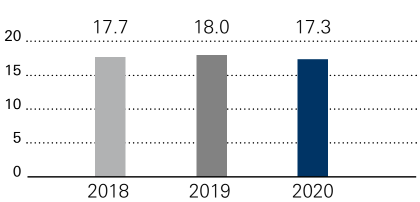
Financial Information

Combined Management Report

Financial Year 2020 in Review

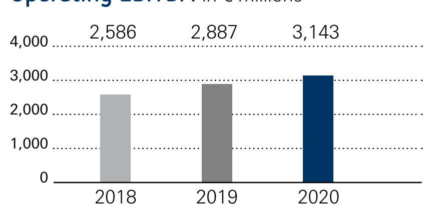
Bertelsmann successfully countered the economic effects of the coronavirus pandemic in the financial year 2020, as it benefited from the quality of its business portfolio and the high proportion of revenues from digital business models. Group revenues fell by 4.1 percent to €17.3 billion (previous year: €18.0 billion), and organic revenue decreased by 1.7 percent. This revenue decline, primarily in the advertising and print businesses, was largely attributable to the pandemic, but was substantially compensated by organic growth in the book publishing and service businesses. Operating EBITDA of €3,143 million was well above the previous year's high amount of €2,887 million, a new record. Growth in earnings was posted in particular by Penguin Random House and Arvato. Disposal proceeds from real estate transactions also boosted operating earnings. The EBITDA margin rose to 18.2 percent (previous year: 16.0 percent). In view of this positive operating business performance, Group profit increased noticeably to €1,459 million (previous year: €1,091 million). Despite the remaining uncertainties, Bertelsmann expects those businesses most strongly affected by the pandemic to continue to recover in 2021.

Revenues in € billions



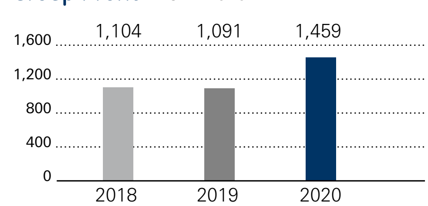
- Decline in revenues by 4.1 percent; organic growth at Penguin Random House, BMG, Arvato and Relias
- Coronavirus-related declines in advertising-financed and print businesses partially offset by quality of business portfolio and high proportion of revenues from digital business models

Operating EBITDA in € millions[1)]



- Increase in operating EBITDA to €3,143 million, attributable to increased earnings at Penguin Random House and Arvato as well as to disposal proceeds from real estate transactions
- EBITDA margin of 18.2 percent, compared to 16.0 percent during the same period last year

Group Profit in € millions



- Increase in Group profit to €1,459 million
- Group profit also benefited from special items especially from disposal of investments

1) As of January 1, 2019, the new financial reporting standard IFRS 16 Leases was applied for the first time.

Fundamental Information about the Group

In this Management Report, the Group is using the option to combine the Group Management Report and the Management Report of Bertelsmann SE & Co. KGaA. This Combined Management Report outlines the business performance, including the business result and the position of the Bertelsmann Group and Bertelsmann SE & Co. KGaA. Information about Bertelsmann SE & Co. KGaA in accordance with the German Commercial Code (HGB) will be detailed in a separate section. The Combined Management Report will be published instead of the Group Management Report within the Bertelsmann Annual Report.

Corporate Profile

Bertelsmann operates in the core business fields of media, services and education in around 50 countries worldwide. The geographic core markets are Western Europe – in particular, Germany, France and the United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as Brazil, India and China. The Bertelsmann divisions are RTL Group (television), Penguin Random House (books), Gruner + Jahr (magazines), BMG (music), Arvato (services), Bertelsmann Printing Group (printing), Bertelsmann Education Group (education) and Bertelsmann Investments (funds).

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

RTL Group is one of the leading European television groups in the broadcasting, content and digital business, with interests in 67 television channels, 10 streaming platforms, 38 radio stations, global content production companies as well as digital video networks. The television portfolio of this European broadcasting company includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as a stake in Atresmedia in Spain. RTL Group's content business, Fremantle, is one of the largest international creators, producers and distributors of scripted and unscripted content in the world. RTL Group is active in the area of online video with the streaming services of its broadcasters (including TV Now, 6play, Salto and Videoland); the digital video network Divimove; and Fremantle's more than 360 YouTube channels. RTL Group also owns the ad-tech companies Smartclip and Yospace, as well as the streaming tech company Bedrock. RTL AdConnect is RTL Group's international sales house. RTL Group is a listed company and a member of the SDAX.

Penguin Random House is, based on revenue, the world's largest trade book publisher, with more than 300 imprints across six continents. Its well-known book brands include Doubleday, Riverhead, Viking and Alfred A. Knopf (United States); Ebury, Hamish Hamilton and Jonathan Cape (United Kingdom); Goldmann and Heyne (Germany); Plaza & Janés and Alfaguara (Spain); Sudamericana (Argentina); and the international imprint DK. Each year Penguin Random House publishes about 15,000 new titles and sells around 600 million print books, e-books and audiobooks.

Gruner + Jahr is a premium magazine publisher whose portfolio includes established brands such as "Stern," "Brigitte" and "Geo"; young brands like "Barbara," "Guido" and "Wohllebens Welt"; and digital products in all publishing segments. It also markets products and licenses such as the "Schöner Wohnen" collection. In digital marketing, G+J operates the international AppLike Group and has a stake in the global leader of native advertising, Outbrain. The G+J portfolio includes Territory, one of the leading communication agencies in Germany. In addition, G+J holds the majority stake in DDV Mediengruppe in Saxony, and a stake in Spiegel-Gruppe.

BMG is an international music company with 20 offices in 12 core music markets, now representing more than three million songs and recordings, including the catalogs of Alberts Music, Broken Bow Music Group, Bug, Cherry Lane, Chrysalis, Mute, Primary Wave, Sanctuary and Trojan, as well as thousands of famous artists and songwriters.

Arvato is an international service provider that develops and implements custom-made solutions for all kinds of business processes, for customers in a wide range of sectors in more than 40 countries. These comprise Supply Chain Solutions (SCS), Financial Solutions and IT Services. The services business also includes the CRM company Majorel, in which Bertelsmann owns 50 percent of shares.

Bertelsmann Printing Group unites Bertelsmann's printing activities. They include all the Group's gravure and offset printing companies in Germany, the United Kingdom and the United States. In addition, various digital marketing services are offered, with a focus on data-driven multichannel marketing, campaign management and customer loyalty. Bertelsmann Printing Group also includes the storage media producer Sonopress, the specialty printer Topac and the multipartner program DeutschlandCard.

Bertelsmann Education Group comprises Bertelsmann's education activities. The digital education and service offerings are primarily in the healthcare and technology sectors, as well as in the university education area. The education activities include the online education provider Relias, a stake in Udacity, the US university Alliant and venture fund investments.

Bertelsmann Investments comprises Bertelsmann's global start-up investments. The activities are focused on the strategic growth markets of Brazil, China, India and the United States. Investments are largely made through the funds Bertelsmann Brazil Investments (BBI), Bertelsmann Asia Investments (BAI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI).

Regulatory Environment

Bertelsmann has television and radio operations in several European countries that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business, and may therefore have limited potential for growth through acquisition due to antitrust legislation. Moreover, some education activities are subject to regulatory provisions of government authorities and accreditation bodies. Some of the financial services activities are subject to banking supervision regulations.

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

Shareholder Structure

Bertelsmann SE & Co. KGaA is an unlisted partnership limited by shares. Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) indirectly hold 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the remaining 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and Bertelsmann Management SE (general partner).

Strategy

Bertelsmann's strategic focus is on a fast-growing and high-earning digital, international and diversified Group portfolio. Businesses in which Bertelsmann invests should have long-term stable growth, global reach, sustainable business models, high market-entry barriers and scalability. The education business is being developed into the third earnings pillar alongside the media and service businesses. During the financial year 2020, the Group strategy was further developed and focused on five strategic growth priorities. Under the motto "Bertelsmann_next," the focus in the future will be placed on creating national cross-media champions, expanding global content and service businesses, as well as expanding online education business and investments. Overall, Bertelsmann was able to minimize the economic impact of the coronavirus pandemic, thanks to the successful implementation of the previously used four strategic directions – strengthening the core businesses, digital transformation, expanding growth platforms, and expanding into growth regions. The Group benefited from the quality of its business portfolio and the high proportion of revenues from digital business models. In the financial year 2020, additional substantial strategic progress was made in the individual divisions.

Broadcasters and platforms of RTL Group, for example, posted gains in audiences and market share, thanks to their comprehensive news reporting and entertainment offerings. Fremantle continued to expand production of fiction series. The RTL streaming services TV Now in Germany and Videoland in the Netherlands also recorded a substantial increase in paying subscribers. In addition, TV Now's streaming service was integrated into some of Telekom's rate plans. Furthermore, a partnership between Mediengruppe RTL and Telekom provides the foundation for developing collaboration in the areas of advertising technology, advertising sales and content. In France, Salto marked the start of a joint French pay streaming service involving Groupe TF1, France Télévisions and Groupe M6.

Acquiring full ownership of Penguin Random House marked a key milestone for Bertelsmann. The world's largest trade book publisher accordingly became a wholly owned group subsidiary of the Group in April 2020. Another step toward strengthening the global content business was the announcement at year-end that Bertelsmann planned to acquire US publisher Simon & Schuster. In November 2020, Penguin Random House published the first volume of Barack Obama's presidential memoirs, the widely acclaimed "A Promised Land." Furthermore, Penguin Random House profited during the lockdown from the digital availability of many of its books through digital formats and digital book distribution.

Numerous Gruner + Jahr brands launched new products and initiatives, including the "#stayathomeandcook" joint campaign by "Essen & Trinken" and "Chefkoch." Digital products were further expanded for "Stern," "Gala" and "Capital." In addition, Gruner + Jahr continued its podcast campaign with the Capital podcast "Meine Erste Million" ("My First Million") and the "Stern" podcast "Die Boss – Macht ist weiblich" ("The 'Lady Boss' – Power Is Feminine") and "Vater. Tochter. Weltgeschehen." ("Father. Daughter. World Events."). At the end of 2020, Gruner + Jahr and the French media company Vivendi signed a put option regarding the sale of Prisma Media.

BMG further expanded its cooperation with The Rolling Stones, among other things, and produced successful releases in the recording and publishing areas. BMG made a strategic move into the live entertainment business segment in Germany through the acquisition of a majority stake in the concert promoter Undercover. In addition, BMG secured access to an iconic music catalog by acquiring contractual rights in Mick Fleetwood's artist shares.

Arvato grew its global network of locations in the area of Supply Chain Solutions by opening new distribution centers and expanding existing centers, for example in the United States, the Netherlands, Russia and Turkey. In October 2020, Arvato Financial Solutions launched an innovative platform for consumer-oriented receivables management in the German-speaking area under the umbrella brand Paigo. The international information service provider Experian acquired a majority stake in Arvato Financial Solutions' risk-management business in order to strengthen their joint market position.

Bertelsmann Printing Group responded to the challenging printing market situation, which became more acute in view of the pandemic, with its new "Modernization at Mohn Media" strategy project and other initiatives for improving competitiveness. In early November Bertelsmann Printing Group acquired two book production sites in the United States from a competitor, thereby securing long-term production demand of large publishing customers in the United States.

Bertelsmann Education Group responded to high demand for online education and training due to the coronavirus pandemic and the lockdowns. As of March, Relias began providing its prevention and hygiene courses free of charge as its contribution to the fight against the pandemic. At the same time, Bertelsmann invested in new products and technologies. Together with Udacity, Bertelsmann continued its successful three-year campaign #50000Chancen. More than 60,000 people from 188 countries applied for 15,000 scholarships in the second round of the "Udacity Technology Scholarship Program."

In addition, Bertelsmann reinforced its presence in the growth regions through Bertelsmann Investments, which now holds some 260 investments in companies and other funds, mainly through its four international funds. The investment fund Bertelsmann Asia Investments (BAI) made follow-on investments in 11 companies in the reporting period. After an attractive partial exit, Bertelsmann India Investments (BII) still holds a stake in the successful Indian education company Eruditus. Bertelsmann Brazil Investments (BBI) benefited from a successful partial exit from an indirect investment in Brazil-based education provider Afya. Bertelsmann Digital Media Investments (BDMI) acquired a stake in the British start-up Zephr.

Within the Bertelsmann Content Alliance, Bertelsmann's content business developed additional cross-divisional formats, projects and campaigns, such as the sustainability weeks or media support for the MOSAiC Arctic expedition. In addition, the international scope of Bertelsmann Content Alliance was further broadened with its launch in the UK. Fremantle, Penguin Random House UK, DK and BMG launched a joint podcast product within Bertelsmann Content Alliance UK.

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

The Group's content-based and entrepreneurial creativity is also very important for the implementation of its strategy. Bertelsmann will therefore continue to invest in the creative core of its businesses. Simultaneously, innovation competence is very important for Bertelsmann and is a key strategic component (see the section "Innovations").

Value-Oriented Management System

Bertelsmann's primary objective is continuous growth of the company's value, through a sustained increase in profitability with efficient capital investment at the same time. To manage the Group, Bertelsmann has been using a value-oriented management system for many years, which focuses on revenues, operating earnings and optimal capital investment. For formal reasons, Bertelsmann makes a distinction between strictly defined and broadly defined operational performance indicators.

Strictly defined operational performance indicators, including revenues, operating EBITDA and Bertelsmann Value Added (BVA), are used to directly assess current business performance and are correspondingly used in the outlook. BVA is used primarily for management at the Group level, whereas revenues and operating EBITDA, above all, are more meaningful performance indicators for the divisions. As distinguished from strictly defined performance indicators, broader performance indicators are also used and are partially derived from the above-mentioned indicators or are strongly influenced by them. These include the EBITDA margin and the cash conversion rate. The financial management system, with defined internal financing targets, is also part of the broadly defined value-oriented management system. Details of the expected development of performance indicators used in the broader sense are provided at best as additional information and are not included in the outlook.

To explain the business performance, and to control and manage the Group, Bertelsmann uses additional alternative performance measures that are not defined in accordance with IFRS (more details are given in the section "Alternative Performance Measures").

Strictly Defined Operational Performance Indicators

To control and manage the Group, Bertelsmann uses revenues, operating EBITDA and BVA as performance indicators. Revenue is used as a growth indicator of businesses. Group revenues fell in the financial year 2020 by 4.1 percent to €17.3 billion (previous year: €18.0 billion). The organic decline was 1.7 percent after organic growth of 1.2 percent in the same period of the previous year.

A key performance indicator for measuring the profitability of the Bertelsmann Group and the divisions is operating EBITDA. Operating EBITDA rose during the reporting period by 8.9 percent to €3,143 million (previous year: €2,887 million).

Bertelsmann uses BVA for assessing the profitability of operations and return on invested capital. BVA measures the profit realized above and beyond the appropriate return on invested capital. At €355 million, BVA in the financial year 2020 was below the previous year's figure of €89 million.

Broadly Defined Performance Indicators

To assess business development, other performance indicators are used that are partially derived from revenues and operating EBITDA or are strongly influenced by these figures.

The cash conversion rate serves as a measure of cash generated from business activities, which should be between 90 percent and 100 percent as a long-term average. In the financial year 2020, the cash conversion rate was 118 percent (previous year: 97 percent).

The EBITDA margin is used as an additional criterion for assessing business performance. In the financial year 2020, the EBITDA margin of 18.2 percent was above the previous year's level of 16.0 percent.

Bertelsmann's financial management system is defined by the internal financial targets outlined in the section "Net Assets and Financial Position." These financing principles are pursued in the management of the Group and are included in the broadly defined value-oriented management system.

The non-financial performance indicators (employees, corporate responsibility and similar topics) are not included in the broadly defined value-oriented management system. As they can still only be measured to a limited extent, it is not possible to make any clear quantifiable statements concerning interrelated effects and value increases. For this reason, the non-financial performance indicators have not yet been used for the management of the Group but are gaining in relevance for Bertelsmann's businesses.

Non-Financial Performance Indicators

The following section refers to the non-financial performance indicators at Bertelsmann. For more information about the organization, management and key topics of corporate responsibility, including additional information on employee concerns, please refer to the section "Combined Non-Financial Statement."

Employees

At the end of the financial year 2020, the Group had 132,842 employees worldwide. In 2020, there were 1,137 people serving in trainee positions in Bertelsmann companies in Germany.

Due to the coronavirus pandemic, the focus in 2020 was on immediately protecting the health of all employees all over the globe. This involved setting up centralized and local crisis teams as well as helping employees work from home wherever this was compatible with operational considerations.

Also in response to the pandemic, talent management processes took place exclusively using digital tools. In addition, the training curriculum of Bertelsmann University was further digitalized and competency training was continued in the fields of digital working and tech and data. At the end of 2020, over 68,000 employees in 46 countries were able to access training courses on the Group-wide digital "peoplenet" HR IT platform.

Innovations

Businesses invest in the research and development of new products in order to ensure their long-term competitiveness. The media sector has a similar imperative to create innovative media content and media-related products and services in a rapidly changing environment. Instead of conventional research and development activities, Bertelsmann views the company's own innovative power as particularly important for business development. The long-term success of the Group depends heavily on product innovations, investing in growth markets and integrating new technologies. Furthermore, innovative expertise is very important for strategy implementation.

Bertelsmann relies on innovation and growth in core operations and new business fields. The key success factors of Bertelsmann's innovation management include continuously following cross-industry trends and observing new markets. At the Group level, Bertelsmann works with the divisions to continuously identify and implement innovative business strategies. Alongside market-oriented activities, support is given to Group-wide initiatives that actively promote knowledge transfer and collaboration. Furthermore, cooperation is being expanded among the divisions. For example, the marketers IP Deutschland, G+J eMS and other partners have combined their capabilities into the Ad Alliance Deutschland, and provide them to advertising clients and media agencies. In the reporting period, Bertelsmann also continued the process of internationalizing Bertelsmann Content Alliance, a cooperation between all content businesses in the Group for developing and marketing mutual formats across divisions.

The innovations at RTL Group focus on three core topics: continuously developing new, high-quality TV formats; using all digital distribution channels; and better monetization of the Group's customer reach by addressing target groups, personalization and recommendations. RTL Group established, for example, the Format Creation Group (FC Group) that meets the high demand for exclusive content by developing innovative format ideas and intellectual property fully owned and controlled by RTL Group. Salto, the joint subscription streaming service of Groupe TF1, France Télévisions and Groupe M6, was launched commercially in October 2020. Bedrock, a technology company belonging to RTL Group, provides Salto's technical platform with state-of-the-art content recommendation and personalization elements. The tech platform is also used by RTL streaming services in Belgium, Hungary and Croatia and is open to other European broadcasters. Addressable TV advertising combines the broad reach of linear TV with targeted digital advertising. RTL Group is working on creating an open ad-tech platform that is based on the technology developed by its subsidiary Smartclip and is tailored to the needs of European broadcasters and streaming services. RTL Group is currently in discussions with several European broadcasters on possible ad-tech partnerships with Smartclip.

At Penguin Random House, the coronavirus pandemic and the subsequent lockdowns led to a number of innovative initiatives aimed at creating and maintaining the connections between authors, readers and retailers. In all of the markets, the publishing group worked together with authors and retailers to develop innovative campaigns to best reach readers online. In the United States, the Consumer Marketing Team launched a project that uses trend data to identify titles and authors suitable for virtual events. At the same time, a popular training course was developed for virtual events aimed at partners in the sector – such as bookstores – containing recommendations for holding successful events. Furthermore, investments were stepped up in programs on diversity, equality and inclusion in all global regions. One example is the Penguin Random House UK campaign titled "Lit in Colour" to promote greater ethnic diversity in literature taught at British schools.

Innovations at Gruner + Jahr included, in particular, developing digital journalistic pay models, in the growing podcast market, as well as promoting sustainable alliances, most importantly, the Bertelsmann Content Alliance. Digital products in the German magazine markets continued to grow, especially the paid-content products "Stern Plus" and "Stern Crime Plus," as well as the self-care apps "Balloon" and "Hirschhausen Diet." The new paid-content sleep app "7Schläfer" ("7Sleeps") was added to the portfolio. Gruner + Jahr launched new formats on the growing podcast market, including the Stern podcast "Die Boss – Macht ist weiblich" ("The 'Lady Boss' – Power Is Feminine") and jointly with the

Audio Alliance, “Die Stunde Null – Deutschlands Weg aus der Krise” (“Zero Hour – Germany’s Way out of the Crisis”). “Geolino Spezial” (“Geolino Special”) boasts one of the widest audiences of any children’s podcast in Germany. The digital subsidiary AppLike was expanded into a group of companies. Mobile device game producer Sunday landed an international gaming success with “Cat Escape,” which placed among the Top 10 in the United States in the iOS and Android charts for hyper-casual games.

Innovation at BMG is based on the company’s strategic pillars: focusing on growth segments, extending and diversifying its repertoire, expanding global presence, and delivering on its core values while retaining its cost leadership in the sector. Major innovations were the new services added to the BMG portfolio: the strategic move into the live entertainment business segment in Germany through the acquisition of a majority stake in the concert promoter Undercover, and the launch of a boutique neighboring rights service. Among the artists who chose BMG’s new service were The Rolling Stones and Roger Daltrey of the rock band The Who. Other innovations included the opening up of the widely acclaimed myBMG app to non-BMG artists, allowing them to pitch for songs from BMG songwriters; establishing the international music brand The Iconic Song, focused on legendary songs from the BMG catalog; the launch of the label OM Records in cooperation with the French Ligue 1 soccer club Olympique de Marseille; and the migration of a significant proportion of its processes and technology to the cloud.

Innovation was achieved in all divisions of Arvato. The three solutions groups at Arvato as well as the CRM company Majorel are using their innovative activities to pursue their main goal of enhancing and digitalizing existing solutions and designing and creating new services. Arvato Supply Chain Solutions pursued its cloud strategy by investing extensively in 2020 in automating and digitalizing its processes as well as in expanding the digital competence of its employees. Arvato Financial Solutions launched an innovative platform for consumer-oriented receivables management under the umbrella brand Paigo. Extensive digitalization of processes and flows in the debt collection process is at the heart of the new product. The IT services provider Arvato Systems further expanded not only its competency in the field of cloud applications but also its cooperation with the three major hyperscalers, Amazon Web Services (AWS), Google Cloud Platform (GCP) and Microsoft Azure. Majorel further intensified its focus on digital transformation, for example by acquiring Isilis, a digital solutions provider for the banking and financial services sector.

Innovations at Bertelsmann Printing Group involved, in particular, developing and optimizing existing processes with new technologies, and designing innovative products and services. On the basis of an innovative partnership model with a renowned printer manufacturer, Bertelsmann Printing Group invested in two new state-of-the-art, sheet-fed printing presses that were put into operation in 2020 at Mohn Media and Vogeldruck. As part of the VIME project, an augmented reality app was added to the digitalization services provided to a large British mail-order customer and the PreMedia department at Mohn Media developed a database solution for publishers and editors based on artificial intelligence. In addition, Bertelsmann Printing Group’s multipartner program DeutschlandCard continued its work on the digital transformation of participant communication, expanding the program app and bringing a digital customer card to market.

The innovations at Bertelsmann Education Group mainly consisted of developing digital and customized education offerings. For example, in the healthcare sector Relias employs health experts (including doctors, nurses and therapists) to continue developing teaching content and platforms for training skills specific to clinic and nursing home personnel. Data analyses are used more and more frequently to be able to offer users personalized content and thereby ensure training success. In the technology segment, Udacity was able to expand its products, among other things, in the areas of data science, cloud architecture and artificial intelligence. For example, employees learn about new technologies in Nanodegree programs and help their companies discover new uses for digitalization and automation.

Report on Economic Position

Corporate Environment

Overall Economic Developments

The global economy was severely impacted in 2020 by the coronavirus pandemic and the heightened measures put in place to prevent infections. After a historic decline in the economy in the spring, the global economy recovered significantly in the summer, yet started to lose dynamic toward the end of the year. Europe and North America especially suffered a new wave of infection in the winter, ending the upswing in the economy. Overall, global economic activity shrank by 3.5 percent in 2020 compared to growth of 3.0 percent in 2019.

The second wave of infection affected most European countries in autumn 2020, but with varying degrees of severity. After the strong recovery recorded in the summer, economic activity was down again in the final quarter. In the euro area, real GDP fell by 6.8 percent, compared to an increase of 1.2 percent in the previous year.

The recovery that had begun in Germany mid-year was also interrupted by a second wave of infection. Real GDP declined by 4.9 percent compared to an increase of 0.6 percent in the previous year. However, the pandemic put an even stronger strain on the economy in France. Real GDP declined by 8.3 percent in 2020 compared to 1.2 percent growth in the previous year. The economy in the United Kingdom also saw a sharp downturn. Real GDP declined by 9.9 percent, compared to growth of 1.4 percent in the previous year.

In the United States real GDP declined by 3.5 percent compared to growth of 2.3 percent in the previous year.

The macroeconomic developments described here had a markedly negative impact on business performance at Bertelsmann in the financial year 2020 and put a burden on business, especially the advertising-financed and print businesses.

Developments in Relevant Markets

The following analysis focuses on markets and regions that are of a sufficient size and are strategically important from a Group perspective.

The European TV advertising markets declined strongly in 2020, whereas the streaming markets in Germany and the Netherlands showed strong growth.

The markets for printed books saw a positive development overall in 2020. Revenue from printed books grew strongly in the United States and increased significantly in the United Kingdom, whereas the German market saw a slight decline and the Spanish-language market a significant decline. Publisher sales of e-books and digital audiobooks climbed strongly in both the United States and the United Kingdom.

The magazine markets in Germany and France in 2020 were characterized by strongly declining print advertising business and significantly declining circulation business in Germany, as well as a strong decline in France. The digital advertising market in Germany also posted significant declines, while France remained stable.

The relevant music markets in 2020 reported moderate declines in the publishing segment, whereas the recording market segment grew significantly.

The key service markets for Arvato, namely Customer Relationship Management, Supply Chain Solutions and Financial Solutions, saw moderate growth, whereas the market for IT services declined significantly.

The European offset and gravure printing markets reported a strongly negative trend in 2020. The North American book printing market remained stable.

In 2020, the education markets in the United States exhibited moderate to strong growth in the market segments where Bertelsmann is involved – namely, training in healthcare, e-learning in the technology area, and university education.

Significant Events in the Financial Year

In view of the global outbreak of the coronavirus pandemic, Bertelsmann convened a meeting of the Group's crisis committee, its first, in late January 2020. During the course of the year, the committee created extensive protective and preventive measures for Bertelsmann's divisions and companies. The Bertelsmann Executive Board implemented a number of measures early on, focusing on employees' health, continuity of business, cost-cutting measures and temporary investment restraint. To secure and improve the company's liquidity, additional capital was raised. By mid-year, the Group's liquidity had been significantly increased with a variety of capital market instruments (see the section "Financing Activities"). In addition, the Executive Board issued a Group-wide travel ban on business trips in the spring and requested that most employees begin working from home in mid-March. At the same time, manufacturing companies and service units were assisted with protective masks and guidelines on distancing regulations and hygiene measures.

Groupe M6, which belongs to RTL Group, sold the French cashback company iGraal to the German Global Savings Group (GSG) in March 2020. The transaction was conducted in part through a share swap. As a result, Groupe M6 became a shareholder in GSG.

As of April 1, 2020, Bertelsmann completed its acquisition of the remaining 25 percent of the shares in Penguin Random House from co-shareholder Pearson after receiving all of the required regulatory approvals.

Henrik Poulsen, former chair of the Executive Board of the Danish energy company Ørsted, was newly appointed to the Bertelsmann Supervisory Board in June 2020.

In late June 2020, the international information services provider Experian acquired a majority shareholding in Arvato Financial Solutions' risk management division. This is intended to strengthen the joint market position and to create an innovative platform to the benefit of the customers of the formerly separate companies.

In late October 2020, RTL Group completed the sale of its stake in the Canadian digital video network BroadbandTV.

At its meeting on November 5, 2020, the Supervisory Board appointed Rolf Hellermann as the new Chief Financial Officer of Bertelsmann. On January 1, 2021, he replaced Bernd Hirsch as CFO and became a member of the Management Board.

In November 2020, Bertelsmann announced the acquisition of the publishing group Simon & Schuster from the media company ViacomCBS for US$2.175 billion. The acquisition will strengthen Bertelsmann's position in the global book publishing business, especially in the United States. This transaction is subject to regulatory approval. Bertelsmann will pay the purchase price with available cash and cash equivalents. The transaction is expected to close in 2021.

In December 2020, RTL Group completed the acquisition of all of the remaining outstanding shares in the TV and radio businesses of RTL Belgium. The acquisition was paid from cash funds as well as with treasury shares of RTL Group.

In December 2020, Gruner + Jahr initiated exclusive negotiations with the French media company Vivendi regarding the sale of the French G+J subsidiary Prisma Media. At year-end, both companies signed a put option. The planned sale is subject to notifying employee representatives at Prisma Media and holding a hearing, approval from antitrust authorities, and preparing all legal documents. The transaction is expected to close in the first half of 2021.

Furthermore, a number of real estate transactions were carried out during the reporting period. These included the purchase and resale of a commercial property in Munich, as well as the sale of commercial properties in London and Hamburg. All properties have been leased back with varying terms.

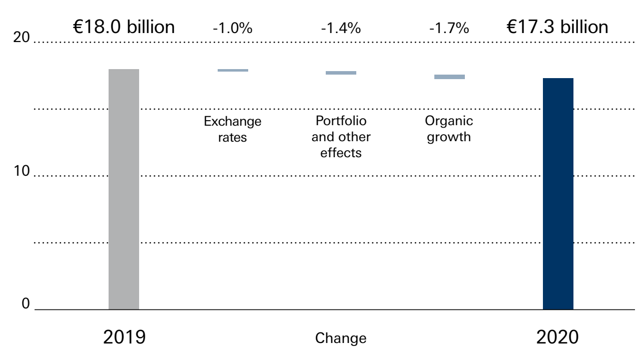
Results of Operations

Revenue Development

Group revenues fell in the financial year 2020 by 4.1 percent to €17.3 billion (previous year: €18.0 billion). Revenue drops due to the coronavirus pandemic had a particularly negative impact on the advertising-financed and print businesses. However, the book publishing business, music business, services businesses and some of the education businesses have proved to be particularly robust. Adjusted by exchange rate, portfolio and other effects, the Group recorded an organic decline of 1.7 percent.

Revenues at RTL Group decreased 9.5 percent to €6,017 million (previous year: €6,651 million). The organic decrease was 7.2 percent. The decline in revenues is largely attributable to significantly lower TV advertising revenues in the second quarter of 2020 and production delays at Fremantle due to the coronavirus pandemic. In contrast, the number of paying subscribers to the streaming services TV Now in Germany and Videoland in the Netherlands showed a positive trend. Revenues at Penguin Random House rose 4.6 percent to €3,802 million (previous year: €3,636 million). The organic growth was 6.7 percent. The growth in revenues was due in particular to positive business performance in the US business. Gruner + Jahr reported a decline in revenues of 16.2 percent to €1,135 million (previous year: €1,355 million), due primarily

Revenue Breakdown



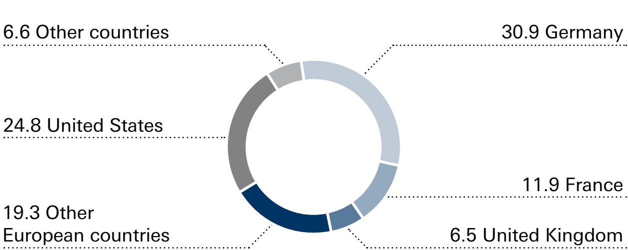
Revenues by Division

in € millions			2020			2019
	Germany	Other countries	Total	Germany	Other countries	Total
RTL Group	1,958	4,059	6,017	2,138	4,513	6,651
Penguin Random House	277	3,525	3,802	265	3,371	3,636
Gruner + Jahr	769	366	1,135	913	442	1,355
BMG	46	556	602	46	554	600
Arvato	1,666	2,716	4,382	1,697	2,478	4,175
Bertelsmann Printing Group	833	529	1,362	948	620	1,568
Bertelsmann Education Group	2	299	301	2	331	333
Bertelsmann Investments	4	8	12	0	13	13
Total divisional revenues	5,555	12,058	17,613	6,009	12,322	18,331
Corporate/Consolidation	(221)	(103)	(324)	(203)	(105)	(308)
Continuing operations	5,334	11,955	17,289	5,806	12,217	18,023

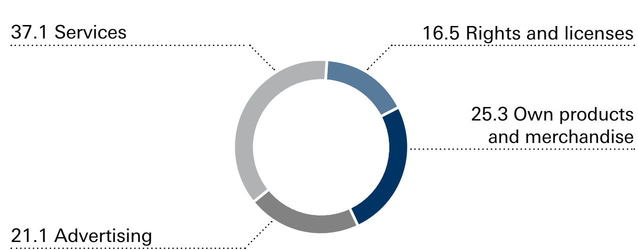
to the coronavirus and to portfolio effects. The organic decline was 9.0 percent. Revenues at BMG were stable at €602 million (previous year: €600 million). The organic growth was 1.9 percent. Pandemic-related restrictions in physical distribution as well as postponed releases were offset by strong growth in music streaming. Revenues at Arvato rose 5.0 percent to €4,382 million (previous year: €4,175 million). The organic growth was 6.5 percent. In particular, the positive business performance at the CRM company Majorel contributed to revenue growth. Revenues at Bertelsmann Printing Group fell 13.2 percent to €1,362 million (previous year: €1,568 million). The organic decline was 13.4 percent. The coronavirus pandemic accelerated the market-driven decline in revenue of Bertelsmann Printing Group as it put pressure on important customer sectors and regions. Revenues at Bertelsmann Education Group declined by 9.8 percent to €301 million (previous year: €333 million). The organic decline was 2.3 percent. The drop in revenues was caused by the sale of a large share of the business operations of the US university services provider HotChalk, whereas the demand for online education products continued to grow. The investments of Bertelsmann Investments are generally not consolidated, so revenue is not usually reported for this division.

There were slight changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 30.9 percent compared to 32.2 percent in the previous year. The revenue share generated by France amounted to 11.9 percent (previous year: 12.3 percent). In the United Kingdom, the revenue share was 6.5 percent (previous year: 6.5 percent). The share of total revenues generated by the other European countries amounted to 19.3 percent compared to 18.9 percent in the previous year. The revenue share generated by the United States increased to 24.8 percent (previous year: 23.4 percent), and the other countries achieved a revenue share of 6.6 percent (previous year: 6.7 percent). This means that the share of total revenues generated by foreign business rose to 69.1 percent (previous year: 67.8 percent). Year on year, there also was a slight change in the ratio of the four revenue sources (own products and merchandise, services, advertising, rights and licenses) to overall revenue.

Consolidated Revenues by Region in percent



Consolidated Revenues by Category in percent



Results Breakdown

in € millions	2020	2019
Operating EBITDA by division		
RTL Group	1,097	1,417
Penguin Random House	691	561
Gruner + Jahr	127	157
BMG	137	138
Arvato	662	549
Bertelsmann Printing Group	55	68
Bertelsmann Education Group	89	84
Bertelsmann Investments	(10)	(1)
Total operating EBITDA by division	2,848	2,973
Corporate/Consolidation	295	(86)
Operating EBITDA from continuing operations	3,143	2,887
Amortization/depreciation, impairments/reversals of impairment losses on intangible assets and property, plant and equipment not included in special items	(918)	(908)
Special items	51	(154)
EBIT (earnings before interest and taxes)	2,276	1,825
Financial result	(339)	(309)
Earnings before taxes from continuing operations	1,937	1,516
Income tax expense	(478)	(426)
Earnings after taxes from continuing operations	1,459	1,090
Earnings after taxes from discontinued operations	–	1
Group profit	1,459	1,091
attributable to: Earnings attributable to Bertelsmann shareholders	1,152	729
attributable to: Earnings attributable to non-controlling interests	307	362

Operating EBITDA

Bertelsmann achieved operating EBITDA of €3,143 million in the financial year 2020 (previous year: €2,887 million). The increase of 8.9 percent is largely attributable to disposal proceeds from real estate transactions totaling €376 million. In addition, earnings growth was posted in particular by Penguin Random House and Arvato. Despite effective cost-cutting measures, the sometimes sharp decline in advertising-financed and print businesses is attributable to the negative impacts of the coronavirus pandemic on revenues. The EBITDA margin rose to 18.2 percent (previous year: 16.0 percent).

Operating EBITDA at RTL Group fell 22.6 percent to €1,097 million (previous year: €1,417 million). Given the coronavirus pandemic, RTL Group recorded a drop in advertising revenues and TV production delays. Operating EBITDA at Penguin Random House rose by 23.3 percent to €691 million (previous year: €561 million), thanks in particular to the growing US business as well as a larger proportion of digital products in the sales mix. Operating EBITDA at Gruner + Jahr declined by 19.4 percent to €127 million (previous year: €157 million. Pandemic-related revenue shortfalls were largely offset by comprehensive countermeasures. BMG generated a stable operating EBITDA of €137 million (previous year: €138 million) and, despite a difficult market environment, benefited from rapid growth in music streaming. Arvato achieved operating EBITDA of €662 million (previous year: €549 million). This was an increase of 20.5 percent, reflecting higher earnings in particular at the CRM company Majorel as well as in the Supply Chain Solutions business area. Operating EBITDA at Bertelsmann Printing Group declined by 19.8 percent to €55 million (previous year: €68 million). In addition to a continual drop in volumes and persistent pricing pressure, earnings were also heavily affected by the coronavirus pandemic. Operating EBITDA at Bertelsmann Education Group of €89 million (previous year: €84 million) represented an increase of 5.6 percent. The investments of Bertelsmann Investments are generally not consolidated, so operating earnings are not usually reported for this division.

Special Items

Special items in the financial year 2020 totaled €51 million compared to €-154 million in the previous year. They consist of impairments on goodwill and other intangible assets with indefinite useful lives amounting to €-116 million (previous year: €-27 million), impairments on investments accounted for using the equity method amounting to €-62 million (previous year: €-51 million), impairments on other financial assets at amortized cost amounting to €-26 million (previous year: €-9 million), results from disposals of investments amounting to €410 million (previous year: €90 million), fair value measurement of investments amounting to €59 million (previous year: €143 million), as well as restructuring expenses and other special items totaling €-214 million (previous year: €-293 million). In the reporting period there were no adjustments of the carrying amounts of assets held for sale (previous year: €-7 million). The increase in results from disposals of investments is particularly due to the sale of a majority share of the risk management business of Arvato Financial Solutions.

EBIT

EBIT amounted to €2,276 million in the financial year 2020 (previous year: €1,825 million) after adjusting operating EBITDA for special items totaling €51 million (previous year: €-154 million) and the amortization, depreciation, impairments and reversals of impairment losses on intangible assets, property, plant and equipment and right-of-use assets totaling €-918 million (previous year: €-908 million), which were not included in the special items.

Group Profit

The financial result was €-339 million, compared with the previous year's amount of €-309 million. The deviation is attributable to increased interest expenses resulting from financing activities carried out to secure liquidity during the coronavirus pandemic. The income tax expense increased to €-478 million compared to €-426 million in the previous year, due in particular to higher earnings before taxes from continuing operations. This resulted in an increase in Group profit to €1,459 million (previous year: €1,091 million). The share of Group profit attributable to non-controlling interests came to €307 million (previous year: €362 million). The share of Group profit attributable to Bertelsmann shareholders was €1,152 million (previous year: €729 million). No dividends were paid in 2020 for the financial year 2019. For the financial year 2020 a dividend payout of €180 million will be proposed at the Annual General Meeting of Bertelsmann SE & Co. KGaA.

Net Assets and Financial Position

Financing Guidelines

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

In accordance with the Group structure, the capital allocation is made centrally by Bertelsmann SE & Co. KGaA, which provides the Group companies with liquidity and manages the issuance of guarantees and letters of comfort for them. The Group consists largely of a single financial unit, thereby optimizing the raising of capital and investment opportunities.

Bertelsmann utilizes a financial management system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One of the financial targets is a dynamic leverage factor limited to the defined maximum of 2.5. As of December 31, 2020, the leverage factor of Bertelsmann was 1.9, significantly lower than the previous year's level (December 31, 2019: 2.6).

Financial Targets

	Target	2020	2019
Leverage Factor: Economic debt/Operating EBITDA[1]	≤ 2.5	1.9	2.6
Coverage ratio: Operating EBITDA/Financial result[1]	> 4.0	8.3	8.5
Equity ratio: Equity as a ratio to total assets (in percent)	≥ 25.0	36.1	38.2

1) After modifications

Primarily due to a high operating cash flow, net financial debt decreased.

As of December 31, 2020, economic debt decreased to €5,207 million from €6,511 million in the previous year, due to a significant decrease in net financial debt to €2,055 million (December 31, 2019: €3,364 million). As of December 31, 2020, recognized lease liabilities were €1,355 million (December 31, 2019: €1,392 million). Provisions for pensions and similar obligations rose to €2,009 million as of December 31, 2020 (December 31, 2019: €1,967 million).

Another financial target is the (interest) coverage ratio. This is calculated as the ratio of operating EBITDA, used to determine the leverage factor, to financial result, and should exceed four. In the reporting period, the coverage ratio was 8.3 (previous year: 8.5). The Group's equity ratio was 36.1 percent (December 31, 2019: 38.2 percent), which remains significantly above the self-imposed minimum of 25 percent.

Financing Activities

Under a Debt Issuance Program with a volume of up to €5 billion launched in March 2020, Bertelsmann issued a €750 million bond with a coupon of 2.0 percent and a term of eight years in April 2020, and a €750 million bond with a coupon of 1.5 percent and a term of 10 years in May 2020. Private placements totaling €350 million were also issued under this program. In addition, Bertelsmann issued promissory notes with a total volume of €250 million in the reporting period. One of the private placements in the amount of €250 million was already repaid before the end of the year by exercising a termination option. In addition, a €100 million promissory note due in December 2020 and the variable portion of a promissory note of €50 million due in 2027 were repaid.

To cover short-term funding requirements related to the acquisition of the remaining shares of Penguin Random House, a loan in the amount of €675 million with a term of up to 18 months was agreed upon in the reporting period and utilized in March 2020. Furthermore, Bertelsmann carried out various financing measures to secure liquidity. This includes in particular drawing down the revolving syndicated credit facility in the amount of €1.2 billion and drawing down a bilateral, dual-currency credit facility in the amount of US$215 million, both in March 2020, as well as taking out a loan of US$300 million in April 2020 with a term of up to one year. All of the credit facilities that were drawn down during the reporting period were completely repaid in the course of the financial year 2020.

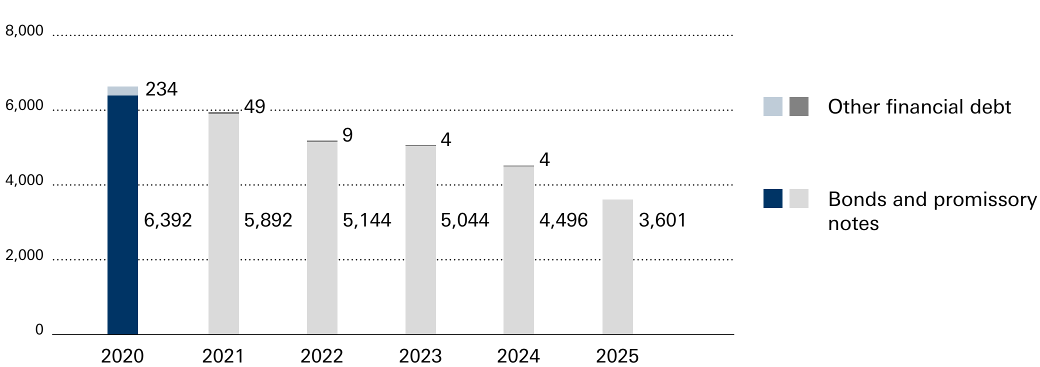
Rating

Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The issuer ratings facilitate access to the international capital markets and are therefore a key element of Bertelsmann's financial security. Bertelsmann is rated by Moody's as "Baa2" (outlook: stable) and by S&P as "BBB" (outlook: stable). Both credit ratings are in the investment-grade category. Bertelsmann's short-term credit quality rating is "P-2" from Moody's and "A-2" from S&P.

Credit Facilities

In addition to available liquidity, the Bertelsmann Group has access to a syndicated credit facility with 15 banks. This credit facility that was unutilized as of December 31, 2020, forms the backbone of the strategic credit reserve; Bertelsmann can utilize this with a term until 2025 to draw up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling.

Maturity Structure of Financial Debt in € millions



Consolidated Cash Flow Statement (Summary)

in € millions	2020	2019
Cash flow from operating activities	2,994	2,060
Cash flow from investing activities	(263)	(682)
Cash flow from financing activities	330	(1,128)
Change in cash and cash equivalents	3,061	250
Exchange rate effects and other changes in cash and cash equivalents	(61)	(12)
Cash and cash equivalents on 1/1	1,643	1,405
Cash and cash equivalents on 12/31	4,643	1,643
Less cash and cash equivalents of disposal groups	(72)	(7)
Cash and cash equivalents on 12/31 (according to the consolidated balance sheet)	4,571	1,636

Cash Flow Statement

During the reporting period, cash flow from operating activities was generated in the amount of €2,994 million (previous year: €2,060 million). The sustainable operating free cash flow, adjusted for special effects, was €2,571 million (previous year: €1,883 million), and the cash conversion rate was 118 percent (previous year: 97 percent); see the section "Broadly Defined Performance Indicators." Cash flow from investing activities amounted to €-263 million (previous year: €-682 million). Of this, €-879 million (previous year: €-923 million) was attributable to investments in intangible assets, property, plant and equipment, and financial assets. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) were €-41 million (previous year: €-317 million). Payments from the sales of subsidiaries and other business units as well as of other non-current assets were €657 million (previous year: €558 million). The cash flow from financing activities was €330 million (previous year: €-1,128 million). This difference is attributable to the proceeds from issuing bonds and promissory notes and to the reduction or suspension of dividend payments to Bertelsmann shareholders and non-controlling interests. Dividend payments to shareholders of Bertelsmann SE & Co. KGaA were suspended for the financial year 2019 due to the coronavirus, following a dividend payment in the previous year of €-180 million. Dividends paid to non-controlling interests and other payments to shareholders amounted to €-10 million (previous year: €-263 million). As of December 31, 2020, Bertelsmann had cash and cash equivalents of €4.6 billion (previous year: €1.6 billion). This significant increase is attributable to capital market measures aimed at, among other things, securing and increasing Bertelsmann's liquidity.

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. The off-balance-sheet liabilities decreased compared with the previous year. The off-balance-sheet liabilities existing as of December 31, 2020, had no significant negative effects on the Group's net assets, financial position or results of operation for the past or the following financial year.

Investments

Total investments, including acquired financial debt of €54 million (previous year: €6 million), amounted to €974 million in the financial year 2020 (previous year: €1,246 million). Investments according to the cash flow statement amounted to €920 million (previous year: €1,270 million). As in previous years, the majority of the €350 million investments in property, plant and equipment (previous year: €323 million) stemmed from Arvato. Investments in intangible assets came to €313 million (previous year: €313 million) and were primarily attributable to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. The sum of €216 million was invested in financial assets (previous year: €317 million). This includes in particular the investments of Bertelsmann Investments. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €41 million (previous year: €317 million).

After taking into account acquired financial debt and purchase price payments for increasing shareholdings in subsidiaries, in particular for the acquisition of full ownership of Penguin Random House, economic investments increased in the financial year 2020 to a total of €1,717 million (previous year: €1,314 million). These payments for increasing shareholdings are classified as a change in equity in accordance with IFRS and are reported under cash flow from financing activities. From the point of view of Bertelsmann, these payments are economically comparable to purchase price payments for consolidated investments and are therefore considered to be investments.

Investments by Division

in € millions	2020	2019
RTL Group	210	451
Penguin Random House	75	124
Gruner + Jahr	31	31
BMG	92	80
Arvato	264	216
Bertelsmann Printing Group	34	45
Bertelsmann Education Group	19	25
Bertelsmann Investments	185	260
Total investments by division	910	1,232
Corporate/Consolidation	10	8
Total investments	920	1,240

Balance Sheet

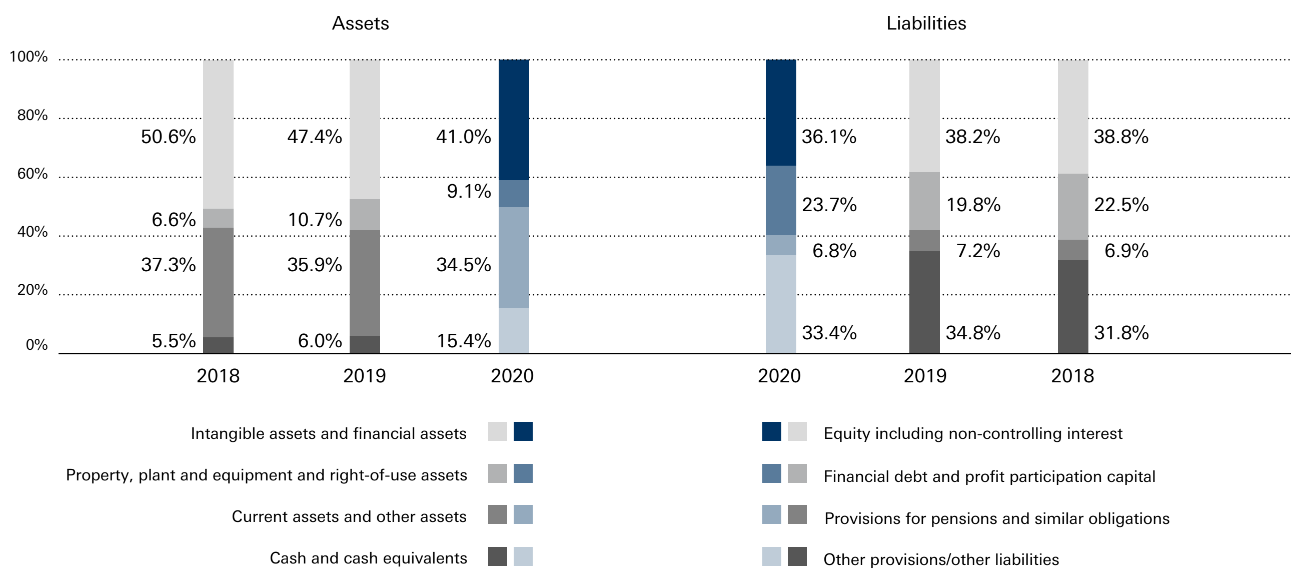
Total assets increased to €29.7 billion as of December 31, 2020 (previous year: €27.3 billion). Cash and cash equivalents increased noticeably to €4.6 billion (previous year: €1.6 billion). Equity increased to €10.7 billion (previous year: €10.4 billion). This resulted in an equity ratio of 36.1 percent (previous year: 38.2 percent). Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €9.0 billion (previous year: €8.9 billion). Provisions for pensions and similar obligations increased to €2,009 million (previous year: €1,967 million). Gross financial debt increased to €6,626 million compared to €5,000 million as of December 31, 2019. Apart from that, the balance sheet structure remained largely unchanged from the previous year.

Profit Participation Capital

Profit participation capital had a par value of €301 million as of December 31, 2020, which is unchanged from the previous year. If the effective interest method is applied, the carrying amount of profit participation capital was €413 million as of December 31, 2020 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of par value of profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of par value.

Balance Sheet



The highest closing rate of the 2001 profit participation certificates was 360.60 percent in January; their lowest in the 2020 financial year was 210.00 percent in March.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of par value, subject to the availability of sufficient Group profit and net income at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the par value of the 2001 profit participation certificates will also be made for the financial year 2020.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, only have a limited liquid trading on the stock exchange due to their low volume. Payouts on the 1992 profit participation certificates are based on the Group's return on total assets. Because the return on total assets for the financial year 2020 was 7.65 percent (previous year: 6.36 percent), the payout on the 1992 profit participation certificates for the financial year 2020 will be 8.65 percent of their par value (previous year: 7.36 percent).

The payout distribution date for both profit participation certificates is expected to be May 7, 2021. Under the terms and conditions of the profit participation certificates, the auditors appointed by Bertelsmann SE & Co. KGaA are responsible for verifying whether amounts to be distributed have been calculated correctly. The auditors of both profit participation certificates provide confirmation of this.

Performance of the Group Divisions

RTL Group

RTL Group saw a decrease in advertising bookings and postponements of productions in the financial year 2020 in the wake of the coronavirus pandemic, leading to lower revenues and operating profit. After a strong decline in TV advertising revenues in the second quarter, the situation stabilized in the third quarter; in the important fourth quarter, RTL Group's TV advertising revenues increased again year on year.

From mid-March on, RTL Group's management actively countered the effects of the pandemic with cost and cash flow measures, without compromising the group's sustainable business success. More than half of the revenue losses were compensated in this way.

For the full year, RTL Group's revenues decreased 9.5 percent to €6.0 billion (previous year: €6.7 billion), while operating EBITDA fell 22.6 percent to €1.1 billion (previous year: €1.4 billion). The EBITDA margin was 18.2 percent, compared with 21.3 percent in the previous year. At €1.1 billion (previous year: €1.1 billion), 17.5 percent (previous year: 16.1 percent) of revenues were attributable to digital businesses such as online advertising, streaming and advertising technology.

The streaming services TV Now in Germany and Videoland in the Netherlands together had 2.2 million paying subscribers at the end of the year, 52 percent more than a year earlier. In France, Groupe M6 grew the number of active users of its advertising-financed streaming service 6play to 16.3 million (previous year: 11.1 million). In October, Salto, the joint pay streaming service of Groupe TF1, France Télévisions and Groupe M6, went live. Upon launch, its offering comprised more than 10,000 hours of programming and access to content from the country's main TV channels.

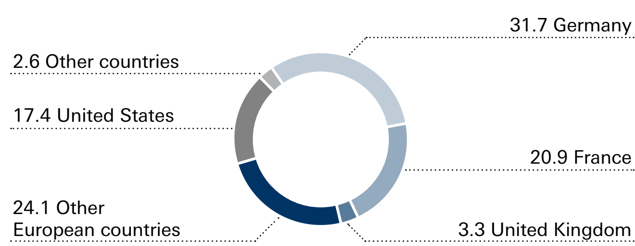
Information and entertainment offerings from Mediengruppe RTL Deutschland, Groupe M6 and RTL Nederland were met with significantly increased viewer interest during the coronavirus pandemic. The broadcasters outperformed their commercial competitors on audience ratings. In Germany, the RTL family of TV channels increased its net TV advertising market share significantly year on year.

In November, Mediengruppe RTL Deutschland and Deutsche Telekom agreed on a strategic partnership to jointly develop the growth markets of streaming and addressable TV advertising. Meanwhile, RTL Group continued to build an open ad-tech platform based on technology developed by Smartclip and tailored to the needs of European broadcasters and streaming services.

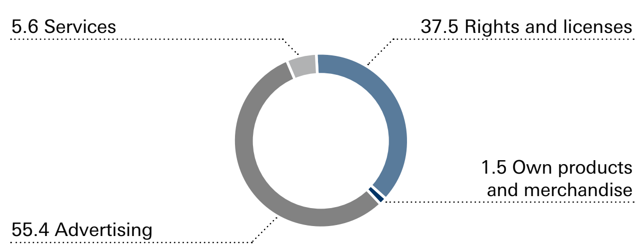
RTL Group's content business, Fremantle, faced significant constraints in film and TV production during the coronavirus pandemic in 2020, resulting in fewer show deliveries and the postponement of productions, particularly in the second quarter. Following the introduction of protective measures, production resumed in most markets toward the middle of the year. Major creative successes included shows like "American Idol," reality formats like "Too Hot to Handle" for Netflix, and fiction series productions such as "Deutschland 89" for Amazon Prime.

In October, RTL Group sold its majority stake in the digital video network BroadbandTV to BBTV Holdings Inc. for €102 million paid in cash. This was followed in December by the acquisition of all outstanding shares in RTL Belgium's TV and radio business, with consideration comprising cash and treasury shares of RTL Group.

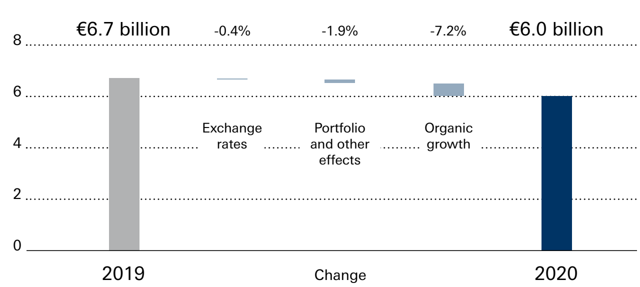
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Penguin Random House

Penguin Random House benefited from strong new publications and increased demand for books in all formats in the year of the coronavirus pandemic. Despite bookstores being intermittently closed in many countries, the group grew its revenues and operating profit significantly, especially in the US and UK markets.

A strategic milestone during the financial year was the acquisition of the remaining 25 percent of the shares in Penguin Random House. The world's largest trade publishing group has been wholly owned by Bertelsmann since April 1, 2020, at which time the German-language publishing group Verlagsgruppe Random House was integrated and renamed Penguin Random House Verlagsgruppe. In November, Bertelsmann announced the acquisition of the venerable US trade publisher Simon & Schuster. The transaction is expected to be completed in the course of 2021, once all of the necessary clearance has been obtained from the antitrust authorities.

Penguin Random House's revenue reached €3.8 billion in the 2020 financial year, up 4.6 percent from the previous year's level of €3.6 billion. Operating EBITDA increased by 23.3 percent to €691 million (previous year: €561 million). The EBITDA margin increased to 18.2 percent (previous year: 15.4 percent).

The top-selling book of the year was "A Promised Land," the first volume of Barack Obama's presidential memoirs. The book was published in November in 20 languages almost simultaneously, and sold more than 7.3 million copies worldwide across all formats through the end of the year. Penguin Random House publishers expanded its online sales in numerous markets, and established multiple virtual platforms for connecting authors, readers and booksellers. Audiobooks were again a growth driver in 2020, achieving double-digit percentage growth in most markets. Penguin Random House publishers placed numerous titles on the bestseller lists of the "New York Times" in the United States, the "Sunday Times" in the United Kingdom and "Spiegel" magazine in Germany.

In the largest book market, the United States, the top bestseller, with more than three million copies sold, was "A Promised Land" by Barack Obama. Titles such as "Untamed" by Glennon Doyle, "Becoming" by Michelle Obama, "Where the Crawdads Sing" by Delia Owens, and "How to Be an Antiracist" by Ibram X. Kendi achieved high sales figures as well.

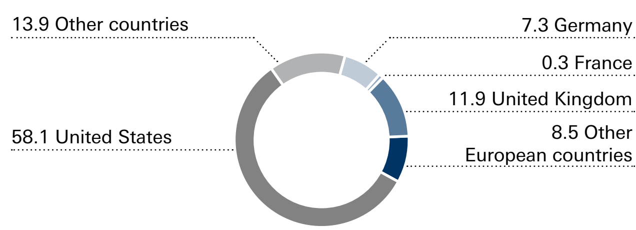
Penguin Random House UK also had a strong year with rising revenues. The year's most successful books included "A Promised Land" by Barack Obama, "The Boy, The Mole, The Fox and The Horse" by Charlie Mackesy, and "The Thursday Murder Club" by Richard Osman, each selling more than one million copies.

Penguin Random House Grupo Editorial saw higher online sales in Spain, offsetting significant declines in Latin America. Top-selling titles included "Las Tinieblas y el Alba" by Ken Follett, "Línea de Fuego" by Arturo Pérez Reverte and "Reina Roja" by Juan Gómez-Jurado.

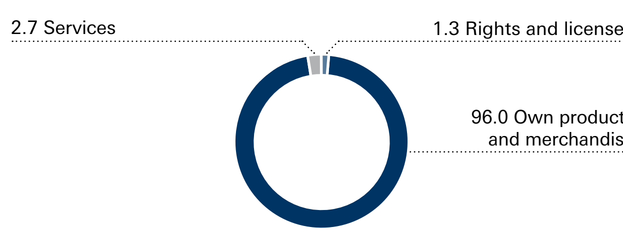
In the German-speaking countries, Penguin Random House Verlagsgruppe maintained its marketplace leadership in a book market that was in decline due to the pandemic. The top-selling titles were "Ein verheißenes Land" ("A Promised Land") by Barack Obama, "Ohne Schuld" by Charlotte Link, and "Das Kind in dir muss Heimat finden" ("The Child In You Must Find a Home") by Stefanie Stahl.

Numerous Penguin Random House authors won prestigious awards in 2020, among them Colson Whitehead, who won the Pulitzer Prize for Fiction for "The Nickel Boys," and Charles Yu, who won the US National Book Fiction Award for "Interior Chinatown."

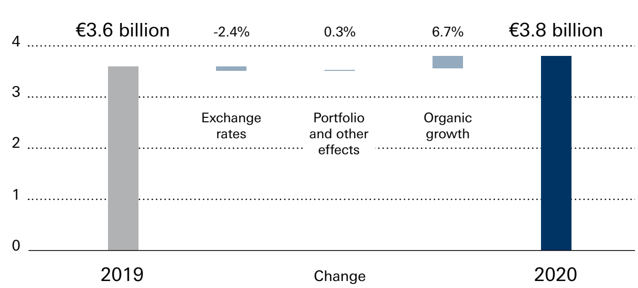
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

Following sharp pandemic-related declines in the first half of 2020, Gruner + Jahr recorded a significant improvement in advertising and distribution revenues, particularly in the fourth quarter, and successfully continued its transformation. Operating EBITDA decreased to €127 million (previous year: €157 million), and the EBITDA margin was 11.2 percent (previous year: 11.6 percent). Pandemic-related revenue shortfalls were largely offset by comprehensive countermeasures. Full-year revenues declined 16.2 percent to €1.1 billion (previous year: €1.4 billion), primarily as a result of the coronavirus pandemic and portfolio effects (including the sale of the special-interest publisher Motor Presse Stuttgart).

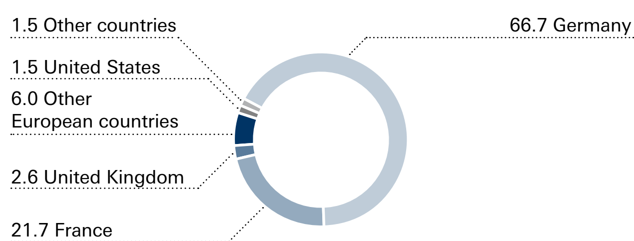
The revenue share attributable to the digital business in Germany and France increased once again to now 37 percent (previous year: 33 percent). The digital offerings of the magazine brands in Germany saw strong growth in revenues and earnings. In addition, the paid digital offerings, such as "Capital" and "Stern," were expanded.

Despite coronavirus-related declines in the print advertising market and the closure of individual distribution channels (e.g., train stations, airports), G+J Germany's earnings in its core business were only moderately lower year on year, thanks to active countermeasures. On the other hand, the magazine distribution business saw a positive development in both supermarket sales and subscriptions. Brands such as "Stern," "Landlust" and "Schöner Wohnen" posted growing earnings. Territory, one of the leading content communication providers in Europe, also recorded mainly pandemic-related declines in sales and earnings.

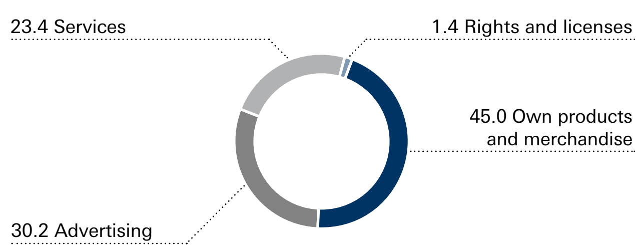
G+J France posted a strong increase in earnings despite the negative impact of the coronavirus crisis on its advertising and circulation business and the insolvency of a press wholesaler. In December, G+J and Vivendi entered into exclusive sales talks for the French magazine business Prisma Media, and both companies have signed a put option. DDV Mediengruppe's revenues and earnings were down year on year due to the coronavirus pandemic.

G+J continued to play a large and active role in the collaboration of all Bertelsmann's content businesses in the Bertelsmann Content Alliance. 2020 saw the development and marketing of numerous new cross-divisional formats. For example, several Bertelsmann Content Alliance media covered the publication of Barack Obama's memoirs. And UFA Show & Factual, G+J, Penguin Random House Verlagsgruppe and Audio Alliance accompanied the biggest Arctic expedition ever exclusively for the German-speaking public, achieving excellent reach with their media offerings.

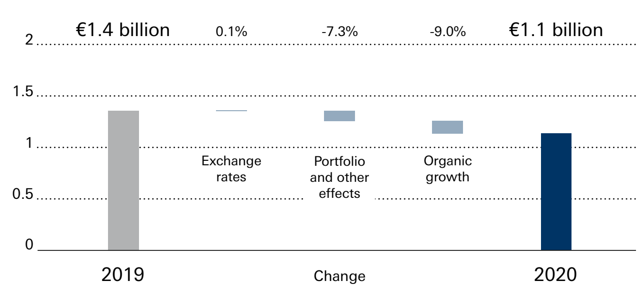
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



BMG

Bertelsmann's music division, BMG, kept both its revenues and its operating profit stable in the challenging financial year 2020. Thanks to the company's focus on digital business and strong growth in music streaming, BMG was able to offset declines due to the effective shutdown of record stores worldwide. At €602 million (previous year: €600 million), revenues were on a par with the previous year, as was operating EBITDA at €137 million (previous year: €138 million). The EBITDA margin was 22.7 percent (previous year: 23.0 percent). Digital revenue sources increased their share of BMG's total revenues to 60 percent (previous year: 56 percent).

In the recordings business, BMG releases included successful new works by Conkarah, Curtis Waters, Kontra K, KSI, Kylie Minogue and Run The Jewels. Conkarah's hit single "Banana" scored more than one billion streams worldwide by the end of the year. Kylie Minogue's "Disco" was her third number-one album in the United Kingdom with BMG, and Kontra K's "Vollmond" was his fourth consecutive number-one album with BMG in Germany.

Highlights also included the reissue of "Ace of Spades" to mark the 40th anniversary of the legendary Motörhead album, and the release of the first in a new box set series "The Iconic Song," beginning with Scorpions' "Wind of Change." New recording contracts were signed with, among many others, production duo Jimmy Jam & Terry Lewis, Pat Metheny, Julia Stone, Aloe Blacc, Sepultura and Erika Ender.

BMG's publishing business saw strong performances from the likes of singer-songwriter Lewis Capaldi, AC/DC with their international number-one album "Power Up," and The Rolling Stones, who presented their first new single in eight years with "Living in a Ghost Town." In April, Xiao Zhan's hit "Made to Love," written by BMG songwriters, became the fastest-selling digital track in Chinese music history, generating 25.5 million downloads within 24 hours.

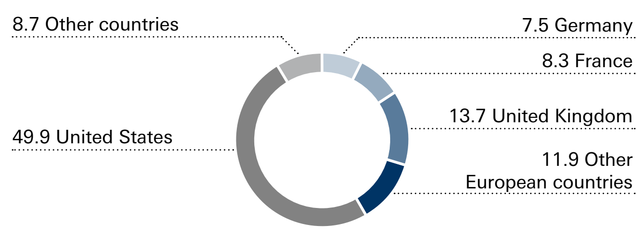
Diane Warren and Neil Finn, among others, have signed new publishing agreements with BMG. Mick Jagger and Keith Richards renewed and extended their existing contracts.

BMG made a strategic move into live entertainment by acquiring a majority stake in Undercover, an independent German concert promoter. The company also launched a boutique neighboring rights service. BMG acquired Cheyenne Records, which includes songs by the successful German girl band No Angels and other well-known artists. It also acquired all of Fleetwood Mac co-founder Mick Fleetwood's royalties in the band's recording catalogs, including iconic hits such as "Dreams."

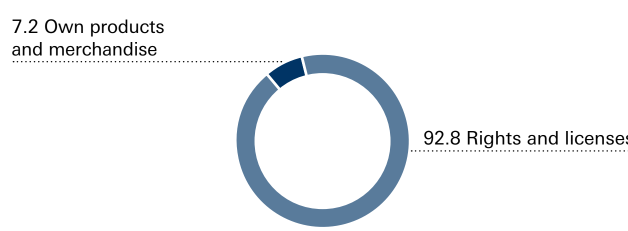
Other defining events of the financial year include the agreement of global partnerships with the British ITV Studios, a strategic content partnership with NetEase Cloud Music in China, and a cooperation agreed by BMG Production Music with the AI-based music-to-video platform MatchTune. BMG also became the exclusive partner for all musical projects of the French Ligue 1 soccer team Olympique de Marseille.

BMG further developed its fairness initiatives toward artists and songwriters. Amid the international discourse on racism, BMG launched an industry-first investigation into whether it had acquired music catalogs whose contract terms discriminate against Black artists. Initial findings and an action plan were presented at the end of the year.

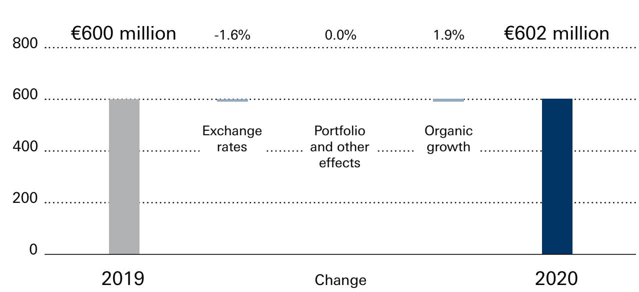
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Arvato

Despite the economic impact of the global coronavirus pandemic, the group's services activities, pooled in the Arvato division, once again delivered an encouraging business performance in 2020. Besides the CRM company Majorel, the main drivers were all of Arvato's Solution Groups. Overall, the internationally operating services group increased both its revenues and operating profit. Revenues grew by 5.0 percent to €4.4 billion (previous year: €4.2 billion), while operating EBITDA increased by 20.5 percent to €662 million (previous year: €549 million). Arvato's EBITDA margin was 15.1 percent, compared with 13.2 percent in the previous year.

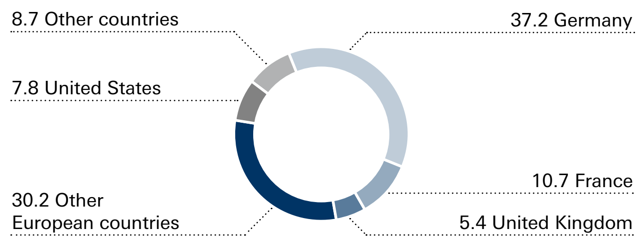
Arvato Supply Chain Solutions' logistics services businesses continued to develop positively in the period under review, especially in the areas of e-commerce and healthcare. The Solution Group was able to increase revenues organically and win new customers, with annual revenues exceeding €100 million in key sectors. It enhanced its national and international footprint by opening new sites and expanding existing ones in Germany, the Netherlands, Poland, Turkey, the United States, China and Russia. At the same time, Arvato Supply Chain Solutions systematically and successfully advanced the automation of logistics processes as well as the individual companies' cloud strategy and digital transformation.

Arvato Financial Solutions' revenues and earnings also developed positively in the period under review. This was primarily supported by good business performance in the risk management and pay-after-delivery areas. The sale of 60 percent of the risk management business to the information services provider Experian was successfully completed at the end of June. In October, Arvato Financial Solutions launched an innovative platform for consumer-oriented collection management in the German-speaking countries under the Paigo umbrella brand.

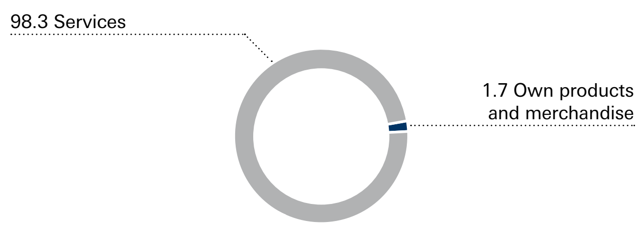
In the 2020 financial year, the IT service provider Arvato Systems was able to realize various new projects with existing customers as well as win new customers in the retail, energy and media sectors. The company also further developed its business with its own products and platforms, broadened its service portfolio in the future-oriented field of artificial intelligence (AI) and significantly expanded its important cloud business both by strengthening partnerships and by increasing its in-house cloud competencies, where it achieved very high growth rates. Arvato Systems won various business awards in the period under review, underscoring both the company's expertise and its market perception/reputation as a partner in the transformation to digital.

The CRM business unit Majorel, which is jointly operated by Bertelsmann and the Saham Group and is fully consolidated at Bertelsmann, increased its revenues and earnings in the 2020 financial year. Internationally, business with customers from the IT and high-tech sectors, among others, was expanded and an innovative communications project for a customer from the automotive industry in Germany was successfully implemented. Majorel also supported health authorities and public-sector institutions in Germany and Morocco in dealing with the coronavirus pandemic, established a new global consulting unit and acquired the French digital services provider Isilis.

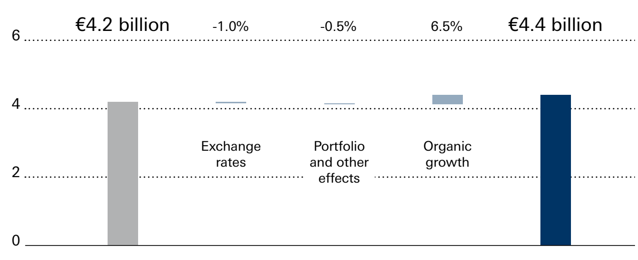
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Printing Group

The internationally operating printing and marketing services provider Bertelsmann Printing Group (BPG) recorded a decline in revenues and operating profit in the 2020 financial year. The reason for this development was the continued challenging situation in the European print markets, which worsened again in the context of the coronavirus pandemic. The catalog and magazine segments, in particular, came under considerable pressure during the year; numerous orders were canceled on short notice, and others were reduced in size. Group revenues declined by 13.2 percent year on year to €1.4 billion (previous year: €1.6 billion). Operating EBITDA decreased by 19.8 percent to €55 million (previous year: €68 million). The EBITDA margin was 4.0 percent (previous year: 4.4 percent).

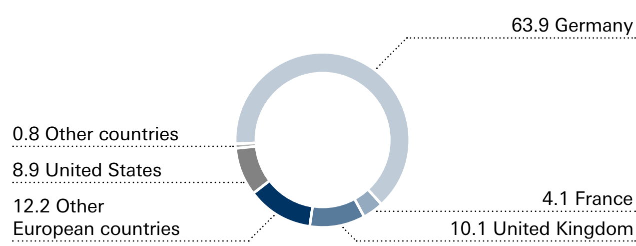
The group's printing businesses in Germany, Switzerland and Austria also registered declines due to the pandemic in 2020. Europe's leading offset printing company, Mohn Media, was only slightly down from the level of the prior-year period overall, as lower capacity utilization, particularly in the catalog and magazine segments, was largely offset by the further expansion of the brochure business and cost-cutting measures. Prinovis Germany once again experienced a significant decline in the period under review, mainly due to the planned capacity reduction at the Nuremberg site, which is to be closed, but also due to the difficult situation in the magazine segment. In contrast, GGP Media, which focuses on print solutions for book publishers, was able to extend important production contracts with major customers over the long term, gain market share and grow profitably in the financial year, bucking the market trend.

The direct marketing businesses in the German-speaking area recorded a slight decline in revenues. Dialog's multichannel marketing businesses and Campaign's campaign management services came under pressure due to the fact that advertising companies cut their marketing budgets, especially in the first few months of the pandemic. Meanwhile, the DeutschlandCard multipartner rewards program was able to profitably expand its business and grow for the fifth year running. In addition, the contracts with its three largest partners were extended long term.

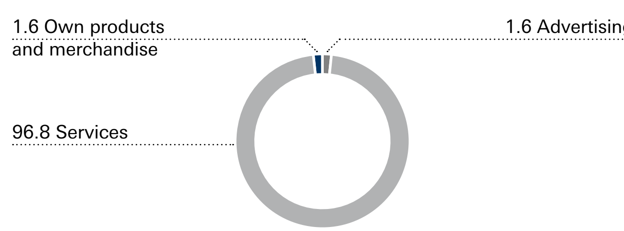
The group's printing activities in the United Kingdom were also hard hit by the economic consequences of the pandemic. Revenues and earnings declined sharply as a result of volume reductions, particularly in periodic supplements. Comprehensive countermeasures to adjust capacity made it possible to absorb part of these losses. The printing businesses in the United States stabilized after a weak first half, but overall fell short of the previous year's figures in revenues and operating profit. At the beginning of November, BPG USA acquired two book production sites from a competitor, thereby securing the long-term production needs of its major publishing customers in the United States. At almost the same time, long-term contracts were concluded with two other major publishing houses.

Revenues at the storage media manufacturer Sonopress decreased against the backdrop of a market that continued in significant decline, but yet performed better than expected. The Topac packaging printing company, which is part of the Sonopress Group, further expanded its business with sustainable packaging solutions for the food industry.

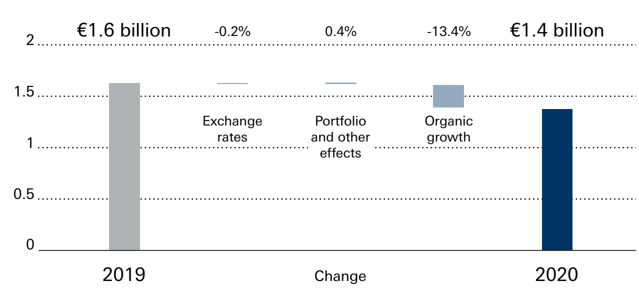
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Education Group

The Group's education businesses, which are pooled in the Bertelsmann Education Group, recorded an increase in revenues in the 2020 financial year, excluding businesses sold during the period under review. Operating income also increased. The coronavirus pandemic accelerated the shift from classroom-based to online learning, which benefited the e-learning provider Relias, the online learning platform Udacity and Alliant International University. The Bertelsmann Education Group stepped up its investments in new products and technologies in 2020, laying the foundations for long-term growth.

The division generated total revenues of €301 million, down 9.8 percent from the previous year (€333 million). In 2019, a part of the continuing education provider OnCourse, acquired earlier, was sold, followed in 2020 by the majority of the operating business of the US university service provider HotChalk. The Bertelsmann Education Group's operating EBITDA came to €89 million, putting it 5.6 percent above the previous year's result of €84 million. The EBITDA margin increased to 29.5 percent (previous year: 25.2 percent).

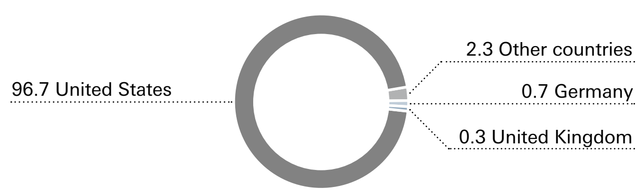
The online courses offered by Relias were in particularly high demand in 2020 and led to organic growth. Relias offered healthcare professionals across the globe COVID-19 prevention courses free of charge, as its contribution to combating the coronavirus pandemic. Relias also invested in cloud-based applications and a virtual classroom that makes it easier for the company's more than 11,000 institutional clients to conduct healthcare training online and in hybrid learning formats.

Udacity, the online learning platform in which Bertelsmann has a significant stake, launched new courses, such as Nanodegree programs in Artificial Intelligence in Healthcare, and training to become an AWS Cloud Architect or a Data Architect. At the same time, the platform saw strong demand from corporate customers seeking to offer their workforces online training to prepare for the changes resulting from digitization. In response to the coronavirus pandemic, Udacity launched an extensive scholarship program and in March offered free courses to gain digital skills and to open up new opportunities for job seekers.

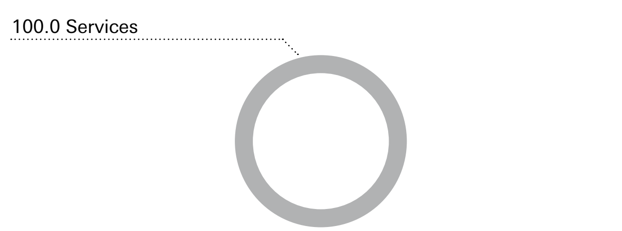
Alliant International University, which specializes in psychology and education, kept revenues stable and expanded its share of online enrollments further. Alliant's online segment now accounts for more than a third of total revenues.

As part of its three-year #50000Chances program to remedy the shortage of IT specialists, Bertelsmann again offered 15,000 scholarships for Udacity courses in the areas of cloud, data and AI during the year under review. In response, more than 60,000 applications were received from 188 countries.

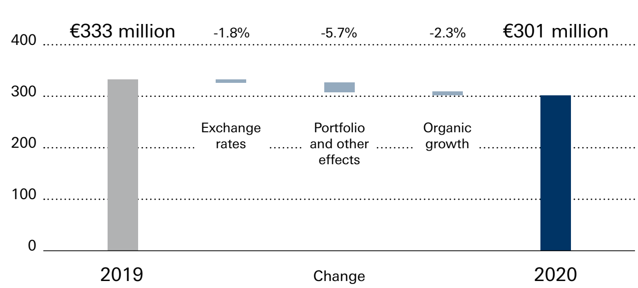
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Investments

In 2020, Bertelsmann Investments (BI) expanded its network of start-ups and funds to around 260 active investments, with a total of 44 new and 24 follow-on investments, and realized several exits. Due to currency effects and pandemic-related devaluations in the portfolio held, EBIT was €1 million (previous year: €107 million).

Bertelsmann Asia Investments (BAI) remained the most active fund in the financial year 2020, making 24 new investments, including in JoJo, an online provider of AI-assisted courses for children. This investment has strengthened BAI's footprint in the fast-growing online education sector. BAI also invested in PingCap, a next-generation open-source and cloud-native database.

In addition, the fund expanded its focus to the drug development market with investments in two AI-empowered pharma tech companies: Galixir applies AI to increase the success rate of drug development, and NeoX is an AI-supported biopharma company focused on finding new macromolecular therapeutics to treat cancer and other difficult-to-treat diseases.

BAI made follow-on investments in 11 companies, including Tomato Mart, an online and offline fresh food retailer, and Keep, an online fitness and community app founded in 2014. BAI's 2020 disposals included its entire stake in iClick, an online digital marketing tool, and a partial exit from Chinese electronics manufacturer Xiaomi, which became the world's third-largest smartphone producer in Q3 2020.

Bertelsmann India Investments (BII) focused on strengthening its portfolio with follow-on investments in eight portfolio companies, among them Shiprocket, which helps small businesses manage and track their end-to-end logistics processes; the B2B logistics solutions provider LetsTransport; and Licious, a D2C food platform for non-vegetarian products. After a successful partial exit from Eruditus, BII continues to hold a stake in the successful executive education company.

Bertelsmann Brazil Investments (BBI) recorded further M&A activity at the indirect holding Afya, the largest university group in Brazil focused on medical education. Afya now owns the SaaS company iClinic and MedPhone, an app that supports medical professionals in making faster and more accurate decisions.

Bertelsmann Digital Media Investments (BDMI) made 14 new investments, including in the customer-journey software Zephr and subscription-based video platform Hellosaurus, as well as several follow-on investments. One of the highlights was the IPO of the online advertising software PubMatic. BDMI recorded additional successful exits with the sale of the portfolio company Skimlinks to Connexity, and the sale of its stakes in SensorTower and Radish.

Bertelsmann Investments also invested in six funds, including the fund of the Berlin-based venture capital firm Greenfield One and the fund Vertex Ventures IV, which operates in Southeast Asia and India.

General Statement by Company Management on the Economic Situation

In the financial year 2020, characterized by the effects of the coronavirus pandemic, Bertelsmann benefited from the quality of its business portfolio and large share of revenues from digital business models. While the effects of the coronavirus pandemic were felt strongly in the advertising-financed and print businesses, robust performance was recorded by the book publishing business, music business, services businesses and some of the education businesses. Moreover, Bertelsmann achieved important milestones for its strategic development and continued to strengthen its businesses.

The global outbreak of the coronavirus pandemic put a considerable strain on overall economic development in the economies relevant to Bertelsmann. The assumptions on which the original forecast for 2020 was based were therefore no longer applicable for the most part. The outlook from the Annual Report 2019 was retracted in the announcement for the first quarter of 2020 and a new assessment of the trend was announced in the Interim Report 2020. Group revenues in the reporting period declined moderately by 4.1 percent to €17.3 billion from €18.0 billion the previous year, thereby corresponding to the adjusted estimates (outlook in the 2019 Annual Report: moderate increase in revenues; adjusted outlook in the Interim Report 2020: moderately to significantly declining revenues). The organic revenue decline was 1.7 percent. Operating EBITDA increased strongly by 8.9 percent to €3,143 million compared with €2,887 million in the previous year and was thereby better than the adjusted estimate at mid-year 2020 (outlook in the 2019 Annual Report: stable to slightly lower operating EBITDA/adjusted outlook in the Interim Report 2020: strong decline in operating EBITDA). At €355 million, the BVA used for Group management was also well above the previous year's figure of €89 million (outlook in the 2019 Annual Report: strongly declining BVA/adjusted outlook in the Interim Report 2020: strongly declining BVA). The major reasons for these positive deviations from the forecast are the increases in earnings at Penguin Random House and Arvato and the disposal proceeds from real estate transactions.

In the reporting period, Bertelsmann took effective measures against the pandemic all over the world, early on and at every level, in order to provide employees with the best protection possible. The Group developed good hygiene practices, canceled business trips and had employees work from home as far as possible. All challenges notwithstanding, the financial year 2020 was a time of strategic progress. Acquiring full ownership of Penguin Random House marked a key milestone. The world's largest trade book publisher is now a wholly owned group subsidiary of Bertelsmann. Another step toward strengthening the global content business was the announcement at year-end that Bertelsmann planned to acquire the US publisher Simon & Schuster. The RTL streaming services TV Now in Germany and Videoland in the Netherlands recorded a substantial increase in paying subscribers. The information service provider Experian acquired a majority stake in Arvato Financial Solutions' risk-management business in order to strengthen its joint market position. The Group strategy was further developed during the financial year 2020 and the focus was placed on five strategic growth priorities. Under the motto "Bertelsmann_next," the future focus will be on creating national cross-media champions, expanding global content and service businesses, and expanding online education businesses and investments.

Net assets and financial position remain extremely solid, thanks to proactive pandemic countermeasures. Bertelsmann's liquidity was secured early on, thanks in part to good access to the capital market. To reduce the outflow of funds, cost savings measures were initiated and investments reduced without impairing the substance of the businesses. At the same time, the Annual General Meeting of Bertelsmann resolved to suspend dividend payments in the financial year 2020. The leverage factor of Bertelsmann was 1.9, considerably lower than the previous year's level (December 31, 2019: 2.6). As of December 31, 2020, the cash and cash equivalents, reported at €4.6 billion (December 31, 2019: €1.6 billion), represent sufficient liquidity. The rating agencies Moody's and S&P currently rate Bertelsmann as "Baa2" and "BBB," respectively, with a stable outlook.

Alternative Performance Measures

In this Combined Management Report, the following Alternative Performance Measures, which are not defined in accordance with IFRS, are used to explain the results of operations and/or net assets and financial position. These should not be considered in isolation but as complementary information for evaluating Bertelsmann's business situation, and they are differentiated in terms of strictly defined and broadly defined key performance indicators, in the same way as in the value-oriented management system.

Organic Revenue Growth

in percent	2020	2019
Organic revenue growth	(1.7)	1.2
Exchange rate effect	(1.0)	1.1
Portfolio effects and other effects	(1.4)	(0.3)
Reported revenue growth	(4.1)	2.0

Organic Revenue Growth

The organic growth is calculated by adjusting the reported revenue growth for the impact of exchange rate effects, corporate acquisitions and disposals, as well as other effects. When determining the exchange rate effects, the functional currency that is valid in the respective country is used. The other effects include changes in methods and presentation, for example.

Operating EBITDA

Operating EBITDA is determined as earnings before interest, tax, depreciation, amortization, and impairment losses and reversals of impairment losses, and is adjusted for special items. The adjustments for special items serve to determine a sustainable operating result that could be repeated under normal economic circumstances and is not affected by special factors or structural distortions. These special items primarily include impairment losses and reversals of impairment losses, fair value measurements, restructuring expenses and/or results from disposals of investments. This means operating EBITDA is a meaningful performance indicator. Not included in the special items are disposal effects of real estate transactions.

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 in the management of operations and, together with qualitative criteria, provides the basis for measuring the variable portion of management remuneration. BVA is used for control essentially at the Group level. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. The NOPAT figure used to calculate BVA is determined by deducting depreciation and amortization, provided that they are not included in special items, and a flat 30 percent tax (previous year: 33 percent). Cost of capital is the product of the weighted average cost of capital (WACC) and the average level of capital invested. The uniform WACC after taxes is 8 percent. The average invested capital is calculated quarterly on the basis of the Group's operating assets less non-interest-bearing operating liabilities. BVA is determined without taking into account the Bertelsmann Investments division, since business performance is represented primarily on the basis of EBIT. Accordingly, the method does not include a NOPAT contribution from this division. To

Operating EBITDA

in € millions	2020	2019
EBIT (earnings before interest and taxes)	2,276	1,825
Special items	(51)	154
attributable to: RTL Group	51	(4)
attributable to: Penguin Random House	19	13
attributable to: Gruner + Jahr	109	65
attributable to: BMG	6	12
attributable to: Arvato	(239)	19
attributable to: Bertelsmann Printing Group	86	96
attributable to: Bertelsmann Education Group	17	58
attributable to: Bertelsmann Investments	(12)	(109)
attributable to: Corporate/Consolidation	14	4
Amortization/depreciation, impairment and reversals of impairment losses on intangible assets, property, plant and equipment and right-of-use assets	1,040	1,029
Adjustments on amortization/depreciation, impairment and reversals of impairment losses on intangible assets, property, plant and equipment and right-of-use assets included in special items	(122)	(121)
Operating EBITDA	3,143	2,887

BVA

in € millions	2020	2019
Operating EBITDA	3,143	2,887
Amortization/depreciation, impairments/reversals of impairment losses on intangible assets, property, plant and equipment, and right-of-use assets not included in special items	(918)	(908)
Operating EBIT	2,225	1,979
Flat taxes (30 percent)	(667)	(653)
NOPAT (Net Operating Profit After Tax)	1,558	1,326
Average invested capital	16,131	16,434
Cost of capital (8 percent)	1,290	1,315
Correction Bertelsmann Investments	87	78
BVA	355	89

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

Cash Conversion Rate

The cash conversion rate serves as a measure of cash generated from business activities and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets and property, plant and equipment as well as lease payments, and increased by proceeds from the sale of non-current assets. Further adjustments are made to ensure an allocation of capital flows to the relevant periods, and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with operating EBITDA. Operating EBITDA is used to calculate operating EBIT by deducting amortization and depreciation, provided that these are not included in special items. The Group aims to maintain a cash conversion rate of 90 percent to 100 percent as a long-term average.

Economic Debt

Net financial debt is calculated on the basis of gross financial debt, which comprises the balance sheet items current and non-current financial debt, minus cash and cash equivalents. Economic debt is defined as net financial debt less the 50 percent par value component of the hybrid bonds plus provisions for pensions, profit participation capital and lease liabilities. In calculating economic debt, the hybrid bonds are taken into account only at 50 percent, as both bonds are classified by the rating agencies as 50 percent equity. Economic debt is modified for the purposes of calculating the leverage factor.

Cash Conversion Rate

in € millions	2020	2019
Cash flow from operating activities	2,994	2,060
Income taxes paid	214	424
Change in provisions for pensions and similar obligations	92	95
Investments in intangible assets and property, plant and equipment (less proceeds from the sale of non-current assets)	(564)	(582)
Lease payments	(316)	(288)
Further adjustments	151	174
Operating free cash flow	2,571	1,883
Operating EBITDA	3,143	2,887
Amortization/depreciation, impairments/reversals of impairment losses on intangible assets, property, plant and equipment, and right-of-use assets not included in special items	(918)	(908)
Operating EBIT	2,225	1,979
Cash Conversion Rate (in percent) Operating free cash flow/operating EBIT	118	97

Economic Debt

in € millions	2020	2019
Gross financial debt	6,626	5,000
Less cash and cash equivalents	(4,571)	(1,636)
Net financial debt	2,055	3,364
Less 50 percent of the par value of the hybrid bonds	(625)	(625)
Pension provisions	2,009	1,967
Profit participation capital	413	413
Lease liabilities	1,355	1,392
Economic debt	5,207	6,511

Leverage Factor

One of the financial targets is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA; this factor should not regularly exceed the defined maximum of 2.5. In determining the leverage factor, the economic debt and the operating EBITDA are modified to enable financial management that corresponds to the Group's structure. The modifications in regard to the economic debt largely relate to cash and cash equivalents, which are tied up in the Group, while the modifications in regard to the operating EBITDA address the Group's structure and its co-shareholder shares. The leverage factor determined in this way is thus always more conservative than the figure that would be obtained using only the items recognized in the balance sheet.

Significant Events after the Balance Sheet Date

In February 2021, RTL Group sold the US ad-tech company SpotX by concluding a binding agreement with Magnite. The purchase price comprises a cash component in the amount of US$560 million (€468 million) and 14 million Magnite shares. The agreement accordingly implies a valuation of SpotX (100 percent) amounting to a total of US$1.17 billion (€977 million), based on the closing price of Magnite shares on February 4, 2021. SpotX was already recognized as "assets held for sale" in the Consolidated Financial Statements as of December 31, 2020. The transaction is subject to regulatory approval. It is expected that the sale will close in the second quarter of 2021.

Leverage Factor

in € millions	2020	2019
Economic debt	5,207	6,511
Modifications	250	250
Economic debt^{LF}	5,457	6,761
Operating EBITDA	3,143	2,909
Modifications	(314)	(291)
Operating EBITDA^{LF}	2,829	2,618
Leverage Factor: Economic debt^{LF}/Operating EBITDA^{LF}	1.9	2.6

Bertelsmann also announced in February 2021 that Mediengruppe RTL Deutschland and Gruner + Jahr aim to explore the possibilities of closer cooperation in the future. Both companies have planned workshops for objectively evaluating various options. The goal, in addition to closer cooperation in various areas, is to develop a joint growth strategy.

Furthermore, at the start of 2021, a €100 million variable interest promissory note due in April 2023 and a €500 million bond due in May 2021 were terminated prior to maturity.

At the beginning of March 2021, Mediengruppe RTL Deutschland announced that it had signed an agreement for the acquisition of the remaining 50 percent of the shares in Super RTL from The Walt Disney Company (BVI Television Investments, Inc.).

Risks and Opportunities

Risk Management System

The purpose of the Bertelsmann risk management system (RMS) is the early identification and evaluation of, as well as response to, internal and external risks. The internal control system (ICS), an integral component of the RMS, monitors the effectiveness of the risk response measures that have been implemented. The aim of the RMS is to identify, at an early stage, material risks to the Group so that risk response measures can be taken and controls implemented. Risks are possible future developments or events that could result in a negative deviation from the outlook or objectives for Bertelsmann. In addition, risks can negatively affect the achievement of the Group's strategic, operational, reporting and compliance-related objectives and its reputation.

The risk management process is based on the internationally accepted frameworks of the Committee of Sponsoring

Organizations of the Treadway Commission (COSO Enterprise Risk Management – Integrated Framework and Internal Control – Integrated Framework, respectively) and is organized in the subprocesses of identification, assessment, response, control, communication and monitoring. A major element of risk identification is a risk inventory that lists significant risks year by year, from the profit-center level upward. These risks are aggregated step by step at the division and Group levels. This ensures that risks are registered where their impact would be felt. There is also a Group-wide reassessment of critical risks every six months, and quarterly reporting in case the risk situation has changed. Ad hoc reporting requirements ensure that significant changes in the risk situation during the course of the year are brought to the attention of the Executive Board. The risks are compared to risk management and control measures to determine the net risk position. Both one- and three-year risk assessment horizons are applied to enable the timely implementation of risk response measures. The basis for determining the main Group risks is the three-year period, similar to medium-term corporate planning. Risk assessment is the product of the estimated negative impact on Group free cash flow should the risk occur, and the estimated probability of occurrence. Risk monitoring is conducted by Group management on an ongoing basis. The RMS, along with its component ICS, is constantly undergoing further development and is integrated into ongoing reporting to the Bertelsmann Executive Board and Supervisory Board. Corporate Risk Management Committee meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

The Group auditors inspect the risk early-warning system for its capacity to identify developments early on that could threaten the existence of Bertelsmann SE & Co. KGaA according to section 91(2) of Germany's Stock Corporation Act (AktG), and then report their findings to the Supervisory Board of Bertelsmann SE & Co. KGaA. Corporate Audit conducts ongoing reviews of the adequacy and functional capability of the RMS in all divisions apart from RTL Group and Majorel. The RMS of RTL Group and Majorel is evaluated by the respective internal auditing department and by the external auditor. Any issues that are identified are promptly remedied through appropriate measures. The Bertelsmann Executive Board defined the scope and focus of the RMS based on the specific circumstances of the company. However, even an appropriately designed and functional RMS cannot guarantee with absolute certainty that risks will be identified and controlled.

Accounting-Related Risk Management System and Internal Control System

The objectives of the accounting-related RMS and ICS are to ensure that external and internal accounting are proper and reliable in accordance with applicable laws, and that information is made available without delay to the various recipients. Reporting should also present a true and fair view of Bertelsmann's net assets, financial position and results of operation. The following statements pertain to the Consolidated Financial Statements (including the Notes to the Consolidated Financial Statements and the Combined Management Report), interim reporting and internal management reporting.

The ICS for the accounting process consists of the following areas. The Group's internal rules for accounting and the preparation of financial statements (e.g., IFRS manual, guidelines and circulars) are made available without delay to all employees involved in the accounting process. The Consolidated Financial Statements are prepared in a reporting system that is uniform throughout the Group. Extensive automatic system controls ensure the consistency of the data in the financial statements. The system is subject to ongoing development through a documented change process. Systematized processes for coordinating intercompany transactions serve to prepare the corresponding consolidation steps. Circumstances that could lead to significant misinformation in the Consolidated Financial Statements are monitored centrally by employees of Bertelsmann SE & Co. KGaA and by RTL Group (for the preconsolidated subgroup), and then verified by external experts as required. Central contact persons from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with local subsidiaries to ensure IFRS-compliant accounting as well as compliance with reporting deadlines and obligations. These preventive measures are supplemented by specific controls in the form of automated and manual analyses by the Corporate Financial Reporting department of Bertelsmann SE & Co. KGaA and RTL Group (for the preconsolidated subgroup). The purpose of such analyses is to identify any remaining inconsistencies. The controlling departments at the Group and division levels are also integrated into the internal management reporting. Internal and external reporting are reconciled during the segment reconciliation process. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The findings of the external auditors, Corporate Audit and the internal auditing departments of RTL Group and Majorel are promptly discussed with the affected companies, and solutions are developed. An annual self-assessment is conducted to establish reporting on the quality of the ICS in the key fully consolidated Group companies. The findings are discussed at the divisional level. Like the RMS, each ICS cannot guarantee with absolute certainty that significant misinformation in the accounting process can be prevented or identified.

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

Major Risks to the Group

Bertelsmann is exposed to a variety of risks. The major risks to Bertelsmann identified in the risk reporting are listed in order of priority in the table below. Details on information security risks can be found in a separate chapter further below. In line with the level of possible financial loss, the risks are classified as low, moderate, significant, considerable or endangering, for the purposes of risk tolerability. The risk inventory carried out did not identify any risks that would be classified as considerable or endangering.

Given the diversity of the businesses in which Bertelsmann is active, and the corresponding diversity of risks to which the various divisions are exposed, the key strategic and operational risks to the Group that have been identified are specified below. Risks from acquisitions and information security risks were identified as the primary risks, and are therefore described separately. This is followed by an outline of legal and regulatory risks and financial market risks. These risks are largely managed at the corporate level.

Strategic and Operational Risks

The global economy was severely impacted at the beginning of 2020 by the coronavirus pandemic and the heightened measures put in place to prevent infections. After a historic decline in the spring, the global economy recovered significantly in the summer, yet started to lose dynamic toward the end of the year. Overall, global economic activity shrank by 3.8 percent in 2020 compared to a growth of 3.0 percent in 2019. The future trend is subject to a particularly high degree of uncertainty. However, it is expected that the coronavirus pandemic will not permanently impact the global economy. In view of this, it its projected that global business activities will significantly recover next year. Bertelsmann's business development is also subject to other macroeconomic risks. Even though the European Union and the United Kingdom were able to finalize a trade and cooperation agreement just before the deadline, it is too early to assess the long-term consequences of this Brexit agreement. Bertelsmann continues to observe and analyze the exit process and will take various measures, depending on the business involved, to mitigate risk. In 2020, the outbreak of the coronavirus pandemic led to an overall economic downturn that had an impact on Bertelsmann's businesses, especially the advertising-financed businesses of RTL Group and Gruner + Jahr. In addition, the structural decline in the printing businesses has been accelerated even further. Even though it is expected that GDP will recover in the countries most relevant for Bertelsmann, strong uncertainty still remains regarding the future course of the pandemic and the related macroeconomic recovery. The coronavirus pandemic as well as any other pandemic or epidemic can have a negative impact on Bertelsmann's earnings

Overview of Major Risks to the Group

		Risk Classification				
Priority	Type of risk	Low	Moderate	Significant	Considerable	Endangering
1	Cyclical development of economy			■		
2	Changes in market environment			■		
3	Legal and regulatory risks			■		
4	Customer risks			■		
5	Supplier risks			■		
6	Pricing and discounting			■		
7	Audience and market share			■		
8	Financial market risks		■			
9	Employee-related risks	■				
10	Technological challenges	■				

Risk classification (potential financial loss in three-year period): low: < €50 million, moderate: < €100 million, significant: < €250 million, considerable: < €500 million, endangering: > €500 million.

■ Existing risks

performance and financial position as well as on cash flow. In addition to risks associated with economic developments and changes in the market environment, significant Group risks in the short to medium term include legal and regulatory risks, customer and supplier risks, pricing and margin risks, and a loss of audience and market share. How these risks develop depends to a large extent on changes in customer behavior due to factors such as the continued digitization of media, the development and implementation of products and services by competitors, bad debt losses, and default and interference along the production chains in individual sectors such as IT. These trends have accelerated in connection with the coronavirus pandemic. Financial market risks are moderate for Bertelsmann, while risks related to employees and future technological challenges are classified as low in the three-year period under review.

A substantial risk for RTL Group is the dependency of the advertising market on the economic situation. If the coronavirus pandemic continues, it may lead to an accelerated decline in the advertising market, with direct effects on RTL Group earnings. RTL Group responds to such economic downturns with ongoing monitoring of market development, planning various scenarios and strict cost control. Furthermore, RTL Group aims to widen its earning base by finding sources of income that are not dependent on advertising. Increasing competition and constant change, particularly in the digital environment, are resulting in a stronger fragmentation of RTL Group's markets as audiences increasingly use non-linear TV products amid a growing number of streaming services due to lowering of market-entry barriers. The possible risks of this for RTL Group are decreasing audience and advertising market shares of its advertising-financed channels and therefore, ultimately, lower revenues. To counter these risks, RTL Group is continuously revising and developing the channel and program strategies. By linking traditional, linear offerings with new digital business models and by strengthening existing investments in the online video market and in advertising technologies, RTL Group counters risks from digitization while actively influencing this development. Increasing competition in the area of program acquisition and TV production, and the growing dependence on individual production companies, coupled with the risk of potential cost increases, could also impact RTL Group's ability to generate revenues. This risk is being reduced by expanding the share of in-house productions in the program – in particular of local content. To reduce the risk of customer losses, advertising packages with cooperation partners are offered, as well as pursuing the basic aim of establishing long-term customer relationships.

The possibility of shifting business models in the audiobook segment constitutes a risk for Penguin Random House. Due to the changing retail landscape, another risk is declining sales volumes in brick-and-mortar book retail. Penguin Random House is addressing these risks by introducing differentiated pricing, increasing online sales of physical books and audiobooks, and continuously examining alternative selling and marketing options. Any risks of bad debt loss are being limited through debtor management, and in some cases through credit insurance. Procurement risks due to capacity shortfalls at printing companies carrying out orders are countered by continually prioritizing and securing additional printing capacities. In addition to the risk of cost increases, Penguin Random House is finding itself exposed to risks from economic uncertainty, which could lead to lower sales. The risks are addressed through careful management of supplier relationships and innovative marketing activities, and by maintaining a flexible cost structure that allows for a quick response in the event of an economic downturn.

For Gruner + Jahr, the possibility of a deterioration of the overall economic environment in the context of the coronavirus pandemic and the resulting declines in advertising and circulation revenues, as well as the continuously changing conditions in the digital business, represent significant risks. A changing market environment, marked by product innovations and increased consolidation of agencies and marketers, is confronted with a widespread decrease in demand for print products, which as a result of pressure on prices and conditions can lead to lower margins. Furthermore, there is the risk of losing key customers as advertising customers could switch to other media, notably digital media, for example. Due to these developments, subsequent risks such as bad debt losses or service limitations are possible, because service providers in the areas of distribution or manufacturing could restrict or discontinue their products. The risks are being countered by cost and customer management; the development of new – in particular, digital – forms of offerings; product, price and quality improvements; and scenario analyses.

Risks that affect BMG concern the client portfolio, in particular the contract extension with artists and authors as well as contractual relationships with business partners concerning the physical and digital distribution of film, TV, advertising and live concerts. There are also risks in connection with corporate growth, especially for business integration and scaling of the technical platform and organization. Market risks are addressed through high revenue diversification across clients and catalogs, segments and revenue sources as well as regions. Furthermore, measures for minimizing risk include contractual protection clauses to secure advance payments made and receivables management to realize prepayments received and minimum revenue guarantees.

Arvato sees itself as particularly exposed to risks from customer and supplier relationships. The risk of loss of key customers is being countered through contracts offering comprehensive service packages with simultaneously flexible cost structures. On the supplier side, there are risks associated with the availability of services. Countermeasures include an active exchange with existing suppliers and entering into long-term framework agreements. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By developing the range of services, the aim is to improve the competitive position and increase customer loyalty through integrated solutions. Moreover, new legislation could have a negative impact on business models. This risk is mitigated by observing legislative developments and adjusting business processes. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. Broad diversification across regions and sectors helps to reduce this risk.

For Bertelsmann Printing Group, the most significant risks are the possible need for further capacity adjustments, made necessary by a deterioration in business development and existing or growing overcapacities in the print market. The loss of customers is also perceived as an additional risk. In addition, price and margin pressures result from the market environment, which is characterized by overcapacity. Furthermore, deterioration in the economic environment may also lead to declining circulations or even product discontinuation. There are risks on the supplier side associated with rising raw material prices – particularly for paper, color and energy. Digital substitution accelerated once again in 2020 due to the coronavirus pandemic, constituting another factor in the decline in circulations and the number of pages per issue, in particular in the magazine and catalog print segments. Risk minimization strategies are based, in particular, on the expansion of innovative print and marketing services, ongoing initiatives to sign up large customers and constantly optimizing cost structures and processes.

For Bertelsmann Education Group, increasing competition from other training providers, particularly in the US healthcare market, could lead to growing price and margin pressure and negatively impact the planned growth targets. These risks are being countered in particular through strategic partnerships, long-term customer agreements and marketing measures.

The key risks for Bertelsmann Investments consist of falling portfolio valuations and a lack of exit opportunities. These risks are being addressed through a standardized investment process and the continuous monitoring of investments.

The increasing pace of change in the markets, accelerated even more by the coronavirus pandemic, and in Bertelsmann's business segments means employees will need to be more willing and able to adapt in the future. There are also continuing demographic risks that impact the recruitment, development and retention of talent as a result of shifts in the age distribution of the workforce. To counteract this, employees are being offered further individual education, comprehensive health programs, a competitive salary and flexible working models. Bertelsmann is also enhancing its talent management by pushing forward on digitizing the recruiting process and making it easier for employees to switch jobs within the Group by harmonizing processes and structures.

Acquisition-Related Risks

The Group strategy focuses on acquisitions of businesses and organic growth. The risk of potential mistakes when selecting investments and allocating investment funds is limited by means of strict investment criteria and processes. Acquisitions present both opportunities and risks. For example, integration into the Group requires one-time costs that are usually offset by increased benefits in the long term, thanks to synergy effects. The risks here are that the integration costs may be higher than expected or the predicted level of synergies may not materialize. The integration processes are therefore being monitored by management on an ongoing basis.

Information Security Risks

For Bertelsmann, the ability to provide information in a timely, complete, error-free and confidential way, and to process it without disruptions, is crucial to its success and is becoming increasingly important. Bertelsmann has addressed this tougher operating environment at the management level by operating an Information Security Management System (ISMS, based on ISO 27001) for structured management of cyber risks across the Group and to monitor compliance with minimum Group standards. In order to have access to both modern cyber security technologies and specialist expertise in emergencies, Bertelsmann maintains a network of external partners and is a member of the German Cyber Security Organization (Deutsche Cyber-Sicherheitsorganisation: DCSO). Furthermore, Bertelsmann addresses the increased risk with specific measures that directly strengthen resilience in cyber security – for example, by supporting the activities of Security Operations Centers and authentication technologies. An indicative assessment of risks to information security was conducted in the financial year 2020 on the basis of the method used to assess operative Group risks. The results indicate that information security risks are moderate, analogous to the categorization of major Group risks.

Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is exposed to a variety of legal and regulatory risks concerning, for example, litigation or varying interpretations of tax assessment criteria. Bertelsmann has television and radio operations in several European countries that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Moreover, education activities are subject to regulatory provisions of government authorities and accreditation bodies. Some of the financial services activities are subject to banking supervision regulations. 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. Other risks include litigation relating to company acquisitions and disposals, as well as increased data protection regulations leading to growing challenges, especially for data-based business models. These risks are being continuously monitored by the relevant divisions within the Group.

Several subsidiaries of RTL Group are being sued by the broadcaster RTL 2 Fernsehen GmbH & Co KG and its sales house El Cartel Media GmbH & Co KG before the regional court in Düsseldorf, Germany, seeking disclosure of information to substantiate a possible claim for damages. The proceedings follow the imposition of a fine in 2007 by the German Federal Cartel Office for abuse of market dominance with regard to discount scheme agreements (share deals) granted by IP Deutschland GmbH and SevenOne Media GmbH to media agencies. The German Federal Cartel Office argued that these discounts would foreclose small broadcasters from the advertising market. In 2014, the district court of Düsseldorf decided to order an expert report. The expert concluded in February 2018 that the likelihood of damages cannot be proven with certainty. In July 2018, RTL 2 Fernsehen GmbH & Co KG filed a motion claiming that the expert was not impartial, with the aim of getting the court to obtain a new expert opinion. IP Deutschland has rejected the motion of lack of impartiality as unfounded. In May 2019, the court announced it would give the expert the opportunity to comment on the motion of lack of impartiality. Because the expert died in February 2020, an expert opinion was not submitted. The court stated that it would appoint a new expert. It is expected that the process of appointing a new expert and the preparation of the expert opinion will take two to three years. It could ultimately take 15 to 20 years after filing (2008) for a final judgment to be handed down. The court case will continue. Similar proceedings from other small broadcasters, initiated in different courts, were unsuccessful or have been withdrawn.

In June 2016, the main competitors of Fun Radio alleged that a host of the morning show had influenced Fun Radio's results by encouraging his listeners to give favorable treatment to Fun Radio in the Médiamétrie surveys. In response to these allegations, Médiamétrie decided to remove Fun Radio from its surveys. Following a legal procedure initiated by Fun Radio, Médiamétrie was required to reinstate Fun Radio in the audience results surveys as of September 2016. Nevertheless, Médiamétrie decided to lower Fun Radio's audience results in its published surveys, alleging the existence of a "halo effect." Following a procedure initiated by Fun Radio, a judicial expert was appointed in December 2017 to examine Médiamétrie's assessment of the alleged halo effect. The judicial expert issued in September 2019 his final report, which confirmed the halo effect but assessed that Fun Radio's results were overcorrected. As of September 2017, Médiamétrie has again published the full audience results for Fun Radio. In parallel to the above procedure, the main competitors of Fun Radio also filed, in December 2016, a claim for damages, claiming unfair competition, but this procedure was suspended until the end of the judicial expertise and will restart in the course of the first quarter of 2020. In the meantime, four of the six claimants withdrew their claim from the proceedings. Negotiations on a settlement with the two remaining claimants failed in late July 2020. For this reason, the court case will continue.

On February 22, 2018, the Spanish Competition Authority (CNMC) communicated to Atresmedia the opening of a proceeding for sanctions in relation to possible practices restricting competition prohibited by article 1 of the Spanish Competition Act. On February 6, 2019, the CNMC notified the Statement of Objections in which it assumes proven that specific commercial practices by Atresmedia are restrictive of competition. On May 28, 2019, the department of the competition authority responsible for the investigation submitted a proposal for a decision which included a proposed fine of €49.2 million. Atresmedia submitted its observations on the proposed decision on June 28, 2019. On November 12, 2019, the CNMC Board announced its decision and imposed a fine of €38.2 million. On January 10, 2020, Atresmedia filed an application for judicial review against the decision with the competent court. On October 21, 2020, the court entered a judgment regarding the appeal filed by Atresmedia against the CNMC on November 12, 2019. The court accepted the appeal filed by Atresmedia for temporary suspension of payment of fines, subject to security to be paid within two months. The court denied the petition filed by Atresmedia requesting that it be released from the obligation of complying with the CNMC order. The order requests discontinuation of certain business practices. The court argued that compliance with the order was in the public interest and served to restore competition in this sector. Atresmedia is researching with external legal advisors whether it should appeal against the court's judgment on the CNMC order. The prospects of success are perceived to be very slim. Furthermore, the Spanish association Forta is assessing whether it should also file for damages due to lost profit as a result of the sales practices of Atresmedia and Mediaset España. Atresmedia remains convinced that the decision made by the CNMC is not sufficiently justified and expects a positive outcome. The prospects of success are based, inter alia, on the outdated definition of the advertising market used by the CNMC.

In November 2020, Penguin Random House announced the acquisition of the book publisher Simon & Schuster from the media company ViacomCBS. The transaction is subject to the approval of various antitrust authorities. The transaction is expected to close during the course of 2021. In the event that the acquisition is completely prohibited, Penguin Random House has contractually agreed to payment of a breakup fee.

Foreign direct investments in the People's Republic of China are subject to regulatory restrictions. To satisfy local requirements, some of Bertelsmann's activities in China are held by trustees. Bertelsmann has agreements with these trustees for securing Bertelsmann's rights. These types of arrangements (called Variable Interest Entities (VIE) Structures) are standard market practice for investments in China. However, these structures are rarely the subject of legal disputes in China, which means that there is a certain risk that it will not be possible to safeguard VIE structures through the courts, particularly if the People's Republic changes its policies or if courts and authorities change their case law or administrative practice toward investments by foreigners (particularly in respect to VIE structures). On January 1, 2020, a law regarding foreign investment (PRC Foreign Investment Law: FIL) entered into force. This FIL replaces existing laws on the regulation of foreign investment in China. This affects companies that are wholly owned by foreign companies, Chinese-foreign contractual joint ventures and Chinese-foreign equity joint ventures. However, VIE structures are not addressed in the FIL. Accordingly, it is expected that this structure will retain its status quo, meaning it will continue to be unregulated. Furthermore, the FIL requires fair access to the market and equal treatment of foreign investment companies, and stipulates that these companies' corporate governance is subject to Chinese company law, with a transition period of five years. There are currently no indications that VIE structures will be subject to stricter regulation in the future. S&P Global Ratings has accordingly adjusted its risk assessment for VIE structures in China, and expects the probability of regulatory action against VIE structures to have diminished. Furthermore, VIE structures may now be listed on the Shanghai stock exchange. Bertelsmann lawyers and external legal counsel are working closely with the Group legal department to follow developments related to the FIL to be able to anticipate legal and economic issues early on. This affects companies within BMG, Arvato and Bertelsmann Education Group, as well as investments by Bertelsmann Asia Investments (BAI).

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

Financial Market Risks

As an international corporation, Bertelsmann is exposed to various forms of financial market risk, especially interest rate and currency risks. These risks are primarily monitored centrally by the Finance Department on the basis of guidelines set up by the Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann uses currency derivatives mainly to hedge existing foreign currency risks from future obligations. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount being adapted over time. A number of subsidiaries are based outside the eurozone. The resulting translation risk to the leverage factor (ratio of economic debt to operating EBITDA) is managed by aligning the leverage factors for the USD and GBP in the long term with the maximum permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. The cash flow risk from interest rate changes is centrally monitored and controlled as part of interest rate management. The aim is to achieve a balanced ratio of different fixed-interest rates through the selection of appropriate maturity periods for the originated financial assets and liabilities affecting liquidity, and through the ongoing use of interest rate derivatives. The liquidity risk is regularly monitored on the basis of the budget planning. The syndicated loan and appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in respect to invested cash and cash equivalents, as well as in case a counterparty to derivative transactions defaults. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with high credit ratings. Within the guidelines, a risk limit specified by the Executive Board has been issued for financial assets and derivatives for each counterparty. Compliance with this limit is regularly monitored by the Finance Department. The guidelines concerning the investment of cash and cash equivalents are continuously monitored and extended if necessary. Financial investments are made on a short-term basis, so that the investment volume can be reduced if the credit rating changes. Compared with the situation at the end of 2019, the financial market risks have grown to a moderate level. The setup of a strategic and anticipatory liquidity reserve in the wake of the coronavirus pandemic creates an increased risk related to investing the liquidity.

General Statement on the Risk Situation

The risks identified in the financial year 2020 are not endangering. Neither are there any substantial discernible risks that could threaten the existence of the Group.

The overall risk situation is above the previous year's level. The pandemic has created significant challenges, in particular the risks in connection with economic development and a changing market environment. In particular, legal and regulatory risks, customer and supplier risks, pricing and margin risks and possible loss of audience and market share at RTL Group still constitute the key challenges. However, as a result of the diversification of Group businesses, there are no concentration risks stemming from dependency on individual business partners or products in either procurement or sales. The Group's financial position is solid, with liquidity needs covered by existing liquidity and available credit facilities.

Opportunity Management System

An efficient opportunity management system enables Bertelsmann to secure its corporate success in the long term, and to exploit potential in an optimal way. Opportunities are possible future developments or events that could result in a positive deviation from the outlook or objectives for Bertelsmann. The opportunity management system is, like the RMS, an integral component of business processes and company decisions. During the strategy and planning process, significant opportunities are determined each year from the profit-center level upward, and then aggregated step by step at the division and Group levels. By systematically recording them on several reporting levels, opportunities that arise can be identified and exploited at an early stage. This also creates an interdivisional overview of Bertelsmann's current opportunities. A review of major changes in opportunities is conducted at the division level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group in order to derive synergies through targeted cooperation in the individual divisions. The interdivisional experience transfer is reinforced by regular meetings of the GMC.

Opportunities

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

Strategic opportunities can be derived primarily from the Group's further strategic development (see the section "Strategy"). In particular, there are opportunities in some cases for exploiting synergies as a result of the strategic portfolio expansions. There are individual operating opportunities in the individual divisions, in addition to the possibility of more favorable economic development.

For RTL Group, a better-than-expected development of the TV advertising markets, as well as higher audience and advertising market shares, are major opportunities. Furthermore, the increasing digitization and fragmentation of the media landscape are opening up opportunities. Professionally produced content can be distributed across multiple platforms nationally and internationally. New revenue streams could be generated by exploiting existing TV content across different platforms, and by creating native digital content. Also, the increased presence in the digital sector provides opportunities for online video advertising sales on all devices and platforms, and growing subscriber-based revenues in the on-demand business. Other opportunities can be found in target-group marketing of the Group's own inventory (addressable advertising) and advertising technology products for third parties. In addition, stepping up distribution of new technologies such as UHD/4K could contribute to greater revenue growth in the platform business.

Penguin Random House is the world's largest trade book publisher. Its position enables the publishing group to attract new authors and book projects to potentially grow its market share. The group is well positioned to invest in new markets and diverse content worldwide to take advantage of increasing interest in long-form reading, and to thereby offer its content to the widest possible readership. In general, the digital evolution transforming book markets offers the potential for new product development, and broader and more efficient marketing channels as well as better accessibility to the backlist. Digital audiobooks are experiencing growth worldwide, while new technologies could make books more appealing and bring book content to wider audiences. New online tools and platforms are expanding opportunities for author engagement with readers.

For Gruner + Jahr, a better development of the advertising and sales markets represents significant opportunities. The transformation is providing further opportunities due to the development of new businesses related to the published brands. There are opportunities for growth, particularly in the development and expansion of digital activities and in cooperation with other publishers and marketers. In terms of marketing, G+J could gain new customers through new forms of advertising in the online, mobile, video and podcast channels.

BMG's focus is on organic growth through the signing of additional artists and songwriters. There may also be opportunities for selective acquisitions of music catalogs. The growing international market penetration of subscription-based music streaming services offers opportunities to expand the recorded-music and music-publishing markets.

At Arvato, interdivisional cooperation and major projects can provide additional opportunities for acquiring new customers. The global e-commerce market will continue its dynamic growth over the next few years. Arvato could participate significantly in this growth through new services, particularly those offered by the Supply Chain Solutions and Financial Solutions areas. Further growth opportunities from ongoing digitization lie in the development of innovative IP-based and cloud-based IT services.

Bertelsmann Printing Group businesses may decline less steeply through additional volumes of existing and new customers. Furthermore, increased consolidation in the market could result in an additional strengthening of Bertelsmann Printing Group's own competitive position.

The education business is being developed as Bertelsmann's third earnings pillar, alongside the media and service businesses. In particular, a further shift away from traditional classroom-based delivery methods toward online and skill-based training offers further growth opportunities for the education business. The growing online education market also offers organic growth opportunities for Bertelsmann Education Group businesses. For example, Relias has the potential to grow more rapidly than expected through additional learning content and platforms for hospitals.

For Bertelsmann Investments fund activities, there is the opportunity to realize higher-than-expected profits, thanks to increasing portfolio valuations or through the disposal of investments.

The current innovation efforts detailed in the section "Innovations" offer further potential opportunities for the individual divisions.

Other opportunities could arise from changes to the legal and regulatory environment.

The financial opportunities are largely based on a favorable development of interest and exchange rates from Bertelsmann's point of view.

Outlook

Anticipated Overall Economic Development

Bertelsmann anticipates that economic conditions will develop as follows in 2021. After a historic decline in the economy, the global economy should expand strongly again in the following year. The global economic recovery slowed down in the winter of 2020/2021 due to another wave of infection, but the long-term upward trend remains intact. As the rate of immunization increases and the measures for fighting the pandemic are lifted, economic activity will continue to pick up in the course of the year. In its outlook from December 2020, the Kiel Institute for the World Economy (IfW) estimates that global production will increase by 6.1 percent in 2021, compared to a decline of 3.8 percent in 2020.

The economic recovery in the eurozone is expected to progress consistently. The IfW estimates real economic growth of 4.9 percent in 2021. The IfW expects GDP for Germany to grow by 3.1 percent in real terms. The growth rate in France is expected to be 6.3 percent in real terms. For the United Kingdom, GDP is expected to rise by 6.5 percent in real terms in 2021. In the United States, a return to positive growth rates is also expected; the forecast for 2021 is real economic growth of 3.7 percent.

Anticipated Development in Relevant Markets

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

In 2021, the TV advertising markets are projected to show slight growth in Germany; significant growth in France, the Netherlands and Hungary; and strong growth in Belgium and Spain. The streaming markets in Germany and the Netherlands are expected to continue growing strongly. The book markets are expected to remain stable overall. In 2021, in the magazine business in Germany, a strong decline is expected in the print advertising markets, as well as a significant decline in the circulation markets, while continued strong growth is expected in the digital segment. In the relevant music market, the publishing market segment is expected to decline significantly, whereas strong growth is projected for the recordings market segment. Service markets will likely show moderate growth in 2021, with the exception of the financial services market. The gravure market in Europe is expected to continue its strong decline in 2021, a significant decline is expected for the offset market in Europe, and a slight decline is expected in the book printing market in North America. Overall, sustained moderate to strong growth is anticipated for the relevant US education markets.

Expected Business Development

The following assessments are subject to a particularly high degree of uncertainty. It is only possible to assess the direction of the pandemic and its economic consequences in the short term, therefore making it hard to sufficiently predict the future. This limited unpredictability is currently a challenge when trying to assess the effects on the markets relevant to Bertelsmann and the anticipated overall economic situation. In addition, geopolitical crises, national deficits, currency turbulence or the introduction of higher tariffs as a result of rising protectionist tendencies could interfere with economic performance. The resulting developments could also adversely affect the overall economic situation, which is a key factor influencing Bertelsmann's business performance. Accordingly, the following expectations are based on the assumption of a recovery in the overall economic situation, and an assumption that most of the forecasted market developments and economic predictions of the research institutions will be realized.

For the financial year 2021, Bertelsmann anticipates that business development will be driven by a recovery of the European TV advertising markets and by stable book markets, as well as by mostly growing service, music and online education markets. The growth stimuli created through strategic portfolio expansions will continue to have a positive impact on Bertelsmann's growth profile.

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the basis of the expected business development. With revenue and earnings share within the eurozone currently expected at around two-thirds, the range of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore predicts that GDP in the eurozone will increase by 4.9 percent in real terms, while the International Monetary Fund expects growth of 4.2 percent for 2021. In view of these economic expectations and under the assumption that infection rates do not rise again, Bertelsmann expects revenues to show a moderate increase in the financial year 2021. Operating EBITDA in the financial year 2021 is expected show a stable performance excluding the disposal proceeds from real estate transactions achieved in 2020 and in consideration of continued expenses for the streaming segment as well as investments in tech & data. However, taking into account disposal proceeds from real estate transactions achieved in the financial year 2020, operating EBITDA as well as BVA are expected to decline strongly in the financial year 2021. These expectations are based on operational planning for the financial year 2021 and on the exchange rates as of November 2020.

The operating earnings of RTL Group will be strongly above the previous year's figure as the European TV advertising markets are expected to recover. Otherwise, the expected performance of any individual division of key significance for the Bertelsmann Group is not expected to deviate significantly from that of the Group.

Depending on how the economy develops, Bertelsmann does not currently anticipate interest rate changes to have any material impact on the average financing costs of medium- to long-term financing. The liquidity situation in the forecast period is expected to be sufficient.

These forecasts are based on Bertelsmann's business strategy, as outlined in the section "Corporate Profile." In general, the forecasts reflect careful consideration of risks and opportunities. All statements concerning potential future economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying assumptions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

Notes to the Financial Statements of Bertelsmann SE & Co. KGaA (in accordance with HGB, German Commercial Code)

In addition to the Group reporting, the business development of Bertelsmann SE & Co. KGaA is outlined below. Bertelsmann SE & Co. KGaA is the parent company and group holding company of the Bertelsmann Group. As a group holding company, it exercises key corporate functions such as the definition and further development of group strategy, capital allocation, financing and management. There are also service functions for individual divisions within the Corporate Center. Furthermore, it is the controlling company of the tax group for most of the domestic subsidiaries. The position of Bertelsmann SE & Co. KGaA is essentially determined by the business success of the Bertelsmann Group.

The Annual Financial Statements of Bertelsmann SE & Co. KGaA, in contrast to the Consolidated Financial Statements, have not been prepared in accordance with the International Financial Reporting Standards (IFRS), but in accordance with the regulations of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act (AktG).

Results of Operations of Bertelsmann SE & Co. KGaA

The results of operations of Bertelsmann SE & Co. KGaA are significantly affected by the amount of income from other participations, due to Bertelsmann SE & Co. KGaA's role as the parent company of the Bertelsmann Group. The increase in net income to €435 million (previous year: €397 million) is primarily attributable to the increase in other operating income and in income from participations. In contrast to this, the increase in taxes on income impacted the development in net income.

The change in other operating income is attributable to the proceeds from the disposal of a plot of land and a building as well as the increase in foreign currency gains. The increase of €33 million in other operating expenses is largely attributable to an increase in loss allowances on receivables by €46 million, expenses in connection with financing of a subsidiary in the amount of €28 million and restructuring expenses in the amount of €13 million. This was offset by the decline of €52 million in expenses from warranty contracts.

Income from other participations is primarily affected by the amount of income from a profit and loss transfer agreement with Bertelsmann Capital Holding GmbH, Gütersloh. Mainly as a result of the effects of the coronavirus pandemic on the business activities of RTL Group GmbH, Cologne, and its subsidiaries, the amount of income coming from the profit and loss transfer agreement with this company dropped by €294 million. This decline was partially compensated for by the increase in income coming from the profit and loss transfer agreements of other subsidiaries attributable to positive effects from a corporate transaction and sales of buildings.

Other interest income and similar income as well as other income expenses and similar expenses included in the item “Interest income” increased by €31 million and €38 million, respectively. Due to an increase in financing extended to subsidiaries, other interest income and similar income rose. The increase in other income expenses and similar expenses is largely attributable to the issue of bonds and promissory notes.

Write-downs of long-term financial assets in the amount of €60 million mainly pertain to a write-down of shares in Gruner + Jahr GmbH, Hamburg.

The taxes on income increased to €-212 million in the 2020 financial year (previous year: €-60 million) as a result of increased taxable income of the tax group.

Net Assets and Financial Position of Bertelsmann SE & Co. KGaA

The total assets of Bertelsmann SE & Co. KGaA increased from €22,366 million in the previous year to €25,513 million. This development is largely attributable to financing measures and measures taken to secure liquidity. A high ratio of equity (40 percent) and long-term financial assets (69 percent) to total assets continues to characterize net assets and financial position.

The change in long-term financial assets is attributable to the opposing trends in investments in affiliated companies (increase of €1,014 million) and in securities held as fixed assets (increase of €209 million) on the one hand, and a decrease of €482 million in loans to affiliates on the other hand. Investments in affiliated companies increased due to the contributions to Bertelsmann, Inc., Wilmington in the amount of €835 million, and to Bertelsmann Capital Holding GmbH, Gütersloh, in the amount of €216 million. Loans to affiliated companies decreased as a result of repayment of loans. The increase in receivables and other assets is largely related to financing extended to affiliated companies. The increase in cash and cash equivalents is mainly attributable to the issue of bonds and debentures.

Equity increased by €435 million as a result of the net income of the reporting year. Liabilities increased to €14,488 million (previous year: €11,944 million), of which €1,700 million is attributable to bonds and debentures. Financing measures and measures taken to secure liquidity included the issue of four bonds and three debentures. The increase in liabilities to affiliated companies from €6,780 million to €7,601 million is attributable

Income Statement of Bertelsmann SE & Co. KGaA in accordance with HGB

in € millions	2020	2019
Revenues	109	113
Other operating income	398	189
Cost of materials	(29)	(31)
Personnel costs	(147)	(159)
Amortization, depreciation and write-downs	(20)	(23)
Other operating expenses	(258)	(225)
Income from other participations	731	663
Interest income	(70)	(67)
Write-downs of long-term financial assets	(65)	0
Taxes on income	(212)	(60)
Earnings after taxes	437	400
Other taxes	(2)	(3)
Net income	435	397
Income brought forward	663	461
Transfer to other retained earnings	(200)	(195)
Net retained profits	898	663

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

in € millions	12/31/2020	12/31/2019
Assets		
Fixed assets		
Intangible and tangible assets	365	369
Long-term financial assets	17,665	16,924
	18,030	17,293
Current assets		
Receivables and other assets	4,987	4,540
Securities, cash and cash equivalents	2,476	513
	7,463	5,053
Prepaid expenses and deferred charges	20	20
	25,513	22,366
Equity and liabilities		
Equity	10,283	9,848
Provisions	736	570
Liabilities	14,488	11,944
Deferred income	6	4
	25,513	22,366

to the increase in the amount of cash and cash equivalents that were deposited by subsidiaries with the company.

Risks and Opportunities for Bertelsmann SE & Co. KGaA

As Bertelsmann SE & Co. KGaA is largely linked to the Bertelsmann Group companies, among other things through financing and guarantee commitments, as well as through direct and indirect investments in the subsidiaries, the situation of Bertelsmann SE & Co. KGaA in terms of risks and opportunities is primarily dependent on the risks and opportunities of the Bertelsmann Group. In this respect, the statements made by corporate management concerning the overall assessment of the risks and opportunities also constitute a summary of the risks and opportunities of Bertelsmann SE & Co. KGaA (see the section "Risks and Opportunities").

Outlook for Bertelsmann SE & Co. KGaA

As the parent company of the Bertelsmann Group, Bertelsmann SE & Co. KGaA receives from its subsidiaries dividend distributions and income or expenses from profit and loss transfer agreements, as well as income from services provided to its subsidiaries. Consequently, the performance of Bertelsmann SE & Co. KGaA is primarily determined by the business performance of the Bertelsmann Group (see the section "Outlook").

Dependent Company Report (Statement in accordance with Section 312 of the German Stock Corporation Act (AktG))

The Executive Board of Bertelsmann Management SE, as general partner of Bertelsmann SE & Co. KGaA, has submitted a voluntary report to the Supervisory Board of Bertelsmann SE & Co. KGaA in accordance with sections 278 (3) and 312 (1) of the German Stock Corporation Act, in which it outlines its relationships with affiliated companies for the financial year 2020. The Executive Board hereby declares that Bertelsmann SE & Co. KGaA received adequate consideration in return for each and every legal transaction under the circumstances known at the time the transactions were undertaken.

Combined Non-Financial Statement

The following information relates to Bertelsmann SE & Co. KGaA and the Bertelsmann Group ("Bertelsmann") with its incorporated, fully consolidated subsidiaries ("subsidiaries") in accordance with sections 315b and 315c of the HGB, in conjunction with sections 289b to 289e of the HGB.

Bertelsmann operates in the core business fields of media, services and education in around 50 countries (see the section "Company Profile"). Taking responsibility – for employees, society, the business environment and the natural environment – is firmly anchored in Bertelsmann's corporate culture. In its corporate responsibility management, Bertelsmann pursues the goal of reconciling commercial interests with social and environmental concerns, within the Group and beyond.

When preparing its combined non-financial statement, Bertelsmann follows the Standards (2016) of the Global Reporting Initiative (102 and 103). In addition, voluntary reporting based on the GRI Standards (2016; in accordance: Core option) is published in the middle of the financial year.

Company Principles and Guidelines

The prerequisites for a corporate culture in which employees, management and shareholders work together successfully, respectfully and in a spirit of trust are common goals and shared values. These are set forth in the corporate constitution as well as in the Bertelsmann Essentials "Creativity and Entrepreneurship." Furthermore, the Bertelsmann Code of Conduct – as a binding guideline – defines minimum standards for ethical and lawful conduct within the company and toward business partners and the public. The Bertelsmann Supplier Code of Conduct sets out the mandatory minimum requirements for its business partners in their relationship with Bertelsmann.

Bertelsmann's actions are also determined by external guidelines. The company uses as guidance the recommendations of the German Corporate Governance Code for good and responsible corporate governance and largely follows the OECD Guidelines for Multinational Enterprises. Bertelsmann is committed to the principles of the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights, and the International Labor Organization core labor standards. A member of the United Nations Global Compact, Bertelsmann supports the Agenda 2030 of the UN.

Corporate Responsibility Management

Organization

The advisory body for the strategic development of corporate responsibility (CR) at Bertelsmann is the CR Council. The CR Council is made up of high-ranking managers from the corporate divisions and the Chief Human Resources Officer of Bertelsmann, who chairs the advisory body. The CR Council focuses on Group-wide CR topics in line with the corporate strategy, anchoring CR more strongly in the corporate divisions and the cross-divisional coordination of CR activities within the Group.

At the Group level, the Corporate Responsibility department coordinates and supports the work of the CR Council in close cooperation with the other Group functions. Within the Bertelsmann corporate structure, the local management teams are responsible for implementing corporate responsibility through specific measures and projects. The corporate divisions and companies have their own structures and processes in place for this, in accordance with local requirements.

Topics

To identify key CR topics, Bertelsmann carries out regular CR relevance analyses. For each analysis, the company conducts a survey of internal and external stakeholders; the external stakeholders estimate the impact of Bertelsmann's business activity on the CR topics, while the internal stakeholders assess their business relevance. This process serves to identify CR topics that are necessary for understanding the business development, the business performance, the position of the Group and the impact of its activity on the non-financial aspects, which include employee and social matters, respect for human rights, anti-corruption and bribery matters as well as environmental matters. These topics are analyzed within the company boundaries, unless otherwise stated. In 2020, the Bertelsmann Executive Board confirmed the validity of the current CR relevance matrix.

CR topics, including non-financial performance indicators, are increasingly important for Bertelsmann's businesses, but have not yet been incorporated into the value-oriented management system. Due to currently limited measurability, no directly quantifiable statements can be made regarding relevant interdependencies and value increases for the Group. For this reason, the non-financial performance indicators are not used for the management of the Group (see the section "Value-Oriented Management System").

Risks

A number of risks associated with CR topics are relevant for Bertelsmann. These risks can arise from the company's own business activities or from its business relationships, and can affect the company or its environment and stakeholders.

For the non-financial matters defined in the German Commercial Code – employee and social matters, anti-corruption and bribery matters, respect for human rights and environmental matters – no significant risks were identifiable as part of the 2020 reporting. For more information on the relevant risks, please see the section "Risks and Opportunities."

Employee Matters

Motivated employees are key to creativity, innovation and continued business success. This corporate identity – anchored in the corporate constitution and Bertelsmann Essentials – is the basis for the Executive Board guidelines on HR work. Supplementary regulations are specified in the Bertelsmann Code of Conduct. The Chief Human Resources Officer (CHRO) of Bertelsmann is primarily responsible for dealing with employee matters within the company. The main focus of his work throughout the Group includes setting the strategic HR agenda, aligning management development with the Group's strategic priorities, Bertelsmann University, standardizing and providing IT support for important HR processes, developing the corporate culture and implementing corporate responsibility in the Group.

The CHRO heads the HR Committee, which is the corporate committee responsible for international HR matters at Bertelsmann. Its members are the heads of HR at the corporate divisions who have a functional reporting line to the CHRO, as well as head managers of the corporate HR department.

Participation

Continual dialogue between employees and company management at Bertelsmann is a key element of Bertelsmann's corporate culture. The goal of participation is to involve employees in the continued development of the company and to gain their perspective on fundamental decisions in regard to company policy.

Although Bertelsmann, as a media company, is free to determine its political direction as defined in the German Works Constitutions Act (Tendenzschutz) and therefore is not subject to statutory co-determination in the Supervisory Board, the company nevertheless makes four positions on the Supervisory Board of Bertelsmann SE & Co. KGaA available to employees on a voluntary basis. Three of these are leading works council members of German Group companies and one is a member of the Bertelsmann Management Representative Committee, currently vacant. In addition, managers, general workforce, employees with disabilities and trainees all have platforms for exchanging ideas, advancing topics and voicing their concerns. The Bertelsmann Group Dialogue Conference is an event where the CEO, CHRO and members of the Corporate Works Council from the Group divisions in Germany can exchange ideas. In 2020, this led to intensive collaboration and cross-divisional communication beyond the scope of the committees required by law, for example to tackle challenges posed by the coronavirus pandemic and to initiate projects such as a Bertelsmann platform for cooperating on IT matters. The same applies to representatives for employees with disabilities in the Group for implementing the Inclusion Action Plan in the German Bertelsmann companies. Employees are also involved in the development and improvement of working conditions through standardized HR interview tools (Performance and Development Dialogue, Agreements on Objectives, Team Talk), as well as international employee surveys. In 2020, numerous pulse surveys were conducted in the divisions and among top executives in response to the coronavirus pandemic. In addition, the frequency of the international Employee Survey was shortened to two years.

Learning

Highly qualified employees are needed to address major changes such as the Group's increasingly international focus, the digital transformation of media and services, and demographic change. Bertelsmann University aims to assist employees with their performance by providing opportunities for lifelong learning, and thus contribute to their long-term employability. With four campuses – Strategy, Leadership, Function and Individual – Bertelsmann University is the central learning organization Group-wide.

In response to the global coronavirus pandemic, Bertelsmann University suspended all in-person classes as of March 2020 and moved online the international program in the areas of Strategy, Leadership and Transformation. In the process of developing digital courses focused on technology competency, new course curricula were introduced in the areas of data, the cloud and artificial intelligence. Furthermore, the three-year Udacity scholarship program was continued

Targeted Proportion of Women in Top and Senior Management

Target for 2021	in percent	2020	2019
One-third of positions across all divisions occupied by women	Top management [1),2)]	27	22
	Senior management [1),3)]	30	30

1) Top and senior management comprises those positions that are of particular importance because of their success-critical function and their strategic relevance for the Group's continued transformation and the achievement of its strategic targets. Top management positions comprise GMC positions but not Executive Board positions.
2) Basis: permanent and fixed-term employees as of December 31; with gender indication 2020 (90 percent), with gender indication 2019 (90 percent), limited comparability.
3) Basis: permanent and fixed-term employees as of December 31; with gender indication 2020 (93 percent), with gender indication 2019 (91 percent), limited comparability.

for a second year, providing 50,000 scholarships for which both employees and external candidates are eligible to apply. Additional initiatives with an emphasis on strengthening the company's learning culture and social learning included the "Kollegen-Campus" ("Campus of Colleagues"), a digital and international initiative for peer-to-peer learning. In Germany, the Bertelsmann training and studies courses were also adjusted to accommodate the changes caused by the coronavirus pandemic by using adapted learning environments and an increasing number of digital work methods.

Diversity

The diversity and differences in the workforce are prerequisites for creativity, innovation and Bertelsmann's long-term business success. This is conveyed in the Bertelsmann Essentials. Furthermore, the Bertelsmann Executive Board emphasizes in its Diversity Statement its aim of increasing diversity of staff at all levels and in every respect. The diversity strategy is implemented by the Corporate Responsibility department, with support from a Group-wide working group. The focus in 2020 was on the following dimensions: gender, disabilities as well as sexual orientation and identity. Some divisions set their own additional priorities to reflect the local situation. The Bertelsmann website provides an overview of the measures used for increasing diversity at Bertelsmann under the link www.bertelsmann.com/diversity.

On December 31, 2020, the genders were almost evenly distributed across the entire staff, with 54 percent women (previous year: 53 percent) and 46 percent men (previous year: 47 percent). The Group Management Committee (GMC), which advises the Bertelsmann Executive Board on important corporate strategy and development matters, as well as other issues that affect the Group as a whole, comprised 18 members (previous year: 16), of which six were female (previous year: six) as of December 31, 2020. To enhance diversity at the management levels, Bertelsmann aims to achieve the goal of one-third of positions in top and senior management across all divisions being occupied by women by the end of 2021. To fulfil this goal, the targeted proportion of women in the talent pools was set at one-third for the top and senior management pool and 50 percent for the career development pool. These targets were already met in 2019/2020. The proportion of women in top management was increased. The Bertelsmann Supervisory Board is notified annually of the progress in regard to these targets.

The Bertelsmann Inclusion Action Plan 2019-2024 aims to form processes and structures in the German companies to maximize accessibility for employees with disabilities so they may contribute their full potential to the company's success. The first evaluation of the measures implemented was carried out after one year as planned and is available at the Bertelsmann website under www.bertelsmann.com/disability-and-inclusion. The be.queer LGBTIQ employee network, launched in 2017, continued its activities in 2020 and actively assisted in linking the LGBTIQ networks in the divisions. Furthermore, various measures were implemented in the divisions again in 2020, especially as a response to the Black Lives Matter movement.

Health

With a view to designing a health-promoting work environment and preventing work-related risks of disease, Bertelsmann is continually expanding the company health management system at German locations. Bertelsmann Health Management develops and takes responsibility for the Bertelsmann health strategy in cooperation with a cross-functional strategy group. The head of HR Coordination and Shared Services chairs this group and directs implementation of the health strategy. This individual is assisted by the cross-divisional "Health Community," which is comprised of employees in areas of health and human resources, works council members and representatives for employees with disabilities and works on topics such as "Minimum Health Standards." Health representatives in the German companies assist in locally implementing Health Management in business operations. The internal Health Management Consulting provides advising services and support.

Due to the coronavirus pandemic, the focus of management in 2020 was on immediately protecting the health of all employees all over the globe. This included setting up centralized and local crisis teams to develop and implement prevention and protection measures in accordance with statutory regulations. The most important measure was helping employees Group-wide to work from home wherever this was compatible with operational considerations. Additional initiatives included organizing and supplying masks and disinfectants, creating in-house (PCR) testing facilities and preparing and implementing plans for employees' return to the workplace, including the necessary organizational adjustments. All of these measures were accompanied by numerous support programs for maintaining mental and physical health as well as extensive communication activities.

Furthermore, in 2020 the German companies were informed of the findings of the third status report on "Minimum Health Standards" carried out in Germany as well as the health recommendations based on the international employee survey (2019). Most of the companies are actively implementing the minimum standards, thereby already establishing the basic foundations for Health Management. In addition, the companies were provided with a toolbox for assessing the risk of psychological stress to assist them in complying with statutory requirements.

Fair Working Conditions

Strategy implementation and operational responsibility are for the most part delegated to the divisions and companies, in accordance with the subsidiarity principle. This also includes ensuring fair working conditions as well as safety and health at the workplace, which are integral elements of the corporate culture. It is Bertelsmann's goal to implement this. The Supplier Code of Conduct contains standards for Bertelsmann's business partners stipulating that they adhere to the statutory regulations on fair working conditions and allow their employees to speak up freely and without fear of retaliation.

At Bertelsmann, remuneration issues are an essential part of fair working conditions. The design of the compensation system is intended to ensure that remuneration is driven by market, function and performance considerations, taking into account business-specific characteristics. Profit sharing at Bertelsmann and many of its subsidiaries in Germany is based on the same criteria as those used to calculate variable remuneration components for Executive Board members and executives. A number of additional subsidiaries in Germany and abroad have similar success and employee-profit-sharing models adapted to local requirements. In 2020, a total of €100 million of the 2019 profit was distributed as part of such schemes. Other aspects of the topic "Fair Working Conditions," such as human rights, health, continuing education and anti-discrimination are discussed elsewhere in this non-financial statement. The international Employee Survey, last conducted in 2019, also asks respondents for their sentiment on issues related to fair working conditions.

Social Matters

Creative Independence

Creativity is one of the two company values at Bertelsmann. Free and critical thinking as well as exchange of varying opinions form the basis of the company's canon of values. Bertelsmann stands for editorial and journalistic independence in its content businesses, as well as for freedom of the press and artistic license. Bertelsmann publishes a wide variety of opinions and positions. These basic principles for business activities are also set forth in the Bertelsmann Code of Conduct. Bertelsmann aims to ensure this independence in two directions. Inside the company, it means that our management does not attempt to influence the decisions of artists, authors, editors and program managers, or to restrict their artistic or editorial freedom. To the outside, this means that both content managers and company managers comply with existing laws regarding the separation of editorial content and commercial advertising and do not capitulate to political or economic influence in their coverage. In accordance with the Bertelsmann "Editor-in-Chief Principle," editorial decisions are the sole responsibility of the content managers. 2020 saw a continuation of a variety of organizational measures to safeguard editorial and artistic independence at the editorial and creative departments. Here the focus is primarily on complying with the "Editor-in-Chief Principle," duties of care, respect for privacy, and dealing with the representation of violence and the protection of minors.

Content Responsibility

Content responsibility at Bertelsmann means reflecting on the repercussions of the content it produces and distributes, to protect the rights and interests of media users, customers and third parties as far as possible. Overriding principles and guidelines of media ethics are set by national and international laws governing the press, broadcasting and multimedia; by voluntary commitments to external guidelines such as the ethics codes of national press councils; and within the company by the Bertelsmann Code of Conduct. In accordance with these principles and guidelines, Bertelsmann’s editorial staff are committed to, among other things, “respecting privacy and the responsible treatment of information, opinion and images.” As a result, the company expects careful research, qualitative reporting and transparency in case of errors. Thorough journalistic skills are more important than ever in the face of online disinformation. Furthermore, the issue of content responsibility is anchored in various ways in the divisions, companies and editorial departments. In accordance with the “Editor-in-Chief Principle,” the responsibility for media content lies solely with the managers in the editorial teams and creative departments. Cross-division verification teams continued in 2020 to provide their expertise in discerning between authentic and manipulated photos and videos, or those taken out of context.

In the area of youth media protection, content is monitored in accordance with different restrictions for each medium and region to see if it could adversely affect the development of children or young people. If there are indications of such, various restrictions come into force, such as broadcasting time restrictions or content and/or product labels. Through voluntary labeling systems, Bertelsmann divisions and companies sometimes go beyond the existing EU and national regulations, particularly in the area of audiovisual media. In addition, Bertelsmann companies are active in child and youth media protection organizations.

Customer Data Protection

Bertelsmann attaches great importance to protecting customer data. This includes safeguarding the personal data of company customers, as well as personal data provided to Bertelsmann by its business partners regarding their customers. The goal of customer data protection is to protect an individual’s right to determine who has what knowledge about the individual, and when. This also means that personal information, or information that could identify a person, must be handled in accordance with the legal requirements and adequately protected against unauthorized access and that the data subjects must be able to claim their statutory rights. There are various possibilities for data subjects to contact Bertelsmann, including e-mail addresses set up for this purpose. In addition to the Bertelsmann Code of Conduct, customer data protection within the company is regulated by Executive Board guidelines on the topics of information security and IT risk management.

The Executive Board Guideline on Data Protection reflects the basic legal data protection framework at Bertelsmann Group based on the European Union’s General Data Protection Regulation (GDPR), and is designed to ensure consistent data protection management across the Bertelsmann Group. A Group-wide data protection management system addresses in particular the implementation of the documentation and accountability obligations under GDPR.

Responsibility for customer data protection rests with the management of the individual subsidiaries. To ensure compliance with data protection laws, the subsidiaries in Germany have a data protection organization consisting of central data protection officers and local data protection coordinators. The latter report to the local management, as well as annually or on an event-driven basis to the central data protection officers, who in turn report annually or on an event-driven basis to the Bertelsmann Executive Board. A similar organization exists in subsidiaries outside Germany. An Information Security Management System (ISMS) based on industry-standard ISO 27001 creates the technical and organizational framework for confidential data processing. The ISMS features a regular and structured survey of relevant processes and procedures, to ensure compliance with statutory information security requirements, a systematic recording of risks and derivation, and control of related mitigation measures.

Protecting Intellectual Property

Bertelsmann’s businesses also develop, produce, finance, transfer, license and sell products and services that are protected as intellectual property. For Bertelsmann, the protection of intellectual property rights is of particular importance for its analog and digital business. This is also set forth in the Bertelsmann Code of Conduct: “We respect and protect all forms of intellectual property and protected content.” For this reason, the company is committed to the highest possible level of global copyright protection worldwide, as well as maintaining strong exclusive rights and freedom of contract – and in the same measure, also to balanced legal conditions that allow for fair competition in the digital market. The Taskforce Copyright, with representatives from the relevant German content businesses (Mediengruppe RTL Deutschland, Penguin Random House Verlagsgruppe, G+J, BMG and UFA), monitor current developments and legislative processes in EU and German copyright law and develop joint positions. The focus in 2020 was the transposition of the EU copyright directive in the digital single market into German law.

Respect for Human Rights

Through its Code Conduct and its voluntary commitment to external guidelines, Bertelsmann is committed to respecting and protecting human rights within the company and in its business relationships. The goal is to minimize the risk of human rights violations and discrimination to the greatest possible extent. For this reason, the Bertelsmann Executive Board established an Integrity & Compliance program and appointed a Corporate Compliance Committee (CCC). The CCC submits an annual Compliance Report to the Bertelsmann Executive Board and the Audit and Finance Committee. The CCC chair is the head of the Corporate Legal Department. The Integrity & Compliance (I&C) department is responsible for implementing the topic, and is subordinated to the CCC in the organization. I&C supports the CCC in fulfilling its tasks and makes suggestions for necessary improvements to the I&C program. I&C ensures that employees worldwide are made aware of the key legal provisions and internal company guidelines, including those concerning respect for human rights. I&C continued its Code of Conduct training sessions in 2020 and took communication measures that included the topic "Respect for Human Rights."

Respect for human rights within the supply chain is also expressly stipulated by the Bertelsmann Code of Conduct and the Supplier Code of Conduct. This includes a ban on child and coercive labor and a ban on discrimination and intimidation, and it reaffirms the right to freedom of association and the right to engage in collective bargaining.

In addition, in 2020 individual subsidiaries and Bertelsmann itself issued statements for 2019 in accordance with the "UK Modern Slavery Act" that condemn all forms of modern slavery, coercive and child labor, and exploitation and discrimination, and present measures to prevent these human rights violations. These statements are revised each year (if required). Infringements of these principles can be reported by Bertelsmann employees and third parties by using the existing compliance management systems.

In terms of anti-discrimination, contact persons for Germany's "General Equal Treatment Act" (AGG) have been appointed at German locations. Employees can contact them in the event of suspected breaches of said act. The employees are informed of their rights under the AGG and given corresponding training through a wide range of communication channels. The topic of anti-discrimination was addressed Group-wide as part of Code of Conduct training sessions to build employee awareness of the issue and advise them of their rights. These and other international activities are being continually refined and expanded. Regarding business partners, the Supplier Code of Conduct stipulates that they provide a workplace environment that does not allow for discrimination. The Supplier Code of Conduct also stipulates that Bertelsmann's business partners do not tolerate discrimination against employees or applicants for employment because of any characteristic specified under applicable antidiscrimination law or company policy.

The findings of the Bertelsmann Compliance Risk Analysis of 2020 show that the risks of human rights violations and discrimination are minimized to the greatest extent possible in view of the measures that have been taken.

Anti-Corruption and Bribery Matters

Bertelsmann actively combats corruption. As a participant in the United Nations Global Compact, Bertelsmann is committed to taking a stance against all types of corruption, among other things. A key priority of the Bertelsmann Executive Board is to effectively counteract corruption within the company. The goal is to reduce the risk of corruption to a level at which it does not endanger the company's success. Both the Bertelsmann Code of Conduct and the Executive Board Guideline on anti-corruption and integrity expressly prohibit all forms of corruption and bribery. This prohibition also applies to all third parties that work for, with or on behalf of Bertelsmann, as stipulated in the Supplier Code of Conduct. Along with instructions for dealing with officials, and guidelines for the granting or accepting of gifts in the context of business relations, the Anti-Corruption and Integrity Guideline prescribes appropriate due diligence processes in dealing with third parties. An appropriate due diligence review is carried out for each individual risk profile through a corresponding risk classification. This Executive Board guideline also describes the channels for reporting suspected violations (especially with the help of an internet-based reporting system) and seeking advice, as well as other prevention and control measures. The Executive Board guideline for dealing with alleged compliance violations anchors an obligation to report suspected violations of the prohibition of corruption to the Bertelsmann Corporate Center. The risk of corruption is addressed in the annual compliance report submitted to the Executive Board. Relevant employees across the Group take part in the online course "Anti-Corruption & Integrity." The I&C department, reporting to the Corporate Compliance Committee (CCC: see the section on "Respect for Human Rights"), manages and develops corruption prevention measures in the Group. The most important measures in 2020 include reviewing and voting on a new Code of Conduct as well as designing a new Code of Conduct training program to be rolled out in 2021. The findings of the Bertelsmann Compliance Risk Analysis of 2020 show that the risk of corruption is minimized to the greatest extent possible in view of the measures taken.

Fair Competition and Antitrust Law

Bertelsmann is committed to the principle of fair competition, and condemns antitrust violations and anticompetitive behavior. The goal is to reduce the risk of antitrust violations to a level at which they do not endanger the company's success. The Bertelsmann Executive Board issued the Group Guideline for Compliance with Antitrust Regulations to anchor a reporting requirement for antitrust violations. With regard to the supply chain, the Supplier Code Conduct obligates Bertelsmann's business partners to observe the applicable antitrust and competition law. Infringements of antitrust provisions can be reported by Bertelsmann employees and third parties by using the reporting channels of the existing compliance management system. The company acts against any contravention that becomes known, and consults internal or external experts on antitrust and competition issues. The topic of competition and antitrust law is addressed in the annual Compliance Report submitted to the Executive Board. The Corporate Legal Department provides an obligatory antitrust training program to corporate divisions and the management and employees of these divisions who work in antitrust-related areas. This training program moved to a virtual format in April 2020 due to the coronavirus pandemic. The findings of the Bertelsmann Compliance Risk Analysis of 2020 show that the risk of antitrust violations is minimized to the greatest extent possible in view of the measures taken.

Environmental Matters

Bertelsmann aspires to become climate-neutral by 2030. By that time, the Group aims to reduce the greenhouse gas emissions generated at its sites, by the mobility of its employees and by the manufacture of its own products by 50 percent and thus 500,000 tons of CO_2 compared to 2018. Remaining emissions will be offset by financing certified climate protection projects. The Group-wide climate protection target was set by the Bertelsmann Executive Board in December 2019 and communicated in February 2020.

The most important measures for reaching the climate protection target include switching to certified green electricity, installing photovoltaic systems, improving energy efficiency and designing new mobility programs. Furthermore, emissions from the print and digital products supply chain are to be reduced in a joint effort with business partners. In 2020, the number of sites using green electricity increased by 11 sites compared with the previous year, to 81 sites. The number of sites using green electricity is to be increased again next year.

The climate protection target is aligned with Group-wide guidelines on environmental and climate protection as well as on energy and paper procurement. The Group-wide environmental efforts include not only the company's own sites but also relevant parts of the supply chain – for example, paper suppliers, external printers and energy suppliers. Operational responsibility for energy and environmental management, as well as for implementing measures, rests with the management of the individual companies. The international "be green" working group with representatives from the Bertelsmann corporate divisions again provided a platform for cross-divisional exchange on environmental topics in 2020. Cooperation in the current reporting year focused on procuring electricity from renewable energy sources, acquiring knowledge on methods for quantifying supply chain emissions, as well as continued development of the Group's environmental reporting.

As part of the annual environmental data survey conducted at the Group sites globally, key figures are collected regarding energy and materials consumption as well as fuels and employee mobility, and greenhouse gas emissions are quantified. The Group-wide environmental key figures are published in the second quarter on the Bertelsmann website at https://www.bertelsmann.com/environmental.

Consolidated Financial Statements

Consolidated Income Statement

in € millions	Notes	2020	2019
Revenues	1	17,289	18,023
Other operating income	2	682	455
Cost of materials	13	(5,133)	(5,685)
Royalty and license fees		(1,650)	(1,580)
Personnel costs	3	(5,622)	(5,645)
Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets	4	(1,040)	(1,029)
Other operating expenses	5	(2,684)	(2,877)
Results from investments accounted for using the equity method	11	86	124
Impairment and reversals on investments accounted for using the equity method	11	(62)	(51)
Results from disposals of investments		410	90
EBIT (earnings before interest and taxes)		2,276	1,825
Interest income	6	10	13
Interest expenses	6	(155)	(117)
Other financial income	7	8	24
Other financial expenses	7	(202)	(229)
Financial result		(339)	(309)
Earnings before taxes from continuing operations		1,937	1,516
Income tax expense	8	(478)	(426)
Earnings after taxes from continuing operations		1,459	1,090
Earnings after taxes from discontinued operations		–	1
Group profit or loss		1,459	1,091
attributable to:			
Bertelsmann shareholders			
Earnings from continuing operations		1,152	728
Earnings from discontinued operations		–	1
Earnings attributable to Bertelsmann shareholders		1,152	729
Non-controlling interests			
Earnings from continuing operations		307	362
Earnings from discontinued operations		–	–
Earnings attributable to non-controlling interests		307	362

The prior-year comparatives have been adjusted. Further details are presented in the section “Prior-Year Information.”

Consolidated Statement of Comprehensive Income

in € millions	Notes	2020	2019
Group profit or loss		1,459	1,091
Items that will not be reclassified subsequently to profit or loss			
Remeasurement component of defined benefit plans		(98)	(224)
Changes in fair value of equity instruments		1	(2)
Share of other comprehensive income of investments accounted for using the equity method		–	(1)
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Exchange differences			
– changes recognized in other comprehensive income		(339)	78
– reclassification adjustments to profit or loss		(7)	6
Cash flow hedges			
– changes in fair value recognized in other comprehensive income		(13)	8
– reclassification adjustments to profit or loss		(2)	(3)
Share of other comprehensive income of investments accounted for using the equity method		(3)	(4)
Other comprehensive income net of tax	17	(461)	(142)
Group total comprehensive income		998	949
attributable to:			
Bertelsmann shareholders		715	602
Non-controlling interests		283	347

Consolidated Balance Sheet

in € millions	Notes	12/31/2020	12/31/2019
Assets			
Non-current assets			
Goodwill	9	7,868	8,470
Other intangible assets	9	2,308	2,500
Property, plant and equipment and right-of-use assets	10	2,717	2,935
Investments accounted for using the equity method	11	820	652
Minority stakes and other financial assets	12	1,196	1,320
Trade and other receivables	14	69	89
Other non-financial assets	15	881	922
Deferred tax assets	8	1,124	1,087
		16,983	17,975
Current assets			
Inventories	13	1,658	1,771
Trade and other receivables	14	4,570	4,523
Other financial assets	12	178	63
Other non-financial assets	15	992	1,092
Current income tax receivables		56	178
Cash and cash equivalents	16	4,571	1,636
		12,025	9,263
Assets held for sale		696	102
		29,704	27,340
Equity and liabilities			
Equity	17		
Subscribed capital		1,000	1,000
Capital reserve		2,345	2,345
Retained earnings		5,751	5,509
Bertelsmann shareholders' equity		9,096	8,854
Non-controlling interests		1,629	1,591
		10,725	10,445
Non-current liabilities			
Provisions for pensions and similar obligations	18	2,009	1,967
Other provisions	19	136	178
Deferred tax liabilities	8	93	118
Profit participation capital	20	413	413
Financial debt	21	5,911	4,612
Lease liabilities	22	1,098	1,116
Trade and other payables	23	246	363
Other non-financial liabilities	23	401	379
		10,307	9,146
Current liabilities			
Other provisions	19	352	214
Financial debt	21	715	388
Lease liabilities	22	257	276
Trade and other payables	23	4,833	4,840
Other non-financial liabilities	23	1,926	1,908
Current income tax payables		216	78
		8,299	7,704
Liabilities related to assets held for sale		373	45
		29,704	27,340

The prior-year comparatives have been adjusted. Further details are presented in the section "Prior-Year Information."

Consolidated Cash Flow Statement

in € millions	2020	2019
Group earnings before interest and taxes	2,276	1,825
Taxes paid	(214)	(424)
Depreciation and write-ups of non-current assets	1,128	1,096
Results from disposals of investments	(410)	(90)
Gains/losses from disposals of non-current assets	(234)	(3)
Change in provisions for pensions and similar obligations	(92)	(95)
Change in other provisions	94	(3)
Change in net working capital	486	(42)
Fair value measurement of investments	(59)	(143)
Other effects	19	(61)
Cash flow from operating activities	2,994	2,060
– thereof discontinued operations	–	–
Investments in:		
– intangible assets	(313)	(283)
– property, plant and equipment	(350)	(323)
– financial assets	(216)	(317)
– purchase prices for consolidated investments (net of acquired cash)	(41)	(317)
Disposals of subsidiaries and other business units	337	228
Disposals of other fixed assets	320	330
Cash flow from investing activities	(263)	(682)
– thereof discontinued operations	–	1
Issues of bonds and promissory notes	1,785	75
Redemption of bonds and promissory notes	(100)	(309)
Proceeds from/redemption of other financial debt	(116)	(67)
Redemption of lease liabilities	(276)	(247)
Interest paid	(298)	(260)
Interest received	43	25
Dividends to Bertelsmann shareholders	–	(180)
Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))	(10)	(263)
Change in equity	(736)	81
Other effects	38	17
Cash flow from financing activities	330	(1,128)
– thereof discontinued operations	–	–
Change in cash and cash equivalents	3,061	250
Exchange rate effects and other changes in cash and cash equivalents	(61)	(12)
Cash and cash equivalents as of 1/1	1,643	1,405
Cash and cash equivalents as of 12/31	4,643	1,643
Less cash and cash equivalents included within assets held for sale	(72)	(7)
Cash and cash equivalents as of 12/31 (according to the consolidated balance sheet)	4,571	1,636

The prior-year comparatives have been adjusted. Further details are presented in the section "Prior-Year Information."

Changes in Net Liabilities Arising from Financing Activities

in € millions	2020	2019
Net liabilities arising from financing activities as of 1/1	(4,756)	(5,262)
Cash flow from operating activities	2,994	2,060
Cash flow from investing activities	(263)	(682)
Interest, dividends and changes in equity, additional payments (IAS 32.18(b))	(1,001)	(597)
Exchange rate effects and other changes in net liabilities arising from financing activities	(384)	(275)
Net liabilities arising from financing activities as of 12/31	(3,410)	(4,756)

The prior-year comparatives have been adjusted. Further details are presented in the section "Prior-Year Information."
Net liabilities arising from financing activities are the balance of the balance sheet positions "Cash and cash equivalents," "Financial debt" and "Lease liabilities."

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital	Capital reserve[1]	Retained earnings: Other retained earnings	Retained earnings: Accumulated other comprehensive income[2]: Exchange differences	Retained earnings: Accumulated other comprehensive income[2]: Fair value reserve	Retained earnings: Accumulated other comprehensive income[2]: Cash flow hedges	Retained earnings: Accumulated other comprehensive income[2]: Share of other comprehensive income of investments accounted for using the equity method	Bertelsmann shareholders' equity	Non-controlling interests	Total
Balance as of 1/1/2019	1,000	2,345	5,200	(85)	12	(3)	5	8,474	1,364	9,838
Adjustment	–	–	(38)	–	–	–	–	(38)	(12)	(50)
Balance as of 1/1/2019[3]	1,000	2,345	5,162	(85)	12	(3)	5	8,436	1,352	9,788
Group profit or loss	–	–	729	–	–	–	–	729	362	1,091
Other comprehensive income	–	–	(205)	80	(2)	4	(4)	(127)	(15)	(142)
Group total comprehensive income	–	–	524	80	(2)	4	(4)	602	347	949
Dividend distributions	–	–	(180)	–	–	–	–	(180)	(254)	(434)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(13)	8	–	–	–	(5)	126	121
Equity transactions with shareholders	–	–	(193)	8	–	–	–	(185)	(128)	(313)
Other changes	–	–	3	–	(2)	–	–	1	20	21
Balance as of 12/31/2019	1,000	2,345	5,496	3	8	1	1	8,854	1,591	10,445
Balance as of 1/1/2020	1,000	2,345	5,496	3	8	1	1	8,854	1,591	10,445
Group profit or loss	–	–	1,152	–	–	–	–	1,152	307	1,459
Other comprehensive income	–	–	(96)	(327)	1	(12)	(3)	(437)	(24)	(461)
Group total comprehensive income	–	–	1,056	(327)	1	(12)	(3)	715	283	998
Dividend distributions	–	–	–	–	–	–	–	–	(6)	(6)
Changes in ownership interests in subsidiaries that do not result in a loss of control[4]	–	–	(465)	(7)	–	–	–	(472)	(255)	(727)
Equity transactions with shareholders	–	–	(465)	(7)	–	–	–	(472)	(261)	(733)
Other changes	–	–	(1)	–	–	–	–	(1)	16	15
Balance as of 12/31/2020	1,000	2,345	6,086	(331)	9	(11)	(2)	9,096	1,629	10,725

1) The capital reserve mainly includes share premiums received from the issue of ordinary shares in excess of their par values.
2) As of December 31, 2020, €8 million relate to assets classified as held for sale in accordance with IFRS 5 (December 31, 2019: €4 million).
3) The adjustments result from the initial application of the financial reporting standard IFRS 16 Leases as of January 1, 2019.
4) Changes in ownership interests in subsidiaries that do not result in a loss of control result primarily from the increase of shareholdings in Penguin Random House. Further details are presented in note 11 "Interests in Other Entities."

Segment Information (Continuing Operations)

in € millions	RTL Group 2020	RTL Group 2019	Penguin Random House 2020	Penguin Random House 2019	Gruner + Jahr 2020	Gruner + Jahr 2019	BMG 2020	BMG 2019	Arvato 2020	Arvato 2019
Revenues from external customers	5,939	6,586	3,801	3,636	1,102	1,319	599	597	4,315	4,112
Intersegment revenues	78	65	1	–	33	36	3	3	67	63
Divisional revenues	6,017	6,651	3,802	3,636	1,135	1,355	602	600	4,382	4,175
Operating EBITDA	1,097	1,417	691	561	127	157	137	138	662	549
EBITDA margin[1]	18.2%	21.3%	18.2%	15.4%	11.2%	11.6%	22.7%	23.0%	15.1%	13.2%
Impairment (-)/reversals (+) on intangible assets, property, plant and equipment and right-of-use assets	(16)	(3)	–	–	(77)	(1)	(1)	–	(12)	(9)
Results from investments accounted for using the equity method	32	64	2	2	4	10	–	–	11	10
Impairment (-)/reversals (+) on investments accounted for using the equity method	(62)	(50)	–	–	–	–	–	(1)	–	–
Invested capital	6,547	6,735	2,326	2,582	474	619	1,801	1,927	1,785	1,894

Further details on segment reporting are presented in note 27 “Segment Reporting.”
The prior-year comparatives have been adjusted. Further details are presented in the section “Prior-Year Information.”
1) Operating EBITDA as a percentage of revenues.
2) The business development of Bertelsmann Investments is presented primarily on the basis of EBIT. EBIT amounted to €1 million (previous year: €107 million).

Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	2020	2019
EBIT from continuing operations	2,276	1,825
Special items		
– impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations	116	27
– adjustment to carrying amounts on assets held for sale	–	7
– impairment (+)/reversals (-) on other financial assets at amortized cost	26	9
– impairment (+)/reversals (-) on investments accounted for using the equity method	62	51
– results from disposals of investments	(410)	(90)
– fair value measurement of investments	(59)	(143)
– restructuring and other special items	214	293
Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets	1,040	1,029
Adjustments on amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets included in special items	(122)	(121)
Operating EBITDA from continuing operations	3,143	2,887

The prior-year comparatives have been adjusted. Further details are presented in the section “Prior-Year Information.”

	Bertelsmann Printing Group		Bertelsmann Education Group		Bertelsmann Investments[2]		Total divisions		Corporate		Consolidation		Continuing operations	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	1,213	1,405	301	333	8	13	17,278	18,001	11	22	–	–	17,289	18,023
	149	163	–	–	4	–	335	330	32	34	(367)	(364)	–	–
	1,362	1,568	301	333	12	13	17,613	18,331	43	56	(367)	(364)	17,289	18,023
	55	68	89	84	(10)	(1)	2,848	2,973	298	(86)	(3)	–	3,143	2,887
	4.0%	4.4%	29.5%	25.2%	-82.2%	-4.6%	16.2%	16.2%	n/a	n/a	n/a	n/a	18.2%	16.0%
	(27)	(14)	(1)	(101)	(7)	–	(141)	(128)	–	–	(1)	(1)	(142)	(129)
	–	–	38	39	–	–	87	125	–	–	(1)	(1)	86	124
	–	–	–	–	–	–	(62)	(51)	–	–	–	–	(62)	(51)
	6	106	1,139	1,292	1,025	1,059	15,103	16,214	345	136	–	2	15,448	16,352

Information by Geographical Area (Continuing Operations)

	Germany		France		United Kingdom		Other European countries		United States		Other countries		Continuing operations	
in € millions	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenues from external customers	5,334	5,806	2,053	2,213	1,117	1,180	3,342	3,413	4,294	4,211	1,149	1,200	17,289	18,023
Non-current assets[1]	3,212	3,461	1,205	1,360	1,263	1,362	3,436	3,455	3,410	3,841	367	426	12,893	13,905

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

Information on Revenue Sources (Continuing Operations)

	Own products and merchandise		Services		Advertising		Rights and licenses		Continuing operations	
in € millions	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenues from external customers	4,371	4,385	6,426	6,508	3,642	4,043	2,850	3,087	17,289	18,023

General Principles

The Bertelsmann SE & Co. KGaA Consolidated Financial Statements as of December 31, 2020, were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) that are applicable in the European Union (EU-IFRS). The supplementary requirements set out in section 315e of the German Commercial Code (HGB) were also met. The Consolidated Financial Statements are prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million). For the sake of clarity, certain items in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet and the consolidated cash flow statement are combined. These items are disclosed and explained in greater detail in the notes.

Bertelsmann SE & Co. KGaA is a partnership limited by shares with its registered office in Gütersloh, Germany. It is entered in the commercial register of the Gütersloh Local Court (Amtsgericht) under HRB 9194. The address of the company's registered headquarters is Carl-Bertelsmann-Strasse 270, 33311 Gütersloh.

Bertelsmann is a media, services and education company that operates in about 50 countries around the world. The geographic core markets are Western Europe – in particular, Germany, France and the United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as Brazil, India and China. The Bertelsmann divisions are RTL Group (television), Penguin Random House (books), Gruner + Jahr (magazines), BMG (music), Arvato (services), Bertelsmann Printing Group (printing), Bertelsmann Education Group (education) and Bertelsmann Investments (funds). Further information on the main activities of Bertelsmann SE & Co. KGaA and its subsidiaries is presented in detail in the Combined Management Report.

Impact of New Financial Reporting Standards

The initial application of new financial reporting standards and interpretations had no material impact on the Bertelsmann Group.

Impact of Issued Financial Reporting Standards That Are Not Yet Effective

The Bertelsmann Group has not opted for early adoption of any additional standards, interpretations or amendments that have been issued by the IASB or the IFRS IC but are not yet mandatory. The expected impact from the issued financial reporting requirements that are not yet effective is not material to the Bertelsmann Group.

Effects of the Coronavirus Pandemic on the Consolidated Financial Statements

The effects of the coronavirus pandemic on the Consolidated Financial Statements of Bertelsmann SE & Co. KGaA, both in terms of operations and balance sheet, vary across media, services, education and investment. While revenues from the advertising-financed businesses and printing businesses declined, the less affected music, services and education areas partially or fully compensated these effects. In addition to the Group-wide implementation of extended procedures to monitor cash and receivables, financing measures were taken at the beginning of the looming coronavirus pandemic and its macroeconomic consequences. Furthermore, balance sheet effects were determined and evaluated for the particularly relevant issues. These issues were the impairment of goodwill and individual assets, leasing, royalties, program rights, inventories, trade receivables, government grants, deferred tax assets, losses from onerous contracts and revenues. Both the General Meeting of RTL Group and the General Meeting of Groupe M6 resolved to suspend dividend payments in the financial year 2020 to help secure liquidity throughout the year. Bertelsmann shareholders also resolved at the General Meeting to suspend dividend payments in 2020. Except for the impairment on individual goodwill (further details are presented in note 9 “Intangible Assets”) and the impairment of the investment in Atresmedia, which is accounted for using the equity method (further details are presented in note 11 “Interests in Other Entities”), no significant effects were noted.

Economic uncertainties arising from the coronavirus pandemic require extended discretionary judgments, estimates and assumptions. The assessment of the extent to which current and future customers will continue to be able to fulfill their payment obligations resulting from customer contracts is subject to uncertainties in the current macroeconomic situation; therefore, Bertelsmann focuses on examining this criterion before and at the time of satisfying performance obligations as part of revenue recognition. In addition, the estimation of the variable consideration based on capacity utilization and the determination of transaction prices are subject to uncertainty.

Goodwill was tested for impairment in accordance with IAS 36 as of December 31, 2020, after impairment testing had previously been conducted as of June 30, 2020, due to a triggering event. On account of the coronavirus pandemic, impairment tests this year are subject to increased uncertainty and extended discretionary judgment in the context of cash flow forecasts. Further details are presented in note 9 “Intangible Assets.”

Where Group companies have applied for and received grants to fight the coronavirus pandemic in various forms, grants related to income are generally deferred and recognized as income over the term of the grant. By contrast, grants related to assets reduce the cost of the acquired assets that qualify for capitalization. Due to the fact that newly created conditions are subject to interpretation ex post, the risk that the conditions for a granted subsidy may not be fulfilled cannot be completely ruled out despite intensive checks in advance.

Consolidation

Principles of Consolidation

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

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

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

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

Scope of Consolidation

Bertelsmann is the majority shareholder of RTL Group, with an interest of 76.3 percent. Bertelsmann increased its investment in the trade book publisher Penguin Random House to 100 percent on April 1, 2020. Gruner + Jahr, BMG, Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments are each wholly owned by Bertelsmann.

Composition of Scope of Consolidation

	Subsidiaries		Joint ventures[2]		Associates[2]		Total	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019
RTL Group	260	282	15	15	34	42	309	339
Penguin Random House	115	114	–	–	1	1	116	115
Gruner + Jahr	72	80	–	1	2	1	74	82
BMG	65	65	–	–	–	–	65	65
Arvato	202	204	4	4	2	2	208	210
Bertelsmann Printing Group	37	37	1	1	–	–	38	38
Bertelsmann Education Group	21	21	–	–	4	4	25	25
Bertelsmann Investments	15	12	1	1	–	–	16	13
Corporate[1]	43	46	–	–	–	–	43	46
Total	830	861	21	22	43	50	894	933

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

Changes in Scope of Consolidation

	Germany	France	United Kingdom	Other European countries	United States	Other countries	Total
Consolidated as of 12/31/2019	266	111	135	201	81	139	933
Additions	13	4	2	3	–	9	31
Disposals	16	6	7	21	8	12	70
Consolidated as of 12/31/2020	263	109	130	183	73	136	894

A total of 170 (previous year: 191) companies were excluded from the scope of consolidation. These consist of the associates in the portfolio of the Bertelsmann Investments division and entities without significant business operations and of negligible importance for the financial position and financial performance of the Bertelsmann Group as a whole. The complete list of the Bertelsmann Group's shareholdings will be published in the "Bundesanzeiger" ("Federal Gazette") as an annex to these Consolidated Financial Statements in accordance with section 313 (2) of the German Commercial Code (HGB) and will be available at the General Meeting.

Acquisitions and Disposals

The Bertelsmann Group made several acquisitions in the financial year 2020, none of which was material on a stand-alone basis. In total, the impact of these acquisitions on the Group's financial position and financial performance was also minor. In the financial year 2020, the cash flow from acquisition activities totaled €-41 million (previous year: €-317 million), of which €-33 million (previous year: €-293 million) related to new acquisitions during the reporting period less cash and cash equivalents acquired. The consideration transferred in accordance with IFRS 3 amounted to €77 million (previous year: €326 million) taking into account contingent consideration of €2 million (previous year: €3 million). In addition, a put option was recognized in the amount of €9 million (previous year: €8 million) and a forward in the amount of €3 million (previous year: €0 million) in connection with the acquisitions.

The acquisitions resulted in goodwill totaling €68 million, which reflects synergy potential and is not tax-deductible. Transaction-related costs were immaterial in the financial year 2020 and have been recognized in profit or loss.

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

Since initial consolidation, all new acquisitions in accordance with IFRS 3 in the financial year 2020 have contributed €55 million to revenue and €2 million to Group profit or loss. If consolidated as of January 1, 2020, these would have contributed €102 million to revenue and €1 million to Group profit or loss. On the acquisition date, the fair value of the acquired receivables was €66 million. Of that amount, €9 million is attributable to trade receivables and €57 million to other receivables. Trade receivables were not significantly impaired, so that the fair value is equal to the gross amount. The other receivables were impaired in the amount of €9 million, so that the gross amount is €66 million.

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

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

Effects of Acquisitions

in € millions	Total
Non-current assets	
Other intangible assets	23
Property, plant and equipment and right-of-use assets	13
Trade and other receivables	–
Other non-current assets	4
Current assets	
Inventories	5
Trade and other receivables	66
Other current assets	7
Cash and cash equivalents	32
Liabilities	
Provisions for pensions and similar obligations	(3)
Financial debt	(54)
Lease liabilities	(2)
Other financial and non-financial liabilities	(52)
Net assets acquired	39
Goodwill	68
Non-controlling interests	(1)
Fair value of pre-existing interests	(29)
Consideration transferred according to IFRS 3	77
Less earn-out consideration	(2)
Less other deferred consideration	(5)
Less fair value of contributed assets	(4)
Consideration paid in cash	66
Cash and cash equivalents acquired	(33)
Cash outflow on acquisitions	33
Payments on prior year's acquisitions	8
Total cash flow from acquisition activities	41

In March 2020, Groupe M6, which belongs to RTL Group, sold its interests held in its subsidiary iGraal, the French leader in cashback, to German Global Savings Group (GSG), a major global player in digital marketing. The deal, which takes the form of a partial cash sale for €35 million and a share swap, valued iGraal at €126 million. As a result, Groupe M6 becomes the leading shareholder in GSG, with 42.72 percent of the capital and recognizes its results via the equity method (initial recognition of the investment in GSG at €91 million). Net of transaction-related costs, the transaction resulted in an overall gain of €78 million recognized in the item “Results from disposals of investments.”

The Arvato division sold 60 percent of its interest in informa Solutions GmbH to GUS Treasury Services B.V. in June 2020 for €230 million. The purchase price was settled by the transfer of

7.2 million ordinary shares of Experian plc, the parent company of GUS Treasury Services B.V., for a total of €223 million and a cash payment of €7 million. Net of transaction-related costs, the transaction resulted in an overall gain of €251 million recognized in the item "Results from disposals of investments." This gain includes €86 million from the fair value measurement of the Bertelsmann Group's remaining 40 percent interest in informa Solutions GmbH. This remaining 40 percent interest in informa Solutions GmbH is presented in the Bertelsmann Consolidated Financial Statements as an associate in the item "Investments accounted for using the equity method." The fair value of these shares determined at the time of disposal was €123 million.

In October 2020, RTL Group sold its entire interest in BroadbandTV to BBTV Holdings Inc. for €102 million (CAN$159 million) paid in cash. At the same time, and as part of the same transaction, RTL Group obtained a convertible note of €15 million measured at fair value through profit or loss (level 3). Net of transaction-related costs, the transactions resulted in an overall gain of €80 million recognized in the item "Results from disposals of investments."

After considering the cash and cash equivalents disposed of, the Bertelsmann Group recorded cash flows in the amount of €337 million (previous year: €228 million) from all disposals. The disposals resulted in a gain from deconsolidation of €399 million (previous year: €72 million), which is recognized in the item "Results from disposals of investments." The following table shows their impact on the Bertelsmann Group's assets and liabilities at the time of deconsolidation:

Effects of Disposals

in € millions	iGraal	informa Solutions	BroadbandTV	Other	Total
Non-current assets					
Goodwill	41	79	25	32	177
Other intangible assets	2	10	6	8	26
Property, plant and equipment and right-of-use assets	–	3	1	8	12
Other non-current assets	3	–	–	3	6
Current assets					
Inventories	–	–	–	15	15
Other current assets	20	12	31	20	83
Cash and cash equivalents	9	10	14	12	45
Liabilities					
Provisions for pensions and similar obligations	–	2	–	2	4
Financial debt	–	–	1	1	2
Lease liabilities	–	2	1	8	11
Other financial and non-financial liabilities	27	19	59	33	138

Discontinued Operations

Earnings after taxes from discontinued operations of €1 million reported in the comparative period comprise follow-on effects related to the disposal of companies of the former Direct Group division.

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

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

Assets Held for Sale and Related Liabilities

in € millions	SpotX	Prisma Media	Other	Total as of 12/31/2020	Total as of 12/31/2019
Assets					
Non-current assets					
Goodwill	108	129	–	237	44
Other intangible assets	17	16	–	33	4
Property, plant and equipment and right-of-use assets	9	34	–	43	8
Investments accounted for using the equity method	–	–	2	2	1
Other non-current assets	1	–	–	1	2
Deferred tax assets	–	5	–	5	1
Current assets					
Inventories	–	9	–	9	9
Trade and other receivables	218	68	–	286	20
Other current assets	3	5	–	8	7
Cash and cash equivalents	72	–	–	72	7
Impairment on assets held for sale	–	–	–	–	(1)
Assets held for sale	428	266	2	696	102
Equity and liabilities					
Non-current liabilities					
Provisions for pensions and similar obligations	–	14	–	14	–
Deferred tax liabilities	1	2	–	3	–
Lease liabilities	3	24	–	27	–
Trade and other payables	1	–	–	1	–
Current liabilities					
Other provisions	–	6	–	6	1
Lease liabilities	2	8	–	10	–
Trade and other payables	218	36	–	254	25
Other current liabilities	9	49	–	58	19
Liabilities related to assets held for sale	234	139	–	373	45

As of December 31, 2020, the carrying amounts of the assets classified as held for sale and related liabilities are mainly attributable to the RTL Group and Gruner + Jahr divisions.

In the last quarter of 2020, the management of RTL Group conducted negotiations on the disposal of the SpotX Inc. and its main subsidiaries ("SpotX"). Accordingly, SpotX was reclassified as a disposal group as of December 31, 2020. As of December 31, 2020, €13 million of accumulated other comprehensive income relates to assets classified as held for sale in accordance with IFRS 5. In February 2021 – during the preparation of the Consolidated Financial Statements – RTL Group announced that it had signed an agreement for the sale of SpotX to Magnite. The purchase price consists of US$560 million in cash and 14.0 million shares of Magnite stock. The transaction is subject to approval by regulatory authorities and is expected to close in the second quarter of 2021.

In addition, Gruner + Jahr signed a put option on the disposal of Prisma Media in December 2020. The planned disposal is subject to the information and consultation of Prisma Media's employee representatives, approval from antitrust authorities, and preparing all legal documents. The transaction is expected to be completed in the first half of 2021.

For disposal groups, which were measured at fair value less costs to sell, no impairment losses attributable to planned or completed disposals were recognized. The fair values are based on level 3 of the hierarchy of non-recurring fair values. Valuations for level 3 are based on information from contract negotiations.

Foreign Currency Translation

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

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

Euro Exchange Rates for Significant Foreign Currencies

		Average rates		Closing rates	
Foreign currency unit per €1		2020	2019	12/31/2020	12/31/2019
Australian dollar	AUD	1.6524	1.6096	1.5896	1.5995
Canadian dollar	CAD	1.5313	1.4872	1.5633	1.4598
Chinese renminbi	CNY	7.8809	7.7366	8.0225	7.8205
British pound	GBP	0.8896	0.8777	0.8990	0.8508
US dollar	USD	1.1422	1.1206	1.2271	1.1234

Accounting and Measurement Policies

Recognition of Income and Expense

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

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

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

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

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

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

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

Goodwill

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

Other Intangible Assets

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

Property, Plant and Equipment

Items of property, plant and equipment are accounted for in accordance with IAS 16 and carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined on a straight-line basis over the estimated useful life of the asset. In the financial year 2020, depreciation was generally based on the following useful lives:

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

Land is not subject to depreciation.

Impairment

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

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

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

Leases

Generally, for all leases with the Bertelsmann Group as a lessee the related contractual rights and obligations are recognized on the balance sheet as a right-of-use asset and a lease liability. On the date of initial accounting, lease liabilities are recognized at the present value of the outstanding lease payments. The lease payments include fixed payments less any lease incentives due from the lessor, variable lease payments linked to an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the exercise is reasonably certain and penalty payments for terminating the lease, if the lease term reflects the exercise of the termination option. Variable lease payments linked to sales are recognized in profit or loss in the period when the conditions for the payments have been met. The present value is determined using maturity-, currency- and risk-specific incremental borrowing rates. Subsequent measurement of a lease liability includes the increase of the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. Right-of-use assets are measured at cost less any accumulated depreciation and accumulated impairment losses. Cost comprises the amount of lease liabilities recognized, the initial direct costs and the lease payments made at or before the commencement date of the lease, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life or lease term. Short-term leases with a lease term of up to one year, and leases for low-value assets for which the Bertelsmann Group does not recognize right-of-use assets or lease liabilities, constitute an exception. For such leases, the payments are recognized on a straight-line basis as expenses in the income statement under "Other operating expenses." If control of an underlying asset is transferred as defined in IFRS 15, the Bertelsmann Group as the seller and lessee recognizes the asset in the amount of the proportional right of use retained. The gain or loss from the sales transaction as the proportional amount of the rights transferred to the lessor is recognized through profit or loss in the item "Other operating income" or "Other operating expenses."

Financial Assets

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

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

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

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

Financial assets (with the exception of trade receivables without a significant financing component) are recognized initially at fair value, taking into account transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets recognized at fair value through profit or loss are immediately expensed in profit or loss. Trade receivables without a significant financing component are initially recognized at their transaction price.

Subsequent measurement of financial instruments depends on the classification categories:

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

Impairment and measurement of expected credit losses:
Bertelsmann applies the expected credit loss (ECL) model in accordance with IFRS 9 for debt instruments at amortized cost

and for contract assets. Accordingly, the amount of expected credit losses recognized as a loss allowance depends on the extent to which the default risk has increased since initial recognition. According to the so-called general approach, a distinction is made between the following two measurement bases:

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

Appropriate quantitative and qualitative information and analyses based on the Group's historical experience and reasonable assessments, including forward-looking information such as customer-specific information and forecasts of future economic conditions, are taken into consideration when determining the credit risk. When a financial asset is more than 30 days past due, its credit risk is assumed to have increased significantly. A default of a financial asset is assumed at the latest when the counterparty fails to make contractual payments within 90 days of when they fall due, unless reasonable and supportable information is available that justifies a different time of overdue payment. The Group assesses whether a financial asset is credit-impaired at the end of each reporting period. This is the case when one or more events that have a detrimental impact on the expected future cash flows of that financial asset have occurred. A financial asset is written off when it is no longer reasonably expected to be fully or partially recoverable.

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

Measurement at Fair Value

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

Inventories

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

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

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

Income Taxes

In accordance with IAS 12, income taxes include both current taxes on income and deferred taxes. Current income taxes are calculated on the taxable income of the financial year and on all adjustments to taxable income of previous financial years, taking into account the tax rates applicable in each case. For the calculation of current and deferred taxes, the applicable tax laws and tax jurisdictions of the respective country in which the consolidated Group companies are registered are considered.

In 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 reviewed at each balance sheet date and recognized to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax loss carryforwards and tax credits can be utilized. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred taxes are not recognized for:

- temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither earnings before taxes nor taxable income
- temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future
- taxable temporary differences on initial recognition of goodwill

The tax rates applied for computation are those expected as of the date of reversal of temporary differences and use of tax loss carryforwards or tax credits, respectively. As a rule, current and deferred taxes are recognized in profit or loss unless they relate to items recognized in other comprehensive income. In this case, current and deferred taxes are recognized in other comprehensive income.

Current and deferred income tax items are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the tax assets and tax liabilities relate to income taxes levied by the same taxation authority.

Accumulated Other Comprehensive Income

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

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

Provisions

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

Financial Liabilities

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

Derivative Financial Instruments

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

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

- Fair value hedge: Changes in the fair value of these derivatives used to hedge assets or liabilities are recognized in profit or loss; the corresponding gain or loss on the change in fair value of the underlying balance sheet item is also directly included in the income statement.
- 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. Upon receiving an underlying non-financial asset or a non-financial liability, the amount is reclassified from accumulated other comprehensive income to the respective item. In other cases, the reclassification of the previously recognized gains and losses from equity to the income statement is performed when the hedged underlying transaction affects profit or loss. The ineffective portion of the changes in the fair value of the hedging instrument is recognized in profit or loss.
- Stand-alone hedge: Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss.

In the financial year 2020, no hedge transactions were recognized with fair value hedges. Likewise, no hedge of net investment in foreign operations was made.

Share-Based Payments

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

Non-Current Assets Held for Sale and Related Liabilities

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

Significant Accounting Judgments, Estimates and Assumptions

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

- Recognition of income and expense: In the event of return rights, mostly for print products, estimates must be made with regard to the anticipated return volume, as revenues are recognized taking the anticipated returns into account. Return ratios determined using statistical methods are used to identify the anticipated returns. The transaction prices to be determined using the contract-based five-step model defined in IFRS 15 often include both fixed and variable consideration. The variable components are determined on the basis of estimates, which are made and updated in accordance with constraint conditions. For various business models, qualitative estimates must be made as part of principal-agent considerations as to who is to be regarded as a customer of a Bertelsmann company and whether a Bertelsmann company is to be regarded as principal or agent in a transaction.
- Control of entities in which the Bertelsmann Group holds less than half of the voting rights: Management considers that the Bertelsmann Group has de facto control of Groupe M6, which belongs to RTL Group, even though it holds less than 50 percent of the voting rights. RTL Group is the major shareholder of Groupe M6, while the balance of other holdings remains highly dispersed, and the other shareholders have not organized their interest in such a way that they intend to vote differently from the Bertelsmann Group. In addition, the Bertelsmann Group has a majority in relevant governing bodies and the decision-making rights over the relevant activities of Groupe M6 resulting from this majority. Furthermore, management considers that the Bertelsmann Group also has control of the CRM company Majorel, which belongs to Arvato, with 50 percent of the voting rights. Bertelsmann Group has a majority in relevant governing bodies and the decision-making rights over the relevant activities of the company resulting from this majority and therefore includes it as a subsidiary in the Consolidated Financial Statements.
- Significant influence although the Bertelsmann Group holds less than 20 percent of the equity shares in another entity: Although the Bertelsmann Group holds less than 20 percent of the equity shares of Atresmedia, management considers that the Group exercises a significant influence on Atresmedia in view of the representation of RTL Group on the Board of Directors and other governing bodies of Atresmedia.
- Investments in equity instruments: The measurement of various investments in equity instruments recognized at fair value that are not based on prices quoted on active markets is based on observable prices obtained as part of the most recently implemented qualified financing rounds, taking into account the life and developmental cycle of the respective entity, or on valuations obtained on the basis of established financial methods using risk-adjusted discount rates. Further adjustments are made for financial instruments with contractual lockups.
- Trade and other receivables: Calculation of loss allowance for accounts receivable is based on historical credit loss rates for groups of financial assets with similar credit risk characteristics and on forward-looking information, including customer-specific information and forecasts of future economic conditions.
- Advance payments: Sales estimates and assumptions on future sales success are made in connection with advances paid to authors to secure exploitation rights for their publications.
- Impairment: The management's estimates of cash flow, on which impairment tests are based, are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments, EBITDA margins and growth rates. A combination of long-term trends, industry

forecasts and in-house knowledge, with special emphasis on recent experience, is used in forming the assumptions about the development of the various relevant markets in which the Bertelsmann Group operates. The relevant markets are an area highly exposed to the general economic conditions. The development of the relevant markets is just one of the key operational drivers the Bertelsmann Group uses when assessing individual business models. The most important assumptions include estimated growth rates, the weighted average cost of capital and tax rates. All these different elements are variable, interrelated and difficult to isolate as the main driver of the various business models and respective valuations. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. The growth rates applied are based on long-term real growth rates for the relevant economies, growth expectations for the relevant sectors and long-term inflation forecasts for the countries in which the cash-generating units operate. The values allocated to the key assumptions are in line with external sources of information. The figures obtained using the respective discount rates reflect the recoverable amount of the cash-generating units. Material changes in the market or competitive environment may impair the value of cash-generating units. Details on impairment testing for intangible assets (including goodwill) in the Bertelsmann Group are presented in note 9 "Intangible Assets." In addition, in the case of sports and film rights, estimates are made with regard to anticipated revenues.

- Pension obligations: Pension obligations are measured using the projected unit credit method. Using this approach, biometric calculations, the prevailing long-term capital market interest rates and, in particular, assumptions about future salary and pension increases are taken into account. As a result of the decrease in the discount rate for measuring provisions for pensions, actuarial losses amounting to €255 million before related tax effects were recognized in the item "Remeasurement component of defined benefit plans." Details on the assumptions made in pension accounting are presented in note 18 "Provisions for Pensions and Similar Obligations."
- Provisions for onerous contracts and warranties are also based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation, whether an outflow of resources is probable and whether it is possible to reliably determine the amount of the obligation are generally based on the expertise of in-house or third-party specialists. More recent information could change the estimates and thus impact the Group's financial position and financial performance. The legal and regulatory environment in which Bertelsmann operates does not bear significant litigation risks. With regard to risk provisioning, a provision for potential losses from litigation is recognized when the risks of a loss are considered probable and when a reliable estimate of the anticipated financial impact is possible. For significant contingent liabilities for which the possibility of a future loss is more than remote but less than probable, the Bertelsmann Group estimates the possible loss where the Group believes that an estimate can be made. Contingent liabilities from litigation that were of subordinate significance from a Group perspective existed at the end of the reporting period. Management regularly reviews the recognition, measurement and use of provisions along with the disclosure requirements for contingent liabilities.
- Leases: Some real estate lease contracts include extension or termination options. Payments from these optional periods are included in the lease liability, provided it is reasonably certain that the lease will be extended beyond the non-cancellable lease period or that a termination option will not be exercised. In assessing whether an option to extend or terminate will be exercised, management considers all facts and circumstances that are associated with an economic incentive to exercise the option or not to exercise it. These include, in particular, the amount of lease payments compared to market prices in the optional period, completed or expected leasehold improvements, and the importance of the underlying asset to the Bertelsmann Group's operations.

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

The activities of the Group companies are subject to the respective applicable tax laws and pronouncements. Assumptions and estimates also form the basis for judgments regarding the ability to realize uncertain tax positions and future tax benefits that may arise from the interpretation of tax regulations. Recognition of an asset or liability from an uncertain tax position is performed in accordance with IAS 12 if payment or refund in respect of the legal uncertainty is probable. Measurement of the uncertain tax assets and tax liabilities is at its most likely amount in accordance with IFRIC 23. Deferred tax assets are only carried to the extent that it is probable that they can be utilized against future taxable profits. When assessing the probability of the ability to use deferred tax assets in the future, various factors are taken into account, including past earnings, company forecasts, tax planning strategies and loss carryforward periods. Information relating to the ability to realize tax benefits is presented in note 8 "Income Taxes."

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

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

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

Prior-Year Information

As a result of the further development of the business model of a company within RTL Group, the presentation of that company's program rights has been reclassified from non-current to current assets. The corresponding prior-year comparatives were adjusted for better comparability. As the measurement has not changed, there is no effect on EBIT within the income statement, whereas operating EBITDA decreased in the segment reporting. Based on the carrying amounts, the item "Music and film rights" within the balance sheet position "Other intangible assets" decreased by €26 million, with a corresponding increase of the item "Program rights" within the balance sheet position "Inventories" as of December 31, 2019. On the income statement, the prior-year comparatives for the item "Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets" decreased by €22 million and for the item "Cost of materials" increased by €22 million. Accordingly, the comparatives for the items "Cash flow from operating activities" and "Cash flow from investing activities" also decreased and increased, respectively, by €30 million in each case for the year 2019.

In September 2019, Groupe M6 acquired a 100 percent interest in Jeunesse TV SAS, Lagardère Thématiques SAS (renamed Jeunesse Thématiques SAS) and LTI Vostok LLC. Initial accounting of the acquisition had not yet been completed in the last financial year. In accordance with IFRS 3.49, goodwill from the acquisition of Youth Television Business decreased from €193 million to €126 million. The decrease results mainly from the valuation of intangible assets acquired for a total of €90 million (including €38 million for brands, almost all for the brand Gulli, and €52 million for customer relationships) and respective adjustments in the deferred tax liability of €23 million. Due to the finalization of the purchase price allocation in 2020, the consolidated balance sheet figures from the previous year have been adjusted accordingly.

Notes to the Income Statement and the Balance Sheet

1 Revenues

In the financial year 2020, Group revenues of €17,007 million were generated from contracts with customers in accordance with IFRS 15 (previous year: €17,783 million). The other revenues amounting to €282 million (previous year: €240 million) not in the scope of IFRS 15 resulted almost entirely from financial services in the Arvato division. The following table only shows the revenues from contracts with customers in accordance with IFRS 15 by division and broken down by revenue source, geographical area and timing of revenue recognition. The categorization of revenue sources and geographical areas shown corresponds to that used in segment reporting.

Revenue from Contracts with Customers

	2020							
in € millions	RTL Group	Penguin Random House	Gruner + Jahr	BMG	Arvato	Bertelsmann Printing Group	Bertelsmann Education Group	Total divisions[1]
Revenue Sources								
Own products and merchandise	89	3,647	496	43	75	20	–	4,370
Services	332	104	258	–	3,958	1,173	301	6,126
Advertising	3,289	–	333	–	–	20	–	3,642
Rights and licenses	2,229	50	15	556	–	–	–	2,850
	5,939	3,801	1,102	599	4,033	1,213	301	16,988
Geographical Areas								
Germany	1,885	277	735	45	1,440	775	2	5,159
France	1,242	10	239	50	462	50	–	2,053
United Kingdom	195	454	29	82	233	122	1	1,116
Other European countries	1,430	325	67	71	1,184	148	–	3,225
United States	1,035	2,208	16	299	337	108	291	4,294
Other countries	152	527	16	52	377	10	7	1,141
	5,939	3,801	1,102	599	4,033	1,213	301	16,988
Timing								
Point in time	1,855	3,695	716	143	101	35	–	6,545
Over time	4,084	106	386	456	3,932	1,178	301	10,443
	5,939	3,801	1,102	599	4,033	1,213	301	16,988

1) Excluding Bertelsmann Investments and Corporate activities.

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

1) Excluding Bertelsmann Investments and Corporate activities.

During the reporting period, the revenues from contracts with customers comprise performance obligations fulfilled at a certain point in time of €6,545 million (previous year: €7,015 million) and performance obligations fulfilled over a certain period of time of €10,443 million (previous year: €10,733 million). If revenue is recognized at a point in time, the respective timing of revenue recognition is determined by the contractually agreed terms of sale. For performance obligations satisfied over time, a sufficient measure of progress is determined generally based on output methods to recognize revenue accordingly. Input methods are used to determine revenue recognition in business models for which they more accurately measure progress. Revenues amounting to €4 million (previous year: €7 million) result from performance obligations already satisfied in previous periods. Bertelsmann makes use of practical expedients set out in IFRS 15 and does not disclose any unsatisfied performance obligations for contracts with an original duration of no more than 12 months, or for contracts for which revenue can be recognized according to the amount invoiced for simplification purposes. As of December 31, 2020, Bertelsmann expects future revenues from existing long-term service level agreements of €996 million (previous year: €1,210 million), which will be attributable to unsatisfied (or partially unsatisfied) performance obligations as of the balance sheet date and is expected to be recognized in the amount of €408 million (previous year: €451 million) in the next financial year and in the amount of €588 million (previous year: €759 million) in the following years.

2 Other Operating Income

in € millions	2020	2019
Gains from disposals of non-current assets	246	12
Income from reimbursements	67	77
Fair value measurement of investments	59	143
Income from sideline operations	47	50
Sundry operating income	263	173
	682	455

The item "Fair value measurement of investments" mainly relates to financial instruments held in the portfolio of the Bertelsmann Investments division. Bertelsmann Investments assigns its minority stakes in start-ups and fund-of-fund investments to the fair value through profit or loss category in accordance with IFRS 9. Further details are presented in note 12 "Minority Stakes and Other Financial Assets." The increase in gains from disposals of non-current assets mainly results from sale-and-leaseback transactions in the financial year 2020 in the total amount of €235 million. The item "Sundry operating income" includes €147 million from the sale of an office space. This was acquired under a purchase option, immediately resold and subsequently leased back. Further details on this transaction are presented in note 10 "Property, Plant and Equipment and Right-of-Use Assets." Additionally, the item consists of a number of individually immaterial matters in the subsidiaries.

3 Personnel Costs

in € millions	2020	2019
Wages and salaries	4,510	4,507
Statutory social security contributions	693	701
Expenses for pensions and similar obligations	149	131
Profit sharing	88	96
Other employee benefits	182	210
	5,622	5,645

The contributions paid by the employer to state pension plans amounted to €320 million (previous year: €367 million) in the financial year 2020.

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

in € millions	2020	2019
Amortization/depreciation, impairment and reversals on		
– intangible assets	487	492
– property, plant and equipment and right-of-use assets	553	537
	1,040	1,029

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

5 Other Operating Expenses

in € millions	2020	2019
Administrative expenses	998	1,102
Selling and transmission expenses	608	645
Loss allowances on receivables, loans and non-financial assets	340	257
Advertising costs	311	406
Consulting and audit fees	169	168
Operating taxes	93	104
Losses on disposals of non-current assets	11	9
Foreign exchange losses	1	6
Adjustment to carrying amounts on assets held for sale	–	7
Sundry operating expenses	153	173
	2,684	2,877

The item "Administrative expenses" includes repair and maintenance costs of €190 million (previous year: €195 million) and costs for IT services of €218 million (previous year: €204 million). In the financial year 2020, expenses from short-term leases in the amount of €32 million (previous year: €48 million) and expenses from leases for low-value assets in the amount of €11 million are also included in this item (previous year: €10 million). The item "Loss allowances on receivables, loans and non-financial assets" comprises mainly loss allowances on advance payments for royalties and licenses of the Penguin Random House division amounting to €230 million (previous year: €199 million). The item "Sundry operating expenses" consists of a number of individually immaterial matters in the subsidiaries.

6 Interest Income and Interest Expenses

in € millions	2020	2019
Interest income		
Interest income on cash and cash equivalents	3	5
Other interest income	7	8
	10	13
Interest expenses		
Interest expenses on financial debt	(134)	(108)
Interest expenses on interest rate derivatives	(1)	(1)
Other interest expenses	(20)	(8)
	(155)	(117)

7 Other Financial Income and Expenses

in € millions	2020	2019
Other financial income		
Financial income from put options	–	10
Non-operating foreign exchange gains	–	3
Sundry financial income	8	11
	8	24
Other financial expenses		
Net interest on defined benefit plans	(24)	(32)
Interest expenses on lease liabilities	(41)	(43)
Dividend entitlement on profit participation certificates	(44)	(44)
Financial expenses from put options	(1)	–
Minority interests in partnerships	(10)	(11)
Non-operating foreign exchange losses	(6)	–
Other non-operating expenses from derivatives	(48)	(65)
Sundry financial expenses	(28)	(34)
	(202)	(229)

To better reflect the economic content, income and expenses from non-operating foreign currency hedging transactions are offset against the results from the measurement of the economically hedged items in foreign currency, and are recognized as non-operating foreign exchange gains or losses. In the financial year 2020, the net results from these non-operating foreign currency transactions of €-193 million (previous year: €68 million) were offset against the net results from hedged foreign currency transactions amounting to €187 million (previous year: €-65 million).

8 Income Taxes

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

Income Taxes

in € millions	2020	2019
Earnings before income taxes (total)	1,937	1,517
Current income taxes from continuing operations	(489)	(375)
Deferred income taxes from continuing operations	11	(51)
Income taxes from continuing operations	(478)	(426)
Current income taxes from discontinued operations	–	–
Deferred income taxes from discontinued operations	–	–
Income taxes from discontinued operations	–	–
Total income taxes	(478)	(426)
Net income after income taxes (total)	1,459	1,091

Tax loss carryforwards of €397 million (previous year: €612 million) were utilized in the financial year 2020, reducing current tax expenses by €83 million (previous year: €141 million). Of the tax loss carryforwards utilized, €10 million (previous year: €6 million) was due to German corporate income tax, €11 million (previous year: €6 million) was due to German trade tax and €376 million (previous year: €600 million) was due to foreign income taxes. These amounts include €66 million (previous year: €19 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past. These relate in the amount of €9 million to German corporate tax (previous year: €4 million), in the amount of €10 million to German trade tax (previous year: €4 million) and to foreign income taxes in the amount of €47 million (previous year: €11 million). As a result of this utilization, current tax expense decreased by €13 million (previous year: €4 million).

The recognition of previously unrecognized tax loss carryforwards, deductible temporary differences and tax credits resulted in a reduction in deferred tax expense of €15 million (previous year: €1 million). The write-down or reversal of a previous write-down of deferred tax assets resulted in a net deferred tax expense of €41 million (previous year: tax income of €13 million).

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

Deferred Taxes

	12/31/2020			12/31/2019		
in € millions	Assets	Equity and liabilities	Recognized in profit or loss in the financial year	Assets	Equity and liabilities	Recognized in profit or loss in the financial year
Goodwill	35	91	(5)	37	93	10
Other intangible assets	117	297	17	131	340	101
Property, plant and equipment and right-of-use assets	58	369	31	50	421	(69)
Investments accounted for using the equity method	1	–	1	1	–	–
Minority stakes and other financial assets	61	47	39	22	45	15
Inventories	240	8	13	228	4	(11)
Trade and other receivables	313	96	43	257	76	42
Other non-financial assets	65	91	28	54	106	(14)
Cash and cash equivalents	–	3	2	1	6	–
Provisions for pensions and similar obligations	1,005	389	(12)	906	333	(12)
Other provisions	112	51	2	126	59	(31)
Financial debt	1	137	(10)	3	129	(75)
Lease liabilities	393	5	(13)	432	3	83
Trade and other payables	113	32	11	112	46	27
Other non-financial liabilities	23	9	8	15	9	(11)
Loss carryforwards/tax credits	119		(144)	264		(106)
Total	2,656	1,625	11	2,639	1,670	(51)
Offset	(1,532)	(1,532)		(1,552)	(1,552)	
Carrying amount	1,124	93		1,087	118	

The item “Property, plant and equipment and right-of-use assets” includes deferred tax assets of €11 million (previous year: €2 million) and deferred tax liabilities of €331 million (previous year: €386 million) in connection with right-of-use assets in accordance with IFRS 16.

No deferred tax liabilities were recognized for temporary differences in connection with investments in subsidiaries in the amount of €501 million (previous year: €507 million) as Bertelsmann can control their reversal, and it is probable that these temporary differences will not be reversed in the foreseeable future. Current and deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and meet the criteria for offsetting. The term of the deferred taxes on temporary differences is mostly long-term.

Deferred tax assets in other comprehensive income amount to €595 million (previous year: €536 million).

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

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

Expiration

in € millions	12/31/2020	12/31/2019
Temporary differences (unlimited carryforward period)	99	145
Tax loss carryforwards		
Unlimited carryforward period	5,644	5,643
To be carried forward for more than 5 years	132	204
To be carried forward for up to 5 years	279	65
Tax credits		
Unlimited carryforward period	–	–
To be carried forward for more than 5 years	2	2
To be carried forward for up to 5 years	–	1

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

Reconciliation to Actual Tax Expense

in € millions	2020	2019
Earnings before income taxes from continuing operations	1,937	1,516
Income tax rate applicable to Bertelsmann SE & Co. KGaA	31.10%	31.00%
Expected tax expense from continuing operations	(602)	(470)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment to different national tax rates	59	5
Effect of changes in tax rate and tax law	(9)	(5)
Non-tax-deductible impairment on goodwill	(35)	(7)
Tax effects in respect of results from disposals of investments	126	31
Current income taxes for previous years	5	(5)
Deferred income taxes for previous years	(10)	16
Effects of measurements of deferred tax assets	(20)	14
Permanent differences	24	5
Other adjustments	(16)	(10)
Total of adjustments	124	44
Actual tax expense from continuing operations	(478)	(426)

In the financial year 2020, income taxes include, in particular, positive effects from favorably taxed gains on disposal of investments. The positive effects from tax rate differences mainly result from the Group companies in the United States and United Kingdom. The effects from the measurement of deferred tax assets result from adjustments to the planned utilization of tax loss carryforwards and tax credits.

Effective Income Tax Rate

	2020	2019
Corporate income tax including solidarity surcharge	15.83%	15.83%
Trade tax	15.27%	15.17%
Effective income tax rate	31.10%	31.00%

The effective tax rate is based on the tax rate of the German Group parent entity Bertelsmann SE & Co. KGaA and includes corporate income tax, the solidarity surcharge and trade tax. In addition, the Group operates mainly in the United States with a tax rate from 21.00 percent to 25.10 percent and in France with a tax rate of 32.02 percent.

9 Intangible Assets

in € millions	Goodwill	Other intangible assets: Music and film rights	Other intangible assets: Other rights and licenses	Other intangible assets: Internally generated intangible assets	Other intangible assets: Advance payments	Other intangible assets: Total	Total
Cost							
Balance as of 1/1/2019	8,918	3,063	2,295	1,055	14	6,427	15,345
Exchange differences	55	48	30	8	–	86	141
Acquisitions through business combinations	182	–	126	–	–	126	308
Other additions	–	119	128	42	26	315	315
Reductions through disposal of investments	(121)	–	(31)	(16)	–	(47)	(168)
Other disposals	–	(112)	(47)	(17)	–	(176)	(176)
Reclassifications in accordance with IFRS 5	(44)	–	(94)	(8)	–	(102)	(146)
Reclassifications and other changes	1	(19)	(16)	61	(23)	3	4
Balance as of 12/31/2019	8,991	3,099	2,391	1,125	17	6,632	15,623
Exchange differences	(206)	(114)	(106)	(43)	(1)	(264)	(470)
Acquisitions through business combinations	68	2	19	2	–	23	91
Other additions	–	89	211	36	19	355	355
Reductions through disposal of investments	(181)	–	(109)	(35)	–	(144)	(325)
Other disposals	–	(48)	(35)	(9)	–	(92)	(92)
Reclassifications in accordance with IFRS 5	(348)	–	(57)	(22)	(1)	(80)	(428)
Reclassifications and other changes	(1)	(115)	(32)	23	(21)	(145)	(146)
Balance as of 12/31/2020	8,323	2,913	2,282	1,077	13	6,285	14,608
Accumulated amortization							
Balance as of 1/1/2019	491	1,624	1,252	961	–	3,837	4,328
Exchange differences	2	11	15	7	–	33	35
Amortization	–	159	166	53	–	378	378
Impairment losses	27	–	86	1	–	87	114
Reversals of impairment losses	–	–	–	–	–	–	–
Reductions through disposal of investments	–	–	(3)	(12)	–	(15)	(15)
Other disposals	–	(111)	(44)	(16)	–	(171)	(171)
Reclassifications in accordance with IFRS 5	–	–	(58)	(4)	–	(62)	(62)
Reclassifications and other changes	1	8	(4)	41	–	45	46
Balance as of 12/31/2019	521	1,691	1,410	1,031	–	4,132	4,653
Exchange differences	(22)	(32)	(59)	(40)	–	(131)	(153)
Amortization	–	150	168	45	–	363	363
Impairment losses	116	3	5	4	1	13	129
Reversals of impairment losses	–	(3)	–	(1)	(1)	(5)	(5)
Reductions through disposal of investments	(49)	–	(97)	(26)	–	(123)	(172)
Other disposals	–	(46)	(32)	(8)	–	(86)	(86)
Reclassifications in accordance with IFRS 5	(111)	–	(36)	(11)	–	(47)	(158)
Reclassifications and other changes	–	(132)	(4)	(3)	–	(139)	(139)
Balance as of 12/31/2020	455	1,631	1,355	991	–	3,977	4,432
Carrying amount as of 12/31/2020	7,868	1,282	927	86	13	2,308	10,176
Carrying amount as of 12/31/2019	8,470	1,408	981	94	17	2,500	10,970

Other rights and licenses include brands and publishing rights, acquired customer relationships along with acquired software, and other licenses. In the financial year, BMG acquired music catalogs in the amount of €58 million, €15 million of which related to various music catalogs in the United Kingdom, €34 million to various music catalogs in the United States, and €6 million to various music catalogs in Germany. Internally generated intangible assets mostly include own film and TV productions and internally generated software. As in the previous year, no intangible assets were subject to restrictions on disposal as of the end of the reporting period.

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

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

	Goodwill		Other intangible assets with indefinite useful life	
in € millions	12/31/2020	12/31/2019	12/31/2020	12/31/2019
RTL Group	4,994	5,149	164	127
RTL Group, Group level	2,123	2,123	–	–
Fremantle	1,046	1,047	–	–
Mediengruppe RTL Deutschland	971	968	–	–
Groupe M6	592	595	164	127
RTL Nederland	159	159	–	–
Yospace (2020)/SpotX (2019)	8	126	–	–
Other	95	131	–	–
Penguin Random House	946	1,009	–	–
Gruner + Jahr	244	436	–	–
Magazines and digital business Germany	227	290	–	–
Magazines and digital business France	–	129	–	–
Newspapers	17	17	–	–
BMG	365	364	–	–
Arvato	482	543	–	–
Financial Solutions	360	420	–	–
Other	122	123	–	–
Bertelsmann Printing Group	17	40	–	–
Print US	8	23	–	–
Other	9	17	–	–
Bertelsmann Education Group	820	921	–	–
Online Learning	814	889	–	–
Education Services	–	26	–	–
Other	6	6	–	–
Bertelsmann Investments	–	9	–	–
	7,868	8,470	164	127

As part of the complete acquisition of the trade book publisher Penguin Random House on April 1, 2020, German Verlagsgruppe Random House was merged with the international publishing group. The segment Penguin Random House is therefore reported as one cash-generating unit as of December 31, 2020.

Intangible assets with indefinite useful life primarily concern Groupe M6 trademark rights in France (€120 million; previous year: €120 million) and brands related to Gulli (€38 million), which also belongs to Groupe M6. In determining that the M6 brand has an indefinite useful life, management has considered various factors such as the historical and expected longevity of the brand, the impact of possible changes in broadcasting technologies, the impact of possible evolutions of the regulatory environment in the French television industry, the current and expected audience share of the M6 channel, and management's strategy to maintain and strengthen the trademark "M6." As of December 31, 2020, based on the analysis of these factors, there is no foreseeable limit to the period of time over which the M6 brand is expected to generate cash inflows. Given their positioning, the market's awareness of the brands and their history, Gulli-related brands are considered to also have an indefinite useful life.

For the purpose of impairment testing in accordance with IAS 36, goodwill from a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. The recoverable amount of the impairment test for RTL Group's goodwill recognized at Group level was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2020, the market price of RTL Group S.A. shares on the Frankfurt Stock Exchange was €39.74 (previous year: €43.98). No impairment was identified for goodwill carried. In addition, the value in use was calculated using a discounted cash flow method (level 3) based on a WACC of 6.7 percent (previous year: 5.8 percent) and a long-term growth rate of 0.5 percent (previous year: 0.5 percent). The value in use determined exceeded the fair value determined from the stock market price. The fair value of the cash-generating unit Groupe M6 was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2020, the market price of Métropole Télévision shares on the Paris Stock Exchange was €13.26 (previous year: €16.78). As the fair value has not fully reached the carrying amount as of December 31, 2020, the value in use was also calculated using a discounted cash flow method (level 3) based on a WACC of 6.9 percent (previous year: 5.9 percent) and a long-term growth rate of 0.0 percent (previous year: 0.0 percent). The value in use determined significantly exceeded the carrying amount.

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

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

- In 2021, the TV advertising markets are projected to show slight growth in Germany; significant growth in France, the Netherlands and Hungary; and strong growth in Belgium and Spain. The streaming markets in Germany and the Netherlands are expected to continue growing strongly.
- The book markets are expected to remain stable overall.
- In 2021, in the magazine business in Germany, a strong decline is expected in the print advertising markets, as well as a significant decline in the circulation markets, while continued strong growth is expected in the digital segment.
- In the relevant music market, the publishing market segment is expected to decline significantly, whereas strong growth is projected for the recordings market segment.
- Service markets will likely show moderate growth in 2021, with the exception of the financial services market.
- The gravure market in Europe is expected to continue its strong decline in 2021, a significant decline is expected for the offset market in Europe, and a slight decline is expected in the book printing market in North America.
- Overall, sustained moderate to strong growth is anticipated for the relevant US education markets.

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

Overview of Growth and Discount Rates

	Growth rate in % for the year		Discount rate in % for the year	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
RTL Group				
Fremantle	1.8	1.8	8.2	7.6
Mediengruppe RTL Deutschland	0.5	0.5	6.5	5.6
RTL Nederland	0.0	0.0	6.0	5.4
Yospace (2020)/SpotX (2019)	2.0	2.0	10.2	10.1
Other	0.0–2.0	0.0–2.0	5.8–9.2	5.7–10.6
Penguin Random House	0.5	0.5	7.6	8.1
Gruner + Jahr				
Magazines and digital business Germany	0.0	0.0	6.1	5.8
Magazines and digital business France	n/a	0.0	n/a	6.1
Newspapers	0.0	0.0	5.6	5.8
BMG	2.0	2.0	6.8	6.1
Arvato				
Financial Solutions	1.5	1.0	6.7	5.6
Other	1.0–1.5	1.0	6.9–10.5	7.4–9.4
Bertelsmann Printing Group				
Print US	0.0	0.0	6.6	7.4
Other	0.0	0.0	5.1–6.1	5.3–6.0
Bertelsmann Education Group				
Online Learning	2.5	2.5	9.3	8.9
Education Services	n/a	1.0	n/a	9.0
Other	2.0	2.0	8.3	9.1
Bertelsmann Investments	3.0	4.0	14.5	13.7

In the financial year 2020, impairment losses on goodwill amounted to €116 million (previous year: €27 million). Impairment losses on goodwill and other intangible assets with indefinite useful lives are recognized in the income statement under “Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets.”

Of the impairment loss, €75 million is attributable to the cash-generating unit Magazines and digital business Germany. The structural trend of declining advertising and distribution revenues in the printed magazine sector, in conjunction with the deterioration of the short-term to medium-term cash flow forecasts due to the coronavirus pandemic, resulted in a recoverable amount of €296 million, which is below the carrying amount. The impairment loss was measured on the basis of the following assumptions: The discount rate was 6.1 percent (previous year: 5.8 percent) and the long-term growth rate was 0.0 percent (previous year: 0.0 percent). An increase in the discount rate by 1 percent or a decrease in the long-term growth rate by 1 percent would have resulted in an additional impairment loss of €37 million and €30 million, respectively.

A further €15 million relates to the cash-generating unit Print US. Due to the difficult market environment in the mass market segment and volume reductions at a major customer, the cash flow forecasts were adjusted. The recoverable amount of €31 million was less than the carrying amount. The impairment loss was measured on the basis of the following assumptions: The discount rate was 6.6 percent (previous year: 7.4 percent) and the long-term growth rate was 0.0 percent (previous year: 0.0 percent). An increase in the discount rate by 1 percent or a decrease in the long-term growth rate by 1 percent would have resulted in an additional impairment loss of €5 million and €4 million, respectively.

An additional €11 million relates to the cash-generating unit Divimove, which belongs to RTL Group and is recognized under "Other," a further €8 million relates to the cash-generating unit rtv, which belongs to Bertelsmann Printing Group and is recognized under "Other"; and a further €7 million relates to the cash-generating unit Afferolab, which belongs to Bertelsmann Investments.

In 2020, Fremantle was adversely impacted by the coronavirus pandemic, but was able to rapidly adjust to the new environment and resume productions. Driven by the high overall market demand for content from a diversified set of potential clients (e.g., broadcasters, platforms and streaming services) and Fremantle's well-diversified territorial coverage (Fremantle's network of local production and distribution companies operates in over 30 territories around the world), the exposure of Fremantle toward potentially long-lasting recessions of specific economies is limited. The pandemic has given rise to the "stay-at-home" economy, which, in part, has resulted in the streaming platforms continuing to increase their content spend in the race for streaming customers. The key drivers of growth in Fremantle in the coming years are expected to come from initiatives to develop new formats, from expanding its drama and factual entertainment pipeline, and from further diversification of its global footprint. Fremantle's slate of productions is underpinned by successful entertainment and game show brands such as "Idols," "Got Talent" and "Family Feud" and bolstered by a growing roster of drama productions, including "American Gods," "My Brilliant Friend" and "Charité." Based on the budget assumptions and on a DCF model with a perpetual EBITA margin of 8 percent, the headroom at the level of Fremantle amounts to €213 million (December 31, 2019: €366 million). In the event of an increase in the discount rate by 1.0 percentage point, a decrease in the long-term growth rate of 1.8 percentage points or a decrease in the EBITA margin of 1.2 percentage points, the recoverable amount would fall below the carrying amount.

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

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

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

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

in € millions	2020	2019
Owned property, plant and equipment	1,594	1,654
Right-of-use assets from leased property, plant and equipment	1,123	1,281
	2,717	2,935

Property, Plant and Equipment

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Cost					
Balance as of 1/1/2019	1,843	2,454	1,339	80	5,716
Exchange differences	10	17	9	1	37
Acquisitions through business combinations	–	2	5	–	7
Other additions	33	49	152	93	327
Reductions through disposal of investments	–	–	(4)	–	(4)
Other disposals	(32)	(91)	(95)	(2)	(220)
Reclassifications in accordance with IFRS 5	(47)	–	(19)	–	(66)
Reclassifications and other changes	17	47	37	(104)	(3)
Balance as of 12/31/2019	1,824	2,478	1,424	68	5,794
Exchange differences	(22)	(43)	(38)	(2)	(105)
Acquisitions through business combinations	8	2	1	–	11
Other additions	39	43	129	134	345
Reductions through disposal of investments	(1)	(1)	(7)	–	(9)
Other disposals	(201)	(100)	(114)	(1)	(416)
Reclassifications in accordance with IFRS 5	9	(2)	(43)	–	(36)
Reclassifications and other changes	13	47	18	(85)	(7)
Balance as of 12/31/2020	1,669	2,424	1,370	114	5,577
Accumulated depreciation					
Balance as of 1/1/2019	1,000	2,123	958	–	4,081
Exchange differences	6	15	7	–	28
Depreciation	54	80	135	–	269
Impairment losses	1	8	2	–	11
Reversals of impairment losses	–	–	–	–	–
Reductions through disposal of investments	–	–	(3)	–	(3)
Other disposals	(27)	(87)	(90)	–	(204)
Reclassifications in accordance with IFRS 5	(28)	–	(16)	–	(44)
Reclassifications and other changes	–	1	1	–	2
Balance as of 12/31/2019	1,006	2,140	994	–	4,140
Exchange differences	(12)	(35)	(23)	–	(70)
Depreciation	54	83	134	–	271
Impairment losses	–	4	3	–	7
Reversals of impairment losses	–	–	–	–	–
Reductions through disposal of investments	(1)	(1)	(12)	–	(14)
Other disposals	(123)	(91)	(108)	–	(322)
Reclassifications in accordance with IFRS 5	3	(1)	(36)	–	(34)
Reclassifications and other changes	(2)	1	6	–	5
Balance as of 12/31/2020	925	2,100	958	–	3,983
Carrying amount as of 12/31/2020	744	324	412	114	1,594
Carrying amount as of 12/31/2019	818	338	430	68	1,654

As of the end of the reporting period, property, plant and equipment totaling €8 million (previous year: €10 million) were subject to restrictions on disposals. Impairment testing of cash-generating units in the "Other" item of the Bertelsmann Printing Group division identified imputed shortfalls. Subsequent impairment testing of property, plant and equipment amounting to €67 million at the individual asset level resulted in an impairment of €3 million, which is mainly attributable to technical equipment and machinery. External assessments and appraisals were used in the impairment testing of property, plant and equipment.

Impairment losses totaling €7 million were recognized for property, plant and equipment (previous year: €11 million).

Right-of-Use Assets

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

Details on the corresponding lease liabilities are presented in note 22 “Lease Liabilities.”

The following table shows depreciation and impairment, additions and other changes to the right-of-use assets in the financial year 2020 as well as the carrying amounts of the right-of-use assets from leased property, plant and equipment as of December 31, 2020:

Change in Right-of-Use Assets

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Total
Carrying amount of leased property, plant and equipment as of 1/1/2020	1,240	6	35	1,281
Additions	235	6	19	260
Depreciation and impairment	(252)	(4)	(19)	(275)
Other changes	(140)	(2)	(1)	(143)
Carrying amount of leased property, plant and equipment as of 12/31/2020	1,083	6	34	1,123

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

The Bertelsmann Group made several sale-and-leaseback transactions in the reporting period. These are in line with Bertelsmann's real estate strategy, according to which office spaces are to be leased where economically viable. Sale-and-leaseback transactions release tied-up capital and generate a more appropriate return on invested capital when reinvested in the operating business. Lease liabilities of €134 million and right-of-use assets of €22 million were recognized in connection with sale-and-leaseback transactions.

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

In the Group's view, material non-controlling interests relate to RTL Group and the company Majorel. The proportion of ownership interests held by non-controlling interests in RTL Group, based in Luxembourg, is 23.7 percent after treasury shares (previous year: 24.0 percent). At RTL Group itself, material non-controlling interests relate to the subsidiary Groupe M6, based in Paris, France. The RTL Group has a 48.4 percent interest (previous year: 48.4 percent) in Groupe M6. Of the non-controlling interests of RTL Group, €634 million (previous year: €496 million) is attributable to Groupe M6. As of December 31, 2020, the proportion of ownership interests held by non-controlling interests in Majorel, a company belonging to the Arvato division, is 50.0 percent (previous year: 50.0 percent). Bertelsmann has a majority in relevant governing bodies and the resulting decision-making rights over the relevant activities of the company and therefore includes Majorel as a subsidiary in the Consolidated Financial Statements.

Change in Bertelsmann Shareholders' Equity

On April 1, 2020, Bertelsmann increased its investment in the trade book publisher Penguin Random House to 100 percent (December 31, 2019: 75 percent). In this regard, Bertelsmann acquired the remaining 25 percent interest from its former British co-shareholder Pearson. German Verlagsgruppe Random House, which was already wholly owned by Bertelsmann, has been merged with the international publishing group and now operates as Penguin Random House Verlagsgruppe. The purchase price payment for the 25 percent interest amounted to €619 million. In addition, transaction-related costs amounted to €1 million, which was recognized directly in equity. The transaction was accounted for as an equity transaction in accordance with IFRS 10. The difference between the purchase price including transaction-related costs in the amount of €620 million and the carrying amount of the acquired non-controlling interest was recognized in Bertelsmann shareholders' equity. The transaction resulted in a reduction of the equity attributable to the Bertelsmann shareholders in the amount of €403 million and the equity attributable to the non-controlling interests in the amount of €217 million. At the end of the previous period, the proportion of ownership interests held by non-controlling interests in Penguin Random House Verlagsgruppe was 25 percent.

in € millions	Change in Bertelsmann shareholders' equity
Carrying amount of interests acquired	217
Purchase price for non-controlling interests	(619)
Transaction-related costs	(1)
Decrease in Bertelsmann shareholders' equity	(403)
– thereof decrease in retained earnings	(396)
– thereof decrease in the currency translation reserve	(7)

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

Financial Information for Subsidiaries with Material Non-Controlling Interests

	RTL Group		Majorel	
in € millions	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Non-current assets	6,829	7,047	269	245
Current assets	4,355	4,039	570	479
Non-current liabilities	1,603	1,700	135	144
Current liabilities	3,114	3,457	389	342
Bertelsmann shareholders' equity	5,028	4,696	155	117
Non-controlling interests	1,439	1,233	160	121
in € millions	2020	2019	2020	2019
Revenues	6,017	6,651	1,375	1,211
Profit or loss	636	856	84	15
– thereof of non-controlling interests	250	289	42	8
Total comprehensive income	577	845	71	3
– thereof of non-controlling interests	237	285	35	2
Dividends to non-controlling interests	4	184	–	–
Cash flow from operating activities	928	1,077	223	50
Cash flow from investing activities	(86)	(359)	(45)	(106)
Cash flow from financing activities	(702)	(759)	(58)	(36)
Increase/(decrease) in cash and cash equivalents	140	(41)	120	(92)

Investments Accounted for Using the Equity Method

The investments accounted for using the equity method relate to joint ventures in the amount of €40 million (previous year: €33 million) and to associates in the amount of €780 million (previous year: €619 million).

Investments in Joint Ventures

As of December 31, 2020, investments in 21 (previous year: 22) individually immaterial joint ventures were accounted for in the Consolidated Financial Statements. The following table shows summarized financial information on these joint ventures. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Joint Ventures

in € millions	12/31/2020	12/31/2019
Non-current assets	43	37
Current assets	74	69
Non-current liabilities	20	9
Current liabilities	63	58

in € millions	2020	2019
Earnings after taxes from continuing operations	12	27
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	12	27

Investments in Associates

As of December 31, 2020, investments in 43 (previous year: 50) associates were accounted for in the Consolidated Financial Statements. As in the previous year, the investment of RTL Group in Atresmedia, based in San Sebastián de los Reyes, Spain, is individually material for the Group. As of December 31, 2020, the ownership is 18.7 percent after treasury shares (previous year: 18.7 percent). As of December 31, 2020, the stock market value of Atresmedia, which is listed on the Madrid Stock Exchange, amounted to €650 million (previous year: €786 million) with a share price of €2.88 (December 31, 2019: €3.48). As of December 31, 2020, the fair value less costs of disposal amounted to €119 million (previous year: €139 million), which is assigned to level 1 fair value measurement.

As of June 30, 2020, the investment in Atresmedia was tested for impairment in accordance with IAS 36. The recoverable amount of Atresmedia on June 30, 2020, was based on the value in use determined using a discounted cash flow model, as management considered the share price of Atresmedia did not fully reflect its earning potential, which is expected to include new digital and platform revenue streams and further content and channel exploitation opportunities. The further reduction of the share price and the reduction of TV advertising spend due to the coronavirus pandemic constituted triggering events for performing impairment testing. The assumptions used in the valuation consider risks resulting in a significant decrease in terminal EBITA margin compared to previous financial projections as used in the previous impairment test as of December 31, 2019. These risks include an ongoing challenging economic environment in Spain due to the coronavirus pandemic, combined with increased competition, differences in viewing preferences and continued dependence on linear television. This dependence continues to exist despite promising developments by Atresmedia in the content and streaming business. As of June 30, 2020, the valuation resulted in an impairment loss of €60 million. As of June 30, 2020, the carrying amount after impairment was €143 million. The impairment loss was measured on the basis of the following assumptions: a discount rate of 9.1 percent (December 31, 2019: 9.3 percent), a long-term growth rate of 0.0 percent (December 31, 2019: 0.0 percent) and different scenarios of sustainable EBITA margins.

As of December 31, 2020, the investment in Atresmedia with a carrying amount of €143 million was tested again for impairment in accordance with IAS 36, which resulted in no additional impairment or reversal of impairment. Despite the recovery in share price in the second half of 2020, management believes that the earning potential is still not yet fully reflected in the underlying share price and therefore management determined the value in use. The value in use was measured on the basis of the following assumptions: a discount rate of 9.0 percent (December 31, 2019: 9.3 percent) and a long-term growth rate of 0.0 percent (December 31, 2019: 0.0 percent). An increase in the discount rate by 1 percent, a decrease in the long-term growth rate by 1 percent or a decrease in the EBITA margin by 1 percent would have resulted in an additional reduction in the value in use of €14 million, €13 million and €15 million, respectively.

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

Financial Information on Individually Material Associates

	Atresmedia	
in € millions	12/31/2020	12/31/2019
Non-current assets	556	583
Current assets	762	699
Non-current liabilities	357	356
Current liabilities	495	486
Equity	466	440

in € millions	2020	2019
Revenues	866	1,039
Earnings after taxes from continuing operations	24	120
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	3	–
Total comprehensive income	27	120
Dividends received from the associate	–	19

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

Reconciliation to Carrying Amount

in € millions	12/31/2020	12/31/2019
Equity	466	440
Proportionate equity	87	82
Goodwill	166	166
Impairment on investments accounted for using the equity method	(110)	(50)
Carrying amount	143	198

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

Financial Information on Individually Immaterial Associates

in € millions	12/31/2020	12/31/2019
Non-current assets	639	390
Current assets	223	179
Non-current liabilities	52	55
Current liabilities	170	120

in € millions	2020	2019
Earnings after taxes from continuing operations	70	75
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	(4)	(4)
Total comprehensive income	66	71

The total carrying amount of the investments in all individually immaterial associates amounts to €637 million (previous year: €421 million) as of December 31, 2020. Of that amount, €94 million was attributable to the investment in the online learning platform Udacity (previous year: €104 million). Although at 18.9 percent (previous year: 19.0 percent) the interest is less than 20 percent, the Bertelsmann Group exercises a significant influence in Udacity due to the representation within the Board of Directors. In the financial year 2020, the share of earnings attributable to Udacity amounted to €-1 million (previous year: €-6 million). The investment was tested for impairment as of December 31, 2020. Taking into account current growth targets, recognition of impairment was not required for Udacity. In the event of an increase in the discount rate by 2.7 percentage points or a decrease in the long-term growth rate of 4.0 percentage points, the recoverable amount would fall below the carrying amount.

Of the total carrying amount of the investments in all individually immaterial associates, an additional €148 million (previous year: €124 million) is attributable to the three University Venture Funds, which invest in high-growth companies in the education sector. Bertelsmann holds between 47.3 percent and 100.0 percent of the shares in these funds. As operational management and investment decisions in particular are the responsibilities of the respective fund managers, there is significant influence, but control as defined by IFRS 10 does not exist despite an ownership interest of over 50 percent in some cases.

Results from Investments Accounted for Using the Equity Method

in € millions	2020	2019
Income from investments accounted for using the equity method	109	139
– joint ventures	23	29
– associates	86	110
Expenses from investments accounted for using the equity method	(23)	(15)
– joint ventures	(12)	(2)
– associates	(11)	(13)
Results from investments accounted for using the equity method	86	124
– joint ventures	11	27
– associates	75	97

In the financial year 2020, dividends received from investments accounted for using the equity method amounted to €56 million (previous year: €85 million).

12 Minority Stakes and Other Financial Assets

	Current		Non-current	
in € millions	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Loans	37	22	57	86
Fund-of-fund investments	98	–	118	317
Minority stakes in start-ups	–	–	812	705
Other financial assets	9	3	149	190
Derivative financial instruments	34	38	60	22
	178	63	1,196	1,320

The item "Minority stakes in start-ups" includes minority stakes purchased by the Bertelsmann Investments division. The fair value of its listed investments is measured on the basis of their market values and of its unlisted investments, if possible, on the basis of observable prices obtained as part of the most recently implemented qualified financing rounds which meet the minimum requirements for volume and participants, taking into account life and development cycles of the entity. Fund-of-fund investments, which are also held by the Bertelsmann Investments division, are measured at fair value through profit or loss. The measurement of their fair values is based on the valuations of the external management as presented in regular reporting and taking into account a fungibility discount. The gains and losses resulting from changes in the fair value are recognized as other operating income in the item "Fair value measurement of investments" for both minority stakes in start-ups and fund-of-fund investments. The changes in carrying amounts recognized in profit or loss of the financial instruments held by the Bertelsmann Investments division amounted to €48 million during the reporting period (previous year: €128 million).

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

As in the previous year, no other financial assets were subject to restrictions on disposal as of the end of the reporting period.

13 Inventories

in € millions	12/31/2020	12/31/2019
Program rights	1,090	1,088
Raw materials and supplies	91	103
Work in progress	97	104
Finished goods and merchandise	259	311
Advance payments	121	165
	1,658	1,771

In the financial year 2020, write-downs on inventories were recognized in the amount of €-111 million (previous year: €-134 million). In addition, reversals of write-downs on inventories were recognized in the amount of €121 million (previous year: €101 million). As in the previous year, no inventories were subject to restrictions on disposal as of the end of the reporting period.

In the financial year 2020, the broadcast-based consumption of program rights recognized in profit or loss amounted to €2,083 million (previous year: €2,245 million). Expenses for raw materials and supplies amounting to €753 million (previous year: €939 million) were recognized, and the cost for merchandise amounted to €126 million (previous year: €170 million). Changes in inventories of work in progress and finished goods amounted to €98 million (previous year: €66 million). In addition, own costs capitalized of €63 million (previous year: €62 million) were recognized.

14 Trade and Other Receivables

in € millions	12/31/2020	12/31/2019
Non-current		
Trade receivables	35	45
Contract assets	–	–
Other receivables	34	44
Current		
Trade receivables	3,398	3,698
Contract assets	23	40
Receivables from participations	45	30
Other receivables	1,104	755

Trade receivables are due for payment generally within 12 months. The item "Contract assets" covers the conditional right to consideration for satisfied performance obligations in accordance with IFRS 15. As of January 1, 2019, this item amounted to €34 million. The item "Other receivables" includes, among other things, receivables of €480 million (previous year: €458 million) from the Arvato Financial Solutions business unit, which were recognized in relation to the receivables management service provided. In addition, the item comprises receivables in the amount of €131 million (previous year: €92 million), relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of conducting its financial services and then resold. As of the end of the reporting period, trade and other receivables totaling €8 million (previous year: €42 million) were subject to restrictions on disposals.

15 Other Non-Financial Assets

in € millions	12/31/2020	12/31/2019
Non-current		
Other non-financial assets	881	922
Current		
Other non-financial assets	992	1,092
– advance payments	503	556
– deferred items	222	196
– other tax receivables	84	130
– sundry non-financial assets	183	210

The non-current other non-financial assets relate to advance payments for royalties and licenses in the amount of €832 million (previous year: €851 million). Loss allowances are generally recognized for advance payments for royalties and licenses if no recoupment is expected. The amount of these allowances is based on management estimates of future sales volumes and price changes using historical data. Costs for obtaining and fulfilling contracts with customers are recognized and are immaterial, both individually and in total. The same applies to the amount of amortization and impairment losses recognized for these costs in the reporting period.

16 Cash and Cash Equivalents

in € millions	12/31/2020	12/31/2019
Bank balances and cash on hand	1,867	1,610
Cash equivalents	2,704	26
	4,571	1,636

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

17 Equity
Subscribed capital

Number of shares	12/31/2020	12/31/2019
Ordinary shares	83,760	83,760
Total shares	83,760	83,760

Compared with the previous year, the subscribed capital of Bertelsmann SE & Co. KGaA remained unchanged at €1,000 million and comprises 83,760 registered shares (ordinary shares). As of December 31, 2020, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) indirectly held 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the other 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls the voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and of the general partner Bertelsmann Management SE.

In the financial year 2020, dividends were not distributed to the shareholders (previous year: €180 million; dividend per ordinary share of €2,149).

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

Changes to Components of Other Comprehensive Income after Taxes

in € millions	2020				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	(151)	53	(98)	(96)	(2)
Changes in fair value of equity instruments	2	(1)	1	1	–
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Exchange differences	(346)	–	(346)	(327)	(19)
Cash flow hedges	(22)	7	(15)	(12)	(3)
Share of other comprehensive income of investments accounted for using the equity method	(3)	–	(3)	(3)	–
Other comprehensive income net of tax	(520)	59	(461)	(437)	(24)

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

Share-Based Payments

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

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

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

Granting and Vesting Conditions (Groupe M6)

Free share plans	Maximum number of free shares granted (in thousands)[1]	Remaining options (in thousands)	Vesting conditions
July 2017	217.66	–	3 years of service + performance conditions
October 2017	8.92	–	3 years of service + performance conditions
July 2018	313.40	–	2 years of service + performance conditions
July 2018	247.10	232.54	3 years of service + performance conditions
July 2019	298.17	292.97	2 years of service + performance conditions
July 2019	246.50	87.45	3 years of service + performance conditions
Total	1,331.75	612.96	

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

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

At the end of the year, 612,964 free shares are exercisable against 1,302,495 the beginning of the year. No free shares were granted in the financial year 2020, with 516,280 being exercised and 173,251 being forfeited.

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

Conditions for Free Share Plans (Groupe M6)

Expiry date	Number of shares (in thousands) 2020	Number of shares (in thousands) 2019
Free share plans		
2020	–	517
2021	613	785
	613	1,302

As of December 31, 2020, the market price of Métropole Télévision shares on the Paris Stock Exchange was €13.26 (previous year: €16.78).

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

Fair Values of Free Share Plans (Groupe M6)

					Personnel costs in € millions	
Grant date	Share price	Risk-free interest rate	Expected return	Option life	2020	2019
Free share plans						
7/27/2017	20.59 €	(0.17)%	4.31%	2 years	0.5	3.2
10/2/2017	20.59 €	(0.17)%	4.31%	2 years	–	0.1
7/25/2018	16.92 €	(0.10)%	5.66%	2 years	2.1	3.4
7/30/2019	15.35 €	(0.30)%	6.97%	2 years	2.2	1.2
Total					4.8	7.9

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

18 Provisions for Pensions and Similar Obligations

in € millions	12/31/2020	12/31/2019
Defined benefit obligation	1,951	1,884
Obligations similar to pensions	58	83
	2,009	1,967

in € millions	12/31/2020	12/31/2019
Balance as of 1/1	1,967	1,738
Income and expenses recognized in profit or loss		
– additions	162	170
– reversal	(4)	(17)
Usage	(216)	(200)
Actuarial gains(-)/losses (+) recognized in other comprehensive income	126	292
Other effects	(26)	(16)
Balance as of 12/31	2,009	1,967

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 €54 million were recognized in the financial year 2020 (previous year: €53 million).

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

Net Defined Benefit Liability Recognized in the Balance Sheet

in € millions	12/31/2020	12/31/2019
Present value of defined benefit obligation of unfunded plans	997	951
Present value of defined benefit obligation of funded plans	3,774	3,677
Total present value of defined benefit obligation	4,771	4,628
Fair value of plan assets	(2,843)	(2,786)
Impact from asset ceiling	–	1
Net defined benefit liability recognized in the balance sheet	1,928	1,843
– thereof provisions for pensions	1,951	1,884
– thereof other assets	23	41

Provisions are recognized for these defined benefit plans. The following tables show the breakdown of the benefit by plan beneficiary and by type of benefit plan:

Plan Beneficiaries

	Number of employees		in € millions	
	2020	2019	2020	2019
Active members	30,621	24,423	1,542	1,556
Deferred member	11,570	11,318	952	928
Pensioners	17,311	17,053	2,277	2,145
Total	59,502	52,794	4,771	4,629
– thereof vested			4,698	4,628

Benefit Plans

in € millions	12/31/2020	12/31/2019
Flat salary plans/plans with fixed amounts	2,459	2,397
Final salary plans	1,567	1,492
Career average plans	516	521
Other commitments given	173	162
Medical care plans	56	56
Present value of defined benefit obligation	4,771	4,628
– thereof capital commitments	273	284

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

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

Furthermore, one Group company participated in a multi-employer plan with other non-affiliated companies until December 31, 2014. As the relevant information required to account for this as a defined benefit plan was neither available on time nor available to a sufficient extent, this benefit plan was carried in the Consolidated Financial Statements in line with the requirements for defined contribution benefit plans. In the financial year 2015, the withdrawal from the plan with retrospective effect from January 1, 2015, was declared. As of December 31, 2020, the related provision in the balance sheet position "Other provisions" under other employee benefits amounts to €15 million. According to the notification of April 2017, the company has been making monthly contribution payments, which are expected to amount to €1 million in the financial year 2021.

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

Further significant actuarial assumptions were made as follows:

Actuarial Assumptions

	12/31/2020				12/31/2019			
	Germany	United Kingdom	United States	Other countries	Germany	United Kingdom	United States	Other countries
Discount rate	1.08%	1.40%	2.33%	1.05%	1.38%	2.08%	3.12%	1.02%
Rate of salary increase	2.25%	2.22%	3.50%	3.57%	2.25%	2.52%	3.50%	3.69%
Rate of pension increase	1.59%	2.62%	–	1.61%	1.54%	2.79%	–	1.78%

An increase or decrease in the assumptions set out above compared to the assumptions actually applied would have had the following effects on the present value of the defined benefit obligation as of December 31, 2020:

Effect of Actuarial Assumptions

in € millions	Increase	Decrease
Effect of 0.5 percentage point change in discount rate	(353)	404
Effect of 0.5 percentage point change in rate of salary increase	38	(35)
Effect of 0.5 percentage point change in rate of pension increase	175	(158)
Effect of change in average life expectancy by 1 year	197	(194)

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

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

Development of the Defined Benefit Plans

	Defined benefit obligation (I)		Fair value of plan assets (II)		Net defined benefit balance (I)-(II)[1]	
in € millions	2020	2019	2020	2019	2020	2019
Balance as of 1/1	4,628	4,120	2,786	2,502	1,842	1,618
Current service cost	64	59	–	–	64	59
Interest expenses	68	92	–	–	68	92
Interest income	–	–	44	60	(44)	(60)
Past service cost	(5)	(10)	–	–	(5)	(10)
Income and expenses for defined benefit plans recognized in the consolidated income statement	**127**	**141**	**44**	**60**	**83**	**81**
Income/expense on plan assets excluding amounts included in net interest income and net interest expenses	–	–	92	206	(92)	(206)
Actuarial gains (-) and losses (+)						
– changes in financial assumptions	255	502	–	–	255	502
– changes in demographic assumptions	1	4	–	–	1	4
– experience adjustments	(13)	5	–	–	(13)	5
Remeasurements for defined benefit plans recognized in the consolidated statement of comprehensive income	**243**	**511**	**92**	**206**	**151**	**305**
Contributions to plan assets by employer	–	–	23	24	(23)	(24)
Contributions to plan assets by employees	2	3	2	3	–	–
Pension payments	(181)	(155)	(55)	(32)	(126)	(123)
Cash effects from settlements	–	–	–	–	–	–
Change of consolidation scope	(4)	(31)	–	(11)	(4)	(20)
Changes in foreign exchange rates	(55)	36	(52)	36	(3)	–
Other changes	11	3	3	(2)	8	6
Other reconciling items	**(227)**	**(144)**	**(79)**	**18**	**(148)**	**(161)**
Balance as of 12/31	4,771	4,628	2,843	2,786	1,928	1,843
thereof						
Germany	3,704	3,577	1,980	1,913	1,724	1,664
United Kingdom	635	593	636	627	(1)	(34)
United States	183	215	151	175	32	40
Other European countries	218	210	64	57	154	154
Other countries	31	33	12	14	19	19

1) In the financial year 2019, for calculating the "Net defined benefit balance," the effects of the asset ceiling in accordance with IAS 19 amounting to €1 million were taken into account in the item "Other changes." In the financial year 2020, no effects from the asset ceiling were recognized.

Of the contributions to plan assets, €9 million (previous year: €9 million) pertains to Germany. Employer contributions to plan assets are expected to amount to €13 million in the next financial year. Reimbursement rights for defined benefit obligations in Germany amount to €30 million (previous year: €32 million) and are recognized in the balance sheet position "Trade and other receivables."

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

Expenses for Defined Benefit Plans

in € millions	2020	2019
Current service cost	64	59
Past service cost and impact from settlement	(5)	(10)
Net interest expenses	24	32
Net pension expenses	83	81

The portfolio structure of plan assets is composed as follows:

Portfolio Structure of Plan Assets

in € millions	12/31/2020	12/31/2019
Debt instruments[1]	1,892	1,708
Equity instruments[1]	571	583
Cash and cash equivalents	75	206
Qualifying insurance policies	178	164
Other funds	106	105
Derivatives	13	12
Property	8	8
Fair value of plan assets	2,843	2,786

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

The plan assets in the Bertelsmann Group are used exclusively for the fulfillment of benefit obligations. To avoid a concentration of risk, plan assets are invested in various classes of investments. The majority of plan assets are managed by Bertelsmann Pension Trust e.V. under a contractual trust arrangement (CTA) for pension commitments of Bertelsmann SE & Co. KGaA and some of the German subsidiaries. There is no funding requirement for the CTA. A net contribution of €7 million was made to plan assets during the reporting period. The trust assets were invested in accordance with the investment guideline of the beneficiary, using a long-term total return approach. This approach is based on the aim of using strategic asset allocation to generate a suitable return in the long term regardless of short-term market fluctuations and/or crises. The management board of the pension trust is responsible for the investment and regularly informs the beneficiary of the status and performance of the pension assets.

The weighted-average duration of the pension obligations as of December 31, 2020, is as follows:

Weighted Average Duration

in years	2020	2019
Germany	16	17
United Kingdom	21	21
United States	14	14
Other countries	14	13

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

Maturity Profile of Pension Payments

in € millions	Expected pension payments
2021	162
2022	160
2023	163
2024	172
2025	178
2026–2030	933

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

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

Breakdown of Obligations Similar to Pensions

in € millions	12/31/2020	12/31/2019
Provisions for employee service anniversaries	30	29
Provisions for old-age part-time schemes	13	12
Other	15	42
Obligations similar to pensions	58	83

19 Other Provisions

	12/31/2019						Change of		12/31/2020	
in € millions		of which > 1 year	Additions	Reversal	Usage	Other effects	consolida-tion scope	Accrued interest		of which > 1 year
Onerous contracts	89	19	93	(4)	(61)	(1)	(1)	–	115	9
Litigation	86	50	24	(10)	(10)	(6)	(1)	–	83	58
Restructuring	120	62	100	(10)	(43)	(1)	(1)	2	167	18
Other employee benefits	28	15	6	(3)	(3)	(2)	–	–	26	15
Other	69	32	43	(11)	(8)	4	–	–	97	36
	392	178	266	(38)	(125)	(6)	(3)	2	488	136

The provisions for onerous contracts concern RTL Group in the amount of €84 million (previous year: €64 million) and were recognized mainly for program rights. Of that amount, a total of €68 million (previous year: €46 million) relates to

Mediengruppe RTL Deutschland, €10 million (previous year: €1 million) to RTL Nederland and an additional €6 million (previous year: €17 million) to Groupe M6.

Provisions for litigation totaling €63 million (previous year: €69 million) pertain mainly to RTL Group companies. They cover expected losses from partly multiannual court proceedings and extrajudicial disputes. Please refer to the risk report in the Combined Management Report for information on antitrust litigation. In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to market-related restructuring measures. Provisions in the amount of €167 million (previous year: €120 million) are recognized for various restructuring programs within the Bertelsmann Group.

The additions relate in the amount of €90 million mainly to the RTL Group (€28 million), Arvato (€27 million) and Bertelsmann Printing Group (€22 million) divisions and to the Corporate Center in Gütersloh (€13 million).

The provisions for other employee benefits in the amount of €15 million (previous year: €15 million) relate to an obligation in connection with the withdrawal from a multi-employer plan. Further details are presented in note 18 “Provisions for Pensions and Similar Obligations.” The item “Other” includes among other things a provision in the amount of €20 million (previous year: €22 million) for compensation obligations from pension entitlements for employees at the Prinovis location in Ahrensburg toward Axel Springer SE.

20 Profit Participation Capital

in € millions	12/31/2020	12/31/2019
Profit participation capital 1992	23	23
Profit participation capital 2001	390	390
	413	413

The market value of the 2001 profit participation certificates with a closing rate of 328.66 percent on the last day of trading in the past financial year on the Frankfurt Stock Exchange was €935 million (previous year: €1,005 million with a rate of 353.40 percent) and, correspondingly, €31 million for the 1992 profit participation certificates with a rate of 183.00 percent (previous year: €34 million with a rate of 201.50 percent). The market values are based on level 1 of the fair value hierarchy. Further information on profit participation capital is presented in detail in the Combined Management Report.

21 Financial Debt

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

Current and Non-Current Financial Debt

	Current		Non-current	
in € millions	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Bonds	500	–	5,468	4,377
Promissory notes	–	100	424	225
Liabilities to banks	113	134	13	4
Other financial debt	102	154	6	6
	715	388	5,911	4,612

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

Bertelsmann carried out various financing measures in the financial year 2020 to secure Group liquidity and to refinance pending capital market maturities ahead of schedule.

In April 2020, Bertelsmann placed a fixed-interest publicly listed bond in the amount of €750 million with a term of eight years, and a floating-rate promissory note in the amount of €100 million with a term of three years was agreed upon. In May 2020, Bertelsmann placed another fixed-interest publicly listed bond in the amount of €750 million with a term of 10 years. In addition, a €150 million promissory note with a term of seven years was agreed upon, €100 million of which is at a fixed rate and €50 million at a floating rate. The variable-interest portion of €50 million was already repaid early in November 2020. A fixed-interest bond in the amount of €100 million with a term of seven years was also issued in May 2020 as part of a private placement. In addition, Bertelsmann issued a fixed-interest bond of € 250 million with a term of two years as part of a private placement in July 2020. This was repaid early by exercising a call option in December 2020. The fixed-interest promissory note loan of €100 million maturing in December 2020 was repaid on schedule. At the end of the reporting period, the Group had bonds, private placements and promissory notes outstanding with a nominal volume of €6,425 million (previous year: €4,725 million).

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

Bonds and Promissory Notes

		in € millions			
		Carrying amount		Fair value	
Interest rate; emission; maturity; fixed interest	Nominal amount	12/31/2020	12/31/2019	12/31/2020	12/31/2019
0.774%; 2015; 2020; fixed-interest promissory note	100	–	100	–	101
0.250%; 2017; 2021; fixed-interest bond[1]	500	500	499	501	503
2.625%; 2012; 2022; fixed-interest bond[1]	750	748	747	785	802
6-mon. EURIBOR + 125 bp.; 2020; 2023; floating-rate promissory note	100	100	–	104	–
1.500%; 2017; 2024; fixed-interest bond	50	50	50	53	53
1.750%; 2014; 2024; fixed-interest bond[1]	500	498	498	536	538
1.250%; 2018; 2025; fixed-interest bond[1]	750	745	743	800	790
1.787%; 2015; 2025; fixed-interest promissory note	150	150	150	164	164
1.125%; 2016; 2026; fixed-interest bond[1]	500	497	496	534	526
1.000%; 2019; 2026; floating- and fixed-interest promissory note[2]	75	75	75	79	78
1.600%; 2020; 2027; fixed-interest promissory note	100	100	–	110	–
1.000%; 2020; 2027; fixed-interest bond	100	99	–	106	–
2.000%; 2020; 2028; fixed-interest bond[1]	750	743	–	844	–
1.500%; 2020; 2030; fixed-interest bond[1]	750	742	–	825	–
3.700%; 2012; 2032; fixed-interest bond	100	99	99	131	135
3.000%; 2015; 2075; fixed-interest hybrid bond[1]	650	649	648	673	691
3.500%; 2015; 2075; fixed-interest hybrid bond[1]	600	597	597	648	669
		6,392	4,702	6,893	5,050

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

The documentation of the bonds from Bertelsmann SE & Co. KGaA in 2012, 2014, 2016, 2017, 2018 and 2020 is within the framework of a base documentation for debt issuance programs. The hybrid bonds and promissory notes as well as the unlisted bond of 2017 were issued on the basis of separate documentation. The bonds mainly have a rating of "Baa2" (Moody's) and "BBB" (Standard & Poor's). The debt issuance program was last renewed in March 2020. Transaction costs and agreed discounts or premiums are taken into account in the interest result over the term, impacting the carrying amount of the bonds and promissory notes. This led to a difference to the nominal volume of €33 million (previous year: €23 million) at the end of the year.

As a rule, the quoted prices at the end of the reporting period are used to determine the fair value of the bonds issued.

On December 31, 2020, the cumulative fair value of the listed bonds totaled €6,146 million (previous year: €4,519 million), with a nominal volume of €5,750 million (previous year: €4,250 million) and a carrying amount of €5,719 million (previous year: €4,228 million). The stock market prices are based on level 1 of the fair value hierarchy.

The fair values of private placements and promissory notes are determined using actuarial methods based on yield curves adjusted for the Group's credit margin. The interest premium results from the market price for credit-default swaps at the end of the respective reporting periods. Fair value is measured on the basis of discount rates ranging from -0.44 percent to 0.06 percent. The fair values of the private placements and promissory notes are based on level 2 of the fair value hierarchy.

Credit Facilities

The Bertelsmann Group has access to a syndicated loan agreement entered into with major international banks in the amount of €1,200 million (previous year: €1,200 million), which was extended in June 2020 for a further year until 2025. Bertelsmann SE & Co. KGaA can draw down this credit facility using floating-rate loans in euros, US dollars and pounds sterling, based on EURIBOR or LIBOR, on a revolving basis. In the reporting period, the credit line was drawn down in full to secure the Group's liquidity and was repaid in full in the course of the financial year 2020.

In March 2020, a syndicated credit facility of €675 million with a term of up to 18 months was agreed upon and drawn down. The loan was used to cover short-term funding requirements in connection with the acquisition of the remaining interest in Penguin Random House and was repaid in May 2020. In addition, with the aim of securing liquidity, bilateral credit facilities of €180 million were drawn down in the same month and a bilateral dual-currency loan in the amount of €200 million was agreed upon, which was drawn down in the amount of US$215 million. Furthermore, Bertelsmann entered into a loan of US$300 million in April 2020 with a term of up to one year. The aforementioned utilizations were fully repaid during the reporting period.

In addition, Bertelsmann has access to further bilateral credit facilities in the amount of €232 million (previous year: €200 million), which can also be drawn down using floating-rate loans, based on EURIBOR, on a revolving basis. As of December 31, 2020, the credit facilities were not drawn down (previous year: €20 million).

22 Lease Liabilities

The maturities of lease liabilities are presented in the table below.

Maturity Analysis for Lease Liabilities

		Undiscounted cash flows			
in € millions	Carrying amount	Up to 1 year	1 to 5 years	Over 5 years	Total
Balance as of 12/31/2020	1,355	297	737	499	1,533
Balance as of 12/31/2019	1,392	315	728	558	1,601

As of December 31, 2020, potential future cash outflows of €436 million (previous year: €341 million) were not included in the lease liabilities, as it could not be assumed with reasonable certainty that the leases would be extended (or would not be terminated). Future payments arising from short-term leases and leases for low-value assets are not recognized as right-of-use assets and lease liabilities. For such leases, the payments are recognized on straight-line basis as expenses (further explanations are presented in note 5 "Other Operating Expenses"). Expenses from variable lease payments not included in the lease liability were immaterial as in the previous year. The same applies for income from subleasing right-of-use assets and the resulting lease payments expected in the future. Details on the corresponding right-of-use assets are presented in note 10 "Property, Plant and Equipment and Right-of-Use Assets."

23 Liabilities

in € millions	12/31/2020	12/31/2019
Non-current		
Trade payables	133	174
Derivative financial instruments	7	83
Sundry financial payables	106	106
Contract liabilities	39	9
Sundry non-financial payables	362	370
Current		
Trade payables	3,583	3,642
Refund liabilities	455	456
Derivative financial instruments	32	44
Sundry financial payables	763	698
Contract liabilities	655	601
Sundry non-financial payables	1,271	1,307
– personnel-related liabilities	655	721
– tax liabilities	226	225
– social security liabilities	119	118
– deferred items	35	18
– other	236	225

The item "Contract liabilities" includes payments received by Bertelsmann in advance; that is, prior to satisfaction of the contractual obligations in accordance with IFRS 15. They are recognized as revenue as soon as the contractual obligation has been rendered. Accordingly, revenues amounting to €523 million were recognized in the financial year 2020 (previous year: €530 million), which were included in the balance of contract liabilities at the beginning of the financial year. As in the previous year, as of the end of the reporting period the contract liabilities are primarily attributable to services to be provided by the Arvato division, as a rule in the following period. As of January 1, 2019, contract liabilities amounted to €606 million.

In accordance with IFRS 15, the item "Refund liabilities" mainly comprises liabilities for expected returns of the Penguin Random House and Gruner + Jahr divisions of €306 million (previous year: €309 million). Correspondingly, in the balance sheet position "Other non-financial assets," an asset for an immaterial amount is recognized for the customers' right to recover products from customers upon settling the refund liability. The item "Sundry financial payables" includes, among other things, payables of €118 million (previous year: €97 million) from the Arvato Financial Solutions business unit, which were recognized in relation to the receivables management service provided. In addition, the item comprises payables in the amount of €133 million (previous year: €113 million) relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of conducting its financial services and then resold. Non-current sundry financial payables also include liabilities from put options relating to shareholders with non-controlling interests of €17 million (previous year: €24 million), minority interests in partnerships of €33 million (previous year: €33 million) and liabilities from the acquisition of assets in the amount of €44 million (previous year: €31 million). Current sundry financial payables also comprise liabilities from the acquisition of assets in the amount of €110 million (previous year: €75 million) and liabilities to participations in the amount of €29 million (previous year: €23 million).

24 Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities break down as follows at the end of the financial year:

Contingent Liabilities and Other Commitments

in € millions	12/31/2020	12/31/2019
Commitments from agreements for productions and co-productions, contracts for TV licenses and broadcasting rights, as well as other rights and licenses	1,428	1,770
Commitments from royalty agreements	1,017	1,025
Commitments from assets under construction and lease contracts not recognized on the balance sheet	121	157
Purchase commitments for inventories	28	38
Commitments for the acquisition of intangible assets and property, plant and equipment	17	17
Guarantees	30	15
Other	256	269
	2,897	3,291

Of the commitments from agreements for productions and co-productions, contracts for TV licenses and broadcasting rights as well as other rights and licenses, €1,428 million (previous year: €1,770 million) pertains to RTL Group. Commitments from royalty agreements relate to Penguin Random House in the amount of €888 million (previous year: €897 million) and to BMG in the amount of €116 million (previous year: €124 million). Commitments from assets under construction and not recognized lease contracts comprise leases not yet commenced, but to which the lessee is committed.

25 Additional Disclosures on Financial Instruments

Both the following tables show the carrying amounts and measurement categories of financial assets and financial liabilities in accordance with IFRS 9 as of December 31, 2020:

Carrying Amounts and Measurement Categories of Financial Assets

in € millions	12/31/2020	12/31/2019
Financial assets measured at amortized cost		
– loans	54	71
– trade receivables	3,433	3,743
– receivables from participations	45	30
– sundry financial receivables	1,045	737
– bank balances and cash on hand	1,867	1,610
– cash equivalents	2,698	18
Financial assets measured at fair value through other comprehensive income		
– other financial assets	67	68
Primary financial assets measured at fair value through profit or loss		
– loans	40	37
– fund-of-fund investments	216	317
– minority stakes in start-ups	812	705
– sundry financial receivables	9	8
– other financial assets	91	125
– cash equivalents	6	8
Derivative financial instruments	94	60
Continuing involvement	84	54
	10,561	7,591

Carrying Amounts and Measurement Categories of Financial Liabilities

in € millions	12/31/2020	12/31/2019
Financial liabilities measured at amortized cost		
– profit participation capital	413	413
– bonds and promissory notes	6,392	4,702
– liabilities to banks	126	138
– other financial debt	108	160
– trade payables	3,716	3,816
– liabilities to participations	29	23
– other	1,194	1,151
Primary financial liabilities measured at fair value through profit or loss	17	32
Derivative financial instruments	39	127
Continuing involvement	84	54
	12,118	10,616

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

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

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Total on 12/31/2020
Financial assets measured at fair value	165	9	1,067	1,241
Primary and derivative financial assets held for trading	–	86	–	86
Derivatives with hedge relation	–	8	–	8
	165	103	1,067	1,335

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

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

Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial assets measured at fair value	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2020	1,118	–	1,118
Total gain (+) or loss (-)	(77)	–	(77)
– in profit or loss	(27)	–	(27)
– in other comprehensive income	(50)	–	(50)
Purchases	309	–	309
Sales/settlements	(283)	–	(283)
Balance as of 12/31/2020	1,067	–	1,067
Gain (+) or loss (-) for assets still held at the end of the reporting period	(32)	–	(32)

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

In the financial year 2020, the acquisitions mainly relate to various new and follow-up investments by the Bertelsmann Investments division, including in the digital service provider Deepexi, the online education provider JoJo and the open-source and cloud-native database PingCap. In addition, Bertelsmann Investments invested in the online fitness app Keep and the fintech company Rupeek. The major part of the disposals in the financial year relates to a larger partial exit of the indirect investment in the Brazilian education company Afya via the Crescera Educacional II fund, a further partial exit of the Indian education company Eruditus and a complete exit from the music streaming platform Saavn. In the financial year 2020, there were neither transfers out of level 3 nor transfers into level 3.

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

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Total on 12/31/2020
Financial liabilities measured at fair value through profit or loss	–	–	17	17
Primary and derivative financial liabilities held for trading	–	29	–	29
Derivatives with hedge relation	–	10	–	10
	–	39	17	56

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

Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial liabilities measured at fair value through profit or loss	Total
Balance as of 1/1/2020	32	32
Total gain (-) or loss (+)	(16)	(16)
– in profit or loss	(15)	(15)
– in other comprehensive income	(1)	(1)
Purchases	4	4
Settlements	(3)	(3)
Transfers out of/into level 3	–	–
Balance as of 12/31/2020	17	17
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	(1)	(1)

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

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

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

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

The measurement of financial assets and financial liabilities according to level 2 and level 3 requires management to make certain assumptions about the model inputs, including cash flows, discount rate and credit risk, as well as the life and development cycle of start-up investments. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred.

Financial assets and liabilities are offset on the balance sheet if master netting agreements or similar agreements allow the Bertelsmann Group and the counterparty to reach settlement on a net basis. Settlement on a net basis is thus legally valid both as part of ordinary business activities and in the event of payment default by one of the parties. In addition, Bertelsmann enters into transactions in financial derivatives that do not meet the criteria for offsetting on the balance sheet, as future events determine the right to offset. As in the previous year, no on-balance-sheet offsetting was performed, nor was there any significant non-recognized offsetting potential as of December 31, 2020.

Credit Risk

In accordance with IFRS 9, Bertelsmann uses a simplified approach to measure expected credit losses on trade receivables and contract assets. According to this, the loss allowance is measured using lifetime expected credit losses. For this purpose, impairment matrices based on historic bad debt losses, maturity bands and expected credit losses are prepared. The impairment matrices are created for division-specific or business unit-specific groups of receivables, each with similar default patterns. In addition, separate risk assessments are performed. Bertelsmann also considers other quantitative and qualitative information and analyses based on the Group's historical experience and reasonable assessments including forward-looking information such as customer-specific information and forecasts of future economic conditions. Contract assets have substantially the same risk characteristics as trade receivables for the same types of contracts, so that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Based on this, the loss allowance as of December 31, 2020, was determined as follows for both trade receivables and contract assets:

Credit Risk for Trade Receivables and Contract Assets

in € millions	Collective impairment: Not overdue	Collective impairment: Overdue 1 to 30 days	Collective impairment: Overdue 31 to 90 days	Collective impairment: Overdue more than 90 days	Individual impairment
Expected loss rate	0.70%	0.78%	2.48%	11.76%	n/a
Trade receivables and contract assets	2,130	383	121	119	910
Loss allowance for expected credit losses	(15)	(3)	(3)	(14)	(129)
Balance as of 12/31/2020	2,115	380	118	105	781

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

The expected loss rates correspond to the average rates for the respective division-specific or business unit-specific groups of receivables. In the financial year 2020, impairment losses and reversals amounting to €-50 million (previous year: €-18 million) were recognized on trade receivables and contract assets. The following table shows a reconciliation from the opening balance to the closing balance of loss allowances for trade receivables and contract assets in the financial year 2020:

Reconciliation of Loss Allowance for Trade Receivables and Contract Assets

in € millions	2020	2019
Balance as of 1/1	(179)	(162)
Additions	(108)	(57)
Usage	22	11
Reversal	58	39
Change of consolidation scope	35	(7)
Exchange rate effect	8	(3)
Balance as of 12/31	(164)	(179)

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

Reconciliation of Loss Allowance for Other Financial Assets

in € millions	Loans	Sundry financial receivables	Purchased or originated financial assets which are credit impaired	Total
Balance as of 1/1/2020	(30)	(75)	(16)	(121)
Additions	(26)	(25)	(15)	(66)
Usage	27	5	1	33
Reversal	1	8	10	19
Change of consolidation scope	16	(9)	–	7
Exchange rate effect	1	1	–	2
Balance as of 12/31/2020	(11)	(95)	(20)	(126)
– thereof 12-month expected credit loss	(2)	(33)	n/a	(35)
– thereof lifetime expected credit loss but not credit-impaired	–	(57)	n/a	(57)
– thereof lifetime expected credit loss and credit-impaired	(9)	(5)	n/a	(14)

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

The impairment loss identified for cash and cash equivalents was immaterial in both the financial year 2020 and the previous year.

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

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

Maturity Analysis for Non-Derivative Financial Liabilities

in € millions	Carrying amount	Undiscounted cash flows			
		Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	413	–	413	–	413
Fixed-interest bonds and promissory notes	6,282	500	2,200	3,615	6,315
Floating-rate bonds and promissory notes	110	–	100	10	110
Liabilities to banks	126	113	13	–	126
Other financial debt	108	102	1	5	108
Trade payables	3,716	3,583	130	3	3,716
Liabilities to participations	29	29	–	–	29
Other	1,295	1,190	110	–	1,300
Balance as of 12/31/2020	12,079	5,517	2,967	3,633	12,117
Profit participation capital	413	–	413	–	413
Fixed-interest bonds and promissory notes	4,692	100	1,800	2,815	4,715
Floating-rate bonds and promissory notes	10	–	–	10	10
Liabilities to banks	138	134	4	–	138
Other financial debt	160	154	6	–	160
Trade payables	3,816	3,642	168	6	3,816
Liabilities to participations	23	23	–	–	23
Other	1,237	1,131	73	33	1,237
Balance as of 12/31/2019	10,489	5,184	2,464	2,864	10,512

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

The maturity analysis for lease liabilities as of December 31, 2020, is presented in note 22 “Lease Liabilities.”

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

Future Interest Payments

in € millions	Undiscounted interest payments Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	45	45	–	90
Bonds and promissory notes	123	377	181	681
Liabilities to banks	2	–	–	2
Other financial debt	1	1	–	2
Balance as of 12/31/2020	171	423	181	775
Profit participation capital	45	90	–	135
Bonds and promissory notes	94	310	117	521
Liabilities to banks	3	–	–	3
Other financial debt	2	2	–	4
Balance as of 12/31/2019	144	402	117	663

Financial Services Related to Receivables Acquired and Sold

In certain individual cases, Bertelsmann sells receivables purchased from third parties to financial intermediaries. The receivables sold relate primarily to short-term receivables, some covered by credit insurance, that Arvato Financial Solutions acquires from third parties in the course of conducting its financial services, and some of which it resells to financial intermediaries on an ongoing basis. This business can be changed at any time during the year. As part of the contractual agreements on the sale of receivables, substantially neither all the rewards nor all risks that are associated with the receivables were transferred or retained. This relates in particular to possible defaults and late payments of receivables sold, so that a receivable was accounted for in the amount of the continuing involvement of €84 million (previous year: €54 million). The carrying amount of the associated liability is €93 million (previous year: €61 million). The underlying volume of receivables sold amounts to €437 million as of the end of the reporting period (previous year: €379 million).

Risk Management of Financial Instruments

Financial Risk Management

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

Currency Risk

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

Interest Rate Risk

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

Liquidity Risk

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

Counterparty Risk

The Bertelsmann Group is exposed to default risks in the amount of the invested cash and cash equivalents and the positive fair value of the derivatives in its portfolio. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with a high credit rating (“core banks”). The credit ratings of core banks are constantly monitored and classified on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.). Counterparty limits determined on the basis of credit ratings refer to cash holdings and positive fair values of the derivatives in its portfolio. The drawdown of limits is monitored on a regular basis. Funds are invested in very short-term portfolios in some cases to preserve flexibility in the event of credit rating changes. In addition, some tri-party transactions with banks have been concluded to reduce default risks. These tri-party transactions are collateralized investments, and the banks provide predefined securities as collateral. As in the previous year, there were no tri-party transactions outstanding at the end of the reporting period; as in the previous year, no collateral had been provided. Processing these transactions and managing and valuing the collateral is performed by a clearing agent. Default risks arising from trade receivables are partially mitigated through credit insurance coverage. The Bertelsmann Group has obtained credit collateralization in the amount of €576 million for these receivables (previous year: €632 million).

Capital Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financing security, return on equity and growth. The Group’s indebtedness is based specifically on the requirements for a credit rating of “Baa1/BBB+.” Financial management at Bertelsmann is conducted using quantified financing objectives that are a central factor in ensuring the Group’s independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are broadly defined performance indicators. The key performance indicator for limiting economic debt within the Bertelsmann Group is a maximum leverage factor of 2.5. On December 31, 2020, the leverage factor was 1.9 (previous year: 2.6). In addition, the coverage ratio is to remain above four. The coverage ratio amounted to 8.3 on December 31, 2020 (previous year: 8.5). The equity ratio is not to fall below 25 percent of total assets. Management of the equity ratio is based on the definition of equity in IFRS. Although minority interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes. In the financial year 2020, the equity ratio was 36.1 percent (previous year: 38.2 percent), meeting the internal financial target set by the Group.

Interest Rate and Currency Sensitivity

For the analysis of interest rate risk, a distinction is made between cash flow and present value risks. Financial debt, cash and cash equivalents and interest rate derivatives with variable-interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates impact the Group’s interest result almost immediately. In contrast, medium- and long-term interest rate agreements are subject to a greater degree of present value risk. The accounting treatment of present value risks depends on the respective financial instrument or a hedging relationship documented in conjunction with a derivative (micro-hedge). Upon initial recognition, originated financial debt is measured at fair value less transaction costs. Subsequent measurement is based on amortized cost. Changes in fair value are limited to opportunity effects, as changes in interest rates have no effect on the balance sheet or the income statement. 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 immediately to other comprehensive income.

The cash flow or present value risks existing at the end of the reporting periods are analyzed using a sensitivity calculation as an after-tax observation. A parallel shift in the interest rate curve of plus or minus 1 percent is assumed for all significant currencies. The analysis is performed on the basis of financial debt, cash and cash equivalents, and derivatives at the end of the reporting period. The underlying total risk position amounts to €3,791 million (previous year: €1,645 million). The results are shown in the following table:

Sensitivity Analysis of Cash Flow and Present Value Risks

	12/31/2020		12/31/2019	
in € millions	Shift +1%	Shift -1%	Shift +1%	Shift -1%
Cash flow risks (income statement)	28	(28)	12	(12)
Present value risks (income statement)	–	–	12	(12)
Present value risks (equity)	–	–	–	–

The analysis of foreign currency sensitivity includes the Group's financial debt and operating transactions at the end of the reporting period and the hedging relationships entered into. The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent appreciation of the euro versus all foreign currencies, and is presented after tax. Based on a total risk position of €210 million (previous year: €107 million), a uniform devaluation of foreign currencies would have resulted in a change in the carrying amount recognized in profit or loss of €-15 million (previous year: €-7 million). Thereof, €-7 million (previous year: €-2 million) relates to fluctuations in the US dollar exchange rate with a net exposure of US$118 million (previous year: US$39 million). Shareholders' equity would have changed by €-15 million (previous year: €-22 million) as a result of fluctuations in the fair values of documented cash flow hedges. Thereof, €-16 million (previous year: €-24 million) relates to fluctuations in the US dollar exchange rate on the basis of a documented cash flow hedge volume of US$282 million (previous year: US$389 million). If there had been a uniform increase in the value of foreign currencies, this would have led to opposite changes in these amounts for the Bertelsmann Group.

Financial Derivatives

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

The majority of the financial derivatives at the end of the reporting period with a nominal volume of €4,620 million (previous year: €5,734 million) are used to hedge currency rate risks from intercompany financing activities. These financial derivatives account for a total of €2,869 million and 62 percent, respectively (previous year: €3,723 million and 65 percent) as of the end of the reporting period. A total of €1,271 million and 28 percent, respectively (previous year: €1,531 million and 27 percent) is due to financial derivatives used to hedge currency rate risks from operating activities as of the end of the reporting period. Financial derivatives are also used to hedge against interest rate risks from interest-bearing receivables and liabilities. Financial derivatives are used exclusively for hedging purposes.

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

Nominal Volume and Fair Values of Financial Derivatives

	12/31/2020				
	Nominal volume				
in € millions	< 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	1,995	1,391	754	4,140	49
Interest rate derivatives					
Interest rate swaps	250	230	–	480	6
Other derivative financial instruments	–	–	–	–	–
	2,245	1,621	754	4,620	55

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

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows, particularly in connection with foreign currency risk relating to the purchase and sale of program rights and output deals for the TV business. Bertelsmann hedges between 80 percent and 100 percent of the short-term (within one year) future cash flows, and between 10 percent and 80 percent of the longer-term (two to five years) future cash flows. As a rule, the derivatives used are recognized as hedging instruments in connection with cash flow hedges, taking into account the volume of the cash flows to be hedged. In individual cases, the Group also hedges certain foreign currency risks arising from intercompany monetary items.

The effective portion of changes in the fair value of cash flow hedges is recognized in accumulated other comprehensive income until the effects of the hedged underlying transaction affect profit or loss, or until a basis adjustment occurs. The total nominal volume designated as a cash flow hedge amounts to US$1,339 million (previous year: US$389 million). The amount of €-2 million relating to cash flow hedges (previous year: €-4 million) was reclassified from accumulated other comprehensive income to the income statement. These are amounts before tax. The portion remaining in accumulated other comprehensive income as of December 31, 2020, will thus mainly impact the income statement in the years to come. As in the previous year, no ineffective portion of the cash flow hedges existed. The effects of non-designated components of a cash flow hedge (e.g., the forward component of a foreign currency derivative with a designation on a spot basis) in the amount of €6 million (previous year: €16 million) were recognized directly in profit or loss.

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

Derivative Financial Instruments

in € millions	Carrying amount on 12/31/2020	Carrying amount on 12/31/2019
Assets		
Forward contracts and currency swaps		
– without hedge relation	80	27
– in connection with cash flow hedges	8	26
Interest rate swaps		
– without hedge relation	6	7
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–
Equity and liabilities		
Forward contracts and currency swaps		
– without hedge relation	29	122
– in connection with cash flow hedges	10	5
Interest rate swaps		
– without hedge relation	–	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–

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

Liabilities from Derivatives with Gross Settlement

	Remaining term of liabilities		
in € millions	Up to 1 year	1 to 5 years	Over 5 years
Cash outflow	(2,327)	(383)	–
Cash inflow	2,297	374	–
Balance as of 12/31/2020	(30)	(9)	–
Cash outflow	(2,399)	(989)	(1,048)
Cash inflow	2,353	894	886
Balance as of 12/31/2019	(46)	(95)	(162)

26 Cash Flow Statement

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

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

The change in provisions for pensions and similar obligations represents the balance of personnel costs for pensions and similar obligations and company payments for these obligations (further explanations are presented in note 18 "Provisions for Pensions and Similar Obligations"). Contributions to pension plans totaling €-23 million (previous year: €-24 million) were also included in this item. "Other effects" of the cash flow from operating activities include the adjustments of results from investments accounted for using the equity method, taking into account dividends received from these investments, and adjustments in connection with non-cash income and expenses.

The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in the scope of consolidation. Items in the consolidated cash flow statement thus cannot be reconciled with changes in items reported on the consolidated balance sheet. Investing activities include payments for investments in non-current assets and purchase price payments for acquisitions as well as proceeds from the disposal of non-current assets and investments. Further explanations concerning acquisitions made during the financial year are presented in the section "Acquisitions and Disposals." Disposals made during the financial year are also presented separately in that section. Financial debt of €54 million (previous year: €6 million) was assumed during the reporting period. As in the previous year, gaining and losing control of subsidiaries or other businesses resulted in the disposal of financial debt of an immaterial amount. The amount recognized under "Disposals of other fixed assets" is mainly attributable to several partial exits conducted in the Bertelsmann Investments division (further details are presented in note 25 "Additional Disclosures on Financial Instruments"). The amount recognized in the previous year under "Disposals of other fixed assets" was also mainly attributable to several transactions conducted in the Bertelsmann Investments division, including the sale of the investment in the tech company Bigo.

Cash flow from financing activities includes changes in equity, financial debt, lease liabilities and dividend distributions affecting cash, as well as interest paid and interest received (including interest paid due to leases). The item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €573 million (previous year: €185 million) and payments in the amount of €-689 million (previous year: €-252 million). As in the previous year, the item "Other effects" mainly includes changes affecting cash in connection with hedge transactions. Total cash outflows from leases amounted to €-316 million in the financial year 2020 (previous year: €-288 million). The item "Change in equity" amounts to €-736 million and is mainly attributable to the shareholding increase in Penguin Random House (further details are presented in note 11 "Interests in Other Entities"). In the previous year, the item "Change in equity" amounted to €81 million and resulted mainly from the transaction in connection with Majorel.

The following tables show the cash changes and non-cash changes of liabilities arising from financing activities:

Changes in Liabilities Arising from Financing Activities

in € millions	1/1/2020	Cash changes	Non-cash changes				12/31/2020
			Acquisitions through business combinations	Disposals through business combinations	Exchange rate effects	Other changes	
Bonds	4,377	1,585	–	–	–	6	5,968
Promissory notes	325	100	–	–	–	(1)	424
Liabilities to banks	138	(58)	50	–	(4)	–	126
Lease liabilities	1,392	(316)	2	(8)	(58)	343	1,355
Other financial debt	160	(58)	4	(2)	5	(1)	108
Liabilities arising from financing activities	6,392	1,253	56	(10)	(57)	347	7,981

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

As of December 31, 2020, the other non-cash changes in lease liabilities mainly relate to lease contracts newly concluded in the financial year 2020. Analogously, as of December 31, 2019, the other non-cash changes in lease liabilities mainly related to lease contracts newly concluded in the financial year 2019.

27 Segment Reporting

IFRS 8 Operating Segments requires that external segment reporting must be based on the internal organizational and management structure, and on management and reporting indicators used internally. The Bertelsmann Group comprises eight operating reportable segments (RTL Group, Penguin Random House, Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments), differentiated according to the type of products and services offered and which are reported by segment managers to the Executive Board of Bertelsmann Management SE in its role as the chief operating decision-maker in accordance with IFRS 8. Corporate is mainly responsible for activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, corporate communications and management, internal control and strategic development of the Group, securing the required financing, risk management and optimization of the Group's investment portfolio. In the financial year 2020, the effects of sale-and-leaseback transactions recognized in profit or loss are allocated to Corporate and therefore result in a significant increase in its operating EBITDA.

Intersegment eliminations are included in the column "Consolidation."

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

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

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

Tabular segment information is presented on page 56 f.

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

Reconciliation of Segment Information to Group Profit or Loss

in € millions	2020	2019
Operating EBITDA from continuing operations	3,143	2,887
Amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets	1,040	1,029
Adjustments on amortization/depreciation, impairment and reversals on intangible assets, property, plant and equipment and right-of-use assets included in special items	(122)	(121)
Special items	(51)	154
EBIT	2,276	1,825
Financial result	(339)	(309)
Earnings before taxes from continuing operations	1,937	1,516
Income tax expense	(478)	(426)
Earnings after taxes from continuing operations	1,459	1,090
Earnings after taxes from discontinued operations	–	1
Group profit or loss	1,459	1,091

28 Related Party Disclosures

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

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

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

Remuneration for key management personnel includes the following:

Remuneration for Key Management Personnel

in € millions	2020	2019
Short-term employee and termination benefits	19	19
Post-employment benefits	2	2
Other long-term benefits	10	9

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

Transactions with Related Parties

in € millions	Parent and entities with significant influence	Key members of management	Joint ventures	Associates	Other related parties
2020					
Goods delivered and services provided	–	1	75	47	–
Goods and services received	–	(2)	(29)	(34)	(1)
Receivables against	–	–	28	37	–
Amounts owed to	–	60	74	24	27
2019					
Goods delivered and services provided	–	1	68	44	–
Goods and services received	–	(2)	(32)	(38)	(1)
Receivables against	–	–	31	41	–
Amounts owed to	–	58	72	20	17

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

As of December 31, 2020, guarantees for associates exist in the amount of €3 million (previous year: €0 million). As in the previous year, Bertelsmann has no share in the contingent liabilities of its associates. Contribution obligations of €4 million (previous year: €9 million) exist to University Ventures Funds as of December 31, 2020. Capital contributions to associates of €5 million (previous year: €3 million) were made in the financial year 2020. In addition, capital distributions from associates amounting to €3 million were made in the financial year 2020, almost all of which were attributable to University Ventures Funds (previous year: €18 million). As of December 31, 2020, loans amounting to €1 million were granted to associates (previous year: €8 million). As in the previous year, no loans were received from associates. As in the previous year, no significant expenses were recognized for bad or doubtful debts due from associates in the financial year 2020.

Contingent liabilities from joint ventures amounted to €25 million as of December 31, 2020 (previous year: €18 million). As of the end of the reporting period, commitments for RTL Group joint ventures existed in an immaterial amount (previous year: €7 million). As in the previous year, no expenses were recognized for bad or doubtful debts due from joint ventures in the financial year 2020. As of December 31, 2020, loans of €11 million were granted to joint ventures (previous year: €2 million). Loans were received from joint ventures in the amount of €3 million (previous year: €23 million). Capital contributions were made to joint ventures in an immaterial amount in the financial year 2020 (previous year: €0 million).

29 Events after the Reporting Period

In November 2020, Penguin Random House announced its acquisition of the global publisher Simon & Schuster for US$2.175 billion. The transaction is subject to the approval of regulatory authorities. Bertelsmann intends to pay the purchase price in cash from existing liquid assets. The closing is expected during the year 2021.

In January 2021, Bertelsmann terminated a floating-rate promissory note of €100 million due in April 2023. The promissory note will be repaid ahead of schedule in April 2021. In addition, a €500 million bond due in May 2021 was terminated early in March 2021. Repayment will take place in April 2021, one month before the original maturity date.

In February 2021, RTL Group announced that it had signed an agreement for the sale of SpotX to Magnite. The purchase price consists of US$560 million in cash and 14.0 million shares of Magnite stock. The transaction is subject to approval by regulatory authorities and is expected to close in the second quarter of 2021. Further details are presented in the section "Assets Held for Sale and Liabilities Related to Assets Held for Sale."

In March 2021, Mediengruppe RTL Deutschland also announced that it had signed an agreement for the acquisition of the remaining 50 percent of the shares in Super RTL (RTL DISNEY Fernsehen GmbH & Co. KG) from The Walt Disney Company (Buena Vista International Television Investments, Inc.). The purchase price amounts to €105 million on a "cash and debt free" basis. The expected fair value remeasurement for the existing 50 percent amounts to approximately €79 million. The transaction is subject to the approval of regulatory authorities (Germany and Austria) and is expected to be closed in the first half of 2021.

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

The following subsidiaries took advantage of the exemption regulations set out in section 264 (3) of the German Commercial Code (HGB) relating to additional requirements for limited liability companies to prepare annual financial statements and a management report, and the requirements for audit of and publication by limited liability companies for the financial year ended December 31, 2020.

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

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

Name of the entity	Place
infoscore Finance GmbH	Baden-Baden
infoscore Portfolio Management International GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
IP Deutschland GmbH	Cologne
justDice GmbH	Hamburg
Majorel Chemnitz GmbH[1)]	Chemnitz
Majorel Neubrandenburg GmbH[1)]	Neubrandenburg
Majorel Schwerin GmbH[1)]	Schwerin
Majorel Stralsund GmbH[1)]	Stralsund
mbs Nürnberg GmbH	Nuremberg
MEDIASCORE Gesellschaft für Medien- und Kommunikationsforschung mbH	Cologne
Mediengruppe RTL Deutschland GmbH	Cologne
Mohn Media Energy GmbH	Gütersloh
Mohn Media Mohndruck GmbH	Gütersloh
MSP Medien-Service und Promotion GmbH	Hamburg
Next Level Integration GmbH	Cologne
Paigo GmbH	Verl
Penguin Random House Verlagsgruppe GmbH	Gütersloh
Prinovis Ahrensburg Weiterverarbeitung und Logistik GmbH	Hamburg
Prinovis GmbH	Gütersloh
Prinovis Klebebindung GmbH	Nuremberg
PRINOVIS Service GmbH	Hamburg
Print Service Gütersloh GmbH	Gütersloh
Probind Mohn media Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Random House Audio GmbH	Cologne
Reinhard Mohn GmbH	Gütersloh
Relias Learning GmbH	Berlin
rewards arvato services GmbH	Munich
RM Buch und Medien Vertrieb GmbH	Gütersloh
RM Elfte Beteiligungsverwaltungs GmbH	Gütersloh
RTL Audio Center Berlin GmbH	Berlin
RTL Audio Vermarktung GmbH	Berlin
RTL Group Central & Eastern Europe GmbH	Cologne
RTL Group Financial Services GmbH	Cologne
RTL Group GmbH	Cologne
RTL Group Licensing Asia GmbH	Cologne
RTL Group Markenverwaltungs GmbH	Cologne

1) The financial year of this subsidiary ended on October 31, 2020.

Name of the entity	Place
RTL Group Vermögensverwaltung GmbH	Cologne
RTL Hessen GmbH	Frankfurt am Main
RTL interactive GmbH	Cologne
RTL Journalistenschule GmbH	Cologne
RTL Nord GmbH	Hamburg
RTL Radio Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
RTL Radio Luxemburg GmbH	Cologne
RTL STUDIOS GmbH	Cologne
RTL West GmbH	Cologne
rtv media group GmbH	Nuremberg
smartclip Deutschland GmbH	Cologne
smartclip Europe GmbH	Düsseldorf
Sonopress GmbH	Gütersloh
SSB Software Service und Beratung GmbH	Munich
SUNDAY GmbH	Hamburg
TERRITORY Content to Results GmbH	Hamburg
TERRITORY EMBRACE GmbH	Bochum
TERRITORY Influence GmbH	Munich
TERRITORY MEDIA GmbH	Munich
TERRITORY webguerillas GmbH	Munich
TERRITORY webguerillas Nord GmbH	Hamburg
trndnxt GmbH	Munich
trndsphere blue GmbH	Munich
UFA Distribution GmbH	Potsdam
UFA Fiction GmbH	Potsdam
UFA Fiction Production GmbH	Potsdam
UFA Film und Fernseh GmbH	Cologne
UFA GmbH	Potsdam
Ufa Radio-Programmgesellschaft in Bayern mbH	Ismaning
UFA Serial Drama GmbH	Potsdam
UFA Show & Factual GmbH	Cologne
Undercover GmbH	Schwülper
Verlag RM GmbH	Gütersloh
Verlegerdienst München GmbH	Gilching
versorgung.plus GmbH	Dortmund
VIVENO Group GmbH	Gütersloh
Vogel Druck und Medienservice GmbH	Höchberg
VOX Holding GmbH	Cologne
VSG Schwerin - Verlagsservicegesellschaft mbH	Schwerin
webmiles GmbH	Munich

In addition, the exemption regulations set out in section 264b of the German Commercial Code (HGB) were used by the following companies for the financial year ended December 31, 2020:

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

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

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

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

Compensation of the Supervisory Board of Bertelsmann SE & Co. KGaA for the financial year 2020 amounted to €2 million plus statutory value-added tax. Members of the Executive Board received total remuneration in the reporting period of €28 million, including €20 million from Bertelsmann Management SE. Former members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG and their surviving dependents received compensation of €5 million, including €5 million from Bertelsmann SE & Co. KGaA. The provision for pension obligations to former members of the Executive Board of Bertelsmann AG and Bertelsmann Management SE accrued at Bertelsmann SE & Co. KGaA and Bertelsmann Management SE amounts to €83 million. The members of the Executive Board and Supervisory Board are listed on pages 158 ff.

The fees for the Group auditors KPMG AG Wirtschaftsprüfungsgesellschaft totaled €5 million during the financial year, of which €4 million was due to fees for the audit of the financial statements. KPMG AG Wirtschaftsprüfungsgesellschaft was paid a total of €1 million for other audit-related services, for tax consulting services and for further services. The audit fees primarily include fees for the consolidated financial statements and the audit of the separate financial statements of Bertelsmann SE & Co. KGaA and its subsidiaries. The audit-related fees mainly cover statutory or voluntarily mandated attestation services by the auditor. Fees for other services cover fees for project-related consulting and due diligence services.

The following table shows the number of employees as of December 31, 2020, and on an annual average:

Number of Employees

	Number of employees (closing date)	Number of employees (average)
RTL Group	15,686	15,700
Penguin Random House	10,871	10,783
Gruner + Jahr	8,777	8,799
BMG	974	947
Arvato	85,662	82,776
Bertelsmann Printing Group	7,183	7,363
Bertelsmann Education Group	1,626	1,649
Bertelsmann Investments	390	399
Corporate	1,673	1,714
Total	132,842	130,130

32 Proposal for the Appropriation of Net Retained Profits

The general partner Bertelsmann Management SE and the Supervisory Board of Bertelsmann SE & Co. KGaA will propose to the General Meeting that the remaining net retained profits of Bertelsmann SE & Co. KGaA of €898 million be appropriated as follows:

Net Retained Profits for Bertelsmann SE & Co. KGaA

in € millions	
Net retained profits	898
Dividends to shareholders	(180)
Carried forward to new financial year	718

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

The general partner Bertelsmann Management SE approved the Consolidated Financial Statements for submission to the Supervisory Board of Bertelsmann SE & Co. KGaA on March 17, 2021. The Supervisory Board's task is to review the Consolidated Financial Statements and declare whether it approves these.

Gütersloh, March 17, 2021

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

Thomas Rabe	Markus Dohle
Rolf Hellermann	Immanuel Hermreck