

# Corporate Governance at Bertelsmann

The German Corporate Governance Code in the version dated May 5, 2015, sets out key statutory requirements concerning the management and monitoring of German listed companies and contains relevant standards for good and responsible corporate management and governance. Its recommendations and suggestions, in addition to the applicable provisions of law, form the basis for Corporate Governance at Bertelsmann. Bertelsmann SE & Co. KGaA is a capital market-oriented company but is unlisted. It is not, therefore, subject to the statutory requirement to issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act.

Bertelsmann's legal form is that of a Kommanditgesellschaft auf Aktien (KGaA) [partnership limited by shares]. The statutory bodies of the KGaA are the General Meeting, the Supervisory Board and the general partner. The general partner serves as the management and representative body of the KGaA. In the case of Bertelsmann, this is Bertelsmann Management SE, a European stock corporation (Societas Europaea), represented by its Executive Board. Bertelsmann SE & Co. KGaA and Bertelsmann Management SE each have their own Supervisory Boards. The members of the Executive Board of Bertelsmann Management SE are appointed and monitored by the Supervisory Board of Bertelsmann Management SE (dual leadership structure). The Supervisory Board of Bertelsmann Management SE & Co. KGaA supervises the management of the business by Bertelsmann Management SE. The duties and responsibilities of the individual bodies are clearly defined in each case and are strictly separated from each other. The Bertelsmann boards are obliged to secure the continuity of the company and to enhance the enterprise value in the long term through responsible and sustainable corporate management.

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

The general partner, Bertelsmann Management SE, represented by its Executive Board, is responsible for independently managing the company. The duties consist of determining the corporate objectives, the strategic direction of the Group, Group management, management training, and corporate planning and financing. The Executive Board provides the respective Supervisory Boards with regular, prompt and comprehensive reports on all matters that are relevant to business development and strategy implementation, planning, and financial and earnings position, as well as on the risk situation and risk management. It ensures compliance with the provisions of law and corporate guidelines within the Group. The Executive

Board Chairman coordinates the cooperation between the Executive Board and the Supervisory Boards and has regular consultation meetings with the chairs of the two Supervisory Boards. In addition, the Executive Board has established the Group Management Committee (GMC), which advises on important corporate strategy and development matters as well as other issues that affect the Group as a whole. This Committee, currently comprised of 18 members, is composed of all members of the Executive Board and executives representing key businesses, countries, regions and selected Group-wide functions.

The Supervisory Board of Bertelsmann SE & Co. KGaA supervises the management of the business by the general partner and uses its extensive information and control rights for this purpose. In addition, the Supervisory Boards advise the Executive Board on strategic matters and significant transactions. The Executive and Supervisory Boards work in close cooperation and are therefore able to reconcile the demands of effective corporate governance with the need for rapid decision-making. Fundamental matters of corporate strategy and their implementation are discussed openly and coordinated in joint sessions. Any significant measures to be taken by the Executive Board are subject to the approval of the Supervisory Board. The Bertelsmann SE & Co. KGaA and Bertelsmann Management SE shareholders exercise their rights and vote at the respective General Meetings. The General Meetings vote on matters such as amendments to the articles of association and the appropriation of net income and elect the members of the respective Supervisory Board. The members of the Executive and Supervisory Boards are obliged to serve the company's best interests in their work. For some time, the delegation of tasks to committees of experts has been an integral component of the Supervisory Boards' work at Bertelsmann. It serves to increase the monitoring efficiency and advisory expertise of the Supervisory Boards. The Supervisory Board of Bertelsmann Management SE has formed a Personnel Committee and a Program Committee, and the Supervisory Board of Bertelsmann SE & Co. KGaA has formed an Audit and Finance Committee and the Working Group of Employee and Management Representatives. The tasks of a Nomination Committee were also assigned to the Personnel Committee, in which capacity it recommends to the plenary session of the Supervisory Board suitable candidates at the General Meeting. The Program Committee, instead of the Supervisory Board, decides on the approval of the Supervisory Board to enter into program supply deals, for example for feature films, series or sports rights. The Audit and Finance Committee of

the Supervisory Board of Bertelsmann SE & Co. KGaA is also regularly involved in the accounting process and monitors the effectiveness of the internal control system, risk management system and internal auditing system. It also monitors the compliance organization within the Group. These committees prepare the topics to be addressed during the plenary meetings of the Supervisory Boards. The committee chairs then report to the plenary meetings on the work performed. The Supervisory Boards' decision-making powers have been transferred to the committees to the extent permitted by law. The breadth and range of responsibilities and tasks delegated to these committees is continuously reviewed through various evaluation processes. The appropriate size of the Supervisory Boards and the experience and professional expertise of their members, who are drawn from a broad range of industries and areas of activity, are key factors in Bertelsmann's effectiveness and independence.

### Diversity in Practice

At a global company like Bertelsmann, diversity within the workforce is a key element for the Group's long-term economic success in its various markets and countries. This diversity is therefore reflected in the Group's management levels, among other areas. For a number of years now, the Executive Board has always included at least one female member. The senior management of the GMC is very heterogeneous, with 18 members originating from six different nations. Five members of the GMC are women.

Both Supervisory Boards are largely composed of professionally qualified and capable members with management experience, representing various countries and a broad range of backgrounds and lifestyles. There is a significant proportion of female members on the Supervisory Board. Maintaining diversity among the staff is always a key consideration of the Supervisory Boards when nominating candidates for election as new members of the Supervisory Board by the General Meeting. For example, when nominating candidates for the Supervisory Boards, extensive consideration is always given to the aim of further increasing the proportion of female members or members with international experience.

Bertelsmann SE & Co. KGaA is an unlisted company and is not subject to parity codetermination. The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" does not apply to the two Supervisory Board bodies. Nonetheless, Bertelsmann supports the aim of

the Act and has introduced a series of management development measures designed to increase diversity particularly within senior management. A cross-divisional, international working group specifically drives forward diversity at all levels of the company.

### Closed Group of Shareholders

Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) indirectly hold 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the remaining 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the Bertelsmann SE & Co. KGaA and Bertelsmann Management SE General Meetings. BVG is responsible for upholding the interests of the Bertelsmann Stiftung and of the Mohn family as indirect Bertelsmann SE & Co. KGaA shareholders, as well as ensuring the continuity of the company's management and Bertelsmann's distinctive corporate culture. BVG is controlled by a steering committee composed of three representatives of the Mohn family and three additional non-family members.

The German Corporate Governance Code in the version dated May 5, 2015, is directly applicable to listed companies and those with access to capital markets within the meaning of section 161, paragraph 1, clause 2 of the German Stock Corporation Act (Aktiengesetz). Bertelsmann SE & Co. KGaA is a capital market-oriented company but is unlisted. Nevertheless, its corporate governance activities closely follow the guiding principles and in that respect correspond to the recommendations of the German Corporate Governance Code. Consequently, in the opinion of Bertelsmann SE & Co. KGaA and taking into account its specific shareholder structure, exceptions relate primarily to those recommendations and suggestions that apply to publicly held enterprises with large numbers of shareholders or anonymous shareholders, above all to those guidelines concerning the invitation to and conduct of the Annual General Meeting and the composition and remuneration of the Executive Board and Supervisory Boards.

### Compliance

Corporate responsibility as well as lawful and ethical behavior toward employees, customers, business partners and government agencies are an integral part of our value system at Bertelsmann. Accordingly, Bertelsmann has always been committed to the principle of adhering to laws and internal policies on the prevention of risks and their consequences.

In order to ensure compliance, the Executive Board has established a compliance organization and the Ethics & Compliance program. It oversees this program and ensures that it is continuously improved. The Supervisory Board Audit and Finance Committee monitors the effectiveness of the compliance organization and adherence to legal provisions as well as internal guidelines. Each year, the Corporate Compliance Committee (CCC) submits a report about compliance within the Group to the Executive and Supervisory Boards. It also provides ad hoc reports to the Executive and Supervisory Boards in the event of any significant compliance violations. The CCC is responsible for the effectiveness of measures designed to ensure compliance as well as for promoting a culture of ethical and compliant conduct within the Bertelsmann Group. In particular, the CCC monitors investigations into compliance violations and the measures taken to prevent violations. The Ethics & Compliance Department is responsible for the day-to-day work to ensure compliance, implementing Board-mandated compliance initiatives and managing the whistleblowing system.

The Bertelsmann Ethics & Compliance program is based on the relevant standards for compliance management systems and contributes toward mitigating risks in various ways. Its basic elements include, in particular, the Bertelsmann Code of Conduct, risk analysis, advice, communication and training measures, whistleblowing systems and case management.

It also includes additional measures in specific subject areas, such as anticorruption, antitrust law, foreign trade law and antidiscrimination.

The Executive Board has continuously developed and expanded Bertelsmann's compliance structure and organization over time, including during the financial year 2015. In 2015, Code of Conduct training for employees continued. Additional training was offered on topics such as anticorruption, antitrust law, foreign trade law, business partner compliance and antidiscrimination. The interlinks between the compliance organization and the risk management system were strengthened, and new guidelines were approved concerning the deployment of external staff as well as the commissioning of consultants and agents. Guidelines on the compliance organization and the future role of Ethics & Compliance Officers and a Supplier Code of Conduct will soon be completed.

The Executive Board and CCC submitted the annual Compliance Report to the Supervisory Board. All reports of compliance violations received were investigated and appropriate actions were taken. The report also included suggestions for increasing the effectiveness of measures designed to ensure compliance.

Executive Board

Supervisory Board