note 32 have elected to be exempted from the preparation, audit, and publication of financial statements in the financial year as set out in Sections 264 (3) and 264b of the German Commercial Code and according to foreign regulations.

## Changes in Scope of Consolidation

| | Domestic | Foreign | Total |
|---|---|---|---|
| Consolidated as of December 31, 2011 | 312 | 535 | 847 |
| Additions | 17 | 18 | 35 |
| Disposals | 20 | 27 | 47 |
| Consolidated as of December 31, 2012 | 309 | 526 | 835 |

## Acquisitions and Disposals

The consideration paid for acquisitions in the financial year 2012 less cash and cash equivalents acquired amounted to €88 million (previous year: €241 million). The consideration transferred for these acquisitions in the sense of IFRS 3 while considering the fair value of the interests already held totaled €149 million in 2012 (previous year: €164 million).

The finalization of the purchase price allocation for the Hungarian language cable channels led to an adjustment of €9 million to the figures from the previous year in the Group balance sheet for intangible assets due to the recognition of customer relationships and brands and to a corresponding adjustment to deferred tax liabilities of €1 million. Goodwill from this transaction has been reduced to €78 million. A detailed description of the acquisition of the Hungarian language cable channels is presented in the Notes to the consolidated financial statements in the 2011 Annual Report.

As of December 3, 2012, Random House completed the acquisition of a 50 percent interest in the Random House Mondadori joint venture from Mondadori for a purchase price of €55 million. The fair value of the interest already held totaled €45 million directly before the acquisition date. The revaluation of this resulted in impacts on Group profit or loss of €4 million in total. The Bertelsmann Group believes that the full acquisition of the Random House Mondadori publishing company, which operates in Spain and Latin America, will significantly improve its position in the Spanish book market and access to the growing Spanish-speaking markets in Latin America. As part of the purchase price allocation, adjustments to the fair value were identified in the amount of €11 million from the valuation of the back list. The fair value of the acquired receivables totaled €15 million. The non-tax deductible goodwill of €36 million results from the higher strategic flexibility in expanding the publishing business and from the anticipated realization of major synergy effects with Random House.

In addition, the Group made several acquisitions in 2012, none of which was material on a stand-alone basis. The impact on the Group's financial position and results of operations was also minor. The other acquisitions resulted in non-tax deductible goodwill totaling €36 million which reflects synergy potential.

The acquisitions impacted the assets and liabilities in the Bertelsmann Group as follows on their date of initial consolidation (for Random House Mondadori, which was previously included proportionately; only the newly acquired 50 percent share of assets and liabilities is shown):

### Effects of Acquisitions

| | Random House Mondadori | | Other | | Total | |
|---|---|---|---|---|---|---|
| in € millions | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| **Non-current assets** | | | | | | |
| Goodwill | – | 36 | – | 36 | – | 72 |
| Other intangible assets | 1 | 12 | 3 | 8 | 4 | 20 |
| Property, plant and equipment | 2 | 2 | 3 | 3 | 5 | 5 |
| Other non-current assets | 2 | 2 | 3 | 3 | 5 | 5 |
| **Current assets** | | | | | | |
| Inventories | 10 | 10 | – | – | 10 | 10 |
| Other current assets | 23 | 23 | 11 | 11 | 34 | 34 |
| Cash and cash equivalents | 16 | 16 | 6 | 6 | 22 | 22 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Provisions for pensions and similar obligations | – | – | – | – | – | – |
| Financial debt | – | – | – | – | – | – |
| Sundry financial and non-financial liabilities | 27 | 29 | 16 | 18 | 43 | 47 |

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

Since initial consolidation, total new acquisitions under IFRS 3 have contributed €46 million to revenues and €1 million to group profit or loss. If consolidated as of January 1, 2012, they would have contributed €121 million to revenues and €4 million to Group profit or loss.

After considering the cash and cash equivalents disposed of, the Group received payments totaling €-9 million from disposals that were carried out (previous year: €4 million). The disposals led to income from deconsolidation of €2 million. The following table shows their impact on the Bertelsmann Group's assets and liabilities at the time of their deconsolidation:

### Effects of Disposals

| in € millions | 2012 |
|---|---|
| **Non-current assets** | |
| Goodwill | (1) |
| **Current assets** | |
| Inventories | (7) |
| Other current assets | (21) |
| Cash and cash equivalents | (7) |
| | |
| **Liabilities** | |
| Provisions for pensions and similar obligations | (3) |
| Financial debt | (1) |
| Sundry financial and non-financial liabilities | (34) |

### Discontinued Operations

In the Bertelsmann consolidated financial statements as of December 31, 2011, the Direct Group was carried as a discontinued operation with the exception of its business in Germany and the joint venture Círculo de Lectores in Spain. After various international units were sold in the financial year 2011, only a few Eastern European units remain in 2012. As a result of changed market conditions, the planned disposal of the Eastern European units is currently no longer regarded as highly probable, and as a result classification as a disposal group and disclosure of these units as discontinued operations according to IFRS 5 was abandoned, and the Eastern European business was once again carried under continuing operations. All of the effects from reclassifying the Eastern European business to continuing operations in the amount of €12 million are recognized in the item "Other Operating Income" in the Group income statement. The figures for the financial year 2011 in the Group income statement and in the Group cash flow statement were adjusted accordingly.

The disposal of Direct Group France in the previous year resulted in additional follow-on costs of €-2 million and a tax refund of €2 million in the reporting period. Earnings after taxes from discontinued operations from the previous year in the amount of €-107 million was due to earnings before taxes of €-82 million and tax expenses of €-25 million. Earnings before taxes from discontinued operations in the previous year comprises revenues of €213 million, other income of €11 million, other expenses of €-303 million, and a financial result of €-3 million.

### 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 that relate to the RTL Group and Arvato divisions in the reporting period are presented in the following table:

### Assets Held for Sale and Related Liabilities

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 3 | 5 |
| Other non-current assets | 3 | – |
| Deferred tax assets | – | 1 |
| **Current assets** | | |
| Inventories | – | 25 |
| Other current assets | 1 | 44 |
| Cash and cash equivalents | 2 | 14 |
| | | |
| **Equity and Liabilities** | | |
| **Non-current liabilities** | | |
| Provisions for pensions and similar obligations | – | 3 |
| Other non-current liabilities | – | 10 |
| **Current liabilities** | | |
| Trade payables | – | 33 |
| Other current liabilities | 1 | 35 |
| | | |

### Proportionate Consolidation

The 33 (previous year: 40) proportionately consolidated joint ventures had the following effect on Bertelsmann Group's assets, liabilities, income, and expenses:

### Effects of Proportionate Consolidation

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Non-current assets | 27 | 38 |
| Current assets | 87 | 106 |
| | | |
| Non-current liabilities | – | 1 |
| Current liabilities | 58 | 84 |
| | | |
| | 2012 | 2011 |
| Income | 304 | 301 |
| Expenses | 271 | 274 |

The changes compared to 2011 mostly result from the acquisition of the Mondadori interest in the joint venture Random House Mondadori.

### Currency Translation

In the Bertelsmann SE & Co. KGaA consolidated financial statements, the financial statements of subsidiaries, joint ventures, and associated companies from countries outside the euro zone are translated into euros using the functional currency concept set out in IAS 21. Assets and liabilities are translated into the reporting currency at the closing rate of the last day of the financial year, while income statement items are translated at the average rate for the year. Currency translation differences are recognized in other comprehensive income. Such differences arise from translating items in the balance sheet at different rates compared with the previous year and from using different rates (i.e., the average rate for the year and the rate as of the balance sheet date) to translate the Group profit or loss. On the date Group companies are deconsolidated, the respective accumulated currency translation differences recognized in other comprehensive income and accumulated in a separate component of equity are reclassified from equity to the income statement. The following euro exchange rates were used to translate the currencies of those countries that are most significant to the Bertelsmann Group.

### Euro Exchange Rates for Major Foreign Currencies

| | | Average rate | | Closing rate | |
|---|---|---|---|---|---|
| Foreign currency unit per €1 | | 2012 | 2011 | 12/31/2012 | 12/31/2011 |
| US Dollar | USD | 1.2853 | 1.3951 | 1.3194 | 1.2939 |
| Canadian Dollar | CAD | 1.2845 | 1.3768 | 1.3137 | 1.3215 |
| British Pound | GBP | 0.8109 | 0.8704 | 0.8161 | 0.8353 |
| Japanese Yen | JPY | 102.52 | 111.12 | 113.61 | 100.20 |
| Swiss Franc | CHF | 1.2053 | 1.2333 | 1.2072 | 1.2156 |

## Accounting and Measurement Policies

### Recognition of Income and Expense

Revenues are measured at the fair value of the compensation received or receivable and reduced by anticipated reductions in price, trade discounts, and similar deductions.

Revenues from the sale of goods are recognized when the Group has transferred the significant risks and rewards associated with ownership of the goods to the purchaser and the amount of revenues can be reliably determined. This excludes revenues from transactions applying the percentage of completion method per IAS 11. These include income from services measured by reference to the stage of completion to the extent the point of completion can be reliably determined at the balance sheet date. The percentage of completion is determined using the input-oriented method. Under the input-oriented method, contract costs accruing up to the balance sheet date are applied as a percentage of total estimated contract costs (cost-to-cost method).

Revenues from advertising are recorded when the corresponding advertisement or commercial appears in the respective medium.

Income from royalties (licenses) is recognized on an accrual basis in line with the provisions of the underlying contract. Interest income and expenses are recognized using the effective interest method in accordance with IAS 39 on an accrual basis. Dividends are only recognized in income when the shareholder's legal entitlement to payment is established. Revenues from services rendered are recognized based on their percentage of completion.

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

Goodwill arising from business combinations accounted for in accordance with IFRS 3 represents the consideration transferred in excess of the Group's share of the fair value of identifiable assets acquired, liabilities, and contingent liabilities assumed. Initial recognition is at acquisition cost, with subsequent recognition at acquisition cost less accumulated impairments. Goodwill is subject to at least annual impairment testing. Impairment losses are measured as the difference between the carrying amount and the recoverable amount of the cash-generating units to which the goodwill has been allocated. Any impairment loss is immediately recognized in profit or loss. Impairment, including impairment losses recognized during the year, is not reversed. In the Bertelsmann Group, goodwill is tested for impairment each year as of December 31, as outlined in the section "Impairment Losses," and if a triggering event arises.

## Other Intangible Assets

Internally generated intangible assets of the non-current assets are carried at cost, which must be capitalized in the balance sheet if the criteria for recognition as set out in IAS 38 have been met. Intangible assets acquired separately are carried at acquisition cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired as part of a business combination are initially recognized at fair value at the acquisition date in accordance with IFRS 3.

Intangible assets with definite useful life are amortized systematically on a straight-line basis over their estimated useful life. Impairment losses and write-ups are determined by applying the requirements for impairment testing (IAS 36). As a rule, capitalized software is amortized over a period of between three and five years. Supply rights and subscriber portfolios are amortized over a period of two to 15 years, while the amortization period for trademarks and music and publishing rights is three to 15 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 whole useful life).

The useful life and amortization periods are reviewed annually and prospectively adjusted to reflect changes in expectations. Intangible assets with indefinite useful life are not amortized on a systematic basis. Instead, they are subject to at least annual impairment testing and written down to their recoverable amount as applicable.

## Property, Plant and Equipment

Items of property, plant and equipment are carried at cost less depreciation and, where applicable, impairment losses. The cost of items of property, plant and equipment produced internally within the Group includes direct costs and a portion of overhead costs directly attributable to their production. The cost of property, plant and equipment produced over a longer period of time also includes borrowing costs accrued up to the completion date. The amounts involved are insignificant to the Group. All other borrowing costs are expensed in the period accrued. Maintenance costs are carried as expenses for the period, whereas expenses for activities that lead to a longer useful life or improved use are generally capitalized.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. Estimates of useful life and the depreciation method are reviewed annually in line with IAS 16 and are adjusted prospectively according to the changed expectations. During the year under review, depreciation was generally based on the following useful lives:

- Buildings: 10 to 50 years
- Plant, technical equipment, and machinery: four to 15 years
- Furniture, fixtures, and other equipment, three to 12 years

Land is not subject to depreciation.

Individually significant components of property, plant and equipment are recorded and depreciated separately (component approach).

### Impairment Losses

Goodwill and intangible assets with indefinite useful life are tested for impairment at least annually. Intangible assets with a definite useful life and property, plant and equipment are tested for impairment at the end of each reporting period in accordance with IAS 36 if there are indications that an impairment loss has occurred.

Impairment is needed when the recoverable amount of a cash-generating unit has fallen below its carrying amount. The recoverable amount is the higher of fair value less cost to sell or value in use; fair value less cost to sell is always calculated first. If the result is above the carrying amount, value in use is not calculated in most cases. Only fair value less cost to sell is applied as a yardstick to assets held for sale.
As long as an active market exists, the market price or the price in the most recent comparable transactions is used in determining fair value. If there is no active market, fair value less cost to sell is generally calculated using the discounted cash flow method. If it is not possible to allocate cash inflows 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. Two additional 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 of generally -1 to 3 percent. Discounting is always based on the weighted average cost of capital (WACC) after tax. Specific WACCs are derived for cash-generating units with different risk profiles. Management estimates of cash flow are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments, and growth rates. 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 therefore impair the value of cash-generating units.

If the reasons for impairment no longer apply, impairment losses may be 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.

### Leasing

If the Bertelsmann Group bears all material rewards and risks as part of leasing agreements, and is thus to be regarded as the economic owner (finance lease), the leased item is capitalized at its fair value at the inception of the lease term or the lower present value of the future minimum lease payments. Payment obligations arising from finance leases are recognized as financial liabilities in the same amount. In the subsequent periods, the minimum lease payments are broken down into financing costs and the redemption portion of the remaining liability such that this results in constant interest on the remaining liability. As a rule, financing costs are recognized in profit or loss. The leased item is subject to depreciation. If it is sufficiently certain that ownership of the leased assets will pass to the lessee at the end of the lease term, the assets are depreciated over their useful life. Otherwise, it is depreciated over the term of the lease or the period of use, whichever is shorter. Contingent rent payments are recognized as an expense in the period in which they result.
Leased assets primarily relate to buildings. Finance leases for buildings are generally subject to non-cancelable minimum lease terms of approximately 20 years. Upon expiry of this term, the lessee is as a rule entitled to purchase the leased asset at its residual value. The operating leases entered into by the Bertelsmann Group primarily relate to rental agreements for buildings and technical transmission facilities. In economic terms, the leased assets are allocated to the lessor. The lease installments constitute expenses for the period and are carried using the straight-line method over the term of the lease.

## Financial Assets

Financial assets are recognized initially at fair value taking into account transaction costs that are directly attributable to the acquisition of the financial asset. In the case of financial assets that are recognized at fair value through profit or loss, transaction costs are recognized directly in the income statement. Regular purchases and sales of financial assets were recognized on the trading date – the day on which the Group enters into an obligation to buy or sell the asset.
For subsequent measurement, financial assets are classified into the following categories and subcategories:

- Held-to-maturity investments
- Available-for-sale financial assets
- Financial assets recognized at fair value through profit or loss
  - Non-derivative and derivative financial assets held for trading
  - Financial assets initially recognized at fair value through profit or loss
- Loans and receivables
  - Originated loans and trade receivables
  - Cash and cash equivalents

Held-to-maturity investments:
Financial instruments are held to maturity if they have fixed or determinable payments and a fixed maturity that the Group is to hold to maturity. They are subsequently measured at amortized cost using the effective interest method.

Available-for-sale financial assets:
The available-for-sale category primarily includes current and non-current securities and equity investments not classified as held-to-maturity investments, as loans and receivables, or at fair value through profit or loss. In accordance with IAS 39, available-for-sale financial assets are measured at their fair value at the balance sheet date to the extent that this can be reliably measured. Otherwise, they are carried at amortized cost. With deferred taxes taken into consideration, gains and losses resulting from fluctuations in the fair value are recognized in other comprehensive income. However, if there is an objective evidence of impairment, this is recognized in profit or loss. A significant or longer decline in the fair value of an equity instrument held below its acquisition costs is also to be regarded as an objective evidence of impairment. If these assets are sold, the accumulated gains and losses previously recognized in other comprehensive income are reclassified from equity to the income statement.

Non-derivative and derivative financial assets held for trading:
As a rule, this category includes derivatives that do not meet the formal requirements of IAS 39 for hedge accounting. They are measured at their fair value. Gains or losses from changes to the fair values are recognized in profit or loss.

Financial assets initially recognized at fair value through profit or loss:
This category contains financial assets that were classified as initially recognized at fair value through profit or loss. Changes in fair value are recognized in the other financial result.

Originated loans and trade receivables:
Originated loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They are carried at amortized cost using the effective interest method. Long-term interest-free or low-interest loans and receivables are discounted. Foreign currency items are translated at the exchange rate at the closing date. If there is an objective indicator, impairments are recognized in profit or loss using allowance accounts.

Cash and cash equivalents:
Cash includes bank balances and cash on hand. Cash equivalents include short-term, highly liquid securities with a term to maturity on acquisition of a maximum of three months. Foreign currency items are translated at the exchange rate at the balance sheet date.

All derivatives that fulfill the formal requirements of IAS 39 for hedge accounting are carried separately as derivative financial assets used in hedging relationships and are measured at fair value. Further details are presented in the section “Derivative Financial Instruments.”

Measurement at fair value:
In the case of financial assets measured at fair value, the valuation method applied depends on the respective valuation parameters present in each case. If listed prices can be identified on active markets for identical assets, they are used for valuation (phase 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 (phase 2). If the fair values are not based on observable market data, they are identified using recognized financial methods (phase 3).

Impairment losses and gains on financial assets:
The carrying amounts of financial assets not recognized at fair value through profit or loss are examined at each balance sheet date in order to determine whether there is substantial evidence of impairment. There are objective indicators that impairment has occurred in the following cases: Information concerning financial difficulties for a customer or a group of customers; not upholding or not paying interest or capital; the probability of being subject to bankruptcy or other financial restructuring; and recognizable facts that point to a measurable reduction in the estimated future cash flows, such as an unfavorable change in the creditor's payment position or the economic situation that corresponds to the delayed performance. In the case of financial assets carried at amortized cost, the impairment corresponds to the difference between the carrying amount and the present value of the anticipated future cash flows – discounted using the original effective interest rate for the financial asset. If it is established that the fair value has increased at a later measurement date, the impairment loss previously recognized is reversed up to a maximum of amortized cost. Impairment losses are not reversed in the case of unlisted equity instruments that are classified as available-for-sale assets and carried at cost. The impairment on available-for-sale assets carried at cost is calculated as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted using the risk-adjusted interest rate.

## Inventories

Inventories – including raw materials and supplies, finished goods, and work in progress as well as merchandise – are recognized at the lower of historical cost and net realizable value at the end of the year. Similar inventories are reported at average cost less cost to sell or using the FIFO (first-in, first-out) method. Inventories originating from intragroup suppliers are adjusted to eliminate intercompany earnings and are measured at the Group's manufacturing cost.
Inventories are tested for impairment on each balance sheet date. For this purpose, net realizable value is determined. Net realizable value is defined as the estimated sales price less expected costs to complete and estimated selling expenses. A write-down is recognized if the net realizable value of an item of inventories is lower than its historical cost. Write-downs are reversed if the circumstances causing their recognition no longer apply. The new carrying amount then represents the lower of historical cost and adjusted net realizable value.
In addition to raw materials and supplies, finished goods, work in progress, and merchandise, 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, coproductions, and acquired broadcasting rights. The carrying amount of such items at the balance sheet date is as a rule 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 performed as follows:

- Entertainment programs, such as soap operas, documentaries, and sports, quiz, or music programs, are written off in full at the initial broadcast date.
- 50 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, TV feature films and series also spans a maximum of two broadcasts: 67 percent of the value is consumed upon the first broadcast, the remaining 33 percent upon the second broadcast.

The consumption of inventories is reported in the income statement in the cost of materials and changes in inventories, respectively.

## Customer-Specific Production Contracts

To the extent that they meet the requirements of IAS 11, customer-specific contracts are reported using the percentage-of-completion method.
In this method, revenues and gains on customer-specific contracts are recognized by reference to the stage of completion of the respective projects. The stage of completion is calculated as the ratio of the contract costs incurred up to the end of the year to the total estimated project cost (cost-to-cost method). Irrespective of the extent to which a project has been completed, losses resulting from customer-specific contracts are immediately recognized in full in the period in which losses are identified. In the financial year 2012 no material revenues were recognized from customer-specific production contracts.

## Deferred Taxes

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 only reported in the amount in which they can be subsequently utilized. 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.

## Other Comprehensive Income

The other comprehensive income includes foreign exchange gains and losses as well as unrealized gains and losses from the fair value measurement of available-for-sale financial assets and derivatives used in cash flow hedges or hedges of net investments in foreign operations in accordance with IAS 39. In addition, according to IAS 28.11, changes in equity for companies accounted for using the equity method that are taken directly to equity are also recorded. Actuarial gains and losses under defined benefit pension plans are recognized in the retained earnings in the year in which these gains and losses have been incurred as part of the reconciliation of total comprehensive income for the period in the statement of changes in equity. The actuarial gains and losses taken directly to equity will no longer be shown in a separate column from the financial year 2012. 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 within the meaning of IAS 19. This method involves the use of biometric calculation tables, current long-term market interest rates, and current estimates of future increases in salaries and pensions.
The interest portion of pension expense and the expected return on plan assets are reported under financial result. Actuarial gains and losses are recognized in other comprehensive income.
With the exception of the other personnel-related provisions calculated according to IAS 19, all of the other provisions are established on the basis of IAS 37 where there is a legal or constructive obligation to a third party, the outflow of resources is probable, and it is possible to reliably determine the amount of the obligation. Provisions are measured in the amount of the most probable extent of the benefit obligations. Long-term provisions are discounted. The discount rates take into account current market expectations and, if necessary, specific risks for the liability.

### Liabilities

Upon initial recognition, trade payables and other original financial liabilities including profit participation certificates (financial liabilities at amortized cost) are measured at their fair value less transaction costs. Subsequent measurement is based on amortized cost using the effective interest method. Liabilities denominated in foreign currency are translated at the exchange rate at the balance sheet date.

The Bertelsmann Group has not yet exercised the option of classifying financial liabilities initially recognized at fair value through profit or loss.
Finance lease liabilities, which are also reported in financial liabilities, are carried at their present value in accordance with IAS 17.

### Derivative Financial Instruments

As set out in IAS 39, 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 that contract is intended to serve as a fair value hedge or as a cash flow hedge. However, some derivatives do not meet the requirements included in IAS 39 for recognition as hedges despite this being their economic purpose. Changes in the fair values of derivatives are recorded as follows:

1. Fair-value hedge: Changes in the fair value of these derivatives, which are 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 first-time valuation 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 is recognized in income. The ineffective portion of the changes in the fair value of the hedging instrument is recognized in profit or loss.
3. Hedge of a net investment in a foreign operation: For this type of hedge, the effective portion of the gains and losses on changes in the fair value of the hedging instrument is taken directly to other comprehensive income. The ineffective portion is recognized in profit or loss. On disposal of the investment, the changes in the fair value of the hedging instruments that are contained in equity are recognized in profit or loss.
4. Stand-alone derivatives (no hedge relationship): Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss in accordance with the held-for-trading category and are therefore classified as at fair value through profit and loss.

### Share-Based Payment

Share options are granted to certain directors and senior employees. 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.

### 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 line items in the balance sheet under IFRS 5. They are measured at the lower of carrying amount or fair value less cost to sell. Depreciation/amortization is not recorded 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 are thus carried separately in the income statement and cash flow statement. All of 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 was previously carried under discontinued operations are reclassified to continuing operations for all of the reporting periods shown.

### Government Grants

A government grant is not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to it and that the grant will be received. Grants for assets are deducted when the carrying amount is calculated, and are recognized in profit or loss over the useful life of the depreciable asset as a reduced depreciation expense. Income-related grants are recognized as income in the periods in which the expenses to be compensated by the grants were incurred.

### Estimates and Assumptions

The preparation of IFRS-compliant consolidated financial statements requires the use of 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 estimates and assumptions that are material in the Bertelsmann Group 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.
- Trade receivables and other receivables: Valuation allowances are recognized for doubtful receivables based on risk factors such as a customer's financial difficulties and unfavorable changes in the economic situation, taking the maturity structure of the receivables into account. Sales estimates and assumptions on future sales success are also made in connection with advances paid to authors to secure exploitation rights in their publications. In addition, in the case of sport and film rights, estimates are made with regard to anticipated revenues.
- Impairments: Goodwill and intangible assets with indefinite useful life are tested for impairment at least once a year. Intangible assets with definite useful life and property, plant and equipment are tested for impairment in accordance with IAS 36 if there are indications that an asset may be impaired. Impairment is recorded when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell or value in use; fair value less cost to sell is always calculated first. As a rule, this is determined using the discounted cash flow method, which is based on future cash flow forecasts being part of company forecasts. The cash flow forecasts are based on the management's best possible estimates with regard to future growth. The most important assumptions include estimated growth rates, the weighted average cost of capital, and tax rates. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. For detailed information on the assumptions and estimates that are used in impairment testing for intangible assets (including goodwill) and property, plant and equipment in the Bertelsmann Group, please refer to notes 11 "Intangible Assets" and 12 "Property, Plant and Equipment."

- Pension obligations: Pension obligations are measured using the projected unit credit method. By this approach, biometric calculations and the prevailing long-term capital market interest rates and in particular also assumptions about future salary and pension increases and the anticipated return on plan assets are taken into account. Additions were made to the portfolio over the course of the financial year as a result of changes in the market for top-quality corporate bonds which are used as the basis for determining the discount interest rate for pension commitments and obligations similar to pensions in the euro zone. Now, only bonds which are rated at AA by at least one ratings agency are included. In addition, the minimum volume for consideration has been reduced to €50 million and information from corporate bonds with an A rating has also been considered (after deducting the spread between AA and A). Using the expanded data basis became necessary in order to ensure reasonable determination of the interest rate according to IAS 19. As it is no longer possible to reliably derive the interest rates for the euro zone based on the former data basis, and as this practice has therefore been discontinued, it is not possible to calculate the impact of this expansion as of the end of the financial year. However, estimates for the growth of both portfolios suggest that the former no longer relevant data basis would have resulted in an interest rate that was approx. 40 basis points lower, and thus to a DBO for plans in the euro zone that was approx. €133 million higher. Information on the assumptions made in pension accounting is presented under note 19.
- Provisions for onerous contracts, litigation, 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 results of operations.

In the case of purchase price allocations, assumptions are also made regarding the measurement of assets and liabilities acquired as part of business combinations – 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 the management's assumptions. General information on useful lives is presented in the sections "Other Intangible Assets" and "Property, Plant and Equipment" on page 98. In the financial year 2012, the regular review of useful lives led to an adjustment of the useful lives for non-current assets, in particular property, plant and equipment at the division Be Printers. The adjustments were accounted for in the current period according to IAS 8.38 and led to an increase of €10 million in amortization and depreciation on intangible assets and property, plant and equipment in the reporting period. The impact of the adjustments on future periods was not quantified as the informative value would be limited due to the impairment performed in accordance with IAS 36.9 as of December 31, 2012.

Assessments of the ability to realize future tax benefits are also based on assumptions and estimates. Deferred tax assets are only carried in the amount in which they are likely to be subsequently utilized. 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 10 "Income Taxes."

Assumptions are also made when identifying the fair values of unlisted derivatives. In this regard, Bertelsmann uses various actuarial methods that take into account the market conditions and risks in effect on the respective balance sheet dates.

Estimates and assumptions also relate to share-based payments. The conditions of the stock option plans are presented in greater detail in the section "Stock Option Plans at Subsidiaries" under note 18 "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.

## Prior Year Information

The financial assets and liabilities carried under "Other Receivables and Other Assets" and "Other Liabilities" in the previous year have been disclosed separately under non-current and current in the financial year 2012. The prior year information has been adjusted to enable better comparison with the current presentation. In addition, finalization of the purchase price allocation for the cable station in Hungary has led to an adjustment of the prior year figures. The adjustments do not have a material impact on the Group's financial position and results of operations and the cash flow.

# Notes to the Income Statement and Balance Sheet

## 1 Revenues

| in € millions | 2012 | 2011 |
|---|---|---|
| Revenues from selling goods and merchandise | 6,399 | 6,097 |
| Revenues from advertising | 4,198 | 4,339 |
| Revenues from providing services | 3,673 | 3,414 |
| Revenues from grant of use of assets | 1,795 | 1,518 |
| | 16,065 | 15,368 |

Revenues also include income from barter transactions in the amount of €70 million (previous year: €68 million), which were primarily incurred by RTL Group and Gruner + Jahr. This figure includes €69 million (previous year: €67 million) in the category "Revenues from advertising." A further €1 million (previous year: €1 million) is carried in the category "Revenues from selling goods."

Changes in revenues by segment and geographical areas are presented in the overview for segment reporting on page 88.

## 2 Other Operating Income

| in € millions | 2012 | 2011 |
|---|---|---|
| Income from sideline operations | 201 | 197 |
| Income from reimbursements | 106 | 102 |
| Gains from disposals of non-current assets | 22 | 14 |
| Fair value remeasurement of investments | 18 | 4 |
| Adjustment to carrying amounts previously classified as assets held for sale | 12 | – |
| Sundry operating income | 123 | 233 |
| | 482 | 550 |

Sundry operating income includes income-related government grants in the amount of €12 million (previous year: €9 million). These grants were made primarily to finance film projects of RTL Group subsidiaries. Income from the reversal of provisions is generally recorded in the same income statement line item to which it was previously charged.

## 3 Personnel Costs

| in € millions | 2012 | 2011 |
|---|---|---|
| Wages and salaries | 3,766 | 3,557 |
| Statutory social security contributions | 640 | 618 |
| Profit sharing | 92 | 107 |
| Expense for pensions and similar obligations | 109 | 104 |
| Other employee benefits | 161 | 138 |
| | 4,768 | 4,524 |

## 4 Amortization, Depreciation, and Impairment Charges for Intangible Assets and Property, Plant and Equipment

| in € millions | 2012 | 2011 |
|---|---|---|
| Amortization/depreciation and impairment charges for | | |
| – intangible assets | 239 | 227 |
| – property, plant and equipment | 441 | 419 |
| | 680 | 646 |

## 5 Other Operating Expenses

| in € millions | 2012 | 2011 |
|---|---|---|
| Administrative expenses | 1,242 | 1,270 |
| Selling and transmission expenses | 678 | 710 |
| Advertising costs | 500 | 486 |
| Allowances on current assets | 253 | 199 |
| Consulting and audit fees | 174 | 150 |
| Operating taxes | 120 | 121 |
| Losses on disposals of non-current assets | 5 | 7 |
| Impairment on assets held for sale | 4 | 97 |
| Foreign exchange losses | 2 | 3 |
| Sundry operating expenses | 111 | 154 |
| | 3,089 | 3,197 |

Administrative expenses include rental expenses of €-319 million (previous year: €-323 million), repair and maintenance costs of €-203 million (previous year: €-195 million), and costs for IT services of €-101 million (previous year: €-93 million).

Foreign exchange losses for assets and liabilities denominated in foreign currencies (without derivative financial instruments from operating business transactions) totaled €-2 million during the financial year (previous year: €-9 million).

## 6 Results from Investments Accounted for Using the Equity Method and Results from Financial Assets

| in € millions | 2012 | 2011 |
|---|---|---|
| Income from investments accounted for using the equity method | 41 | 56 |
| Expenses from investments accounted for using the equity method | (38) | (28) |
| Results from investments accounted for using the equity method | 3 | 28 |
| Income from participations | 12 | 13 |
| Impairment on investments | (28) | (9) |
| Results from financial assets | (16) | 4 |

The profit from associates stems primarily from Antena 3 at €6 million (previous year: €20 million), RTL II at €13 million (previous year: €13 million), and Spiegel Verlag Rudolf Augstein GmbH & Co. KG at €8 million (previous year: €10 million). Losses from investments accounted for using the equity method include BMG Rights Management at €-19 million (previous year: €-17 million) as well as losses incurred by various other companies. Impairments and write-ups on carrying amounts of investments in the associates (including goodwill) of €-85 million (previous year: €-6 million) are reported under "Impairments on investments accounted for using the equity method." Thereof, €-72 million is due to Antena 3. Additional details are presented in the section "Investments Accounted for Using the Equity Method" on page 117.

## 7 Special Items

| in € millions | 2012 | 2011 |
|---|---|---|
| Gruner + Jahr Spain | (22) | – |
| Gruner + Jahr trademark rights | (13) | – |
| Inmediaone | (8) | (13) |
| Arvato Services Iberia | – | (13) |
| Arvato Entertainment EMEA | – | (7) |
| Gruner + Jahr Adria | – | (4) |
| Other | 1 | (5) |
| Impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations | (42) | (42) |
| Alpha Media Group, RTL Group | – | (71) |
| Clubs Eastern Europe, Corporate Investments | 12 | (19) |
| Printer Portuguesa, Be Printers | – | (7) |
| Other | (4) | – |
| Adjustment to carrying amounts on assets held for sale | 8 | (97) |
| Impairment on other financial assets | (28) | (9) |
| Antena 3 | (72) | – |
| Other | (13) | (6) |
| Impairments on investments accounted for using the equity method | (85) | (6) |
| Radio channels of RTL Nederland | – | 107 |
| Printer Barcelona, Be Printers | – | (10) |
| Other | 12 | 5 |
| Capital gains/losses | 12 | 102 |
| Random House Mondadori | 13 | – |
| Other | 5 | 4 |
| Fair value remeasurement of investments | 18 | 4 |
| Impairment on property, plant and equipment Prinovis, Be Printers | (86) | (60) |
| Impairment on property, plant and equipment Print Italy, Be Printers | (16) | – |
| Onerous lease, Random House | – | (32) |
| Additional expenses relating to disposal group Alpha Media Group, RTL Group | – | (24) |
| Impairment on property, plant and equipment Brown Printing, Gruner + Jahr | (37) | (20) |
| Impairment on property, plant and equipment Arvato Entertainment EMEA | – | (9) |
| Restructuring and severance payments, Arvato | (29) | (54) |
| Restructuring and severance payments, Be Printers | – | (7) |
| Restructuring and severance payments, Corporate Center | – | (19) |
| Restructuring and severance payments, Corporate Investments | (10) | (12) |
| Restructuring and severance payments, Gruner + Jahr | (47) | (6) |
| One-off expenses direct-to-customer businesses, Corporate Investments | (32) | (22) |
| Other | (31) | (9) |
| Restructuring and other special items | (288) | (274) |
| Total of special items | (405) | (322) |

Special items are primarily business transactions that are not repeatable and therefore not operational in nature. They include income and expense items which distort the assessment of the results of operations of the divisions and of the Group due to their size and low frequency of occurrence. Special items in the reporting period total €-405 million (previous year: €-322 million).

## 8 Interest Income and Interest Expenses

| in € millions | 2012 | 2011 |
|---|---|---|
| **Interest income** | | |
| Interest income on cash and cash equivalents | 11 | 14 |
| Interest income on interest derivatives | – | 2 |
| Other interest income | 11 | 30 |
| | 22 | 46 |
| | | |
| **Interest expenses** | | |
| Interest expenses on financial debt | (191) | (192) |
| Interest expenses on interest derivatives | (1) | (2) |
| Other interest expenses | (14) | (17) |
| | (206) | (211) |

## 9 Other Financial Expenses and Income

| in € millions | 2012 | 2011 |
|---|---|---|
| **Other financial income** | | |
| Expected return on plan assets from defined benefit plans | 64 | 62 |
| Minority interest in partnerships | 9 | 12 |
| Financial income from put options | 24 | – |
| Other | 14 | 27 |
| | 111 | 101 |
| | | |
| **Other financial expenses** | | |
| Interest expenses on provision for defined benefit plans | (131) | (128) |
| Dividend entitlement on profit participation certificates | (44) | (44) |
| Minority interest in partnerships | (13) | (69) |
| Financial expenses from put options | – | (8) |
| Non-operating forex losses | (8) | (8) |
| Other | (46) | (77) |
| | (242) | (334) |

To better reflect the economic content, income, and expenses from non-operating foreign currency, transactions are offset against the results from the measurement of the hedged foreign currency items and are reported as non-operating forex gains or losses.

## 10 Income Taxes

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

| in € millions | 2012 | 2011 |
|---|---|---|
| Earnings before income taxes (total) | 1,013 | 953 |
| Current income taxes from continuing operations | (329) | (293) |
| Deferred income taxes from continuing operations | (67) | (23) |
| Income taxes from continuing operations | (396) | (316) |
| Current income taxes from discontinued operations | 2 | (23) |
| Deferred income taxes from discontinued operations | – | (2) |
| Income taxes from discontinued operations | 2 | (25) |
| | | |
| Total income taxes | (394) | (341) |
| Net income after income taxes (total) | 619 | 612 |

Tax loss carryforwards of €678 million (previous year: €553 million) were utilized in the reporting period, reducing current tax expenses by €152 million (previous year: €106 million). Of the tax loss carryforwards utilized, €174 million (previous year: €162 million) was due to German corporation tax, €236 million (previous year: €244 million) was due to German trade tax, and €268 million (previous year: €147 million) was due to foreign income taxes. These amounts include €11 million (previous year: €61 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past. These relate to German corporation tax in the amount of €3 million (previous year: €5 million), German trade tax in the amount of €4 million (previous year: €4 million), and foreign income taxes in the amount of €4 million (previous year: €52 million). This led to a reduction in current tax expense of €2 million (previous year: €17 million).

Deferred tax assets and liabilities resulted from the following items and factors:

### Deferred Taxes

| | 12/31/2012 | | 12/31/2011 | |
|---|---|---|---|---|
| in € millions | Assets | Equity and Liabilities | Assets | Equity and Liabilities |
| Intangible assets | 288 | 149 | 294 | 138 |
| Property, plant and equipment | 64 | 84 | 52 | 110 |
| Financial assets | 30 | 56 | 18 | 33 |
| Inventories | 65 | 2 | 52 | 2 |
| Receivable | 109 | 25 | 97 | 29 |
| Advance payments and other assets | 106 | 60 | 97 | 74 |
| Provisions | 545 | 101 | 392 | 85 |
| Financial debt | 20 | 26 | 21 | 17 |
| Liabilities | 10 | 1 | 12 | 1 |
| Advance payments and other liabilities | 64 | 45 | 51 | 41 |
| Loss carryforwards/tax credits | 2,348 | – | 2,439 | – |
| Subtotal | 3,649 | 549 | 3,525 | 530 |
| Valuation allowances | (1,988) | – | (1,943) | – |
| Total | 1,661 | 549 | 1,582 | 530 |
| Offset | (455) | (455) | (434) | (434) |
| Carrying amount | 1,206 | 94 | 1,148 | 96 |

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.

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 allowance is assessed primarily based on existing deferred tax liabilities from temporary differences and projected taxable income within a specified planning period.

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

### Maturity

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **Tax loss carryforwards** | | |
| To be carried forward for more than 5 years | 6,179 | 6,154 |
| To be carried forward for up to 5 years | 135 | 133 |
| **Temporary differences** | 288 | 165 |
| **Tax credits** | | |
| To be carried forward for more than 5 years | 44 | 38 |

A reconciliation of expected net tax income/expense to actual tax income/expense is shown in the following table:

### Reconciliation to Actual Tax Expense

| in € millions | 2012 | 2011 |
|---|---|---|
| Earnings before income taxes (total) | 1,013 | 953 |
| Income tax rate applicable to Bertelsmann SE & Co. KGaA | 30.40% | 30.40% |
| Expected tax expense | (308) | (290) |
| The tax effects of the following items led to differences between the expected and actual tax expense: | | |
| Adjustment to different national tax rates | (27) | (29) |
| Effect of changes in tax rate and tax law | 2 | 7 |
| Non-tax-deductible impairments of goodwill | (34) | (10) |
| Tax-free disposal and merger gains or losses | 6 | 11 |
| Current income taxes for previous years | 1 | 6 |
| Deferred income taxes for previous years | 49 | 48 |
| Valuation allowance on deferred tax assets, current year | (50) | (26) |
| Permanent differences | (15) | (42) |
| Other adjustments | (18) | (16) |
| Total of adjustments | (86) | (51) |
| Actual tax expense | (394) | (341) |

The income tax rate applied at Bertelsmann SE & Co. KGaA consists of corporate income tax, the solidarity surcharge, and trade tax.

### Effective Income Tax Rate

| | 2012 | 2011 |
|---|---|---|
| Corporation tax including solidarity surcharges | 15.83% | 15.83% |
| Trade tax | 14.57% | 14.57% |
| Effective income tax rate | 30.40% | 30.40% |

## 11 Intangible Assets

| in € millions | Goodwill | Other intangible assets: Music, film, and publishing rights | Other rights and licenses | Internally generated intangible assets | Advance payments | Total | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance as of 1/1/2011 | 6,369 | 997 | 1,385 | 734 | 13 | 3,129 | 9,498 |
| Currency translation differences | 18 | 3 | 8 | 7 | – | 18 | 36 |
| Acquisitions through business combinations | 130 | 2 | 23 | 1 | – | 26 | 156 |
| Other additions | – | 35 | 84 | 54 | 11 | 184 | 184 |
| Reductions through disposal of investments | (168) | – | (79) | – | – | (79) | (247) |
| Other disposals | – | (41) | (41) | (1) | – | (83) | (83) |
| Reclassifications according to IFRS 5 | (118) | – | (21) | – | – | (21) | (139) |
| Reclassifications and other changes | 7 | 50 | (11) | (32) | (14) | (7) | – |
| Balance as of 12/31/2011 | 6,238 | 1,046 | 1,348 | 763 | 10 | 3,167 | 9,405 |
| Currency translation differences | 2 | (2) | – | (4) | – | (6) | (4) |
| Acquisitions through business combinations | 72 | – | 20 | – | – | 20 | 92 |
| Other additions | – | 30 | 64 | 77 | 4 | 175 | 175 |
| Reductions through disposal of investments | (1) | – | (2) | – | – | (2) | (3) |
| Other disposals | – | (64) | (43) | (3) | – | (110) | (110) |
| Reclassifications according to IFRS 5 | (1) | – | (1) | – | – | (1) | (2) |
| Reclassifications and other changes | 11 | 39 | 18 | (24) | (12) | 21 | 32 |
| Balance as of 12/31/2012 | 6,321 | 1,049 | 1,404 | 809 | 2 | 3,264 | 9,585 |
| Accumulated depreciation | | | | | | | |
| Balance as of 1/1/2011 | 301 | 930 | 913 | 657 | – | 2,500 | 2,801 |
| Currency translation differences | 1 | 3 | 6 | 7 | – | 16 | 17 |
| Amortization | – | 60 | 81 | 30 | – | 171 | 171 |
| Impairment losses | 40 | 2 | 11 | 6 | – | 19 | 59 |
| Reversals of impairment losses | – | (2) | (1) | – | – | (3) | (3) |
| Reductions through disposal of investments | – | – | (41) | – | – | (41) | (41) |
| Other disposals | – | (41) | (36) | (1) | – | (78) | (78) |
| Reclassifications according to IFRS 5 | (113) | – | (12) | – | – | (12) | (125) |
| Reclassifications and other changes | (2) | 22 | (5) | (15) | – | 2 | – |
| Balance as of 12/31/2011 | 227 | 974 | 916 | 684 | – | 2,574 | 2,801 |
| Currency translation differences | – | (2) | (1) | (4) | – | (7) | (7) |
| Amortization | – | 74 | 77 | 31 | – | 182 | 182 |
| Impairment losses | 30 | 1 | 17 | 10 | – | 28 | 58 |
| Reversals of impairment losses | – | (1) | – | – | – | (1) | (1) |
| Reductions through disposal of investments | – | – | (2) | – | – | (2) | (2) |
| Other disposals | – | (63) | (40) | (3) | – | (106) | (106) |
| Reclassifications according to IFRS 5 | – | – | (1) | – | – | (1) | (1) |
| Reclassifications and other changes | 16 | 5 | 15 | 1 | – | 21 | 37 |
| Balance as of 12/31/2012 | 273 | 988 | 981 | 719 | – | 2,688 | 2,961 |
| Carrying amount as of 12/31/2012 | 6,048 | 61 | 423 | 90 | 2 | 576 | 6,624 |
| Carrying amount as of 12/31/2011 | 6,011 | 72 | 432 | 79 | 10 | 593 | 6,604 |

Other rights and licenses include brands, supply rights, publishing rights, licenses, and acquired software. Internally generated intangible assets mostly include own film and TV productions and internally generated software. Intangible assets with a carrying amount of €2 million (previous year: €2 million) have been provided as collateral for liabilities.

Bundling the European gravure printing activities and Arvato's offset printers in Southern Europe, the United States, and Colombia into an independent division Be Printers has led to a change in the corporate structure. This change was taken into account in the allocation of cash-generating units.

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

## Goodwill and Other Intangible Assets with Indefinite Useful Life Broken Down by Cash-Generating Unit

| | Goodwill | | Other intangible assets with indefinite useful life | |
|---|---|---|---|---|
| in € millions | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| **RTL Group** | 4,802 | 4,785 | 121 | 121 |
| RTL Group, Group level[1] | 2,123 | 2,123 | – | – |
| Content | 1,040 | 1,039 | – | – |
| Television Germany | 884 | 881 | – | – |
| Television France | 419 | 416 | 120 | 120 |
| Other, disclosed under RTL Group | 336 | 326 | 1 | 1 |
| **Random House** | 411 | 382 | – | – |
| Random House North America | 243 | 247 | – | – |
| Random House UK | 87 | 85 | – | – |
| Random House Germany | 45 | 45 | – | – |
| Random House, Spanish speaking | 36 | 5 | – | – |
| **Gruner + Jahr** | 456 | 474 | 33 | 108 |
| Gruner + Jahr Germany | 244 | 245 | – | 49 |
| Gruner + Jahr Austria | 92 | 92 | – | 2 |
| Gruner + Jahr Spain | 9 | 31 | – | 3 |
| Gruner + Jahr China | 40 | 41 | 32 | 33 |
| Other | 71 | 65 | 1 | 21 |
| **Arvato** | 356 | 339 | – | – |
| Infoscore | 248 | 242 | – | – |
| Arvato Services France | 50 | 50 | – | – |
| Other | 58 | 47 | – | – |
| **Be Printers** | 20 | 20 | – | – |
| Be Printers America | 20 | 20 | – | – |
| **Corporate Investments** | 3 | 11 | – | – |
| BCDM | 3 | 3 | – | – |
| Inmediaone | – | 8 | – | – |
| | 6,048 | 6,011 | 154 | 229 |

1) From the financial year 2012, the goodwill for the RTL Group at the Group level, which was formerly allocated to Corporate (Corporate Investments), is carried at RTL Group under the item "RTL Group, Group level."

Intangible assets with an indefinite useful life are primarily M6 trademark rights in France (€120 million; previous year: €120 million) and advertising marketing rights in China (€32 million; previous year: €33 million). The relevant factors that apply when determining the useful life include, in particular, developments in the advertising and sales markets, consumers, reading and leisure-time behavior, changes in the technology or regulatory environment, and management strategies to maintain the brands. In addition, according to IAS 38.94, when determining the useful life, extension periods are included if the extension is possible without significant additional costs. Consideration of these factors and past experience with regard to these and comparable internally generated brands and titles support the management's estimate that there are currently no foreseeable restrictions on the ability to use these rights to the extent that they are capable of generating corresponding cash flows for the unit. In contrast to the previous year, the European brand rights from Gruner + Jahr were carried as intangible assets with a definite useful life, as the current developments with a stronger orientation to the digital transformation no longer justify the continued assessment of an indefinite useful life for the European brand rights at Gruner + Jahr. In contrast, in the reporting period, these are carried as intangible assets with a definite useful life of five to 20 years.

The European brand rights with definite useful lives at Gruner + Jahr mainly relate to MPS Germany (€43 million) and MPS France (€9 million). The change to the estimate of useful lives from indefinite to definite is regarded as being a change to the accounting estimate according to IAS 8. For the purpose of impairment testing (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. Goodwill is tested for impairment at least once per year and whenever there is an indication for impairment as outlined in the section "Accounting and Measurement Policies" and under the following assumptions. Net present values were calculated using the following discount rates and individual business-specific growth rates:

### Overview of Growth and Discount Rates

| | Growth rate in % p.a. | Discount rate in % p.a. |
|---|---|---|
| **RTL Group** | | |
| RTL Group, Group level | 2.0 | 7.60 |
| Content | 3.0 | 7.80 |
| Television Germany | 2.0 | 7.60 |
| Television France | 2.5 | 8.30 |
| Other, disclosed under RTL Group | 2.0 | 6.40–12.60 |
| **Random House** | | |
| Random House North America | 0.0–1.0 | 6.70 |
| Random House UK | 0.0 | 7.50 |
| Random House Germany | 1.0 | 7.50 |
| Random House, Spanish speaking | 3.0 | 11.00 |
| **Gruner + Jahr** | | |
| Gruner + Jahr Germany | 0.0 | 7.50 |
| Gruner + Jahr Austria | 0.0 | 6.03 |
| Gruner + Jahr Spain | 0.0 | 7.90 |
| Gruner + Jahr China | 3.0 | 9.79 |
| Other | 0.0–5.0 | 7.50–13.15 |
| **Arvato** | | |
| Infoscore | 1.0 | 7.50 |
| Arvato Services France | 1.0 | 7.50 |
| Other | -1.0–1.0 | 7.50–7.70 |
| **Be Printers** | | |
| Be Printers America | -1.0 | 7.45 |
| **Corporate Investments** | | |
| Other | 0.0 | 7.70–8.17 |

The impairment test for the RTL goodwill is based on the management's business forecast in a detailed planning period of five years. The discounted planned cash flow was based on a discount rate after taxes of 7.6 percent (pre-tax discount rate 10.5 percent). For impairment testing, a growth rate of 2.0 percent was assumed for the period after the end of the detailed planning period. The internal value in use was calculated as the recoverable amount for RTL Group goodwill recognized at Group level. Accordingly, no impairment was identified for the goodwill recognized in the financial statements. Validation with stock market prices over the period prior to and on the balance sheet date confirmed this estimate.

During the reporting period, impairments were carried out for goodwill in the amount of €-30 million (previous year: €-42 million) and in the amount of €-13 million on the European brand rights of Gruner + Jahr, which had previously been carried as intangible assets with indefinite useful lives as part of the definition of their useful lives as definite.

The impairment test on the goodwill of Gruner + Jahr Spain led to an impairment of €-22 million. This is due to the difficult situation in the Spanish advertising market. The following assumptions were used to identify the impairment: a discount rate of 7.9 percent and a growth rate of 0 percent.

The recoverability of material goodwill balances was also confirmed when changing the growth rate by -1.0 percentage point or discount rate by +1.0 percentage point.

## 12 Property, Plant and Equipment

| in € millions | Land, rights equivalent to land, and buildings | Plant, technical equipment, and machinery | Other equipment, fixtures, furniture, and office equipment | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance as of 1/1/2011 | 1,889 | 3,516 | 1,170 | 65 | 6,640 |
| Currency translation differences | 8 | 20 | 4 | – | 32 |
| Acquisitions through business combinations | – | – | 1 | – | 1 |
| Other additions | 35 | 74 | 126 | 87 | 322 |
| Reductions through disposal of investments | (1) | (3) | (8) | – | (12) |
| Other disposals | (11) | (222) | (99) | – | (332) |
| Reclassifications according to IFRS 5 | (39) | (36) | (15) | – | (90) |
| Reclassifications and other changes | (12) | 28 | 7 | (51) | (28) |
| Balance as of 12/31/2011 | 1,869 | 3,377 | 1,186 | 101 | 6,533 |
| Currency translation differences | 2 | (8) | (3) | – | (9) |
| Acquisitions through business combinations | – | – | 5 | – | 5 |
| Other additions | 34 | 65 | 99 | 70 | 268 |
| Reductions through disposal of investments | – | – | – | – | – |
| Other disposals | (30) | (106) | (94) | – | (230) |
| Reclassifications according to IFRS 5 | (3) | (8) | – | – | (11) |
| Reclassifications and other changes | 83 | 38 | 17 | (108) | 30 |
| Balance as of 12/31/2012 | 1,955 | 3,358 | 1,210 | 63 | 6,586 |
| Accumulated depreciation | | | | | |
| Balance as of 1/1/2011 | 852 | 2,835 | 865 | 2 | 4,554 |
| Currency translation differences | 4 | 17 | 3 | – | 24 |
| Depreciation | 55 | 148 | 104 | – | 307 |
| Impairment losses | 34 | 63 | 17 | 2 | 116 |
| Reversals of impairment losses | – | (3) | (1) | – | (4) |
| Reductions through disposal of investments | (1) | (2) | (5) | – | (8) |
| Other disposals | (6) | (220) | (91) | – | (317) |
| Reclassifications according to IFRS 5 | (15) | (30) | (10) | – | (55) |
| Reclassifications and other changes | (15) | 1 | (2) | – | (16) |
| Balance as of 12/31/2011 | 908 | 2,809 | 880 | 4 | 4,601 |
| Currency translation differences | (1) | (10) | (3) | – | (14) |
| Depreciation | 57 | 139 | 107 | – | 303 |
| Impairment losses | 57 | 85 | 4 | – | 146 |
| Reversals of impairment losses | (1) | (6) | (1) | – | (8) |
| Reductions through disposal of investments | – | – | – | – | – |
| Other disposals | (7) | (102) | (89) | – | (198) |
| Reclassifications according to IFRS 5 | (1) | (5) | – | – | (6) |
| Reclassifications and other changes | 5 | – | 4 | – | 9 |
| Balance as of 12/31/2012 | 1,017 | 2,910 | 902 | 4 | 4,833 |
| Carrying amount as of 12/31/2012 | 938 | 448 | 308 | 59 | 1,753 |
| Carrying amount as of 12/31/2011 | 961 | 568 | 306 | 97 | 1,932 |

The carrying amount of the property, plant and equipment pledged as collateral for liabilities totaled €5 million (previous year: €7 million). Impairments of property, plant and equipment totaled €146 million (previous year: €116 million).

On December 31, 2012, the continued difficult situation in the market as a result of ongoing price pressure and falling volumes resulted in an impairment of €-102 million (previous year: €-62 million) related to property, plant and equipment at the Be Printers business units Prinovis Germany, Print Italy, and Prinovis UK. As part of this impairment testing, an impairment of €-35 million was recognized at Prinovis Germany. This impairment test was based on a discount rate of 6.5 percent and a growth rate of -1.0 percent. Impairment of €-16 million was identified at Print Italy. The impairment test was performed based on a discount rate of 8.7 percent and a growth rate of -1.0 percent. Additional impairment of €-51 million for property, plant and equipment was taken into account for Prinovis UK. This impairment test was based on a discount rate of 7.9 percent and a growth rate of -1.0 percent.

At Brown Printing, impairment of €-37 million was recognized for property, plant and equipment due to the continued high price pressure and the anticipated lower printing volume. Impairment was identified based on a discount rate of 6.5 percent and a growth rate of -1.0 percent. If the discount rate used by the management would have been 1.0 percentage points higher, this would have resulted in an additional imputed impairment of €-25 million for Prinovis Germany, €-8 million for Prinovis UK, and €-11 million for Brown Printing. As a result of the property, plant and equipment which was mostly already depreciated, there would have been no additional material impairment requirements at Print Italy if the discount rate used by the management had been 1.0 percentage point higher.

## 13 Investments Accounted for Using the Equity Method

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Proportionate equity | 278 | 334 |
| Goodwill | 178 | 249 |
| | 456 | 583 |

Total assets of investments accounted for using the equity method amounted to €2,713 million (previous year: €2,243 million) as of December 31, 2012. On the other hand, total liabilities as of December 31, 2012 amounted to €1,783 million (previous year: €1,305 million). Revenues totaled €1,645 million (previous year: €1,713 million). Net result totaled €60 million (previous year: €145 million). These disclosures represent accounting totals for significant investments accounted for using the equity method. The values are calculated on the basis of 100 percent.

From the entities accounted for using the equity method, Antena 3 is a listed company. Its proportionate stock market value on December 31, 2012 totaled €167 million (previous year: €213 million). Impairment for associated companies in the financial year 2012 totaled €-85 million (previous year: €-6 million). Thereof, Antena 3 accounted for €-72 million, as the carrying amount of the participating interest was no longer sufficiently covered by its recoverable value.

The total assets of the associated companies that are not accounted for using the equity method totals €81 million (previous year: €75 million). Their total liabilities amounted to €35 million (previous year: €29 million). Revenues totaled €110 million (previous year: €104 million) and net result amounted to a total of €14 million (previous year: €5 million). The values are calculated on the basis of 100 percent.

## 14 Other Financial Assets

| in € millions | At amortized cost 12/31/2012 | At amortized cost 12/31/2011 | At fair value 12/31/2012 | At fair value 12/31/2011 | Derivatives with hedge relation 12/31/2012 | Derivatives with hedge relation 12/31/2011 | Total 12/31/2012 | Total 12/31/2011 |
|---|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | | |
| Loans | 10 | 6 | – | – | – | – | 10 | 6 |
| Other investments | – | – | – | – | – | – | – | – |
| Securities and financial assets | 4 | 6 | 80 | 2 | – | – | 84 | 8 |
| Derivative financial instruments | – | – | 6 | 6 | 19 | 49 | 25 | 55 |
| | 14 | 12 | 86 | 8 | 19 | 49 | 119 | 69 |
| **Non-current** | | | | | | | | |
| Loans | 85 | 68 | – | – | – | – | 85 | 68 |
| Investments in affiliates | 21 | 16 | – | – | – | – | 21 | 16 |
| Other investments | 116 | 81 | 76 | 81 | – | – | 192 | 162 |
| Securities and financial assets | 2 | 3 | 103 | 161 | – | – | 105 | 164 |
| Derivative financial instruments | – | – | – | – | 23 | 54 | 23 | 54 |
| | 224 | 168 | 179 | 242 | 23 | 54 | 426 | 464 |

Other financial assets are measured at fair value according to IAS 39, or if there is no active market they are measured at amortized cost. Information on impairments is presented in note 25 “Additional Disclosures on Financial Instruments.”

## 15 Inventories

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Program rights | 789 | 805 |
| Raw materials and supplies | 153 | 168 |
| Work in progress | 97 | 105 |
| Finished goods and merchandise | 246 | 243 |
| Advance payments | 119 | 123 |
| | 1,404 | 1,444 |

In the reporting period, valuation allowances on inventories were recognized to the amount of €-167 million (previous year: €-116 million). The amount of write-down on inventories is reversed if the reason for the write-down no longer applies. Write-ups on inventories in the amount of €107 million (previous year: €92 million) were recognized in the year under review. These are due to broadcasting factors for program rights and also increased prices on some markets. No inventories have been pledged as collateral for liabilities.

## 16 Receivables and Other Non-Financial Assets

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **Non-current** | | |
| Trade receivables | 14 | 10 |
| Other receivables | 97 | 118 |
| Other non-financial assets | 220 | 230 |
| | | |
| **Current** | | |
| Trade receivables | 2,707 | 2,582 |
| Other receivables | 559 | 540 |
| Advance payments | 274 | 291 |
| Other tax receivables | 69 | 70 |
| Deferred items | 155 | 134 |
| Other non-financial assets | 498 | 495 |

The non-current other non-financial assets relate, in the amount of €210 million (previous year: €220 million), mostly to advance payments for royalties and licenses. Advance payments for royalties and licenses are generally written off if no future related income is expected. These expectations are based on management estimates of future sales volumes and price changes using historical data.

The item "Other receivables" includes receivables in the amount of the continuing involvement, receivables from employees, receivables from compensation claims for defined benefit obligations as well as other refund entitlements, creditors with debit balances, and accounts receivable from participations.

Information on impairments and the analysis of maturities is presented in note 25 "Additional Disclosures on Financial Instruments."

## 17 Cash and Cash Equivalents

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Cash | 2,193 | 1,181 |
| Other securities < 3 months | 465 | 583 |
| | 2,658 | 1,764 |

Cash and cash equivalents of €19 million (previous year: €17 million) were used as collateral for liabilities. In addition, cash and cash equivalents amounting to €1 million (previous year: €0 million) were pledged with restrictions on disposal during the current reporting period. In order to reduce the counterparty risk, cash investments were made in some cases against the provision of collateral (tri-party transactions). On the balance sheet date the collateralized cash investments totaled €545 million, and banks have provided securities in the same amount as collateral.

## 18 Equity
### Subscribed Equity

| Number of shares | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Ordinary shares | 83,760 | 83,760 |
| Total shares | 83,760 | 83,760 |

As was the case in the previous financial year, Bertelsmann SE & Co. KGaA's subscribed capital totaled €1,000 million. It comprises 83,760 no-par-value bearer shares (ordinary shares). As of December 31, 2012, 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 all voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and Bertelsmann Management SE (personally liable partner).

## Capital Reserve

The capital reserve mainly includes additional paid-in capital or share premiums received from the issue of preference and ordinary shares in excess of their par values.

## Retained Earnings

Retained earnings include the undistributed prior-year net profits of those companies included in the consolidated financial statements, actuarial gains and losses from defined-benefit plans taken directly to equity, as well as cumulated other comprehensive income.

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

### Changes to Components of Other Comprehensive Income After Taxes

| in € millions | 2012 | | | | |
|---|---|---|---|---|---|
| | Before-tax amount | Taxes | Net-of-tax amount | thereof of Bertelsmann shareholders | thereof of non-controlling interest |
| Currency translation differences | (1) | – | (1) | (5) | 4 |
| Available-for-sale financial assets | 17 | (1) | 16 | 22 | (6) |
| Cash flow hedges | (40) | 11 | (29) | (28) | (1) |
| Actuarial gains/losses on defined benefit plans | (427) | 115 | (312) | (310) | (2) |
| Share of other comprehensive income of investments accounted for using the equity method | (4) | 1 | (3) | (3) | – |
| Other comprehensive income net of tax | (455) | 126 | (329) | (324) | (5) |

| in € millions | 2011 | | | | |
|---|---|---|---|---|---|
| | Before-tax amount | Taxes | Net-of-tax amount | thereof of Bertelsmann shareholders | thereof of non-controlling interest |
| Currency translation differences | 28 | – | 28 | 33 | (5) |
| Available-for-sale financial assets | (7) | (12) | (19) | (25) | 6 |
| Cash flow hedges | 41 | (10) | 31 | 29 | 2 |
| Actuarial gains/losses on defined benefit plans | (168) | 46 | (122) | (122) | – |
| Share of other comprehensive income of investments accounted for using the equity method | 2 | – | 2 | 2 | – |
| Other comprehensive income net of tax | (104) | 24 | (80) | (83) | 3 |

Changes in the fair value of previous year hedging relationships amounted to €-7 million (previous year: €10 million) and new hedging relationships to €-8 million (previous year: €38 million) in the financial year 2012. The amount of €-25 million relating to the other comprehensive income (previous year: €-7 million) was reversed and recognized in other operating income.

### Stock Option Plans at Subsidiaries

There are various stock option plans at Groupe M6, which belongs to RTL Group. Métropole Télévision has established a stock option plan open to directors and certain employees within Groupe M6. The number of options 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 options are settled by the physical delivery of shares:

### Granting and Vesting Conditions (Groupe M6)

| Grant date | Number of options initially granted (in thousands) | Remaining options (in thousands) | Vesting conditions | Contractual life of options[1] |
|---|---|---|---|---|
| **Stock option plans** | | | | |
| June 2005 | 635.50 | 0.00 | 4 years of service | 7 years |
| June 2006 | 736.75 | 395.25 | 4 years of service | 7 years |
| May 2007 | 827.50 | 519.50 | 4 years of service | 7 years |
| May 2008 | 883.83 | 639.36 | 4 years of service | 7 years |
| Total | 3,083.58 | 1,554.11 | | |
| **Free share plans** | **Maximum number of free shares granted (in thousands)**[2] | | | |
| March 2010 | 22.00 | | 2 years of service | |
| July 2010 | 377.78 | | 2 years of service + performance conditions | |
| December 2010 | 48.00 | | 2 years of service + performance conditions | |
| July 2011 | 367.82 | 318.98 | 2 years of service + performance conditions | |
| December 2011 | 37.50 | 33.50 | 2 years of service + performance conditions | |
| July 2012 | 487.75 | 487.75 | 2 years of service + performance conditions | |
| Total | 1,340.85 | 840.23 | | |

1) The contractual life of the options corresponds to the vesting period (i.e., four years) plus three years (which represents the time frame during which the options can be exercised).
2) The maximum number of free shares is granted if the performance conditions are significantly exceeded. This number could be reduced to nil if objectives are not met.

The price to be paid when exercising the remaining options is the average value of the shares of Métropole Télévision on the Paris Stock Exchange, taken over 20 trading days prior to the date of grant. The management free share allocation plan forms an exception to the above.

The table below shows movements in the number of stock options in the reporting period:

### Options (Groupe M6)

| in thousands | Average exercise price in € per share | 2012 | Average exercise price in € per share | 2011 |
|---|---|---|---|---|
| Options outstanding at the beginning of the year | 21 | 2,093 | 22 | 2,722 |
| Options exercised during the year | – | – | 15 | (3) |
| Options expired during the year | 21 | (539) | 24 | (626) |
| Options outstanding at the end of the year | 21 | 1,554 | 21 | 2,093 |

An estimated 840,000 free shares are still exercisable at the end of the year against 824,000 at the beginning of the year, which have been reduced by 16,000 due to the performance. 488,000 free shares were granted during the year with 391,000 being exercised and 65,000 being forfeited.

Share options outstanding at the end of the year have the following terms:

### Conditions for Stock Options (Groupe M6)

| Expiry date | Exercise price in € | Number of options (in thousands) 2012 | Number of options (in thousands) 2011 |
|---|---|---|---|
| **Stock option plans** | | | |
| 2012 | 19.94 | – | 369 |
| 2013 | 24.60 | 395 | 446 |
| 2014 | 27.52 | 520 | 576 |
| 2015 | 14.73 | 639 | 702 |
| | | 1,554 | 2,093 |
| **Free share plans** | | | |
| 2012 | | – | 427 |
| 2013 | | 352 | 397 |
| 2014 | | 488 | – |
| | | 840 | 824 |
| Options outstanding at the end of the year | | 2,394 | 2,917 |
| of which exercisable | | 1,341 | 1,859 |

On December 31, 2012, the market price of M6 shares on the Paris Stock Exchange was €11.82 (December 31, 2011: €11.53).

The fair value of services received in return for share options granted is measured by reference to the fair value of stock 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 dividends, which employees are not entitled to receive during the vesting period.

## Fair Values of Stock Options (Groupe M6)

| | Stock option plans | | | Free share plans | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant date | 6/6/2006 | 5/2/2007 | 5/6/2008 | 7/28/2009 | 12/23/2009 | 3/25/2010 | 7/27/2010 | 12/22/2010 | 7/26/2011 | 12/22/2011 | 7/27/2012 | |
| Share price | €24.63 | €26.55 | €15.22 | €13.00 | €18.02 | €18.84 | €17.66 | €18.22 | €15.75 | €11.40 | €11.51 | |
| Exercise price | €24.60 | €27.52 | €14.73 | | | | | | | | | |
| Volatility | 43.10% | 37.80% | 40.00% | | | | | | | | | |
| Risk-free interest rate | 4.02% | 4.40% | 4.39% | 2.49% | 1.42% | 1.00% | 1.00% | 1.13% | 1.56% | 1.02% | 0.24% | |
| Expected return | 3.81% | 3.99% | 6.30% | 4.90% | 4.01% | 5.04% | 5.38% | 5.49% | 6.35% | 9.60% | 9.50% | |
| Option life | 7 years | 7 years | 7 years | 2 years | 2 years | 2 years | 2 years | 2 years | 2 years | 2 years | 2 years | |
| Personnel costs in € millions | | | | | | | | | | | | |
| 2012 | – | – | – | – | – | – | 1.5 | 0.2 | 2.2 | 0.2 | 0.7 | 4.8 |
| 2011 | – | 0.2 | 0.6 | 1.3 | 0.4 | 0.2 | 2.6 | 0.3 | 1.0 | – | – | 6.6 |

## Non-Controlling Interests

Non-controlling interests in the equity of consolidated subsidiaries consist primarily of non-controlling shareholders in RTL Group.

## 19 Provisions for Pensions and Similar Obligations

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Defined benefit plans | 2,028 | 1,613 |
| Obligations similar to pensions | 123 | 125 |
| | 2,151 | 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 €31 million were recognized in the financial year (previous year: €27 million).

All other pension plans are defined benefit plans. Some are financed through an external investment fund (plan assets), while others are unfunded. Provisions were formed for these plans. The plans are mostly final salary plans.

The provisions are determined using actuarial formulas in accordance with IAS 19. The amount of provisions depends on employees' length of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, in which increasing salary costs are assumed over the period of service, in contrast to the entry-age normal method. In addition to biometric calculations and the prevailing long-term capital market interest rates, provisions are computed, in particular, on the basis of assumptions about future salary and pension increases. The biometric calculations are based on the 2005 G mortality tables issued by Prof. Klaus Heubeck. The following weighted actuarial assumptions have been applied:

### Actuarial Assumptions

| | 12/31/2012 | | 12/31/2011 | |
|---|---|---|---|---|
| | Germany | Foreign | Germany | Foreign |
| Discount rate | 3.48% | 3.89% | 4.83% | 4.73% |
| Expected rate of return on plan assets | 3.79% | 5.07% | 5.54% | 5.08% |
| Rate of salary increase | 2.25% | 2.91% | 2.25% | 3.44% |
| Rate of pension increase | 1.80% | 1.04% | 1.80% | 1.04% |
| Fluctuation | Experience values | | Experience values | |

In the event of an increase (reduction) in discount rates by one percentage point, the defined benefit obligation would decrease (increase) by €441 million.

Expected rate of return on plan assets are based exclusively on projections for the respective asset classes held. Historical data, economic forecasts, the interest rate outlook, inflation rates, and stock market expectations are factored into expected plan returns. 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. Expected CTA plan returns are determined on the basis of the strategic asset allocation maintained in different asset classes. Expected plan returns are determined by applying a risk-free rate of return for total plan assets based on current long-term government bond yields. A risk premium return is also calculated for each asset class based on historical market returns and economic forecasting. The market indices applied reflect the plan assets classified by region, asset class, and industry. Expected plan returns are reviewed regularly – at least once a year – and factor in projected contributions and distributions of plan assets.

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

### Changes in Defined Benefit Obligations and Plan Assets

| in € millions | 2012 | 2011 |
|---|---|---|
| Defined benefit obligation on 1/1 | 2,780 | 2,569 |
| Current service cost | 46 | 48 |
| New past service cost | 2 | 1 |
| Interest expenses | 131 | 128 |
| Actuarial (gains) and losses | 513 | 138 |
| Curtailments and settlements | – | (1) |
| Contributions to plan assets by employees | 3 | 3 |
| Benefits directly paid by employer | (101) | (99) |
| Benefits paid out of plan assets | (17) | (16) |
| Changes of consolidation scope | – | (7) |
| Disposal due to IFRS 5 | – | (3) |
| Currency translation differences | 3 | 23 |
| Other changes | (1) | (4) |
| Defined benefit obligation on 12/31 | 3,359 | 2,780 |
| | | |
| Fair value of plan assets on 1/1 | 1,172 | 1,137 |
| Expected return on plan assets from defined benefit plans | 64 | 62 |
| Actuarial gains and (losses) | 57 | (42) |
| Settlements | – | (2) |
| Contributions by employer | 55 | 23 |
| Contributions by the employees | 3 | 3 |
| Benefits paid out of plan assets | (17) | (16) |
| Changes of consolidation scope | – | (6) |
| Currency translation differences | 4 | 17 |
| Other changes | (1) | (4) |
| Fair value of plan assets on 12/31 | 1,337 | 1,172 |
| | | |
| Funded status | 2,022 | 1,608 |

In Germany, there are reimbursement rights for defined benefit obligations in the amount of €22 million (previous year: €20 million). The reimbursement rights are carried in the balance sheet item “Other Financial Assets.” The net pension liability reported on the balance sheet is composed as follows:

### Net Pension Liability

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Defined benefit obligation of unfunded plans | 1,541 | 1,322 |
| Defined benefit obligation of funded plans | 1,818 | 1,458 |
| Total defined benefit obligation | 3,359 | 2,780 |
| Fair value of plan assets | (1,337) | (1,172) |
| Net liability recognized in the balance sheet | 2,022 | 1,608 |
| thereof provisions for pensions | 2,028 | 1,613 |
| thereof other assets | 6 | 5 |

Actuarial gains and losses under defined benefit pension plans and the effects of the asset ceiling in accordance with IAS 19.58 are taken to pension provisions in the year in which they arise with corresponding recognition in the other comprehensive income.
Actuarial losses of €-456 million (previous year: €-180 million) were taken directly to equity in the financial year. During the financial year and in the previous year the asset ceiling prescribed by IAS 19.58 did not impact the other comprehensive income. To date, cumulative actuarial losses of €-938 million (previous year: €-485 million) have been recognized in other comprehensive income.

Net liability can be broken down by geographical areas as follows:

### Breakdown of Net Pension Liability by Geographical Areas

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Germany | 1,753 | 1,379 |
| United States | 114 | 100 |
| Other European countries | 145 | 119 |
| Other countries | 10 | 10 |
| Net liability recognized in the balance sheet | 2,022 | 1,608 |

Expenses for defined benefit plans in the amount of €115 million were recognized in the financial year (previous year: €114 million). Thereof €48 million (previous year: €48 million) were recorded under personnel costs, and €67 million (previous year: €66 million) under other financial income and expense. These expenses break down as follows:

### Expenses for Defined Benefit Plans

| in € millions | 2012 | 2011 |
|---|---|---|
| Current service cost | 46 | 48 |
| Interest expenses | 131 | 128 |
| Expected return on plan assets | (64) | (62) |
| Amortization of past service cost | 2 | 1 |
| Effect of curtailments or settlements | – | (1) |
| Net periodic pension expenses | 115 | 114 |

The actual return on plan assets in the financial year was €121 million (previous year: €20 million).

The portfolio structure of plan assets is composed as follows:

### Portfolio Structure of Plan Assets

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Equity instruments | 401 | 377 |
| Bonds | 773 | 681 |
| Property | 2 | 2 |
| Cash and cash equivalents | 41 | 33 |
| Other | 120 | 79 |
| Fair value of any plan assets | 1,337 | 1,172 |

Employer contributions to plan assets are expected to amount to €22 million in the next financial year.

### Change in Net Pension Liability

| in € millions | 2012 | 2011 |
|---|---|---|
| Net liability at the beginning of the year | 1,608 | 1,432 |
| Pension expense | 115 | 114 |
| New actuarial (gains) and losses | 456 | 180 |
| Pension payments | (101) | (99) |
| Contributions to plan assets | (55) | (23) |
| Changes of consolidation scope | – | (1) |
| Disposal due to IFRS 5 | – | (3) |
| Currency translation differences | (1) | 6 |
| Other effects | – | 2 |
| Net liability at the end of the year | 2,022 | 1,608 |

The following table shows the portion of new actuarial gains and losses resulting from experience adjustments:

### Experience Adjustments Occurred

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Experience adjustments occurred** | | | | | |
| (Gains)/losses on defined benefit obligation | (28) | (2) | (1) | 9 | (72) |
| Gains/(losses) on plan assets | 57 | (42) | 52 | 58 | (227) |

The defined benefit obligation and the plan assets changed as follows over the past five years:

### Five-Year Overview

| in € millions | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Defined benefit obligation | 3,359 | 2,780 | 2,569 | 2,298 | 2,206 |
| Plan assets | 1,337 | 1,172 | 1,137 | 1,020 | 930 |
| Funded status | 2,022 | 1,608 | 1,432 | 1,278 | 1,276 |

The US companies' obligations for health care costs for employees after they retire are defined benefit obligations and are included in the provisions on the balance sheet in the amount of €78 million (previous year: €74 million). These obligations have also been calculated using international standards as described above. Medical cost trade rates of 7.9 to 8.2 percent (age-dependent) were assumed (previous year: 8.1 to 8.5 percent). An increase or decrease of one percentage point in the assumptions for cost increases compared with the assumptions actually applied would have the following effects on pension cost and the defined benefit obligation:

### Effect of Actuarial Assumptions

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Effect of 1 percentage point increase on pension cost | – | – |
| Effect of 1 percentage point increase on defined benefit obligation | 4 | 4 |
| Effect of 1 percentage point decrease on pension cost | – | – |
| Effect of 1 percentage point decrease on defined benefit obligation | (4) | (4) |

Obligations similar to pensions include provisions for bonuses for employee service anniversaries, old-age part-time schemes, amounts due but not yet paid to defined contribution plans, 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 old-age part-time schemes. The partial retirement phase lasts two to five years.

Bertelsmann SE & Co. KGaA introduced a model for deferred compensation accounts in 2006. Under this model, employees defer part of their gross salary, which is then credited to deferred compensation accounts held by a trustee. The aim of this deferred compensation is to enable staff to take early retirement. The period of early retirement for each employee depends on the balance in the respective deferred compensation account. The balance in the deferred compensation accounts meets the definition of plan assets as set out in IAS 19.7, and the company's obligation at any given time corresponds to the fair value of the deferred compensation accounts. The deferred compensation account model has no effect on the balance sheet or income statement. Outsourced assets totaled €4 million at December 31, 2012 (previous year: €4 million).

## 20 Other Provisions

| in € millions | 12/31/2011 | of which > 1 year | Additions | Reversal | Usage | Other effects | Change of consolida-tion scope | Accrued interest | 12/31/2012 | of which > 1 year |
|---|---|---|---|---|---|---|---|---|---|---|
| Restructuring | 49 | 3 | 71 | (4) | (36) | 5 | – | – | 85 | 3 |
| Litigation | 158 | 1 | 50 | (23) | (38) | (12) | – | – | 135 | 11 |
| Onerous contracts | 138 | 16 | 87 | (12) | (68) | – | – | 1 | 146 | 34 |
| Deferred remuneration | 37 | 34 | 1 | – | (3) | (1) | – | 1 | 35 | 34 |
| Personnel, miscellaneous | 11 | 3 | 6 | (3) | (4) | 1 | – | 1 | 12 | 4 |
| Guarantees and warranties | 10 | 1 | 3 | (2) | (1) | (3) | 1 | – | 8 | – |
| Sales and distribution | 17 | – | 3 | (6) | (3) | 1 | – | – | 12 | – |
| Other | 120 | 39 | 36 | (26) | (27) | (1) | 4 | 2 | 108 | 36 |
| | 540 | 97 | 257 | (76) | (180) | (10) | 5 | 5 | 541 | 122 |

In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions of €85 million (previous year: €49 million) are recognized for various restructuring programs within the Bertelsmann Group, which are mostly due to Gruner + Jahr and Arvato.

€113 million (previous year: €121 million) of reported provisions for litigation pertain to RTL Group companies.

The provisions for onerous contracts are also mostly due to RTL Group in the amount of €122 million (previous year: €108 million) and were mostly formed for program rights. €76 million (previous year: €46 million) is due to the Mediengruppe RTL Deutschland and a further €39 million (previous year: €55 million) is due to the M6 Group. As a result of the significant decline in the advertising market during the contractual term for existing sports rights contracts, in total additions of €31 million were recognized in profit or loss. The largest addition was a provision in the amount of €17 million for Formula 1 contracts with a term through to 2015.

The other provisions include a provision in the amount of €29 million (previous year: €28 million) for compensation obligations from pension entitlements for employees at the Prinovis location in Ahrensburg, towards Axel Springer AG.

## 21 Profit Participation Capital

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Profit participation capital 1992 | 23 | 23 |
| Profit participation capital 2001 | 390 | 390 |
| | 413 | 413 |

The profit participation capital is made up of profit participation certificates issued in 2001 (ISIN DE 000 522 9942, hereafter referred to as 2001 profit participation certificates) and profit participation certificates issued in 1992 (ISIN DE 000 522 9900, hereafter referred to as 1992 profit participation certificates). As of the balance sheet date, nominal profit participation capital consisted of €390 million in 2001 profit participation certificates (previous year: €390 million) and €23 million in 1992 profit participation certificates (previous year: €23 million). The 1992 and 2001 profit participation certificates are listed for public trading on the Regulated Market.

On December 31, 2012, the nominal value of the profit participation capital totaled €301 million (previous year: €301 million). Thereof, €284 million (previous year: €284 million) is due to 2001 profit participation certificates and €17 million (previous year: €17 million) is due to 1992 profit participation certificates. The 2001 profit participation certificates each have a notional value of €10, and the notional value of the 1992 profit participation certificates is €0.01 in each case. The market value of the 2001 profit participation certificates with a closing rate of 246 percent on the last day of trading in the past financial year on the Frankfurt Stock Exchange was €699 million (previous year: €596 million with a rate of 210 percent) and correspondingly, for the 1992 profit participation certificates €24 million with a rate of 141 percent (previous year: €21 million with a rate of 125 percent).

## 22 Financial Debt

Financial debt includes all of the Bertelsmann Group's interest-bearing liabilities to banks and capital markets at the balance sheet date. Carrying amounts are calculated as follows:

### Current and Non-Current Financial Debt

| | Current | | Non-current | | | |
|---|---|---|---|---|---|---|
| | | | Remaining term in years | | | |
| in € millions | 12/31/2012 | 12/31/2011 | 1–5 years | > 5 years | 12/31/2012 | 12/31/2011 |
| Bonds | 152 | 455 | 2,397 | 837 | 3,234 | 2,553 |
| Promissory notes | – | – | 217 | 60 | 277 | 306 |
| Liabilities to banks | 75 | 88 | 7 | – | 7 | 11 |
| Lease liabilities | 16 | 10 | 53 | 30 | 83 | 90 |
| Other financial debt | 21 | 44 | 7 | 4 | 11 | 16 |
| | 264 | 597 | 2,681 | 931 | 3,612 | 2,976 |

The non-current financial debt is recognized for the first time at fair value including transaction costs, and the subsequent measurement is based on amortized cost using the effective interest method. Foreign currency liabilities are translated at the exchange rate at the balance sheet date. The Bertelsmann Group has access to floating-rate and fixed-rate funds through various contractual arrangements. Financial debt is generally unsecured and all individual debts have the same priority.

In June 2012, Bertelsmann issued a bond for €75 million with a term of 20 years as part of a private placement. The bond was increased to €100 million in July 2012. In addition, Bertelsmann issued a publicly listed bond for €750 million with a 10-year term in July 2012. The funds were mostly used to re-finance a bond maturing in September 2012 in the amount of €500 million, of which €45 million had already been bought back in previous years. In addition, early repayments were made for a promissory note loan in the amount of €30 million, and promissory note loans previously due in 2014 in the amount of €60 million were exchanged against promissory note loans due in 2019. As of the balance sheet date, the Group had bonds, private placements, and promissory note loans outstanding with a nominal volume of €3,680 million (previous year: €3,321 million). All of the bonds and promissory notes are fixed interest.

The differences in carrying amount versus nominal value in the table below are attributable to transaction costs, premiums, and discounts. In addition, early repayments of €313 million were taken into account in calculating the carrying amount of the promissory note loan for €500 million due in February 2014.

## Bonds and Promissory Notes

| in € millions | Due date | Effective interest rate in % | Carrying amount 12/31/2012 | Carrying amount 12/31/2011 | Fair value 12/31/2012 | Fair value 12/31/2011 |
|---|---|---|---|---|---|---|
| 4.375% Bertelsmann SE & Co. KGaA (€500 million bond) 2006 | 9/26/2012 | 4.47 | – | 455 | – | 465 |
| 5.23% Bertelsmann U.S. Finance LLC (US$200 million US private placement) 2003 | 4/17/2013 | 5.38 | 152 | 155 | 154 | 161 |
| 7.875% Bertelsmann SE & Co. KGaA (€750 million bond) 2009 | 1/16/2014 | 7.72 | 751 | 752 | 805 | 836 |
| 5.05% Bertelsmann SE & Co. KGaA (€500 million promissory note) 2008 | 2/25/2014 | 5.17 | 187 | 276 | 196 | 293 |
| 6.00% Bertelsmann SE & Co. KGaA (€30 million promissory note) 2009 | 3/24/2014 | 6.00 | 30 | 30 | 32 | 32 |
| 5.33% Bertelsmann U.S. Finance LLC (US$200 million US private placement) 2003 | 4/17/2015 | 5.46 | 152 | 154 | 167 | 171 |
| 3.625% Bertelsmann SE & Co. KGaA (€500 million bond) 2005 | 10/6/2015 | 3.74 | 499 | 498 | 537 | 522 |
| 4.75% Bertelsmann SE & Co. KGaA (€1,000 million bond) 2006 | 9/26/2016 | 4.89 | 995 | 994 | 1,130 | 1,087 |
| 4.207% Bertelsmann SE & Co. KGaA (€60 million promissory note) 2012 | 5/4/2019 | 4.21 | 60 | – | 68 | – |
| 2.625% Bertelsmann SE & Co. KGaA (€750 million bond) 2012 | 8/2/2022 | 2.80 | 739 | – | 757 | – |
| 3.70% Bertelsmann SE & Co. KGaA (€100 million bond) 2012 | 6/29/2032 | 3.84 | 98 | – | 105 | – |
| | | | 3,663 | 3,314 | 3,951 | 3,567 |

The documentation of the bonds from Bertelsmann SE & Co. KGaA in 2005, 2009, and 2012 is within the framework of a base documentation for debt issuance programs.

The bonds issued by Bertelsmann SE & Co. KGaA in 2006, the US private placements, and the promissory note loans were issued on the basis of separate documentation. The bonds have a rating of “Baa1” (Moody’s) and “BBB+” (Standard & Poor’s). The debt issuance program that was launched in 2008 was updated in April 2012. The framework documentation allows Bertelsmann SE & Co. KGaA to place bonds with a volume of up to €4 billion on the capital market.

The transaction costs and agreed discounts or premiums will be recognized in interest income over the maturity and change the carrying amount of the bonds and promissory note loans. These resulted in a difference in nominal volumes of €-17 million at year-end (previous year: €-7 million).

The fair values of the issued bonds are generally determined on the basis of their quoted prices at the respective reporting dates. On December 31, 2012, the cumulative fair value of the listed bonds totaled €3,229 million (previous year: €2,910 million) with a nominal volume of €3,000 million (previous year: €2,705 million) and a carrying amount of €2,984 million (previous year: €2,699 million).

The quoted prices applied in determining the fair values are shown in the table below.

### Quoted Prices

| in percent | 12/31/2012 | 12/31/2011 |
|---|---|---|
| 4.375% Bertelsmann SE & Co. KGaA (€500 million bond) 2006 | – | 102.145 |
| 7.875% Bertelsmann SE & Co. KGaA (€750 million bond) 2009 | 107.354 | 111.488 |
| 3.625% Bertelsmann SE & Co. KGaA (€500 million bond) 2005 | 107.448 | 104.360 |
| 4.75% Bertelsmann SE & Co. KGaA (€1,000 million bond) 2006 | 112.971 | 108.673 |
| 2.625% Bertelsmann SE & Co. KGaA (€750 million bond) 2012 | 100.972 | – |

The fair values of private placements and promissory note loans are determined using actuarial methods based on yield curves adjusted for the Group's credit margin. This credit margin results from the market price for credit default swaps at the respective reporting date.

### Credit Reserve

The Bertelsmann Group has access to a syndicated agreement entered into with major international banks in the amount of €1,200 million (previous year: €1,200 million), which in June 2012 was extended for an additional year to 2017. Bertelsmann SE & Co. KGaA can draw down this line of credit using floating rate loans in euros, US dollars, and pounds sterling, based on EURIBOR or LIBOR on a revolving basis. As was the case in the previous year, the line of credit had not been used on the balance sheet date.

### Lease Liabilities

Finance leases exist for the following assets:

### Leased Assets

| | 12/31/2012 | | 12/31/2011 | |
|---|---|---|---|---|
| in € millions | Acquisition costs | Net carrying amount | Acquisition costs | Net carrying amount |
| Land, rights equivalent to land, and buildings | 11 | 11 | 11 | 11 |
| Office, factory, and other buildings | 137 | 84 | 143 | 93 |
| Machinery and technical equipment | 9 | 4 | 7 | 3 |
| Other equipment, fixtures, furniture, and office equipment | 8 | 4 | 6 | 2 |
| | 165 | 103 | 167 | 109 |

The beneficial ownership of leased assets lies with the lessee, providing that the lessee also bears the significant risks and rewards of ownership. The Group's finance lease activities primarily relate to long-term agreements for office space. The Group generally has the option to acquire such properties at the end of the lease term.

The minimum lease payments for finance leases can be seen in the following table:

### Minimum Lease Payments for Finance Leases

| | 12/31/2012 | | | 12/31/2011 | | |
|---|---|---|---|---|---|---|
| in € millions | Nominal value of lease payments | Discount amounts | Present value | Nominal value of lease payments | Discount amounts | Present value |
| up to 1 year | 17 | 1 | 16 | 15 | 1 | 14 |
| 1 to 5 years | 60 | 7 | 53 | 61 | 7 | 54 |
| over 5 years | 40 | 10 | 30 | 47 | 15 | 32 |
| | 117 | 18 | 99 | 123 | 23 | 100 |

Subleases as part of finance lease agreements mean that future minimum lease payments are expected with a nominal value of €18 million (previous year: €20 million).

## 23 Liabilities

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **Non-current** | | |
| Trade payables | 139 | 155 |
| Other financial liabilities | 253 | 387 |
| Other non-financial liabilities | 253 | 228 |
| **Current** | | |
| Trade payables | 2,701 | 2,413 |
| Other financial liabilities | 954 | 960 |
| Tax liabilities | 184 | 178 |
| Social security liabilities | 97 | 91 |
| Personnel-related liabilities | 537 | 554 |
| Received advance payments | 72 | 84 |
| Deferred items | 279 | 262 |
| Sundry non-financial liabilities | 128 | 113 |
| Other non-financial liabilities | 1,297 | 1,282 |

Non-current other financial liabilities totaled €253 million (previous year: €387 million). This includes liabilities from put options relating to shareholders with non-controlling interest in the amount of €47 million (previous year: €73 million), non-controlling interests in partnerships of €153 million (previous year: €207 million), and derivative financial instruments of €9 million (previous year: €7 million). The item "Current other financial liabilities" includes liabilities in the amount of the continuing involvement, liabilities to employees, liabilities from refund entitlements, liabilities from the acquisition of assets, liabilities to participations, debtors with credit balances, and derivative financial instruments.

In contrast to the previous year, there were no longer any income-related government grants (previous year: less than €1 million under deferred income).

## 24 Off-Balance-Sheet Liabilities
## Contingent Liabilities and Other Commitments

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Guarantees | 65 | 150 |
| Rental and lease commitments | 1,118 | 1,107 |
| Other commitments | 3,166 | 3,295 |
| | 4,349 | 4,552 |

Other commitments in the amount of €2,402 million (previous year: €2,668 million) pertain to RTL Group. These relate to supply agreements for (co-)productions, contracts for TV licenses and broadcasting rights, and other rights and services. Random House reported other obligations in the amount of €470 million (previous year: €438 million). These represent the portion of obligations to authors for which no payments have yet been made, where future payments are contingent upon other events (such as delivery and acceptance of manuscripts). There are additional contractual commitments totaling €12 million (previous year: €21 million) for the acquisition of property, plant and equipment.

Within RTL Group, program and sports rights were sold to a leasing company and were leased back under a finance lease (sale and leaseback). The agreement does not meet the criteria of IAS 17 for disclosure as a finance lease. The cash received is placed in a "restricted bank account" in order to satisfy the lease payments and is not considered as an asset in accordance with SIC-27. As of the balance sheet date, outstanding obligations are €45 million (previous year: €59 million). The remaining lease term is five years.

Financial assets with a carrying amount of €1 million (previous year: €10 million) have been provided as collateral for liabilities. In addition, financial assets of €8 million (previous year: €9 million) were pledged with restrictions on disposal. No financial assets were provided as security for contingent liabilities to third parties, either for 2012 or for 2011.

The following payment obligations exist from all of the Group's long-term rental commitments classified as operating leases:

### Minimum Lease Payments for Operating Leases

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| **Nominal amount** | | |
| up to 1 year | 218 | 242 |
| 1 to 5 years | 522 | 526 |
| over 5 years | 378 | 339 |
| | 1,118 | 1,107 |
| Present value | 997 | 953 |

These commitments largely concern long-term tenancy and technical broadcasting facilities. They are partially offset by expected minimum lease payments from subleases with a nominal value of €69 million (previous year: €79 million).

The present values have been calculated based on country-specific interest rates. They show the net payments currently required to settle the obligation.

## 25 Additional Disclosures on Financial Instruments

### Maturity Analysis of Selected Financial Assets and Receivables

| in € millions | Neither impaired nor past due on the reporting date | Not itemized impaired as of the reporting date and past due by: < 1 month | 1–3 months | 3–6 months | 6–12 months | > 12 months | Gross value of accounts receivable impaired by specific provision |
|---|---|---|---|---|---|---|---|
| Loans | 106 | – | – | – | – | – | 40 |
| Securities and financial assets | 192 | – | – | – | – | – | 8 |
| Trade receivables | 2,126 | 342 | 113 | 45 | 30 | 26 | 222 |
| Receivables from participations | 23 | – | – | – | – | – | – |
| Other selected receivables | 543 | 11 | 26 | 19 | 19 | 28 | 13 |
| Carrying amount as of 12/31/2012 | 2,990 | 353 | 139 | 64 | 49 | 54 | 283 |
| Loans | 73 | – | – | – | 1 | – | 30 |
| Securities and financial assets | 171 | – | – | – | – | – | 12 |
| Trade receivables | 1,978 | 298 | 144 | 41 | 30 | 36 | 234 |
| Receivables from participations | 22 | 1 | – | – | – | – | – |
| Other selected receivables | 547 | 8 | 25 | 18 | 20 | 31 | 8 |
| Carrying amount as of 12/31/2011 | 2,791 | 307 | 169 | 59 | 51 | 67 | 284 |

No impairments were recognized for unsettled receivables not yet due as of the reporting date, as there was no indication of default.

## Reconciliation of Changes in Impairment According to IFRS 7

| in € millions | Previous year | Additions | Usage | Reversal | Change of consolidation scope | Exchange rate effect | Reporting period |
|---|---|---|---|---|---|---|---|
| Loans | (30) | (26) | 1 | 6 | (2) | – | (51) |
| Investments in affiliates | (53) | (1) | – | 2 | – | – | (52) |
| Other investments | (65) | (15) | 1 | 9 | – | – | (70) |
| Securities and financial assets | (11) | (13) | 13 | – | – | – | (11) |
| Trade receivables | (169) | (65) | 12 | 44 | (5) | – | (183) |
| Other receivables | (24) | (8) | 1 | 4 | – | – | (27) |
| Total 2012 | (352) | (128) | 28 | 65 | (7) | – | (394) |
| Loans | (32) | (5) | 2 | 4 | 2 | (1) | (30) |
| Investments in affiliates | (607) | – | 554 | – | – | – | (53) |
| Other investments | (66) | (10) | – | 11 | 1 | (1) | (65) |
| Securities and financial assets | (9) | (2) | – | – | – | – | (11) |
| Trade receivables | (196) | (73) | 42 | 37 | 21 | – | (169) |
| Other receivables | (39) | (8) | 32 | 6 | (15) | – | (24) |
| Total 2011 | (949) | (98) | 630 | 58 | 9 | (2) | (352) |

As a result of the Bertelsmann Group's global activities and the diversified customer structure there is no material concentration of default risks. The Group has obtained credit enhancements in the amount of €333 million for receivables of more than €5 million, which would reduce the potential default risk for trade receivables which does not currently exist. The carrying amount of all receivables, loans, and securities constitutes the Group's maximum default risk.

The following table shows the remaining term of the financial liabilities. The figures are based on undiscounted cash flows at the earliest date at which the Group can be held liable for payment.

## Contractual Maturity of 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 | 3,663 | 152 | 2,618 | 910 | 3,680 |
| Liabilities to banks | 82 | 75 | 7 | – | 82 |
| Lease liabilities | 99 | 17 | 60 | 40 | 117 |
| Other financial debt | 32 | 21 | 7 | 4 | 32 |
| Trade payables | 2,840 | 2,701 | 131 | 8 | 2,840 |
| Liabilities to participations | 13 | 13 | – | – | 13 |
| Financial guarantees | 9 | 3 | 7 | – | 10 |
| Other financial payables | 1,144 | 906 | 60 | 178 | 1,144 |
| Balance as of 12/31/2012 | 8,295 | 3,888 | 3,303 | 1,140 | 8,331 |
| Profit participation capital | 413 | – | – | 413 | 413 |
| Fixed interest bonds and promissory notes | 3,314 | 455 | 2,866 | – | 3,321 |
| Liabilities to banks | 99 | 88 | 11 | – | 99 |
| Lease liabilities | 100 | 15 | 61 | 47 | 123 |
| Other financial debt | 60 | 44 | 15 | 1 | 60 |
| Trade payables | 2,568 | 2,413 | 135 | 20 | 2,568 |
| Liabilities to participations | 11 | 11 | – | – | 11 |
| Financial guarantees | 10 | 3 | 7 | 1 | 11 |
| Other financial payables | 1,285 | 911 | 123 | 251 | 1,285 |
| Balance as of 12/31/2011 | 7,860 | 3,940 | 3,218 | 733 | 7,891 |

Current cash outflows from financial obligations 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 the cash and cash equivalents and unutilized lines of credit in place as of the balance sheet date.

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

| | Liabilities from derivatives with gross settlement | | |
|---|---|---|---|
| in € millions | up to 1 year | 1 to 5 years | over 5 years |
| Cash outflows | (1,488) | (211) | – |
| Cash inflows | 1,462 | 205 | – |
| Balance as of 12/31/2012 | (26) | (6) | – |
| Cash outflows | (987) | (66) | – |
| Cash inflows | 960 | 64 | – |
| Balance as of 12/31/2011 | (27) | (2) | – |

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

| | Liabilities from derivatives with net settlement | | |
|---|---|---|---|
| in € millions | up to 1 year | 1 to 5 years | over 5 years |
| Cash outflows 12/31/2012 | (2) | (2) | – |
| Cash outflows 12/31/2011 | (1) | (2) | – |

Based on the remaining contractual terms of its financial liabilities at the balance sheet date, the Group will have to make the following future interest payments:

## Future Undiscounted Interest Payments

| | Undiscounted interest payments | | | |
|---|---|---|---|---|
| in € millions | up to 1 year | 1 to 5 years | over 5 years | Total |
| Profit participation capital | 45 | 181 | – | 226 |
| Fixed interest bonds and promissory notes | 174 | 365 | 159 | 698 |
| Liabilities to banks | 5 | – | – | 5 |
| Lease liabilities | 3 | 11 | 4 | 18 |
| Other financial debt | 1 | 1 | – | 2 |
| Balance as of 12/31/2012 | 228 | 558 | 163 | 949 |
| Profit participation capital | 45 | 181 | 45 | 271 |
| Fixed interest bonds and promissory notes | 175 | 416 | – | 591 |
| Liabilities to banks | 7 | 2 | – | 9 |
| Lease liabilities | 4 | 12 | 7 | 23 |
| Other financial debt | 2 | 2 | 1 | 5 |
| Balance as of 12/31/2011 | 233 | 613 | 53 | 899 |

## Carrying Amounts and Measurement Methods by Measurement Category

### Assets

| in € millions | Category according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale | | Financial assets initially recognized at fair value through profit or loss | Financial assets held for trading | Derivatives with hedge relation |
| Measurement | At amortized cost | At cost | Fair value recognized in equity | Fair value recognized in profit or loss | Fair value recognized in profit or loss | |
| Loans | 95 | – | – | – | – | – |
| Investments in affiliates | – | 21 | – | – | – | – |
| Other investments | – | 116 | 76 | – | – | – |
| Securities and financial assets | 3 | 3 | 44 | 139 | – | – |
| Derivative financial instruments | – | – | – | – | 6 | 42 |
| Trade receivables | 2,721 | – | – | – | – | – |
| Receivables from participations | 23 | – | – | – | – | – |
| Other receivables | 633 | – | – | – | – | – |
| Cash | 2,193 | – | – | – | – | – |
| Other securities < 3 months | 465 | – | – | – | – | – |
| | 6,133 | 140 | 120 | 139 | 6 | 42 |

The assets disclosed as "Financial assets initially recognized at fair value through profit or loss" on December 31, 2012 relate to the participation in NMG Group in the amount of €79 million (previous year: €76 million). The market valuation of securities in the category "Financial assets initially recognized at fair value through profit or loss" resulted in a profit of €6 million (previous year: loss of €-20 million).

### Equity and Liabilities

| in € millions | Category according to IAS 39 | | | |
|---|---|---|---|---|
| | Financial liabilities at amortized cost | Financial liabilities held for trading | Derivatives with hedge relation | Payables out of scope of IAS 39 |
| Measurement | At amortized cost | Fair value recognized in profit or loss | | |
| Profit participation capital | 413 | – | – | – |
| Fixed interest bonds and promissory notes | 3,663 | – | – | – |
| Liabilities to banks | 82 | – | – | – |
| Lease liabilities | – | – | – | 99 |
| Other financial debt | 32 | – | – | – |
| Trade payables | 2,840 | – | – | – |
| Liabilities to participations | 13 | – | – | – |
| Derivative financial instruments | – | 17 | 20 | 4 |
| Financial guarantees | 9 | – | – | – |
| Other financial payables | 1,144 | – | – | – |
| | 8,196 | 17 | 20 | 103 |

| Balance as of 12/31/2012 | Category according to IAS 39: Loans and receivables – At amortized cost | Available-for-sale – At cost | Available-for-sale – Fair value recognized in equity | Financial assets initially recognized at fair value through profit or loss – Fair value recognized in profit or loss | Financial assets held for trading – Fair value recognized in profit or loss | Derivatives with hedge relation | Balance as of 12/31/2011 |
|---:|---:|---:|---:|---:|---:|---:|---:|
| 95 | 74 | – | – | – | – | – | 74 |
| 21 | – | 16 | – | – | – | – | 16 |
| 192 | – | 81 | 81 | – | – | – | 162 |
| 189 | 6 | 3 | 28 | 135 | – | – | 172 |
| 48 | – | – | – | – | 6 | 103 | 109 |
| 2,721 | 2,592 | – | – | – | – | – | 2,592 |
| 23 | 23 | – | – | – | – | – | 23 |
| 633 | 635 | – | – | – | – | – | 635 |
| 2,193 | 1,181 | – | – | – | – | – | 1,181 |
| 465 | 583 | – | – | – | – | – | 583 |
| 6,580 | 5,094 | 100 | 109 | 135 | 6 | 103 | 5,547 |

| Balance as of 12/31/2012 | Category according to IAS 39: Financial liabilities at amortized cost – At amortized cost | Financial liabilities held for trading – Fair value recognized in profit or loss | Derivatives with hedge relation | Payables out of scope of IAS 39 | Balance as of 12/31/2011 |
|---:|---:|---:|---:|---:|---:|
| 413 | 413 | – | – | – | 413 |
| 3,663 | 3,314 | – | – | – | 3,314 |
| 82 | 99 | – | – | – | 99 |
| 99 | – | – | – | 100 | 100 |
| 32 | 60 | – | – | – | 60 |
| 2,840 | 2,568 | – | – | – | 2,568 |
| 13 | 11 | – | – | – | 11 |
| 41 | – | 14 | 17 | 10 | 41 |
| 9 | 10 | – | – | – | 10 |
| 1,144 | 1,285 | – | – | – | 1,285 |
| 8,336 | 7,760 | 14 | 17 | 110 | 7,901 |

### 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: Not observable market data | Balance as of 12/31/2012 |
|---|---|---|---|---|
| Financial assets initially recognized at fair value through profit or loss | – | 60 | 79 | 139 |
| Available-for-sale financial assets | 34 | 45 | 41 | 120 |
| Financial assets held for trading | – | 6 | – | 6 |
| Derivatives with hedge relation | – | 42 | – | 42 |
| | 34 | 153 | 120 | 307 |

| in € millions | Level 1: Quoted prices in active markets | Level 2: Observable market data | Level 3: Not observable market data | Balance as of 12/31/2011 |
|---|---|---|---|---|
| Financial assets initially recognized at fair value through profit or loss | – | 59 | 76 | 135 |
| Available-for-sale financial assets | 24 | 51 | 34 | 109 |
| Financial assets held for trading | – | 6 | – | 6 |
| Derivatives with hedge relation | – | 103 | – | 103 |
| | 24 | 219 | 110 | 353 |

It is possible to allocate the financial instruments measured at fair value in the balance sheet to the three stages of the fair value hierarchy by classes based on the tables for carrying amounts by valuation category.

### Financial Assets Measured at Fair Value Based on Level 3

| in € millions | Financial assets initially recognized at fair value through profit or loss | Available-for-sale financial assets | Financial assets held for trading | Derivatives with hedge relation | Total |
|---|---|---|---|---|---|
| Balance as of 1/1/2012 | 76 | 34 | – | – | 110 |
| Total gain or loss | 4 | 7 | – | – | 11 |
| – in profit or loss | 4 | (6) | – | – | (2) |
| – in other comprehensive income | – | 13 | – | – | 13 |
| Transfers from “Investments accounted for using the equity method” | – | – | – | – | – |
| Purchases | – | – | – | – | – |
| Issues | – | – | – | – | – |
| Sales/settlements | (1) | – | – | – | (1) |
| Transfers out/in Level 3 | – | – | – | – | – |
| Balance as of 12/31/2012 | 79 | 41 | | | 120 |
| Gain (+) or loss (-) for assets still held at the end of the reporting period | 4 | (6) | – | – | (2) |

| in € millions | Financial assets initially recognized at fair value through profit or loss | Available-for-sale financial assets | Financial assets held for trading | Derivatives with hedge relation | Total |
|---|---|---|---|---|---|
| Balance as of 1/1/2011 | 72 | 43 | – | – | 115 |
| Total gain or loss | 4 | (9) | – | – | (5) |
| – in profit or loss | 4 | – | – | – | 4 |
| – in other comprehensive income | – | (9) | – | – | (9) |
| Transfers from "Investments accounted for using the equity method" | – | – | – | – | – |
| Purchases | 72 | – | – | – | 72 |
| Issues | – | – | – | – | – |
| Settlements | (72) | – | – | – | (72) |
| Transfers out/in Level 3 | – | – | – | – | – |
| Balance as of 12/31/2011 | 76 | 34 | – | – | 110 |
| Gain (+) or loss (-) for assets still held at the end of the reporting period | 4 | – | – | – | 4 |

## 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: Not observable market data | Balance as of 12/31/2012 |
|---|---|---|---|---|
| Financial liabilities held for trading | – | 17 | – | 17 |
| Derivatives with hedge relation | – | 20 | – | 20 |
| | – | 37 | – | 37 |

| in € millions | Level 1: Quoted prices in active markets | Level 2: Observable market data | Level 3: Not observable market data | Balance as of 12/31/2011 |
|---|---|---|---|---|
| Financial liabilities held for trading | – | 14 | – | 14 |
| Derivatives with hedge relation | – | 17 | – | 17 |
| | – | 31 | – | 31 |

Level 1:
The fair value of the existing financial instruments is determined on the basis of stock exchange listings at the balance sheet date.

Level 2:
To determine the fair values of unlisted derivatives, Bertelsmann uses various financial methods reflecting the prevailing market conditions and risks at the respective balance sheet date. Irrespective of the type of financial instrument, future cash flows are discounted as of the balance sheet date based on the respective market interest rates and interest rate structure curves on the balance sheet date.
The fair value of forward exchange transactions is calculated using the average spot prices as of the balance sheet date 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 interest rate structure curves on the balance sheet date.

The fair value of forward commodity transactions is derived from the stock exchange listings published on the balance sheet date. Any incongruities to the standardized stock exchange contracts are reflected through interpolation or additions.

Level 3:
Cash-flow-based valuation methods were mostly used to determine the fair values for which no observable market data was available.

### Net Result from Financial Instruments

| in € millions | Loans and receivables | Available-for-sale, at cost | Available-for-sale, at fair value recognized in equity | Financial assets initially recognized at fair value through profit or loss | Financial liabilities at amortized cost | Derivatives with hedge relation | Financial instruments held for trading | Other currency effects |
|---|---|---|---|---|---|---|---|---|
| From dividends | – | 12 | – | – | – | – | – | – |
| From interest | 21 | – | – | – | (172) | (1) | – | – |
| From impairment | (21) | (12) | (15) | – | – | – | – | – |
| From fair value measurement | – | – | – | 6 | – | (8) | – | – |
| From currency translation differences | – | – | – | – | – | (1) | (16) | 15 |
| From disposal/derecognition | (22) | 5 | 23 | – | 2 | – | – | – |
| Net income 2012 | (22) | 5 | 8 | 6 | (170) | (10) | (16) | 15 |
| From dividends | – | 13 | – | – | – | – | – | – |
| From interest | 23 | – | – | – | (200) | (1) | 1 | – |
| From impairment | (39) | (3) | (1) | – | – | – | – | – |
| From fair value measurement | – | – | – | (20) | – | (5) | – | – |
| From currency translation differences | – | – | – | – | – | 9 | (6) | (8) |
| From disposal/derecognition | (26) | 6 | – | – | 3 | – | 4 | – |
| Net income 2011 | (42) | 16 | (1) | (20) | (197) | 3 | (1) | (8) |

Other currency translation differences consist of the exchange rate effects of categories "Loans and Receivables" and "Financial Liabilities at Amortized Cost."

### Accounting of Derivative Financial Instruments and Hedges

All derivatives are recognized at their fair value. When a contract involving a derivative is entered into, it is determined whether that contract is intended to serve as a fair value hedge or as a cash flow hedge. Some derivatives do not meet the requirements for recognition as hedges, however, even though they function as such in financial terms.
Bertelsmann documents all relationships between hedging instruments and hedged items as well as its 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 hedging instruments, both when the hedges are initiated and on an ongoing basis.

## 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 an excellent 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.

The majority of the financial derivatives at the balance sheet date are used to hedge against exchange rate risks from operating business (58 percent). Financial derivatives used to hedge currency risks from intercompany financing activities totaled €839 million (32 percent) as of the balance sheet date. Financial derivatives are also used to hedge against interest rate risks from financing. No financial derivatives were purchased for speculative purposes.

## Nominal Amounts of Financial Derivatives

| | Nominal amounts as of 12/31/2012 | | | | Nominal amounts as of 12/31/2011 | | | |
|---|---|---|---|---|---|---|---|---|
| in € millions | < 1 year | 1–5 years | > 5 years | Total | < 1 year | 1–5 years | > 5 years | Total |
| **Currency derivatives** | | | | | | | | |
| Forward contracts and currency swaps | 1,804 | 517 | 24 | 2,345 | 1,542 | 539 | 22 | 2,103 |
| Currency options | 3 | – | – | 3 | – | 6 | – | 6 |
| **Interest rate derivatives** | | | | | | | | |
| Interest rate swaps | 83 | 178 | – | 261 | 102 | 261 | – | 363 |
| **Other derivative financial instruments** | – | 2 | – | 2 | 5 | – | – | 5 |
| | 1,890 | 697 | 24 | 2,611 | 1,649 | 806 | 22 | 2,477 |

## Fair Values of Financial Derivatives

| | Nominal amounts | | Fair values | |
|---|---|---|---|---|
| in € millions | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| **Currency derivatives** | | | | |
| Forward contracts and currency swaps | 2,345 | 2,103 | 15 | 73 |
| Currency options | 3 | 6 | – | – |
| **Interest rate derivatives** | | | | |
| Interest rate swaps | 261 | 363 | (4) | 2 |
| **Other derivative financial instruments** | 2 | 5 | – | 3 |
| | 2,611 | 2,477 | 11 | 78 |

Currency forwards are used to hedge the exchange rate risk relating to the purchase of program rights and output deals for the TV business. Bertelsmann hedges between 80 and 100 percent of the future cash flows from the purchase of program rights in foreign currencies, which represent a fixed obligation (within one year) or a future transaction with a high probability of occurrence, and between 20 and 80 percent of the longer-term (two to five years) transactions expected in the future under output deals. The derivatives used for this purpose are recognized as hedging instruments in connection with cash flow hedges. The effective portion of the changes in the fair value of hedging instruments is parked in OCI until the effects of the hedged items are recognized in profit or loss. The portion remaining in OCI at December 31, 2012 will thus impact the income statement in the financial years 2013 through 2017. The ineffective portion of cash flow hedges amounted to €-8 million as of December 31, 2012 (previous year: €-5 million).

The following table provides an overview of the carrying amounts of the Group's 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 IAS 39 and those that are not.

### Derivative Financial Instruments

| in € millions | Carrying amount as of 12/31/2012 | Carrying amount as of 12/31/2011 |
|---|---|---|
| Assets | | |
| Forward contracts and currency swaps | | |
| Without hedge relation | 6 | 6 |
| In connection with cash flow hedges | 42 | 96 |
| Currency options | | |
| Without hedge relation | – | – |
| Interest rate swaps | | |
| Without hedge relation | – | – |
| In connection with cash flow hedges | – | 4 |
| Other in connection with cash flow hedges | – | 3 |
| Equity and Liabilities | | |
| Forward contracts and currency swaps | | |
| Without hedge relation | 14 | 13 |
| In connection with cash flow hedges | 19 | 16 |
| Interest rate swaps | | |
| Without hedge relation | 3 | 1 |
| In connection with cash flow hedges | 1 | 1 |
| Other in connection with IFRS 2 | 4 | 10 |

### Financial Instruments
### Financial Risk Management

The Bertelsmann Group is exposed to various forms of financial risk through its international business operations. This includes above all the effects of exchange and interest rate movements. 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 Corporate Treasury and Finance 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. These report their hedge transactions to the Corporate Treasury and Finance Department each quarter. Further information on financial market risks and financial risk management is presented in the Group Management Report.

## Exchange Rate Risk

Bertelsmann is exposed to exchange rate risk in various currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against exchange rate risks in the local reporting currency by signing forward agreements with banks that have an excellent credit rating. Loans within the Group that are subject to exchange rate risk are hedged using derivatives.

A number of subsidiaries are based outside the euro zone. The resulting translation risk is managed through the relationship of economic 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. 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-rate and long-term fixed interest rates depending on the absolute amount, forecast performance of the interest-bearing liability, and the interest level. This is implemented using underlying and derivative instruments for control.

## Liquidity Risk

Liquidity risks may arise through a lack of rollover financing (liquidity risk in a narrower 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 narrower 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. Lines of credit are also maintained for unplanned expenditures.

## Counterparty Risk

The 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 an excellent credit rating ("core banks"). The credit ratings of core banks are constantly monitored on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.). Counterparty limits determined on the basis of credit ratings reflect cash holdings and positive fair value; the use of limits is monitored daily. Funds are invested very short term in some cases to preserve flexibility in the event of credit rating changes. In addition, some tri-party transactions with banks have been concluded in order to reduce default risks. These tri-party transactions are collateralized investments, and the banks provide pre-defined securities as collateral. On the balance sheet date, the collateral received totaled €545 million. Processing these transactions as well as managing and valuing the collateral is performed by a clearing agent. Default risks arising from trade receivables are partially mitigated through credit insurance coverage.

## Capital Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financial security, return on equity, and growth. The Group's net indebtedness is based specifically on the requirements for a credit rating of "Baa1/BBB+." Bertelsmann manages its transactions using quantified financing objectives that are a central factor in ensuring the corporation's independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are part of corporate management. The key performance indicator for limiting economic debt within the Group is the leverage factor of maximum 2.5. The interest coverage ratio is to remain above 4. 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 non-controlling interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes.
In the reporting period the equity ratio was 32.2 percent (previous year: 33.9 percent), meeting the internal target set by the Group.

## Interest Rate and Exchange Rate 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 swaps with variable interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates impact the Group's net interest income 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).
Originated financial debt is measured at 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 IAS 39 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 on the balance sheet date are analyzed using a sensitivity calculation as an after-tax observation. A parallel shift in the interest rate curve of +/-1 percent is assumed for all major currencies. The analysis is performed on the basis of financial debt, cash and cash equivalents, and derivatives at the balance sheet date. The results are shown in the following table:

## Sensitivity Analysis of Cash Flow and Present Value Risks

| | 12/31/2012 | | 12/31/2011 | |
|---|---|---|---|---|
| in € millions | Shift +1% | Shift (1)% | Shift +1% | Shift (1)% |
| Cash flow risks (income statement) | 17 | (17) | 10 | (10) |
| Present value risks (income statement) | 1 | (1) | 2 | (2) |
| Present value risks (equity) | 2 | (2) | 3 | (3) |

The analysis of exchange rate sensitivity includes the Group's financial debt and operating transactions at the balance sheet date, as well as the hedging relationships entered into (forward agreements and options). The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent write-up 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 €-3 million (previous year: €3 million). Of this figure, €-1 million (previous year: €1 million) relates to fluctuations in the US dollar exchange rate with a net exposure of US$23 million (previous year: US$-16 million). Shareholders' equity would have declined by €-51 million (previous year: €-52 million) as a result of fluctuations in the fair values of documented cash flow hedges. Of this figure, €-52 million (previous year: €-54 million) relates to fluctuations in the US dollar exchange rate on the basis of a documented cash flow hedge volume of US$989 million (previous year: US$1,042 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 Group.

### Factoring

In individual cases, Bertelsmann sells receivables to banks. These exceptions are limited to agreements in which Bertelsmann grants financing to its customers in separate contracts. The volume of receivables sold amounted to €524 million at the balance sheet date (previous year: €501 million). As part of the contractual agreements on the sale of receivables, in the majority of cases neither all rewards nor all risks that are associated with the receivables were transferred or retained. In particular, parts of the default and late payment risks were retained by Bertelsmann, with the result that a receivable was accounted for in the amount of the continuing involvement of €60 million (previous year: €67 million). The carrying amount of the associated liability is €77 million (previous year: €84 million).

## 26 Cash Flow Statement

The Bertelsmann Group's cash flow statement has been prepared in accordance with IAS 7 and is intended to facilitate analysis of 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, with Group EBIT adjusted for non-cash items. Income and expenses relating to cash flows from investing activities are also eliminated.

The operational management of the Bertelsmann Group utilizes indicators that include operating EBIT, which is before interest. Operating results and the resulting cash flow from operating activities should therefore be consistent and comparable. Accordingly, the net balance of interest paid and interest received during the financial year is shown in the cash flow statement as part of financing activities.

Contributions to pension plans are a cash outflow reported as a separate item in the cash flow from investing activities.

The change in provisions for pensions and similar commitments represents the balance of service costs and company payments for these obligations (see note 19).

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 compared with changes in items disclosed on the consolidated balance sheet. Investing activities include investments for non-current assets and purchase price payments for investments acquired as well as proceeds from the disposal of non-current assets and participations. See section "Acquisitions and Disposals" concerning acquisitions made during the reporting period. Significant disposals during the period are also described in that section. Financial debt of less than €1 million (previous year: €2 million) was assumed as part of acquisitions.

Cash flow from financing activities tracks changes in equity affecting cash, changes in financial debt, and net interest paid or received. The item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €45 million (previous year: €81 million) and payments in the amount of €-136 million (previous year: €-152 million).

## 27 Segment Reporting

IFRS 8 Operating Segments stipulates that external segment reporting must be based on internal organizational and management structure and on management and reporting indicators used internally. The Bertelsmann Group comprises five operating segments, which differ according to the type of products and services they offer, and Corporate Investments:

- TV, radio, and TV production group RTL Group
- Global book publishing group Random House
- Magazine publisher Gruner + Jahr
- Media and communications service provider Arvato and
- Printing service provider Be Printers

Bundling the European gravure printing activities and Arvato's offset printers in Southern Europe, the United States, and Colombia into an independent division Be Printers has led to a change in the corporate structure. In addition, the substantial increase in operating units in Corporate Investments over the past few years has impacted the internal structure such that these activities are reported separately as "Other operating activities." The figures from the prior period used for comparison have been adjusted accordingly. As a result, five operating reportable segments are shown in segment reporting (RTL Group, Random House, Gruner + Jahr, Arvato, and Be Printers) as well as other operating activities (Corporate Investments).

Each of the five segments is run by a segment manager who is responsible for results. This manager reports to the Executive Board of Bertelsmann Management SE in its role as the chief operating decision-maker within the meaning of IFRS 8. Corporate Investments spans operating activities that either constitute operating business in high-growth regions or for which there is no separate reporting. The responsibilities of the Corporate Center comprise, in particular, activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, as well as management, internal control, and strategic development of the Group, financing, risk management, and the optimization of the Group's portfolio.

Intersegment-link eliminations are carried 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. Notwithstanding the IFRS principles, 66 percent of the net present value of the operating leases is considered in the calculation of invested capital. Intercompany revenues are recognized at the same arm's-length conditions applied to transactions with third parties.

The performance of the operating segments is assessed using operating EBIT. This represents the operating earnings before taxes and capital costs, which is calculated by adjusting the EBIT also reported to the main decision-maker for special factors such as profits and losses from the sale of participating interests and exchange of shares, impairments, restructuring costs, severance payments, and other impairments. The elimination of these special items allows the determination of a normalized result, thus simplifying forecasting and comparability. Operating EBITDA is disclosed for all divisions for informational purposes.
Segment depreciation and amortization includes the depreciation of property, plant and equipment, and amortization of intangible assets as set out in the statement of selected non-current assets.

Segment assets constitute the operating assets for each segment. These consist of property, plant and equipment, intangible assets including goodwill, and financial assets. Also included are 66 percent of the net present value of the operating leases and current assets with the exception of cash and cash equivalents, tax receivables, and other non-operating assets. From the financial year 2012, the goodwill for the RTL Group at Group level previously carried under Corporate (Corporate Investments) has been allocated to the RTL Group. As the reclassification of an asset is not to be interpreted as being a change in the structure of the internal organization, the affected prior year figures have not been adjusted.

Segment liabilities consist of operating liabilities and provisions. Pensions and similar obligations, tax liabilities, financial debt, or other non-operating liabilities and provisions are thus not included.
Additions to non-current assets are balance sheet additions to property, plant and equipment and intangible assets including goodwill.
Each segment shows the earnings of, and investments in, associated companies, provided these companies can be clearly allocated to the segment concerned. The results of associated companies are shown before impairment. The number of employees as of the balance sheet date and the average number of employees for the year are also shown.
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.
For information on the segment information tables, please refer to pages 88f.

The following table shows the reconciliation of segment information to the consolidated financial statements:

### Reconciliation of Segment Information to the Group Financial Statements

| in € millions | 2012 | 2011 (adjusted) |
|---|---|---|
| EBIT of divisions | 1,428 | 1,527 |
| Corporate Center | (97) | (88) |
| Consolidation | (1) | (6) |
| EBIT from continuing operations | 1,330 | 1,433 |
| Financial result | (315) | (398) |
| Earnings before taxes from continuing operations | 1,015 | 1,035 |
| Income taxes | (396) | (316) |
| Earnings after taxes from continuing operations | 619 | 719 |
| Earnings after taxes from discontinued operations | – | (107) |
| Group profit or loss | 619 | 612 |

| in € millions | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Total assets of the segments | 15,320 | 15,489 |
| Corporate Center | 74 | 72 |
| Consolidation | (95) | (95) |
| Total assets of the Group[1)] | 15,299 | 15,466 |
| Operating leases (66% of net present value) | (658) | (629) |
| Cash and cash equivalents | 2,658 | 1,764 |
| Deferred tax assets | 1,206 | 1,148 |
| Other assets (not allocated)[2)] | 360 | 400 |
| Total assets | 18,865 | 18,149 |
| Total liabilities of the segments | 5,743 | 5,528 |
| Corporate Center | 68 | 74 |
| Consolidation | (55) | (49) |
| Total liabilities of the Group | 5,756 | 5,553 |
| Profit participation capital | 413 | 413 |
| Provisions for pensions and similar obligations | 2,151 | 1,738 |
| Financial debt | 3,876 | 3,573 |
| Deferred tax liabilities | 94 | 96 |
| Other liabilities (not allocated)[3)] | 496 | 627 |
| Total liabilities of the Group | 12,786 | 12,000 |
| Equity | 6,079 | 6,149 |
| Total liabilities | 18,865 | 18,149 |

The figures from the previous year have been adjusted in accordance with IFRS 5.
1) Continuing operations; including 66 percent of the net present value of the operating leases.
2) Includes assets held for sale.
3) Includes liabilities related to assets held for sale.

## 28 Reconciliation to Operating EBITDA

Based on operating EBIT, operating EBITDA is calculated by adding the amortization, depreciation, and impairment charges for non-current assets deducting amounts already carried under special items.

### Reconciliation to Operating EBITDA (Continuing Operations)

| in € millions | 2012 | 2011 (adjusted) |
|---|---|---|
| Operating EBIT | 1,735 | 1,755 |
| Amortization, depreciation, and impairment charges for intangible assets and property, plant and equipment | 680 | 646 |
| Adjustments on amortization, depreciation, and impairment charges for intangible assets and property, plant and equipment included in special items | (202) | (158) |
| Operating EBITDA | 2,213 | 2,243 |

## 29 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, as well as those persons and entities controlled by the Bertelsmann Group, jointly controlled, 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 personally liable partner, and the Supervisory Board of Bertelsmann SE & Co. KGaA including close members of their families, including the companies that are controlled or jointly managed by them, as well as the joint ventures and associates forming part of the Bertelsmann Group and their subsidiaries are defined as related parties.

Bertelsmann Verwaltungsgesellschaft mbH (BVG), Gütersloh, a holding company with no operating activities, has control of the Bertelsmann Group. Johannes Mohn GmbH, Bertelsmann Beteiligungs GmbH, Reinhard Mohn Verwaltungsgesellschaft mbH, and Mohn Beteiligungs GmbH have informed Bertelsmann SE & Co. KGaA that they each own more than one quarter of the shares. Shares held both directly and indirectly are included when identifying shareholdings.

In the legal form of a KGaA, business is managed by a personally liable 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 by the General Meeting of Bertelsmann Management SE. BVG controls all of the voting rights at the Bertelsmann SE & Co. KGaA and Bertelsmann Management SE General Meeting.

Remuneration for key management personnel includes:

### Remuneration for Key Management Personnel

| in € millions | 2012 | 2011 |
|---|---|---|
| Short-term employee and termination benefits | 32 | 37 |
| Post-employment benefits | 4 | 2 |
| Other long-term benefits | 3 | 5 |

The remuneration showed also includes remuneration for activities by the members of the Supervisory Board of Bertelsmann SE & Co. KGaA in the Supervisory Board of Bertelsmann Management SE.
Transactions with material subsidiaries are eliminated in the course of consolidation and are not discussed in further detail in these Notes. In addition to transactions with material 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 management personnel | Joint ventures | Associated companies | Other related parties |
|---|---|---|---|---|---|
| 2012 | | | | | |
| Goods delivered and services provided | – | 3 | 44 | 30 | – |
| Goods and services received | – | (3) | (24) | (5) | – |
| Receivables against | – | – | 13 | 27 | – |
| Commitments provided | – | 30 | 3 | 15 | 14 |
| 2011 | | | | | |
| Goods delivered and services provided | – | 2 | 38 | 42 | – |
| Goods and services received | – | (2) | (28) | (1) | – |
| Receivables against | – | – | 13 | 27 | – |
| Commitments provided | – | 35 | 26 | 13 | – |

Transactions with the personally liable partner Bertelsmann Management SE are shown under "Other related parties." The obligations at the balance sheet date result from expenses passed on by Bertelsmann Management SE. No guarantees were entered into for associated companies during the financial year and also not in the previous year. In line with the previous year, Bertelsmann has no share in the contingent liabilities at the associated companies. There are contribution obligations to University Ventures Fund in the amount of €18 million (previous year: €30 million).

Joint ventures have obligations to the Bertelsmann Group from operating leases in the amount of €7 million (previous year: €11 million) and contingent liabilities in the amount of €7 million (previous year: €7 million). The Group has entered into contingent liabilities for its joint ventures totaling €18 million (previous year: €3 million).

## 30 Further Transaction During the Financial Year

On October 29, 2012, the two media companies Bertelsmann and Pearson announced their intent to merge their book publishing companies Random House and Penguin Group. Bertelsmann will hold a 53 percent interest, with Pearson holding 47 percent. The transaction is expected to be completed in the second half of 2013 after the required authorizations have been provided by the authorities.

## 31 Events After the Reporting Date

In January 2013, Bertelsmann informed the RTL Group's Executive Board that the Group was reviewing opportunities to reduce its participating interest in the RTL Group via a capital market transaction.

In February 2013, the Prinovis group, which belongs to Be Printers, announced the closure of its gravure printing facility in Itzehoe. According to the management's plans, the facility is to be closed in the second half of 2014. The continued difficult situation in the European gravure printing market as a result of higher pressure on prices and lower volumes were key issues behind the closure decision. The Board at Prinovis approved an application by Prinovis management to enter into corresponding negotiations with employee representatives. This affects around 750 Prinovis employees and around 250 temporary employees. The planned closure of this facility will result in future financial charges for the Group. The total costs of the closure are in the mid-double-digit million euro range.

In March 2013, Bertelsmann announced the full acquisition of the music rights company BMG Rights Management. In this regard, Bertelsmann is acquiring the interests previously held by Kohlberg Kravis Roberts & Co. (KKR) and in future it will grow BMG Rights Management as a wholly owned subsidiary. The transaction is still subject to approval by the antitrust authorities, and is scheduled to be concluded during the first six months of the year. BMG Rights Management is an international group of music companies specializing in managing music rights. Bertelsmann believes that the full integration will allow value-enhancing synergies to be realized.

## 32 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, as well as the requirements for audit of, and publication by, limited liability companies for the year ended December 31, 2012:

| | |
|---|---|
| "I 2 I" Musikproduktions- und Musikverlagsgesellschaft mbH | Cologne |
| arvato AG | Gütersloh |
| arvato analytics GmbH | Gütersloh |
| arvato backoffice services Erfurt GmbH | Erfurt |
| arvato direct services Brandenburg GmbH | Brandenburg |
| arvato direct services Cottbus GmbH | Cottbus |
| arvato direct services Dortmund GmbH | Dortmund |
| arvato direct services eiweiler GmbH | Heusweiler-Eiweiler |
| arvato direct services Frankfurt GmbH | Frankfurt am Main |
| arvato direct services GmbH | Gütersloh |
| arvato direct services Gütersloh GmbH | Gütersloh |
| arvato direct services Münster GmbH | Münster |
| arvato direct services Neckarsulm GmbH | Neckarsulm |
| arvato direct services Neubrandenburg GmbH | Neubrandenburg |
| arvato direct services Potsdam GmbH | Potsdam |
| arvato direct services Rostock GmbH | Rostock |
| arvato direct services Schwerin GmbH | Schwerin |
| arvato direct services Stralsund GmbH | Stralsund |
| arvato direct services Stuttgart GmbH | Kornwestheim |
| arvato direct services Wilhelmshaven GmbH | Schortens |
| arvato distribution GmbH | Harsewinkel |
| arvato eCommerce GmbH | Munich |
| arvato Entertainment Europe GmbH | Gütersloh |
| arvato infoscore GmbH | Baden-Baden |
| arvato IT services GmbH | Gütersloh |
| arvato Logistics, Corporate Real Estate & Transport GmbH | Gütersloh |
| arvato media GmbH | Gütersloh |
| arvato Print Management GmbH | Gütersloh |
| arvato services Chemnitz GmbH | Chemnitz |
| arvato services Duisburg GmbH | Duisburg |
| arvato services Erfurt GmbH | Erfurt |
| arvato services Essen GmbH | Essen |
| arvato services München GmbH | Munich |
| arvato services Rostock GmbH | Rostock |
| arvato services Saarbrücken GmbH | Saarbrücken |
| arvato services Schwerin GmbH | Schwerin |
| arvato services solutions GmbH | Gütersloh |
| arvato services Stralsund GmbH | Stralsund |
| arvato services technical information GmbH | Harsewinkel |
| arvato services Teltow GmbH | Teltow |
| arvato systems GmbH | Gütersloh |
| arvato systems GmbH Infrastructure Consulting | Dortmund |
| arvato systems Technologies GmbH | Rostock |
| arvato telco services Erfurt GmbH | Erfurt |
| AVE Gesellschaft für Hörfunkbeteiligungen mbH | Berlin |
| AVE V Vermögensverwaltungsgesellschaft mbH | Berlin |
| AZ Direct Beteiligungs GmbH | Gütersloh |

| | |
|---|---|
| AZ Direct GmbH | Gütersloh |
| BAG Business Information Beteiligungs GmbH | Gütersloh |
| BAI GmbH | Gütersloh |
| BC Bonusclub GmbH | Berlin |
| BDMI GmbH | Berlin |
| Be Accounting Services GmbH | Gütersloh |
| Bertelsmann Aviation GmbH | Gütersloh |
| Bertelsmann Business Consulting GmbH | Gütersloh |
| Bertelsmann Capital Holding GmbH | Gütersloh |
| Bertelsmann Music Group GmbH | Gütersloh |
| Bertelsmann Transfer GmbH | Gütersloh |
| Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung | Gütersloh |
| BFS finance GmbH | Verl |
| BFS finance Münster GmbH | Münster |
| BFS health finance GmbH | Dortmund |
| BFS risk & collection GmbH | Verl |
| CBC Cologne Broadcasting Center GmbH | Cologne |
| DeutschlandCard GmbH | Munich |
| DirectSourcing Germany GmbH | Munich |
| Erste TD Gütersloh GmbH | Gütersloh |
| Erste WV Gütersloh GmbH | Gütersloh |
| European SCM Services GmbH | Gütersloh |
| Fremantle Licensing Germany GmbH | Berlin |
| Gerth Medien GmbH | Aßlar |
| GGP Media GmbH | Pößneck |
| Global Assekuranz Vermittlungsgesellschaft mit beschränkter Haftung | Gütersloh |
| Grundy UFA TV Produktions GmbH | Potsdam |
| Gute Zeiten - Schlechte Zeiten Vermarktungsgesellschaft mbH | Cologne |
| infoNetwork GmbH | Cologne |
| informa Insurance Risk and Fraud Prevention GmbH | Baden-Baden |
| informa Solutions GmbH | Baden-Baden |
| infoscore Business Support GmbH | Baden-Baden |
| infoscore Consumer Data GmbH | Baden-Baden |
| infoscore Finance GmbH | Baden-Baden |
| infoscore Forderungsmanagement GmbH | Baden-Baden |
| inmediaONE] GmbH | Gütersloh |
| IP Deutschland GmbH | Cologne |
| maul + co - Chr. Belser GmbH | Nuremberg |
| MEDIASCORE Gesellschaft für Medien- und Kommunikationsforschung mbH | Cologne |
| Medien Dr. phil. Egon Müller Service GmbH | Verl |
| Medienfabrik Gütersloh GmbH | Gütersloh |
| Mohn Media Energy GmbH | Gütersloh |
| MOHN Media Kalender & Promotion Service GmbH | Gütersloh |
| Mohn Media Mohndruck GmbH | Gütersloh |
| Nayoki Interactive Advertising GmbH | Munich |
| NIONEX GmbH | Gütersloh |

| | |
|---|---|
| Norddeich TV Produktionsgesellschaft mbH | Cologne |
| perdata Gesellschaft für Informationsverarbeitung mbH | Leipzig |
| 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 |
| rewards arvato services GmbH | Munich |
| RM Buch und Medien Vertrieb GmbH | Gütersloh |
| RM Customer Direct GmbH | Nordhorn |
| RM Filial-Vertrieb GmbH | Rheda-Wiedenbrück |
| RM Kunden-Service GmbH | Gütersloh |
| RTL Creation GmbH | Cologne |
| RTL Group Cable & Satellite GmbH | Cologne |
| RTL Group Central & Eastern Europe GmbH | Cologne |
| RTL Group Deutschland GmbH | Cologne |
| RTL Group Deutschland Markenverwaltungs GmbH | Cologne |
| RTL Group Licensing Asia GmbH | Cologne |
| RTL Hessen GmbH | Frankfurt am Main |
| RTL interactive GmbH | Cologne |
| RTL Nord GmbH | Hamburg |
| RTL Radio Berlin GmbH | Berlin |
| RTL Radio Center Berlin GmbH | Berlin |
| RTL Radio Deutschland GmbH | Berlin |
| RTL Radiovermarktung GmbH | Berlin |
| RTL West GmbH | Cologne |
| rtv media group GmbH | Nuremberg |
| SSB Software Service und Beratung GmbH | Munich |
| teamWorx Television & Film GmbH | Potsdam |
| UFA Cinema GmbH | Potsdam |
| UFA Cinema Verleih GmbH | Potsdam |
| UFA Entertainment GmbH | Berlin |
| UFA Film & TV Produktion GmbH | Potsdam |
| UFA Film und Fernseh GmbH | Cologne |
| UFA Filmproduktion GmbH | Berlin |
| Ufa Radio-Programmgesellschaft in Bayern mbH | Ismaning |
| UFA-Fernsehproduktion Gesellschaft mit beschränkter Haftung | Potsdam |
| Universum Film GmbH | Munich |
| Verlag RM GmbH | Gütersloh |
| Verlagsgruppe Random House GmbH | Gütersloh |
| Verlegerdienst München GmbH | Gilching |
| Viasol Reisen GmbH | Berlin |
| VIVENO Group GmbH | Gütersloh |
| Vogel Druck und Medienservice GmbH | Höchberg |
| VOX Holding GmbH | Cologne |
| wer-kennt-wen.de GmbH | Cologne |
| Zweite BAG Beteiligungs GmbH | Gütersloh |

In addition, the exemption regulations set out in Section 264 b of the German Commercial Code (HGB) were used by the following companies for the year ended December 31, 2012:

| | |
|---|---|
| "Alwa" Gesellschaft für Vermögensverwaltung mbH & Co. Grundstücksvermietung KG | Schönefeld |
| 11 Freunde Verlag GmbH & Co. KG | Berlin |
| AZ fundraising services GmbH & Co. KG | Gütersloh |
| Berliner Presse Vertrieb GmbH & Co. KG | Berlin |
| Dresdner Druck- und Verlagshaus GmbH & Co. KG | Dresden |
| G+J / Klambt Style-Verlag GmbH & Co. KG | Hamburg |
| G+J Entertainment Media GmbH & Co. KG | Munich |
| G+J Immobilien GmbH & Co. KG | Hamburg |
| G+J Season Verlag GmbH & Co. KG | Hamburg |
| G+J Wirtschaftsmedien AG & Co. KG | Hamburg |
| Gruner + Jahr AG & Co KG | Hamburg |
| in Verlag GmbH & Co. KG | Berlin |
| infoscore Portfolio Management GmbH & Co. KG | Verl |
| Motor Presse Stuttgart GmbH & Co. KG | Stuttgart |
| PRINOVIS Ltd. & Co. KG | Hamburg |

The consolidated subsidiary Sonopress Ireland Limited in Dublin, Ireland, has used the option offered in Section 17 of the Republic of Ireland Companies (Amendment) Act 1986 for publication requirements for its annual financial statements.

## 33 Additional Information according to Section 315a HGB

Compensation of the Supervisory Board of Bertelsmann SE & Co. KGaA for financial year 2012 amounted to €2,162,000 plus statutory value-added tax. Members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG (prior to the change of legal form) received total remuneration in the reporting period of €22,415,605, including €11,885,217 from Bertelsmann SE & Co. KGaA (as the legal successor of Bertelsmann AG). Former members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG and their surviving dependents received compensation of €13,688,561, including €8,521,638 from Bertelsmann SE & Co. KGaA (as the legal successor of Bertelsmann AG). 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 €64,809,681. The members of the Executive Board and Supervisory Board are listed on pages 162ff.

The fees for the Group auditors PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft totaled €5 million during the financial year. Thereof, €4 million was due to fees for the audit of the financial statements. Less than €1 million was due to other audit-related services. PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft was paid a total of less than €1 million for tax consulting services. Expenses for further services totaled less than €1 million.

## 34 Proposal for the Appropriation of Net Retained Profits

The personally liable 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 €862 million be appropriated as follows:

### Net Retained Profits of Bertelsmann SE & Co. KGaA

| in € millions | |
|---|---|
| Remaining net retained profits | 862 |
| Dividends to shareholders | (180) |
| Transfer to retained earnings | (350) |
| Carry forward to new financial year | 332 |

The dividend per ordinary share thus totals €2,149.

The personally liable partner Bertelsmann Management SE approved the consolidated financial statements for submission to the Supervisory Board of Bertelsmann SE & Co. KGaA on March 12, 2013. The Supervisory Board's task is to review the consolidated financial statements and to declare whether it approves these.

Gütersloh, March 12, 2013

Bertelsmann SE & Co. KGaA,
represented by:
Bertelsmann Management SE, the personally liable partner
The Executive Board

| | | |
|---|---|---|
| Dr. Thomas Rabe | Markus Dohle | Dr. Judith Hartmann |
| Dr. Thomas Hesse | Anke Schäferkordt | |

# Corporate Governance at Bertelsmann

The recognized standards stipulated in the German Corporate Governance Code in the version dated May 15, 2012 form the basis for Bertelsmann's guidelines on good corporate management and governance. Bertelsmann's legal form is that of a Kommanditgesellschaft auf Aktien (KGaA) [partnership limited by shares]. The statutory bodies of the KGaA are the Annual General Meeting, the Supervisory Board, and the personally liable partner (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) managed by the Executive Board. Both Bertelsmann Management SE & Co. KGaA and Bertelsmann Management SE 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. 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. The Bertelsmann Boards are obliged to secure the continuity of the company and to enhance the enterprise value in the long term through responsible and sustainable corporate management.

### Corporate Management: Transparent Structures and Clear Decision-Making Processes

The general partner, Bertelsmann Management SE, represented by its Executive Board, is responsible for independently managing the company. The duties consist of determining the corporate objectives, the strategic direction of the Group, Group management, as well as 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 position, as well as risk situation and risk management. It ensures compliance with the provisions of law and corporate guidelines within the Group. The Executive Board Chairman coordinates the cooperation between the Executive Board and the Supervisory Boards and has regular consultation meetings with the Supervisory Board chairmen. In addition, the Executive Board has established the Group Management Committee (GMC) which advises on important corporate strategy and development matters as well as other issues that affect the Group as a whole. This committee, currently comprising 12 members, is composed of all members of the Executive Board and executives representing key businesses, countries, regions, and selected enterprise-wide functions.

The Supervisory Board of Bertelsmann SE & Co. KGaA supervises the management of the business by the general partner and has extensive information and control rights for this purpose. In addition, the Supervisory Boards advise the Executive Board on strategic matters and significant business operations. The Executive and Supervisory Boards work in close cooperation and are therefore able to reconcile the demands of effective corporate governance with the need for rapid decision-making. 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 approval. The Bertelsmann SE & Co. KGaA and Bertelsmann Management SE shareholders exercise their rights and vote at the respective Annual General Meetings. The Annual General Meetings vote on amendments to the articles of association and the appropriation of net income, for example, and elect members to the respective Supervisory Board. The members of the Executive and Supervisory Boards are obliged to serve the company's best interests in their work. For some time, an integral component of the Supervisory Board's work at Bertelsmann has been the delegation of tasks to committees of experts. This 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 the Supervisory Board of Bertelsmann SE & Co. KGaA has formed a Strategy and Investment Committee, an Audit and Finance Committee, and a Working Group of Employee Representatives. The Personnel Committee also performs the tasks of a nomination committee, in which capacity it recommends to the Supervisory Board of Bertelsmann Management SE suitable candidates for endorsement at the Annual General Meeting. The Audit and Finance Committee of the Supervisory Board of Bertelsmann SE & Co. KGaA is also regularly involved in the accounting process and monitors the effectiveness of the internal control system, risk management system, and internal auditing system. It also monitors compliance within the Group. These committees prepare the topics to be addressed during the Supervisory Boards' plenary meetings. The chairmen of the committees 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 is continuously reviewed through various evaluation processes. The appropriate size of the Supervisory Boards and the professional expertise of their members who are drawn from a broad range of industries and areas of activity are key factors in Bertelsmann's effectiveness and independence.

## Diversity in Practice

At a global company like Bertelsmann, diversity should contribute to the Group's long-term economic success. This is reflected in the Group's management levels. The Executive Board comprises three male and two female members. Female executives make up over 40 percent of the 12-strong GMC, whose members come from seven different countries. Furthermore, Bertelsmann aims to promote diversity at all levels of the company. Corresponding initiatives for the development of diversity are being continuously expanded (see also section "Employees" in Group Management Report). The diversity within the management positions is also reflected in the heterogeneous composition of the Supervisory Boards. The Supervisory Boards do take into account the aim of achieving diversity in its body for a long time when nominating candidates for election by the Annual General Meeting. Therefore, the determination of a binding female quota is not considered to be required. The same applies for stipulating the number of independent Supervisory Board members pursuant to the German Corporate Governance Code as the Supervisory Board has always had what it considers to be an adequate number of independent members. Age limits for members of the Supervisory Board are regulated in the respective articles of association.

## 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 Bertelsmann SE & Co. KGaA Annual General Meetings. BVG also holds 100 percent of the shares in Bertelsmann Management SE. BVG is responsible for upholding the interests of the Bertelsmann Stiftung foundation and the Mohn family as indirect Bertelsmann SE & Co. KGaA shareholders and ensuring the continuity of the company's management as well as Bertelsmann's distinctive corporate culture. BVG is controlled by a steering committee composed of three representatives of the Mohn family and three additional members who are not members of the Mohn family. Bertelsmann SE & Co. KGaA is a capital-market-oriented company but is unlisted. Nevertheless, its corporate governance activities closely follow the recommendations of the German Corporate Governance Code in the version dated May 15, 2012, which are primarily aimed at listed companies. Exceptions relate primarily to those guidelines which, in the opinion of Bertelsmann SE & Co. KGaA, apply to publicly held enterprises with large numbers of shareholders or anonymous shareholders. The individual remuneration and incentives paid to the members of the Executive Board and Supervisory Boards are not made public, and accordingly no remuneration report is prepared. The company does not pay any performance-based remuneration to the members of the Supervisory Boards in order to avoid any potential conflicts of interest and to reinforce the independence of the Supervisory Board.

## Compliance

Social responsibility and correct conduct towards employees, customers, business partners, and public authorities are key elements of Bertelsmann's value system. This means that Bertelsmann has always given the highest priority to the principle of adhering to statutory provisions and internal regulations on the prevention of legal risks and their consequences. The Code of Conduct, introduced in 2008, reinforces awareness of correct business conduct and provides information about the options for expressing concerns and reporting violations of the Code of Conduct.

The Executive Board has continuously developed and expanded Bertelsmann's compliance structure and organization over time, including during the financial year 2012. With the intensification of legal regulations (e.g., UK Bribery Act), the Group has, in particular, expanded its anti-corruption measures (specifically with anti-corruption guidelines and corresponding training sessions). The Corporate Compliance Committee (CCC) established within the framework of the compliance organization holds regular meetings. The responsibilities of the CCC include monitoring the follow-up on reports of compliance violations and the measures taken. The CCC submitted the annual Compliance Report to the Executive Board and advised it on specific and general responses to violations and compliance activity. The Ethics & Compliance (E&C) department has operational responsibility for compliance in the Bertelsmann Group, whose other responsibilities include conducting training sessions, reviewing the reports received through the various whistle-blowing channels, and coordinating investigations. It is supported within the divisions by E&C representatives who are responsible for implementing the E&C program at all levels of the company. The Executive Board and CCC submitted the annual Compliance Report to the Supervisory Board. All the reports of compliance violations received were investigated, and appropriate actions were taken in response to compliance violations. The report also included suggestions for increasing the effectiveness of measures designed to ensure compliance.

The Executive Board The Supervisory Board

# Report of the Supervisory Board

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

With the entry and completion of the change of legal form from Bertelsmann AG to Bertelsmann SE & Co. KGaA on August 20, 2012 effectively preserving the Group's identity, the members of the Supervisory Board of Bertelsmann AG became members of the Supervisory Board of Bertelsmann SE & Co. KGaA. In the period under review, the Supervisory Board diligently fulfilled the duties incumbent upon it by law and under the articles of association and bylaws. Its members regularly advised and monitored the Executive Board of Bertelsmann AG and – after the change of legal form – the general partner in their management of the company. At Bertelsmann SE & Co. KGaA, Bertelsmann Management SE, represented by its Executive Board, is responsible for the management of the business. The members of the Bertelsmann Management SE Executive Board are appointed by the Supervisory Board of Bertelsmann Management SE. This report concerns the activities of the Supervisory Board of Bertelsmann AG and the subsequent activities as the Supervisory Board of Bertelsmann SE & Co. KGaA. The activities of the Supervisory Board of Bertelsmann Management SE are not the subject of this report.

### Advising and Monitoring the Executive Boards of Bertelsmann AG and Bertelsmann Management SE

As part of its advisory and monitoring activities, the Supervisory Board 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 Executive Board properly disclosed to the Supervisory Board all transactions requiring Supervisory Board approval pursuant to applicable law, the articles of association, or the bylaws. The Supervisory Board voted on the approval of these actions following a thorough review and consultation.

The Supervisory Board was kept regularly informed by the Executive Board through timely and comprehensive written and verbal reporting. A wide range of topics and projects requiring approval were presented for discussion and decision at the meetings of the Supervisory Board. Reporting concerned, but was not limited to, the position and operating results of the company, especially the current business situation and earnings position, material business transactions such as planned investments and divestments, as well as fundamental corporate planning and strategy issues. 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 obtained regular information concerning financial debt levels. The risk situation and risk management were also a focus. The internal control system, risk management system, and internal auditing system were the subject of regular reports and discussions. The Executive Board and the Supervisory Board extensively discussed and coordinated the strategic growth strategy of the company and significant business transactions. The Supervisory Board also monitored and carefully followed corporate governance and compliance developments at Bertelsmann on an ongoing basis. The Executive Board and the Supervisory Board report jointly on corporate governance and compliance at Bertelsmann on pages 156–157.

### Supervisory Board Committees

In the interest of conducting its work efficiently, the Supervisory Board of Bertelsmann AG established three committees. Within its sphere of responsibility, the Supervisory Board of Bertelsmann SE & Co. KGaA formed the Audit and Finance Committee.

With the exception of the Audit and Finance Committee, the Supervisory Board Chairman chaired all of the committees. These committees prepare the topics to be addressed during the plenary meetings. The committee chairmen report on the work of their respective committees to the Supervisory Board at the next plenary meeting. The Supervisory Board's decision-making powers have been transferred to the committees to the extent permitted by law. In addition to these committees, there is a Working Group of Employee Representatives on the Supervisory Board.

The Personnel Committee of Bertelsmann AG was comprised of three other Supervisory Board members in addition to the Supervisory Board Chairman, who chaired the committee. In accordance with its mandate, the Personnel Committee supported the Supervisory Board of Bertelsmann AG in reviewing important personnel-related decisions, management continuity issues, and fundamental issues concerning management hierarchies and human resources. The Personnel Committee also prepared the discussion of the remuneration structure of the Executive Board and the remuneration of the individual members of the Executive Board at the plenary meeting, and produced extensive analyses and comparisons for this purpose. The Personnel Committee passed resolutions on behalf of the Supervisory Board concerning the provisions of Executive Board member employment contracts, while the remuneration was stipulated by the Supervisory Board's plenary meetings in accordance with the law. The Personnel Committee took on the tasks of a nomination committee, in which capacity it recommended to the Supervisory Board suitable candidates for endorsement at the Annual General Meeting, taking into account the aim of achieving diversity within its body. Key topics included the planning and discussion of changes to the Executive Board, for which the committee submitted a number of corresponding proposed resolutions to the plenary meeting, as well as the adjustment of the Executive Board remuneration structure. After August 20, 2012, the tasks of the Personnel Committee were taken on by the Personnel Committee of Bertelsmann Management SE, whose activities are not the subject of this report.

The Bertelsmann AG Strategy and Investment Committee was composed of nine members, and this committee was chaired by the Supervisory Board Chairman. The committee supported the Supervisory Board in its strategic dialog with the Executive Board, addressing in particular the development of Group strategy, Group planning, and the evaluation of planned investments and divestments. Within the framework established by the Bertelsmann AG Supervisory Board, decisions were taken concerning said proposals. In the financial year, the committee also asked for regular reports about the progress of the projects approved by the Supervisory Board. The committee was extensively informed about the development of Group strategy and about proposals to strengthen and expand the core businesses and to develop the Group portfolio. Since the change of legal form, these duties now fall within the sphere of responsibility of the Supervisory Board of Bertelsmann Management SE.

The Bertelsmann AG Audit and Finance Committee – as of August 20, 2012, the Bertelsmann SE & Co. KGaA Audit and Finance Committee – is composed of six members; the Supervisory Board Chairman is not a member of this committee. The German Corporate Governance Code stipulates that the Chairman of the Audit and Finance Committee is independent for the purposes of the Code requirements and has special knowledge and experience in the application of accounting standards and internal control procedures. In particular, and in accordance with its mandate, the Audit and Finance Committee discussed issues of corporate financing and financial planning as well as any negative deviations of business performance from budgeted performance. A further focus was the auditing of the annual financial statements and the consolidated financial statements. In this connection, the committee also addressed the independence of the auditor and the additional services performed by the latter. The Audit and Finance Committee discussed initial findings from the audit of the annual financial statements in a conference call with the auditor before the actual financial review meeting. The 2012 Interim Report was extensively discussed with the committee prior to publishing. In the period under review, the committee also thoroughly examined the accounting process, the effectiveness of the internal control system, the risk management system, and the internal audit system, and it also requested regular reports from the Head of Corporate Audit & Consulting. In the financial year 2012, the Audit and Finance Committee also closely addressed the issue of compliance and/or the compliance structures in the Bertelsmann Group and requested regular reports from the Executive Board. The committee's work also focused on the further development of the internal control system and IT governance within the Group.

The Working Group of Employee Representatives on the Supervisory Board facilitates the Executive Board's dialog with employee representatives on the Supervisory Board about corporate culture issues as well as the preparation and discussion of matters that are relevant to the Supervisory Board. The creation of this Working Group is indicative of the special corporate culture at Bertelsmann, which promotes active partnership, and this idea has proven highly productive in practice.

In the plenary meetings, the Supervisory Board of Bertelsmann AG – as of August 20, 2012, 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. Other important topics were the company's change of legal form, the development and implementation of Group strategy, and the discussion of the Group's guiding principle and leadership structure. To the extent stipulated by law, the articles of association, or bylaws, the plenary meeting took decisions concerning Group planning, the annual financial statements, and consolidated financial statements and, where competent, concerning particularly significant business proposals.

In the financial year 2012, the Bertelsmann AG Personnel Committee met twice in the period up until August 20, 2012. The Bertelsmann AG Strategy and Investment Committee met once and the Bertelsmann AG Supervisory Board plenary meeting was convened twice in the period up until August 20, 2012. The Bertelsmann AG Audit and Finance Committee held two meetings and one conference call in the period between January 1 and August 20, 2012. After the change of legal form was completed, the Bertelsmann SE & Co. KGaA

Supervisory Board plenary meeting convened twice up until the end of the financial year. During this period, the Bertelsmann SE & Co. KGaA Audit and Finance Committee held two meetings. The Working Group of Employee Representatives on the Supervisory Board convened four times in total. Between meetings, the Supervisory Board was notified in writing of projects and plans of special relevance and urgency for the Group, and its opinion and/or decision on matters was sought where necessary.

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. During a full-day meeting with the Bertelsmann Management SE Executive Board, the Bertelsmann SE & Co. KGaA Supervisory Board discussed fundamental issues of strategic Group development. All Supervisory Board members attended at least half of the meetings convened and no potential conflicts of interest arose on the Supervisory Board.

The Supervisory Board addressed the German Corporate Governance Code and Bertelsmann's compliance therewith. A joint report by the Supervisory and Executive Boards of Bertelsmann Management SE on corporate governance within the company is provided on page 156f. of this Annual Report. As a non-listed company, Bertelsmann also opted not to issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act.

## Audit of the Annual and Consolidated Financial Statements

PricewaterhouseCoopers AG, Frankfurt am Main, audited the annual and consolidated financial statements produced by the Bertelsmann Management SE Executive Board for the financial year January 1 through December 31, 2012, as well as the Bertelsmann SE & Co. KGaA management and Group management reports dated December 31, 2012, each of which received an unqualified auditor's opinion. The annual financial statements were produced in accordance with HGB (German Commercial Code), and the consolidated financial statements of Bertelsmann SE & Co. KGaA were produced in accordance with the International Financial Reporting Standards (IFRSs) as applicable in the European Union in line with section 315a HGB. The Supervisory Board's Audit and Finance Committee had mandated the auditor of 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 as per section 91 (2) AktG (German Stock Corporation Act). The auditor and Group auditor of the annual and consolidated financial statements promptly submitted financial statement documents and the audit reports to all members of the Supervisory Board by the specified deadline in advance of the financial review meeting. On March 22, 2013, the auditor attended the financial review meetings in both the Audit and Finance Committee and the plenary session of the Supervisory Board, and 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 statement documents and audit reports in detail. The findings of the auditor and Group auditor of the annual and consolidated 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.

The plenary session of the Supervisory Board reviewed the annual financial statements, management report, consolidated financial statements, and Group management report, 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 concurs with the audit findings. After its own final scrutiny of the annual and consolidated financial statements and the management and Group management reports, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – has raised no objections. The financial statements produced by the Bertelsmann Management SE Executive Board are thus approved.

The Supervisory Board has furthermore reviewed the Bertelsmann Management SE Executive Board proposal as to the amount of net retained profits for appropriation 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 economic environment, the company's economic situation, and the interests of the shareholders.

## Membership Changes in the Executive Boards and Supervisory Boards of Bertelsmann AG and Bertelsmann Management SE

The past financial year saw the following changes to the Executive Boards of Bertelsmann AG and Bertelsmann Management SE:

Dr. Thomas Rabe took over as Chairman and CEO of Bertelsmann AG, effective as of January 1, 2012, having been appointed to this position on October 10, 2011. On November 29, 2011, Dr. Thomas Hesse was appointed as a member of the Executive Board of Bertelsmann AG, effective as of February 1, 2012. With effect from April 18, 2012, Mr. Gerhard Zeiler resigned from the Executive Board. On March 23, 2012, Ms. Anke Schäferkordt was appointed as a member of the Executive Board of Bertelsmann AG with effect from April 19, 2012.

Since the completion of the change of legal form, the business of Bertelsmann SE & Co. KGaA has been managed by the general partner, Bertelsmann Management SE, represented by its Executive Board. With effect from August 29, 2012, Dr. Bernd Buchholz resigned as a member of the Executive Board of Bertelsmann Management SE and left the Executive Board. On September 14, 2012, Dr. Judith Hartmann was also appointed as a member of the Executive Board of Bertelsmann Management SE, with effect from October 15, 2012. On November 30, 2012, the Supervisory Board of Management SE appointed Achim Berg as a member of the Executive Board of Bertelsmann Management SE, effective as of April 1, 2013. With effect from December 31, 2012, Mr. Rolf Buch resigned from the Bertelsmann Management SE Executive Board. The Supervisory Board would like to thank all of the Executive Board members who left during 2012 for their valuable contribution to the success of the company in an uncertain economic environment.

The year under review saw the following changes to the composition of the Supervisory Board:

The Annual General Meeting of Bertelsmann AG on May 4, 2012 marked the end of the rotating terms of office of the Supervisory Board members Dr. Wulf Bernotat, Mr. Christoph Mohn, and Ms. Liz Mohn. The Annual General Meeting of Bertelsmann AG re-elected Dr. Wulf Bernotat, Mr. Christoph Mohn, and Ms. Liz Mohn as members of the Supervisory Board for a further term of office.

The change of legal form from Bertelsmann AG to Bertelsmann Management SE & Co. KGaA was resolved at the same Annual General Meeting of Bertelsmann AG. With the entry and completion of the change of legal form from Bertelsmann AG to Bertelsmann SE & Co. KGaA on August 20, 2012, effectively preserving the Group's identity, the members of the Supervisory Board of Bertelsmann AG became members of the Supervisory Board of Bertelsmann SE & Co. KGaA. As expansion of the Supervisory Board from previously fifteen to eighteen members was resolved on the occasion of the change of legal form, three new members were elected to the Bertelsmann KGaA Supervisory Board at the Annual General Meeting of Bertelsmann AG on May 4, 2012; their terms of office would begin on the date the change of legal form became effective. Consequently, with effect from August 20, 2012, and in accordance with the articles of association, Prof. Werner Bauer, Executive Vice President of Nestlé AG; Mr. Helmut Gettkant, Vice Chairman of the Bertelsmann Corporate Works Council; and Mr. Hartmut Ostrowski, former Chairman and CEO of Bertelsmann AG, were appointed as additional members of the now eighteen-strong Supervisory Board of Bertelsmann SE & Co. KGaA. Currently, all twelve members of the Supervisory Board of Bertelsmann Management SE are also members of the Supervisory Board of Bertelsmann SE & Co. KGaA.

After many years' service as a member of the Bertelsmann Supervisory Board, Mr. Erich Ruppik resigned his office with effect from October 8, 2012. The Annual General Meeting appointed Mr. Horst Keil, Chairman of the Bertelsmann Corporate Works Council, as a member of the Supervisory Board of Bertelsmann SE & Co. KGaA, with effect from November 26, 2012. With effect from December 31, 2012, Prof. Dr. Gunter Thielen resigned as member and Chairman of the Supervisory Board of Bertelsmann SE & Co. KGaA. Mr. Christoph Mohn was appointed as his successor as Chairman of the Supervisory Board, effective as of January 1, 2013. The Supervisory Board would like to thank Prof. Dr. Gunter Thielen and Mr. Erich Ruppik for their very trusting, constructive, and successful cooperation over many years.

In 2012, there was a slowdown in the global economy. The European TV advertising markets largely declined as a result of the economic downturn in the wake of the euro crisis. The book markets in the United States and the UK posted slight growth overall thanks to the growing e-book business. The European magazine and print markets as well as the global replication markets continued to decline, while the services markets maintained positive growth. Overall, the Group achieved revenue growth and solid operating earnings with an adequate return on sales.

The Supervisory Board would like to express its gratitude for the excellent work of the Executive Board during the financial year 2012 and would like to thank all executives and employees for their commitment and achievements.

Gütersloh, March 22, 2013

Christoph Mohn
Chairman of the Supervisory Board

# Supervisory Board[1]

### Prof. Dr. Gunter Thielen
**Chairman** (until December 31, 2012)
Chairman of the Executive Board, Bertelsmann Stiftung (until August 4, 2012)
- Sixt AG (Chairman)
- Sixt Allgemeine Leasing GmbH & Co. KGaA (Chairman)
- Groupe Bruxelles Lambert
- Leipziger Messe GmbH

### Christoph Mohn
**Chairman** (since January 1, 2013)
Chairman of the Reinhard Mohn Stiftung
Managing Director, Christoph Mohn Internet Holding GmbH

### Liz Mohn
Chairwoman of the Board of Bertelsmann Verwaltungsgesellschaft mbH (BVG)
Vice Chairwoman of the Executive Board, Bertelsmann Stiftung

### Prof. Dr.-Ing. Joachim Milberg
**Vice Chairman**
Chairman of the Supervisory Board, BMW AG
- BMW AG (Chairman)
- Festo AG (Chairman)
- SAP AG (until May 23, 2012)
- Deere & Company

### Prof. Dr.-Ing. Werner J. Bauer
(since August 20, 2012)
Executive Vice President of Nestlé AG, Chief Technology Officer, Head of Innovation, Technology, Research and Development
- Nestlé Deutschland AG (Chairman)
- GEA-Group AG
- Galderma Pharma S.A. (since April 25, 2012)
- L'Oréal (until April 17, 2012)
- Sofinol S.A. (until May 9, 2012)

### Dr. Wulf H. Bernotat
Former Chairman of the Executive Board, E.ON AG
- Allianz SE
- Metro AG
- Deutsche Telekom AG

### Kai Brettmann
Editorial Director Online, 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

### Helmut Gettkant (since August 20, 2012)
Vice Chairman of Bertelsmann SE & Co. KGaA Corporate Works Council

### Christa Gomez
Vice Chairwoman of Arvato Media GmbH (VVA) Works Council

### Ian Hudson
Chairman of the Bertelsmann Management Representative Committee (BMRC)

### Horst Keil (since November 26, 2012)
Chairman of the Bertelsmann SE & Co. KGaA Corporate Works Council

### Dr. Karl-Ludwig Kley
Chairman of the Executive Board, Merck KGaA
- BMW AG (Vice Chairman)
- 1. FC Köln GmbH & Co. KGaA (Chairman)

### Dr. Brigitte Mohn
Chairwoman of the German Stroke Foundation
Member of the Executive Board, Bertelsmann Stiftung
- Rhön-Klinikum AG
- Phineo gAG

### Hartmut Ostrowski (since August 20, 2012)
Former Chairman of the Executive Board of Bertelsmann AG

### Hans Dieter Pötsch
Member of the Executive Board, Volkswagen AG, Finance and Controlling division
Chief Financial Officer, Porsche Automobil Holding SE
- AUDI AG, Ingolstadt
- Autostadt GmbH, Wolfsburg (Chairman)
- Dr. Ing. h.c. F. Porsche AG
- VOLKSWAGEN FINANCIAL SERVICES AG, Braunschweig (Chairman)
- VfL Wolfsburg Fußball GmbH, Wolfsburg
- Bentley Motors Ltd., Crewe
- MAN SE (since April 20, 2012)
- Porsche Austria Gesellschaft m.b.H., Salzburg
- Porsche Holding Gesellschaft m.b.H., Salzburg
- Porsche Retail GmbH, Salzburg
- Scania AB, Södertälje
- Scania C.V. AB, Södertälje
- Volkswagen (China) Investment Company Ltd., Beijing
- Volkswagen Group of America, Inc., Herndon, Virginia

### Kasper Rorsted
Chairman of the Executive Board, Henkel AG & Co. KG
- Danfoss A/S

### Erich Ruppik (until October 8, 2012)
Chairman of the Bertelsmann AG Corporate Works Council (until June 30, 2012)

### Lars Rebien Sørensen
President and CEO, Novo Nordisk A/S
- Danmarks Nationalbank
- DONG Energy A/S (until April 18, 2012)
- Thermo Fisher Scientific

### Bodo Uebber
Member of the Executive Board, Daimler AG Finance & Controlling/Daimler Financial Services
- Daimler Financial Services AG (Chairman)
- Daimler Luft- und Raumfahrt Holding AG (Chairman)
- Dedalus GmbH & Co. KGaA
- Mercedes-Benz Bank AG
- EADS Participations B.V.
- European Aeronautic Defence and Space Company EADS N.V.

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

1) The members of the Bertelsmann AG Supervisory Board are members of the Bertelsmann SE & Co. KGaA Supervisory Board with effect from the registration and implementation of the change of legal form on August 20, 2012 to ensure continuity in offices. Furthermore, the number of members has increased from 15 to 18 as a result of the change of legal form.

## Committees of the Supervisory Board 2012

(until August 20, 2012)

**Personnel Committee**
Prof. Dr. Gunter Thielen (Chairman)
Dr. Karl-Ludwig Kley
Prof. Dr.-Ing. Joachim Milberg
Liz Mohn

**Audit and Finance Committee**
Dr. Karl-Ludwig Kley (Chairman)
Ian Hudson
Christoph Mohn
Hans Dieter Pötsch
Erich Ruppik
Bodo Uebber

**Strategy and Investment Committee**
Prof. Dr. Gunter Thielen (Chairman)
Dr. Wulf H. Bernotat
Kai Brettmann
Prof. Dr.-Ing. Joachim Milberg
Dr. Brigitte Mohn
Christoph Mohn
Liz Mohn
Kasper Rorsted
Lars Rebien Sørensen

**Working Group of Employee Representatives on the Supervisory Board**
Liz Mohn (Chairwoman)
Kai Brettmann
Christa Gomez
Ian Hudson
Erich Ruppik

(since August 20, 2012)

**Audit and Finance Committee**
Dr. Karl-Ludwig Kley (Chairman)
Kai Brettmann (since August 28, 2012)
Ian Hudson
Christoph Mohn
Hans Dieter Pötsch
Erich Ruppik (until October 8, 2012)
Bodo Uebber

**Working Group of Employee Representatives**
Liz Mohn (Chairwoman)
Kai Brettmann
Helmut Gettkant (since August 20, 2012)
Christa Gomez
Ian Hudson
Horst Keil (since November 26, 2012)
Erich Ruppik (until October 8, 2012)

## Committees of the Supervisory Board 2012 Bertelsmann Management SE

(since May 4, 2012)

**Personnel Committee** (since May 11, 2012)
Prof. Dr. Gunter Thielen (Chairman) (until December 31, 2012)
Christoph Mohn (Chairman) (since January 1, 2013)
Dr. Karl-Ludwig Kley
Prof. Dr.-Ing. Joachim Milberg
Liz Mohn

# Executive Board

## of Bertelsmann AG (until August 20, 2012)

### Dr. Thomas Rabe
**Chairman** (since January 1, 2012)
**Chief Financial Officer**
- Arvato AG (Vice Chairman until January 23, 2012, Chairman since January 23, 2012)
- BMG RM Germany GmbH (Chairman)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft (Chairman since January 1, 2012)
- IKB AG[1] (until February 21, 2012)
- Symrise AG[1] (Chairman)
- Bertelsmann Capital Investment S.A.
- Bertelsmann Digital Media Investments S.A.
- Bertelsmann, Inc. (Chairman since January 1, 2012)
- Edmond Israel Foundation[1]
- RTL Group S.A. (Chairman since April 18, 2012)
- Springer Science+Business Media S.A.[1]

### Rolf Buch
**Chairman of the Executive Board, Arvato AG**
- Berryville Graphics, Inc. (Chairman)
- Coral Graphic Services of Kentucky, Inc. (Chairman)
- Coral Graphic Services of Virginia, Inc. (Chairman)
- Coral Graphic Services, Inc. (Chairman)
- Dynamic Graphic Finishing, Inc.
- Media Finance Holding, S.L. (Chairman)
- Offset Paperback MFRS., Inc.
- Phone Assistance, S.A.
- Phone Serviplus, S.A.
- Phone Group, S.A.
- Printer Industria Gráfica Newco, S.L. (Chairman)
- PRINOVIS LIMITED (Chairman) (until June 1, 2012)

### Dr. Bernd Buchholz
**Chairman of the Executive Board, Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft**
- G+J Business Information GmbH
- Henri-Nannen-Schule Hamburger Journalistenschule Gruner + Jahr – DIE ZEIT GmbH (Chairman)

### Markus Dohle
**Chairman and Chief Executive Officer, Random House**
- Random House Children's Entertainment LLC
- Random House Studio LLC
- Random House, Inc. (Chairman)
- Random House Mondadori, S.A.
- Random House VG LLC

### Dr. Thomas Hesse (since February 1, 2012)
**President Corporate Development and New Businesses** (since February 1, 2012)
- Arvato AG (since January 1, 2012, Vice Chairman since January 23, 2012)
- DEAG Classics AG[1] (until January 31, 2012)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft (since January 1, 2012)
- MySpace Music LLC[1] (until January 31, 2012)
- RTL Group S.A. (since January 1, 2012)
- VEVO LLC[1] (until January 31, 2012)

### Anke Schäferkordt (since April 19, 2012)
**Chief Executive Officer of RTL Group S.A** (since April 18, 2012)
**Managing Director Mediengruppe RTL Deutschland GmbH**
**Managing Director RTL Television GmbH**
- BASF S.E.[1]
- Software AG[1]

### Gerhard Zeiler (until April 18, 2012)
**Chief Executive Officer, RTL Group**
- Alpha Doryforiki Tileorasi S.A. (until February 20, 2012)
- CLT-UFA S.A. (until April 18, 2012)
- Ediradio S.A. (as representative of CLT-UFA S.A.) (until April 18, 2012)
- Métropole Télévision S.A. (until May 31, 2012)
- Plus Productions S.A. (until February 20, 2012)
- RTL Television GmbH (Chairman) (until May 8, 2012)
- RTL Radio Deutschland GmbH

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

1) External mandates.

# Executive Board

## of Bertelsmann Management SE, the personally liable partner (since August 20, 2012)

### Dr. Thomas Rabe
**Chairman**
**Chief Financial Officer** (until October 14, 2012)
- Arvato AG (Chairman)
- BMG RM Germany GmbH (Chairman)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft (Chairman)
- Symrise AG[1] (Chairman)
- Bertelsmann Capital Investment S.A.
- Bertelsmann Digital Media Investments S.A.
- Bertelsmann, Inc. (Chairman)
- Edmond Israel Foundation[1]
- RTL Group S.A. (Chairman)
- Springer Science+Business Media S.A.[1]

### Rolf Buch (until December 31, 2012)
**Chairman of the Executive Board, Arvato AG**
(until December 31, 2012)
- Berryville Graphics, Inc. (Chairman) (until September 1, 2012)
- Coral Graphic Services of Kentucky, Inc. (Chairman) (until September 1, 2012)
- Coral Graphic Services of Virginia, Inc. (Chairman) (until September 1, 2012)
- Coral Graphic Services, Inc. (Chairman) (until September 1, 2012)
- Dynamic Graphic Finishing, Inc. (until September 1, 2012)
- Media Finance Holding, S.L. (Chairman) (until December 27, 2012)
- Offset Paperback MFRS., Inc. (until September 1, 2012)
- Phone Assistance, S.A.
- Phone Serviplus, S.A.
- Phone Group, S.A.
- Printer Industria Gráfica Newco, S.L. (Chairman) (until January 15, 2013)

### Dr. Bernd Buchholz (until August 29, 2012)
**Chairman of the Executive Board, Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft** (until September 6, 2012)
- G+J Business Information GmbH (until September 6, 2012)
- Henri-Nannen-Schule Hamburger Journalistenschule Gruner + Jahr – DIE ZEIT GmbH (Chairman) (until September 6, 2012)

### Markus Dohle
**Chairman and Chief Executive Officer, Random House**
- Random House Children's Entertainment LLC
- Random House Studio LLC
- Random House, Inc. (Chairman)
- Random House Mondadori, S.A.
- Random House VG LLC

### Dr. Judith Hartmann
**Chief Financial Officer**
(since October 15, 2012)
- Arvato AG (since October 15, 2012)
- Bertelsmann Inc. (since January 1, 2013)

### Dr. Thomas Hesse
**President Corporate Development and New Businesses**
- Arvato AG (Vice Chairman)
- BMG RM Germany GmbH (since August 28, 2012)
- Druck- und Verlagshaus Gruner + Jahr Aktiengesellschaft
- RTL Group S.A.

### Anke Schäferkordt
**Chief Executive Officer of RTL Group S.A.**
**Managing Director Mediengruppe RTL Deutschland GmbH**
**Managing Director RTL Television GmbH**
- BASF S.E.[1]
- Software AG[1]

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

1) External mandates.

# Auditor's Report

We have audited the consolidated financial statements prepared by Bertelsmann SE & Co. KGaA, comprising the income statement and the statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the Executive Board of the personally liable partner Bertelsmann Management SE. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by the Executive Board of the personally liable partner Bertelsmann Management SE, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Bielefeld, March 13, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Werner Ballhaus | Christoph Gruss |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# 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 Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Gütersloh, March 12, 2013

Bertelsmann SE & Co. KGaA,
represented by:
Bertelsmann Management SE, the personally liable partner
The Executive Board

| | | |
|---|---|---|
| Dr. Thomas Rabe | Markus Dohle | Dr. Judith Hartmann |
| Dr. Thomas Hesse | Anke Schäferkordt | |

# Selected Terms at a Glance

### Bertelsmann Value Added (BVA)
A central performance indicator for assessing the profitability of operations and return on invested capital. The BVA is the difference between net operating profit after tax (NOPAT), defined as operating EBIT adjusted for a uniform tax rate of 33 percent, and cost of capital. Cost of capital is the product of the weighted average cost of capital (a uniform 8 percent after taxes) and invested capital (operating assets less non-interest-bearing operating liabilities).

### Business Process Outsourcing
Business process outsourcing refers to the outsourcing of entire business processes to a third-party company.

### Cash Conversion Rate
Indicator for assessing cash flow generated by operations. CCR is calculated based on the ratio of operating free cash flow to operating EBIT.

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

### Contractual Trust Arrangement (CTA)
Concept of funding and insolvency protection of pension obligations by transfer of assets into a structure similar to a trust. Assets are classified as plan assets under IFRS and netted against the company's pension liabilities.

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

### Coverage Ratio
The (interest) coverage ratio is an important 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.

### IFRS
International Financial Reporting Standards. Accounting standards intended to ensure internationally comparable accounting and reporting.

### Impairment
Write-down of intangible assets and property, plant and equipment.

### Leverage Factor
The leverage factor is the ratio of economic debt to operating EBITDA. In calculating the leverage factor, modifications are made to the balance sheet figures to better reflect the Group's actual financial strength from an economic viewpoint.

### Operating EBIT
Earnings before interest, taxes, and special items.

### Operating EBITDA
Earnings before interest, taxes, depreciation, amortization, and special items.

### Rating
Expression of 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 personally liable shareholder. The personally liable shareholder is responsible for the management and representation of the KGaA.

### Special Items
Income and expense items which are distinguished by their nature, amount, or frequency of occurrence, and the disclosure of which is relevant for assessing the earnings power of the entity or its segments in the period affected. They include, for example, restructuring measures, impairments, and gains or losses on disposals of participations.

### Syndicated Lines of Credit
Syndicated loan facility involving a consortium of banks.

# Financial Calendar

**May 7, 2013**
Payout of dividends on profit participation certificates for the 2012 financial year

**August 30, 2013**
Announcement of figures for the first half of 2013

**November 6, 2013**
Announcement of figures for the first nine months of 2013

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**The Annual Report and current information about Bertelsmann are also posted at:**
www.bertelsmann.com

The Annual Report is also available in German.

# Production Credits

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"Good photography is like simple, straightforward language – it avoids adjectives, relying instead on the viewer's imagination."

**Jim Rakete**

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