

# Report of the Supervisory Board



**Christoph Mohn**

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

In the reporting period, the Supervisory Board of Bertelsmann SE & Co. KGaA diligently fulfilled the duties incumbent upon it by law and under the articles of association and bylaws. Its members regularly advised and monitored the personally liable partner, Bertelsmann Management SE, represented by its Executive Board, in the task of managing and directing the company's operations incumbent upon it. This report concerns the activities of 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 Board of Bertelsmann Management SE**

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

The personally liable partner, represented by the Executive Board of Bertelsmann Management SE, provided the Supervisory Board with regular, prompt and comprehensive written and verbal reports on all significant issues of strategy, planning, business performance, the intended business policies and other fundamental management issues. A wide range of topics and projects were presented for discussion at the meetings of the Supervisory Board. Reporting of the Executive Board concerned, but was not limited to, the position and development of the company, especially the current business and financial position, and material business transactions, particularly major planned investments and divestments. Instances where business performance deviated from

official projections and targets were discussed in detail with the Supervisory Board, which reviewed these matters on the basis of the documentation submitted. The Supervisory Board obtained regular information concerning financial debt levels. The risk situation and risk management were also a focus of the work of the Supervisory Board. The internal control system, risk management system and internal auditing system were the subject of regular reports and discussions. 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 170–172.

## **Supervisory Board Plenary Meeting**

In the plenary meetings, the Supervisory Board of Bertelsmann SE & Co. KGaA regularly heard reports from the Executive Board on the current business and financial position of the Group and of the individual divisions as well as reports on Group planning and material business transactions, particularly major planned investments and divestments. In connection with this, the Supervisory Board followed the progress of the merger of Random House and Penguin Books, the reorganization of Gruner + Jahr and Arvato, the acquisition of the remaining shares of BMG and the sale of RTL Group shares. In addition, the acquisition of the Norwegian company Gothia Financial Group and the e-commerce and logistics service provider Netrada by Arvato were addressed by the Supervisory Board. It also examined the closure of the Prinovis gravure printing location at Itzehoe and the termination of the direct marketing business of Inmediaone.

The Supervisory Board was kept regularly informed of the status of the implementation of the Group's strategy. During a full-day meeting in summer 2013 with the Bertelsmann Management SE Executive Board, the Bertelsmann SE & Co. KGaA Supervisory Board discussed fundamental issues of strategic Group development and was able to form an opinion on the status of the transformation of the Group portfolio into a more rapidly growing and more digital and international portfolio. Additional important topics in the Supervisory Board meetings included the discussion of the Group's guiding principle and leadership structure, and reviewing the results of the employee survey conducted in 2013. To the extent stipulated by law, the articles of association or bylaws, the plenary meeting took the necessary decisions. Thus, the annual and consolidated financial statements of Bertelsmann SE & Co. KGaA, as well as the proposal of the personally liable partner for appropriation of net income, were thoroughly

reviewed and approved in the Supervisory Board's financial review meeting in March 2014.

In financial year 2013, the Supervisory Board met for four meetings and one strategy retreat together with the Executive Board. The Audit and Finance Committee of Bertelsmann SE & Co. KGaA met four times and held two conference calls during this period. The Working Group of Employee Representatives on the Supervisory Board met a total of four times. 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. With one exception, all Supervisory Board members attended at least half of the Supervisory Board 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 170f. 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.

### **Supervisory Board Audit and Finance Committee**

Within its sphere of responsibility, the Supervisory Board of Bertelsmann SE & Co. KGaA established the Audit and Finance Committee to perform its tasks efficiently. The Audit and Finance Committee has six members, while the Chair of the Supervisory Board does not lead this Committee. The German Corporate Governance Code stipulates that the Chair 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, fiscal policy, improvement of the internal control system and monitoring the Operational Excellence project – the goal of which is to evaluate and optimize structures and processes of the support functions of finance, IT and human resources – 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 March 2014. In this role, 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 2013 Interim Report was extensively discussed with the Committee prior to publishing in August 2013. In the reporting period, 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 and Consulting. In financial year 2013, the Audit and Finance Committee also closely addressed the issue of compliance and the compliance structures in the Bertelsmann Group and requested regular reports from the Executive Board.

### **Working Group of Employee Representatives on the Supervisory Board**

In addition to the Audit and Finance Committee, the Supervisory Board also established the Working Group of Employee Representatives on the Supervisory Board. This Committee 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.

### **Audit of the Annual and Consolidated Financial Statements**

PricewaterhouseCoopers AG, Frankfurt, audited the annual and consolidated financial statements produced by the Bertelsmann Management SE Executive Board for the financial year January 1 through December 31, 2013, as well as the Bertelsmann SE & Co. KGaA management and Group management reports dated December 31, 2013, 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 (IFRS) as applicable in the European Union in line with section 315a HGB. The Supervisory Board's Audit and Finance Committee 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 21, 2014, 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 to shareholders and concurs with said proposal. The amount of the dividend proposed by the Executive Board of Bertelsmann Management SE is appropriate, in the view of the Supervisory Board, in consideration of the economic environment, the company’s economic situation and the interests of the shareholders.

### **Membership Changes in the Bertelsmann Management SE Executive Board and Supervisory Board**

Since the completion of the change of legal form in 2012, the business of Bertelsmann SE & Co. KGaA has been managed by the personally liable partner, Bertelsmann Management SE, represented by its Executive Board. The past financial year saw the following changes to the Executive Board of Bertelsmann Management SE: On November 30, 2012, Mr. Achim Berg was appointed as a member of the Executive Board of Bertelsmann Management SE with effect from April 1, 2013.

Effective December 31, 2013, Dr. Thomas Hesse resigned from the Executive Board of Bertelsmann Management SE. The Supervisory Board would like to thank Dr. Hesse for his valuable contribution to the development of the corporate strategy and the transformation of the businesses.

The reporting period saw the following changes to the Supervisory Board:

Since January 1, 2013, Mr. Christoph Mohn has been the new Supervisory Board Chairman. In this position, he succeeded Mr. Gunter Thielen, who resigned from the Supervisory Board upon reaching retirement age as of the end of 2012. Upon completion of the Annual General Meeting of Bertelsmann SE & Co. KGaA on May 6, 2013, Ms. Christa Gomez resigned as a member of the Supervisory Board. The Annual General Meeting of Bertelsmann SE & Co. KGaA elected Ms. Christiane Sussieck as the employee representative member of the Supervisory Board. The Supervisory Board would like to thank Ms. Christa Gomez for the constructive cooperation over many years. Currently, all twelve members of the Supervisory Board of Bertelsmann Management SE are also members of the presently 17-strong Supervisory Board of Bertelsmann SE & Co. KGaA.

In 2013, the growth of the global economy slowed slightly. With the exception of Germany, the TV advertising markets in the key European countries declined. The English-, Spanish- and German-language book markets showed largely stable development, despite the strong bestseller performance in the previous year. The European magazine markets were characterized by sharply falling advertising and circulation business in some areas. The decline in the European print and global storage media markets also continued. Due to the ongoing outsourcing trend, the service markets continued to develop positively. Overall, the Group achieved a good operating result and an adequate return on sales with slight revenue growth.

The Supervisory Board would like to express its gratitude for the excellent work of the Executive Board during financial year 2013 and would like to thank all executives and employees for their commitment and achievements.

Gütersloh, March 21, 2014



Christoph Mohn  
Chairman of the Supervisory Board