

Report of the Supervisory Board



Christoph Mohn

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

Dear shareholders,

The global economy experienced dynamic growth again in the financial year 2018, although the rate of expansion decreased somewhat. As expected, growth was uneven in markets relevant to Bertelsmann. TV advertising markets recorded growth in France and the Netherlands, remained stable in Spain and Hungary, but declined in Germany and Belgium. The markets for printed books achieved slightly positive growth overall, while the publishing sales of e-books declined substantially. The market for audiobooks continued to grow strongly in the United States and the United Kingdom. The magazine markets in Germany and France were characterized by significantly to strongly declining print advertising and circulation business; the corresponding digital businesses, however, continued to post strong growth. The global music markets for publishing and recording rights and the related service markets also continued to show sustained growth in sectors relevant to Bertelsmann. The European printing markets, in contrast, showed further decline, with the offset printing markets seeing more robust development than the gravure printing markets. The education markets relevant to Bertelsmann in the e-learning and university education segments continued their overall strong growth trajectory. In this divergent market environment, the Bertelsmann Group once again saw organic revenue growth and an increase in the revenue share contributed by growth businesses. Operating earnings decreased, as expected, due to high gains from real estate transactions in the previous year.

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

Advising and Monitoring the Executive Board of Bertelsmann Management SE

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

The 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, intended business policies and other fundamental management issues. A wide range of topics and projects were presented for discussion at the meetings of the Supervisory Board. Reporting of the Executive Board concerned, but was not limited to, the position and development of the company, especially the current business and financial position, and material business transactions, particularly major planned investments and divestments. Instances where business performance deviated from official projections and targets were discussed in detail with the Supervisory Board, which reviewed these matters on the basis of the documentation submitted. The Supervisory Board regularly obtained information concerning financial debt levels. The Supervisory Board also focused on the risk situation and risk management. The internal control system, risk management system and internal auditing system were the subjects of regular reports and discussions. The Supervisory Board also received regular reports on corporate governance and compliance developments at Bertelsmann. The Executive Board and the Supervisory Board report jointly on corporate governance and compliance at Bertelsmann on pages 140–142.

Supervisory Board Plenary Meeting

In the plenary meetings, the Supervisory Board of Bertelsmann SE & Co. KGaA regularly heard reports from the Executive Board on the current business and financial position of the Group and of the individual divisions. They also heard reports on Group planning and material business transactions, particularly major planned investments and divestments. The Supervisory Board Chairman, who at the same time is the Chairman of the Supervisory Board of Bertelsmann Management SE, reported regularly and comprehensively to the plenary session of the Supervisory Board concerning the topics and the progress of discussions in the Supervisory Board of Bertelsmann Management SE. The Supervisory Board was kept regularly informed of the status of the implementation of the Group's strategy by the Executive Board. The Bertelsmann SE & Co. KGaA Supervisory Board and the Bertelsmann Management SE Executive Board discussed fundamental issues of strategic Group development and modifications to the Group strategy. To the extent stipulated by law and the articles of association or bylaws, the plenary meeting made the necessary decisions. In the financial year 2018, the Supervisory Board held four meetings and also met with the Executive Board for a two-day strategy retreat.

The first meeting of the Supervisory Board on January 31, 2018, focused on discussing and passing resolutions regarding the Group budget for 2018 and on the report of the current business and financial situation. The Supervisory Board also deliberated over the further expansion of the Bertelsmann Group portfolio. One of the main points of discussion was the further expansion of Bertelsmann's global customer relationship management businesses (Arvato CRM).

At the following meeting, on March 20, 2018, in addition to routine reports, the Executive Board reported on the current business situation and on progress that had been made in implementing the Group strategy. A further agenda item was the approval of the Annual and Consolidated Financial Statements for 2017 and the Combined Management Report. At the recommendation of the Audit and Finance Committee and after discussion with the auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the Supervisory Board approved the Annual and Consolidated Financial Statements for the financial year 2017 and the Combined Management Report of Bertelsmann SE & Co. KGaA. The proposal of the personally liable partner for the appropriation of net income was also approved. Furthermore, the Supervisory Board followed the recommendations of the Audit and Finance Committee for the appointment of

the auditor for the financial year 2018 and for the interim report, and resolved on its corresponding proposal to the Annual General Meeting. Another agenda item at the meeting was a follow-up report on the Executive Board's plans for the future of Bertelsmann's customer relationship management businesses.

As usual, the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board took place as part of the two-day meeting of the Supervisory Board on July 11 and 12, 2018. The Supervisory Board was first updated on the status of strategy implementation and the progress made in the transformation of the Group portfolio since the last Strategic Planning Dialogue. It assessed a steady increase in operative growth, an increasing share of revenue generated by digital and high-growth businesses, and a decline in Group businesses' dependency on advertising. The Group has also succeeded in further expanding its businesses in the growth regions of China, India and Brazil. The Supervisory Board discussed exemplary growth and innovation projects in the individual divisions and model cooperation projects between individual businesses from different divisions. The HR strategy presented at the meeting constitutes a significant element in the successful implementation of the Group strategy. Based on the outcome of the strategy retreat, the Supervisory Board believes that Bertelsmann is well positioned for the challenges of the future. The Board went on to discuss the Executive Board's specific plans for combining Bertelsmann's customer relationship management businesses with Morocco's Saham Group and with potential investment projects of the Bertelsmann Education Group.

In the last Supervisory Board meeting of the financial year, on October 11, 2018, the Supervisory Board once again addressed the business and financial position of the Group and was given a report on the outlook for the overall financial year by the Executive Board. A special focus of the meeting was the Executive Board's update on the steps and measures taken to develop and revise the Bertelsmann Essentials, which express the values represented in Bertelsmann's corporate culture.

The Supervisory Board Chairman maintained ongoing contact with the Executive Board outside the framework of Supervisory Board meetings, in particular with the Executive Board Chairman, in order to stay abreast of the current business situation and significant transactions. All Supervisory Board members attended at least half of the Supervisory Board meetings convened. No potential conflicts of interest arose on the Supervisory Board. The Supervisory Board discussed the

standards set out in the German Corporate Governance Code and Bertelsmann's compliance with the code. A joint report by the Supervisory and Executive Boards of Bertelsmann Management SE on corporate governance within the company is provided on page 140 ff. of this Annual Report. As an unlisted company, Bertelsmann does not issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act.

Audit of the Annual and Consolidated Financial Statements for the Financial Year 2018

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, audited the Annual and Consolidated Financial Statements produced by the Bertelsmann Management SE Executive Board and the Bertelsmann SE & Co. KGaA Group Management Report, which is combined with the company's management report for the financial year January 1 through December 31, 2018. Each report received an unqualified auditor's opinion. The Annual Financial Statements were produced in accordance with the German Commercial Code (HGB), 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 auditor was mandated by the Supervisory Board's Audit and Finance Committee to audit the Annual Financial Statements and Consolidated Financial Statements in accordance with the Annual General Meeting resolution. The auditor performed the audit in observance of German accepted auditing principles established by the German Institute of Independent Auditors (IDW). The auditor was additionally instructed to audit the risk early-warning system at Bertelsmann SE & Co. KGaA, which it found to be satisfactory in terms of section 91 (2) AktG (German Stock Corporation Act). The provisional results of the Key Audit Matters were discussed with the auditor in a video conference on March 7, 2019. The auditor of the Annual Financial Statements promptly submitted the audit reports and the other financial statement documents to all members of the Supervisory Board by the specified deadline in advance of the financial review meeting. The auditor attended the financial review meeting of the Audit and Finance Committee on March 21, 2019, and of the plenary session of the Supervisory Board on March 22, 2019, where he gave an extensive report and answered questions. He was able to confirm that, in the course of the audit, no significant weaknesses had been identified in the accounting-related internal control system. The Audit and Finance Committee discussed the Annual Financial Statements documents and audit reports in detail. The

findings of the auditor of the Annual Financial Statements were carefully reviewed in an internal audit of the Annual and Consolidated Financial Statements. The Audit and Finance Committee reported comprehensively to the plenary session of the Supervisory Board concerning the audit of the Annual and Consolidated Financial Statements and the audit reports.

On March 22, 2019, the plenary session of the Supervisory Board reviewed and discussed the Annual Financial Statements, Consolidated Financial Statements and Combined Management Report in detail, taking into account the recommendations of the Audit and Finance Committee and those contained in the audit reports and following further discussion with the auditor. The Supervisory Board concurred with the audit findings. After its own final scrutiny of the Annual and Consolidated Financial Statements and the Combined Management Report, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – raised no objections. The financial statements produced by the Bertelsmann Management SE Executive Board were thus approved. Moreover, the Supervisory Board approved the Report of the Supervisory Board for the Annual General Meeting and the Corporate Governance Report, as well as its resolution proposals concerning the agenda items for the ordinary Annual General Meeting on May 21, 2019. The Supervisory Board has furthermore reviewed the Bertelsmann Management SE Executive Board proposal as to the amount of net retained earnings for appropriation to shareholders and concurs with said proposal. The amount of the dividend proposed by the Executive Board of Bertelsmann Management SE is appropriate, in the view of the Supervisory Board, in consideration of the level of Group profit, the economic environment, the company's economic situation and the interests of the shareholders.

Supervisory Board Audit and Finance Committee

Within its sphere of responsibility, the Supervisory Board of Bertelsmann SE & Co. KGaA established the Audit and Finance Committee to perform its tasks efficiently. The Audit and Finance Committee has four members; the Chair of the Supervisory Board does not lead this committee. The Chair of the Audit and Finance Committee is Bodo Uebber.

The German Corporate Governance Code stipulates that the Chair of the Audit and Finance Committee is independent as defined by the code and has special knowledge and experience in the application of accounting standards and internal control procedures. All members of the Audit and Finance Committee are familiar with the sector in which Bertelsmann SE & Co. KGaA operates.

In particular, and in accordance with its mandate for the reporting year, the Audit and Finance Committee discussed issues of corporate financing, financial planning, fiscal policy and individual negative deviations of the performance of Group businesses from budgeted performance. The committee also extensively addressed the accounting process and monitored the effectiveness and functional capability of the risk monitoring and risk management system, the internal control system and the internal audit system. It also requested regular reports from the Head of Corporate Audit and Consulting. Furthermore, the Committee addressed issues relating to compliance, in particular the effectiveness and proper functioning of the compliance management system. In addition, the Audit and Finance Committee reviewed at length the implementation of the Audit Reform Act and the EU General Data Protection Regulation (GDPR) at Bertelsmann. An issue regularly addressed in the meetings of the Audit and Finance Committee was the status and development of cybersecurity in the Group.

While routinely discussing structural issues in a separate meeting, an area of special focus was the approaching process of re-tendering the auditor contract. After first being informed about the new legal regulations for the tendering process, the Committee approved the start of preparatory measures for a tendering of the auditor contract. Another agenda item was the EU General Data Protection Regulation (GDPR). During this part of the meeting, the Audit and Finance Committee was briefed on the Group's data protection strategy and the establishment of a Group data protection organization that complies with legal requirements. The Audit and Finance Committee also discussed the Group's fiscal policy and structure.

The Committee focused largely on the auditing of the Annual Financial Statements and the Consolidated Financial Statements (see also the section "Audit of the Annual and Consolidated Financial Statements" above). The Audit and Finance Committee had already discussed the focal points of the audit with the auditor during the financial year 2017 and then finalized them in a Committee meeting. The Key Audit Matters from the auditor's report were also discussed with the auditor in advance during the Committee meeting held at the end of January 2018. The Chair of the Audit and Finance Committee regularly discussed the provisional findings from the audit of the Annual and Consolidated Financial Statements for the financial year 2017 at length with the auditor before the Committee's financial review meeting that took place on March 20, 2018. In this role, the Committee also addressed the independence of the auditor and additional services performed by

the auditor. There was no indication of grounds for bias or a risk to independence. The 2018 Interim Report was extensively discussed with the Committee prior to its publication on August 29, 2018.

The Audit and Finance Committee of Bertelsmann SE & Co. KGaA met four times during the 2018 reporting period. An additional meeting was held via teleconference. The Chairman of the Audit and Finance Committee or his representative continuously updated the plenary session of the Supervisory Board on the work of the Committee through regular reports. Department heads, such as those from the Corporate Financial Reporting, Corporate Taxation and Corporate Legal departments, were represented during the discussion of individual agenda items. In addition, the Chair of the Audit Committee held individual meetings with the responsible auditor.

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

The business of Bertelsmann SE & Co. KGaA is managed by its personally liable partner, Bertelsmann Management SE, represented by its Executive Board. The past financial year saw the following change to the Executive Board of Bertelsmann Management SE: The appointment of Anke Schäferkordt, Executive Board member and Managing Director of Mediengruppe RTL Deutschland, as a member of the Executive Board of Bertelsmann Management SE ended on December 31, 2018, on the best of terms and by mutual agreement. The Supervisory Board would like to thank Anke Schäferkordt for her outstanding service. The financial year also saw the following changes to the Supervisory Board: With the end of the ordinary Annual General Meeting of Bertelsmann SE & Co. KGaA on May 14, 2018, the term of office ended for Supervisory Board members Prof. Dr. Werner Bauer, Kai Brettmann, Murat Cetin, Helmut Gettkant, Ian Hudson, Gigi Levy-Weiss, Christoph Mohn and Christiane Sussieck. Christiane Sussieck, Prof. Dr. Werner Bauer, Gigi Levy-Weiss, Christoph Mohn, Kai Brettmann, Murat Cetin and Ian Hudson were re-elected as members of the Supervisory Board of Bertelsmann SE & Co. KGaA, with immediate effect. The Supervisory Board would like to thank Helmut Gettkant for many years of excellent and trusting cooperation. On January 9, 2018, Günter Göbel, member of the Works Council of Bertelsmann SE & Co. KGaA, was elected as a new member of the Supervisory Board. Murat Cetin left the Supervisory Board of Bertelsmann SE & Co. KGaA on February 28, 2019. The Supervisory Board would also like to thank him for the many years of excellent and trusting cooperation. At present,

all 10 members of the Supervisory Board of Bertelsmann Management SE are also members of the currently 14-strong Supervisory Board of Bertelsmann SE & Co. KGaA.

The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" does not apply to the Supervisory Board of Bertelsmann SE & Co. KGaA as it is an unlisted company. However, the Supervisory Board does support the aim of the act. From a strategic point of view, the Supervisory Board also aims to properly fulfill its monitoring and consulting function by ensuring diversity among its members. The Supervisory Board will not at this time, however, set any target quota for women on the Supervisory Board. It firmly believes that within the company suitable measures have been taken in the areas of succession planning, management development and the selection processes to ensure the equal participation of men and women on an ongoing basis. In the Supervisory Board, the aim is to ensure that the existing proportion of women will not be reduced when new members are appointed. Ideally, the backgrounds of new members will show links to Bertelsmann's growth regions and markets. (See also the section "Diversity in Practice" in the Corporate Governance Report on page 141 f.) Apart from the three representatives of the Mohn family and the four employee representatives, the Supervisory Board of

Bertelsmann SE & Co. KGaA consists exclusively of independent Supervisory Board members. The Supervisory Board recognizes the intention of the Government Commission on the German Corporate Governance Code in its call for a specification of targets for an age limit and a standard limit for length of service on the Supervisory Board. In view of Bertelsmann's particular shareholder structure and the age limit regulations already contained in the company's articles of association, the Supervisory Board does not feel it is necessary or appropriate to introduce further or more extensive specifications on age limit and length of service at Bertelsmann.

The Supervisory Board would like to express its gratitude for the great dedication and commendable performance of the Executive Board during the financial year 2018. The Supervisory Board also wishes to thank all employees of the Bertelsmann Group and its corporate management for their commitment and contribution to a successful financial year 2018.

Gütersloh, March 22, 2019



Christoph Mohn
Chairman of the Supervisory Board