



“We have made massive progress in implementing our strategy: Bertelsmann has become a more digital, more international and faster-growing company.”

Thomas Rabe
Chairman & CEO of Bertelsmann

Dear Readers, Dear Friends of Bertelsmann,

2014 was a good year for Bertelsmann. Our business performance was positive overall, and we made good progress in implementing our strategy. Among other highlights, we implemented an important step in building our education business. In the long term, we want to establish education as the third pillar of our portfolio, alongside media content and services. We've also moved closer to our goal of making Bertelsmann a more digital, more international and faster-growing company through many other measures. The "new Bertelsmann" is visibly taking shape, as this Annual Report documents.

Last year, Bertelsmann grew its revenues by three percent to €16.7 billion – the highest level in seven years. The key drivers of this revenue increase were our strategic transactions, such as the merger of Penguin and Random House, the full acquisition of BMG, and the expansion of financial and e-commerce services at Arvato. At the same time, we disposed of some high-revenue but structurally declining businesses, such as Gruner + Jahr's US printing business and Be Printers' Italian printing operations.

Operating EBITDA also reached its highest level since 2007. Year on year it increased by nearly three percent, to €2.37 billion. Here too, Penguin Random House made a significant contribution – thanks in part to numerous bestsellers. The merger of the two book-publishing groups is paying off for our authors and their millions of readers, as well as commercially. The operational integration proceeded ahead of schedule and our publishing companies on all continents achieved outstanding creative successes. In the United States, for example, more than 500 Penguin Random House titles made the "New York Times" bestseller lists in 2014.

Other major contributors to earnings growth were our German-language television business – thanks to another record year for Mediengruppe RTL Deutschland – and our music-rights business BMG. Overall, declines in earnings at some businesses in France and from structurally declining activities, as well as startup costs for new businesses, were more than offset. As a result, our EBITDA margin remained virtually stable at 14.2 percent.

Group profit was €573 million, after €885 million in the previous year. Earnings were noticeably impacted by the downscaling of our print and direct-marketing businesses, as well as an impairment loss recognized in the television business in Hungary, where a special tax on advertising was introduced in the summer. Earnings were also affected by expenditure on profit-improvement measures. However, the combined medium-term earnings potential of such measures amounts to about €500 million.

In 2012, we set ourselves the goal of making Bertelsmann a more digital, more international and faster-growing company by pursuing four strategic priorities. Last year, again, we made progress in every one of these priorities.

One important measure for **strengthening the core** was our full acquisition of Gruner + Jahr. Some 45 years after Bertelsmann first invested in the Hamburg publisher, under the leadership of Reinhard Mohn, we became the sole owner of G+J on November 1, 2014, after purchasing the Jahr family's shares. We are very happy to be working with the staff to develop the company into a leading house of content – and are pleased that the strategic realignment of G+J is already bearing fruit. Excluding the print operations that were sold, in 2014, G+J achieved an almost stable operating result despite additional investment in its transformation to digital.

We also strengthened our core in other divisions: RTL Group expanded its families of channels by launching new channels in Germany (Geo TV, in collaboration with G+J), Croatia (RTL Kockica) and Southeast Asia (RTL CBS Extreme HD). Penguin Random House strengthened its presence in Latin America, as well as Spain and Portugal, with the acquisition of the book publisher Santillana. We also made significant progress in downscaling a number of structurally declining businesses. For instance, in addition to the aforementioned printers, we sold the club businesses in the Czech Republic, Slovakia and Spain. We will also be withdrawing from the club and direct-marketing business in Germany in the months ahead.

The **digital transformation** of our businesses also saw positive developments in 2014. RTL Group acquired a majority stake in SpotXchange, one of the world's five largest marketing platforms for online videos. The group also increased its shareholding in the multichannel network (MCN) StyleHaul to 97 percent. StyleHaul is the world's most popular MCN for fashion, beauty, and lifestyle topics. Our channels' catch-up TV offerings, Fremantle Media's Web productions and channels, and our MCNs collectively generated over 36 billion online video views in 2014. Only Google, Facebook, and AOL had more viewers. As a result, RTL Group has established itself as Europe's leading digital-entertainment company.

Penguin Random House further consolidated its market leadership in the digital business. In 2014, Penguin Random House sold more than 100 million e-books and now offers more than 100,000 titles in electronic form. Gruner + Jahr has expanded its portfolio of digital content and is well on the way to becoming the leading provider of digital magazines in Germany. Also in 2014, Arvato grew with services for leading companies in the IT and high-tech sector.

We took an essential step in **expanding our growth platforms**. The takeover of Relias Learning was Bertelsmann's largest purchase in the United States since the acquisition of Random House in 1998. Relias is a leading US e-learning provider with more than 4,000 institutional clients, and offers considerable growth potential, as it benefits from three global megatrends: education, health and digitization. This makes Relias the ideal nucleus for developing Bertelsmann's e-learning business.

E-learning is one of three segments in the education sector in which we will invest during the next few years. We also want to build a global network of medicine and human-sciences universities under the umbrella of our US subsidiary Arist. In February 2015, we added the first university to this network: Alliant International University, a renowned institution with 3,700 students at ten campuses. We also intend to shape the services sector for universities. In this way, we plan to develop education as a key pillar of the "new Bertelsmann." We are aiming for revenues of €1 billion in the next few years.

As well as education, we also successfully developed our other growth platforms in 2014. Fremantle Media secured a majority stake in the TV production company 495 Productions. Arvato's takeover of Netrada made it the European market leader in fashion e-commerce. Arvato also continued to drive forward the expansion of its financial services business, for example, by acquiring the Dutch company AfterPay. BMG grew both organically and through acquisitions; among other opportunities, we took over the music publishers Talpa and Union Square, and the Montana and Hal David rights catalogs.

There are encouraging developments to report in the **expansion** of our businesses **in the growth regions** as well. Our Bertelsmann Asia Investments (BAI) fund made more new investments than ever before, bringing the total number to more than 40 since it was established. At the same time, BAI once again recorded significant increases in value. In India, Bertelsmann's investments included the e-commerce platform Pepperfry and the education service iNurture. And in Brazil, we joined forces with an investment company to set up a venture capital fund that focuses on technologies in the education market there.

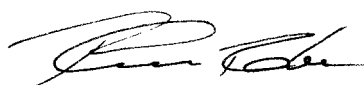
The experiences of our divisions demonstrate that China, India and Brazil offer us a wealth of opportunities with their rapidly growing middle classes. RTL Group and Fremantle Media are already present on TV screens around the world with their nonlinear offerings and hit formats such as "Idol," "Got Talent" and "X Factor"; Penguin Random House has a global reach unrivalled by any other trade publisher; and Arvato is one of China's leading service providers. By expanding these and our new education and digital-media businesses, we plan to generate around €1 billion in revenues in China, India and Brazil in the medium term.

In the future these countries will be even more formative for the "new Bertelsmann" than they are today. Bertelsmann is in the process of becoming a more digital, more international and faster-growing company. We will become an education company as well as a media and services company. And we want to increase our revenues to €20 billion in the years ahead.

To date, our progress on this journey has been faster than expected. Since the beginning of 2012 we have invested more than €2 billion just in our expansion and growth businesses. As a result, last year they contributed almost 30 percent to our total revenues – compared to around 20 percent in 2011. Conversely, during the same period, we reduced the share of revenues from structurally declining businesses from 15 to under 10 percent.

The most important basis for our company's success is and will remain the commitment and dedication of our more than 112,000 colleagues, whom I would like to thank most sincerely for their work. Together, we are building a "new Bertelsmann," as you can see in this Annual Report – which is therefore also a progress report. I hope you enjoy reading it!

Yours sincerely,



Thomas Rabe

The Bertelsmann Executive Board



Achim Berg

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



Anke Schäferkordt

Member of Bertelsmann's Executive Board since April 19, 2012. Co-Chief Executive Officer of RTL Group, Luxembourg. Born on December 12, 1962, in Lemgo (Germany).



Thomas Rabe

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



Markus Dohle

Member of Bertelsmann's Executive Board since June 1, 2008. Chief Executive Officer of Penguin Random House, New York.
Born on June 28, 1968, in Arnberg (Germany).



Immanuel Hermreck

Member of Bertelsmann's Executive Board since January 1, 2015. Chief Human Resources Officer of Bertelsmann, Gütersloh.
Born on March 22, 1969, in Rheda-Wiedenbrück (Germany).

The Bertelsmann Group Management Committee

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



Thomas Rabe
Chairman and Chief Executive Officer
of Bertelsmann



Achim Berg
Chief Executive Officer of Arvato AG



Fernando Carro
Chief Executive Officer Clubs and Direct Marketing
and President Latin America and Spain
of Bertelsmann



Markus Dohle
Chief Executive Officer of Penguin Random House



Immanuel Hermreck
Chief Human Resources Officer of Bertelsmann



Julia Jäkel
Chief Executive Officer and Chairwoman
of the Executive Board of Gruner + Jahr



Annabelle Yu Long

Chief Executive Bertelsmann China
Corporate Center and Managing Partner
Bertelsmann Asia Investments



Hartwig Masuch

Chief Executive Officer of BMG



Guillaume de Posch

Co-Chief Executive Officer of RTL Group



Gail Rebeck

Chair of Penguin Random House UK Board



Anke Schäferkordt

Co-Chief Executive Officer of RTL Group and
Chief Executive Officer of Mediengruppe
RTL Deutschland



Karin Schlautmann

Executive Vice President Corporate
Communications of Bertelsmann



Bertram Stausberg

Chief Executive Officer of Be Printers



Nicolas de Tavernost

Chief Executive Officer and Chairman
of the Management Board of Groupe M6

Bertelsmann Strategy

01 Strengthening the Core

02 Digital Transformation

The Bertelsmann strategy is designed to create a more digital, more international and faster-growing company. Specifically, this means that beyond ongoing investment in its existing activities, Bertelsmann is increasingly developing new lines of business that ensure a broader overall revenue structure. In 2014, significant progress was made in implementing the four declared priorities of the strategy: strengthening core businesses, digital transformation, development of growth platforms and expansion in growth regions.

Bertelsmann's strategy is a response to global trends that are radically changing media usage behavior and customer requirements: the digitization of all areas of life, the increasing role of emerging markets such as Latin America, China and India and the increasing demand for education services.

Creativity is of particular importance for putting the strategy into practice. Accordingly, the company is investing heavily in the creative substance of its businesses. At the same time, Bertelsmann advanced its transformation to digital, expanded growth areas such as education, the music-rights business, and television production, as well as services and e-commerce, and stepped up its activities in fast-growing regions of the world.

The aforementioned four strategic priorities will continue to guide Bertelsmann's business activities as the company benefits from its strong market positions and solid financial foundation.

This Annual Report is entitled **"Building A New Bertelsmann."** The following pages highlight the specific successes that were achieved on this path during the past year and where Bertelsmann stands today. This vividly shows what drives the company and what direction Bertelsmann is taking with its individual businesses.

03 Growth Platforms

04 Growth Regions

digital

international

fast-growing

01



Strengthening the Core

digital

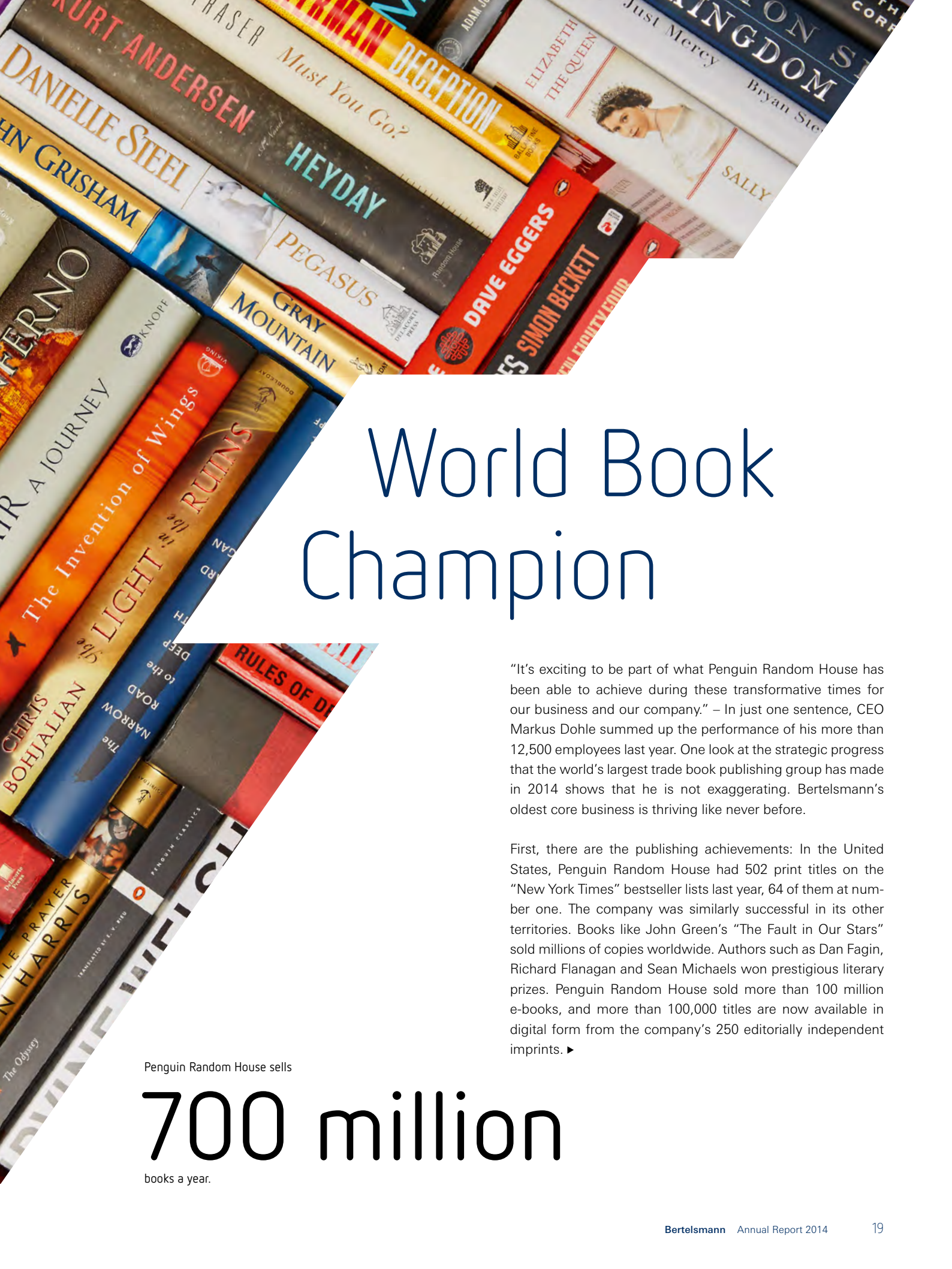
international

fast-growing

Bertelsmann relies on the innovative power of creativity – it stands at the heart of value creation. No other media company today has a more diverse range of creative content. At the same time, the Group offers solutions for a wide range of business processes to clients from all over the world. Bertelsmann strengthens these core businesses through targeted investments and acquisitions and by seizing opportunities for consolidation. The Group responds to trends and new customer requirements, for example by offering digital additions to television programming or topic-specific media platforms. At the same time, Bertelsmann champions the protection of intellectual property, including in the digital domain.

Penguin Random House

Successful integration of the new Penguin Random House logo and associated brand architecture



World Book Champion

"It's exciting to be part of what Penguin Random House has been able to achieve during these transformative times for our business and our company." – In just one sentence, CEO Markus Dohle summed up the performance of his more than 12,500 employees last year. One look at the strategic progress that the world's largest trade book publishing group has made in 2014 shows that he is not exaggerating. Bertelsmann's oldest core business is thriving like never before.

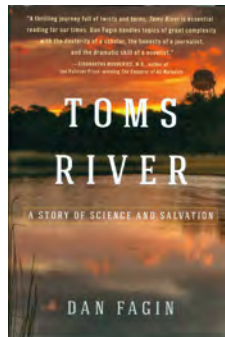
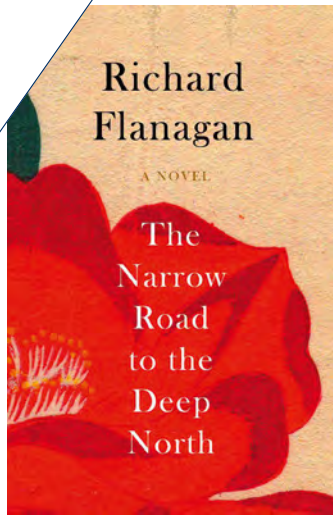
First, there are the publishing achievements: In the United States, Penguin Random House had 502 print titles on the "New York Times" bestseller lists last year, 64 of them at number one. The company was similarly successful in its other territories. Books like John Green's "The Fault in Our Stars" sold millions of copies worldwide. Authors such as Dan Fagin, Richard Flanagan and Sean Michaels won prestigious literary prizes. Penguin Random House sold more than 100 million e-books, and more than 100,000 titles are now available in digital form from the company's 250 editorially independent imprints. ▶

Penguin Random House sells

700 million

books a year.

► “Our bestseller performance and awards recognition are the best possible proof that we have in no way let the integration process distract us from the essentials of our creative publishing work,” explains Markus Dohle, highlighting Penguin Random House’s second major strategic focus last year: further integration and collaboration between Penguin and Random House, the trade book publishing businesses of Bertelsmann and Pearson that were combined in 2013. Here again several milestones recently have been achieved: “One year in and we are already reaping many of the benefits of a combined company, and more are on the horizon: upgraded systems, shared best practices, and improved services for our customers,” was Dohle’s assessment. He is convinced that “additional benefits will follow.”



Literary awards for Richard Flanagan, Sean Michaels and Dan Fagin

The successful progression of the merger between Penguin and Random House also can be seen in the new visual identity that the company unveiled in mid-2014: “Presenting our new Penguin Random House wordmark side

by side with each of our publishing-imprint and brand symbols powerfully communicates what makes our company so special: Our collective experience and global scale coupled with our local publishing teams giving diverse and important voices a platform and audience in their books,” says Dohle, commenting on the new brand architecture.



In addition to the ongoing integration, during the course of the year Penguin Random House also acquired the Spanish- and Portuguese-language publishing group Santillana Ediciones Generales, which significantly strengthened its presence in Latin America and made it number one in the Spanish-speaking literary market, a strategic growth region for Bertelsmann.

Whether digital or analog, in Latin America or the United States – all change aside, Dohle believes that one key success factor always remains the same for Penguin Random House: passion for content and the commitment to connect diverse voices, opinions and stories with as many readers as possible worldwide. “People inherently want to tell stories and share them with others. Giving them the opportunity to do this is the real core of the book publishing business. With Penguin Random House, we are creating a global player that is even better positioned to achieve this goal and to foster a universal passion for reading.”



RTL Group Strengthens the Broadcasting Business



RTL Group's families of channels continued to grow in 2014: On May 8 the German digital special-interest channel Geo Television was launched with a primetime documentary about the astrophysicist Stephen Hawking. The pay-TV channel is a collaboration with "Geo," the popular features magazine published by Gruner + Jahr. Geo Television – available in HD quality from launch – primarily shows nature, technology and world-history documentaries, ideally complementing Mediengruppe RTL Deutschland's existing pay-TV portfolio. RTL Kockica, the latest addition to the RTL family of channels in Croatia, is aimed at a rather younger audience. On its

very first day on the air, the country's first free-to-air children's channel already beat its competitors in the battle for ratings. RTL CBS Extreme HD, the third new addition to RTL Group's family of channels, launched in Southeast Asia in 2014. "We've launched more new channels in the past three years than ever before, considerably strengthening our core business of broadcasting," explains Anke Schäferkordt, Co-CEO of RTL Group.

RTL Group also made progress on the second pillar of its broadcasting strategy – generating steadily higher non-advertising revenues. The company's aim is to receive a fair revenue share for its brands and programmes from the major distribution platforms – cable network operators, satellite companies and Internet TV providers – in the future, for new services such as high-definition TV channels, on-demand platforms and digital pay channels and eventually for the signal of the major free-TV channels, which form the basis of the platform operators' business.





G+J Successfully Launches New Magazines

Growth at the newsstand: Last year, Gruner + Jahr successfully established several new magazines on the market. For instance, the magazine “Flow,” launched in late 2013, more than doubled its circulation last year – with a simultaneous increase in frequency of publication. The attention to detail and unusual design of the magazine for mindfulness, inspiration and paper lovers won it a Lead Award in 2014 – one of the most prestigious awards for print and online media in Germany.

At the same time G+J expanded its print portfolio last year: “Old values, new ideas” is the credo of “Salon,” a new magazine for hospitality, dining and lifestyle. The high-end lifestyle magazine combines traditional values with modern design and targets a sophisticated readership.

G+J achieved another very successful launch with the new men’s lifestyle magazine “Manual,” which made its debut in July. The special thing about the publication is its distribution model, for which G+J signed a distribution agreement with H&M. The fashion chain guarantees a circulation of 150,000 copies, to be distributed specifically to male customers in more than 300 of its stores. The magazine is also available at railway-station bookshops and at airports. “Manual” – the “modern manual for men” – offers stories and practical topics for and about trend-savvy men.



Bertelsmann Fully Acquires Gruner + Jahr

The media called Bertelsmann's acquisition of full ownership of Gruner + Jahr a "coup." Since last November, Bertelsmann has owned 100 percent of the magazine subsidiary in which it previously owned a majority stake. Announcing the acquisition, Bertelsmann CEO Thomas Rabe said it was "a milestone in strengthening our core," adding that the deal was also a "clear commitment to journalism."

As the company with the most diverse range of media content in the world, he said that Bertelsmann offered G+J the ideal conditions for a continued successful development. For example, the new ownership structure facilitates the expansion of cooperation with other Bertelsmann companies.

In order to simplify decision-making and coordination processes and lower administrative overheads, G+J changed its legal form to a GmbH & Co KG following the full acquisition in December 2014. This in no way affected the autonomous management of G+J by the Executive Board under Julia Jäkel, nor were there any changes for the employees.

At the same time, Bertelsmann announced investments in the future of its magazine subsidiary: "We fully support the transformation of Gruner + Jahr, and will continue to provide the necessary funds in future," said Rabe. "G+J was and will remain a core Bertelsmann business."



Corporate Investments
Corporate Center





Opening ceremony: Heidrun Streich (Sennheiser), Andreas Sennheiser, Achim Berg and Frank Schirrmeister (Arvato SCM Solution Group) (from left)

Logistics for the Perfect Sound

The Sennheiser Group has found an integrated full-service provider for its global logistics – Arvato. Since the beginning of last year, the Bertelsmann subsidiary has successively taken over warehousing and distribution tasks for the audio components manufacturer. After the successful launch of logistics activities in Europe, America and Asia have now also been added to its areas of responsibility – “a fantastic international cooperation,” as Arvato CEO Achim Berg

emphasized. Arvato specially built a 10,000 m² storage and distribution facility in Gütersloh in order to take on the contract. Some 60 Arvato employees send out several thousand shipments a day from here. The overall Sennheiser portfolio includes more than 3,000 different products.

arvato
BERTELSMANN

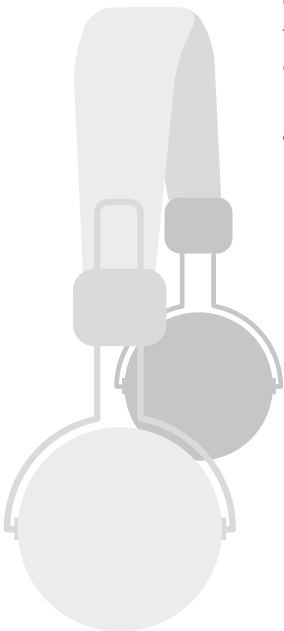


10,000

m² warehouse and distribution hall

3,000

different products



One-Stop Gravure and Offset at Prinovis

Since the beginning of this year, two offset presses have broadened the range of services at the Prinovis site in Dresden. Previously, only gravure printing was done here, but after the set-up and testing of the two machines last year the plant is now the first Prinovis hybrid facility to offer both gravure and offset technology. "With these new presses, we create a strategically important complement to our core business of gravure printing," says Prinovis CEO Bertram Stausberg. For him, the acquisition of the two 48-page web offset presses constitutes an "important step in enhancing the competitiveness



Be Printers and Prinovis
CEO Bertram Stausberg

of the Dresden site and the Prinovis Group." It now offers its customers new products that combine both printing processes. The first offset order was a brochure for the mail-order company Klingel with a print run of over 500,000 copies.

The new machines print

5.4 million

DIN A4 pages per hour.





Thomas Rabe in London

Creative Highlight of 2014: Bertelsmann Conference in London

Thomas Rabe aimed to make 2014 “The Year of Creativity and Innovation.” In an article for the “Frankfurter Allgemeine Zeitung” Bertelsmann’s Chairman & CEO wrote: “I am convinced that the era of digitization is not the era of technology, but the era of creativity.” He said there is no other company that combines such creative diversity under one roof as Bertelsmann.

This was made especially clear in September last year at a three-day creative conference in London: 300 top executives and creative people from Bertelsmann came together and took the opportunity to discuss the conditions and processes of creativity. “Creativity is at the heart of everything we do,” said Rabe in his speech. In addition to creative people associated

with Bertelsmann such as E. L. James, Jamie Oliver, Beth Ditto, Will.i.am and Simon Cowell, there were a number of renowned external guest speakers, including poets, political strategists, neuroscientists and designers.

Corporate Investments
Corporate Center



TV chef Jamie Oliver and singer Beth Ditto at Bertelsmann’s Creativity Conference



Achievements: Strengthening the Core

digital

international

fast-growing

Bertelsmann reaches more than 500 million people a day with its offerings.



- RTL Group reaches 103 million TV households across Europe.
- The broadcasting group operates 52 TV channels and 29 radio stations in the eight most attractive markets in Europe (Germany, France, Netherlands, Belgium, Luxembourg, Spain, Hungary and Croatia) and in Southeast Asia.
- Three new channels were launched in 2014: RTL Kockica in Croatia, Geo TV in Germany and RTL CBS Extreme HD in Southeast Asia.
- About 90 percent of RTL Television’s program lineup consists of its own formats.



- Penguin Random House is the world’s largest trade book publisher, with 250 imprints on five continents.
- It publishes over 15,000 new titles each year.
- It sells about 700 million books per year.
- Penguin Random House publishes the works of more than 70 Nobel Prize laureates.
- Its top-selling book in 2014 was John Green’s YA novel “The Fault in Our Stars,” which sold more than ten million copies in hardcover and e-book formats.
- A total of 502 titles were placed on the “New York Times” bestseller lists in 2014, 64 of them at number one.
- Prominent awards in 2014 included the Pulitzer Prize for Dan Fagin with “Toms River” (nonfiction) and the Man Booker Prize for Richard Flanagan’s “The Narrow Road to the Deep North.”



- G+J has a presence in around 20 countries with a total of 500 magazine, digital and other media offerings.
- Two new magazines were launched: “Salon” and “Manual.”
- The market-leading position in France has expanded: Prisma Media had the highest circulation and reach among France’s magazine publishers, along with strong websites.
- G+J journalists won more than 130 awards for their work in Germany and abroad in 2014.

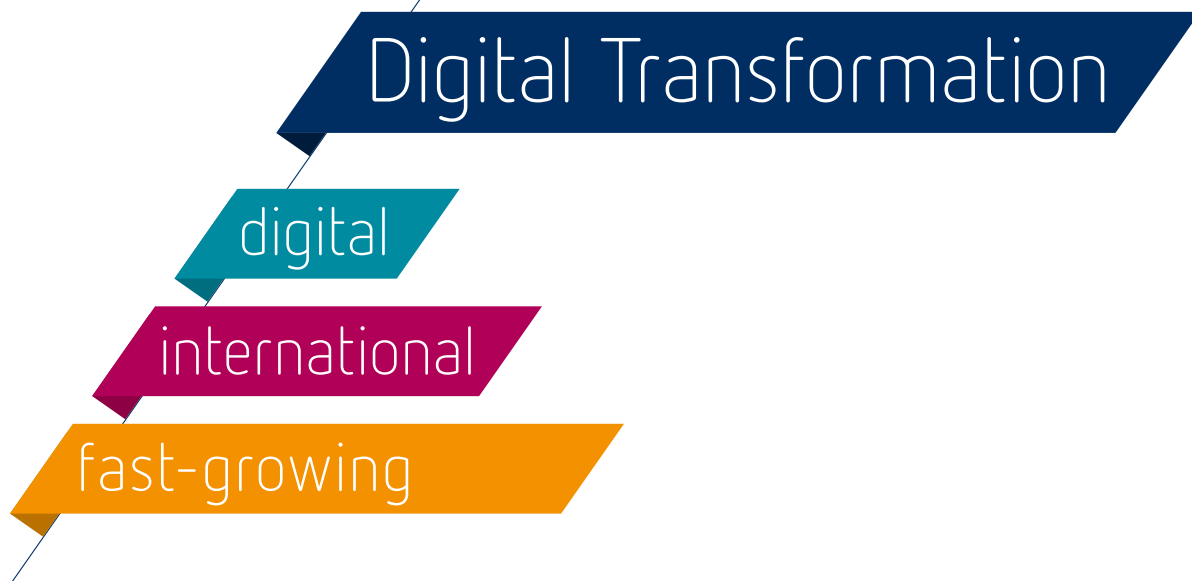


- Services are provided for 150 million customers worldwide in 30 languages.
- Arvato ships 700 million packages a year.
- Arvato initiates approximately 300 million contacts with consumers per year for major clients.
- About 200 million calls are made annually at its service centers worldwide.
- Arvato services 40 million consumers across Europe in customer loyalty systems.
- A total of 600,000 individual books or packages of books are shipped by Arvato per day.
- Around 750 million books and 2 billion brochures are printed per year.



- Be Printers prints 1.6 million tons of paper a year at its printing plants.
- The new offset presses in Dresden print 5.4 million A4 pages per hour. The paper runs through the presses at 54 km/h.
- 265 million printed products were produced at the Hicksville plant in the United States alone in 2014.
- The US printers renewed a five-year printing contract with their sister company Penguin Random House.

02



Bertelsmann's business areas are also transforming as a result of digitization and changes in media use. The company shapes this transformation with a clear focus on customers' needs and requirements. Be it TV content on every available end device, from TV sets to smartphones to tablets; more than 100,000 e-books in German, English and Spanish; apps and portals tying in to established magazines or topics or digital services – Bertelsmann is reinventing itself, attracting new customer groups and opening up new distribution channels. The transformation to digital is a long-term endeavor that is of crucial importance to the future of the company.

The word "spot" is written in a lowercase, black, sans-serif font. To its right is a stylized "X" logo composed of four chevron-like shapes: two green on the left and two blue on the right, meeting at a central point.

spot



change

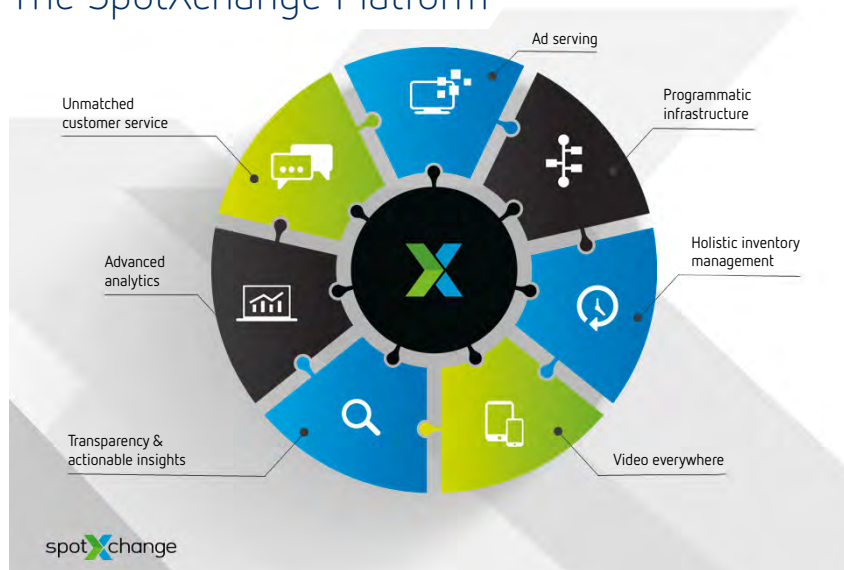
The NASDAQ for Online Commercials

“Programmatic advertising,” “supply-side platforms,” “real-time bidding” – specialized terms like these are often bandied about among RTL Group’s digital experts, but even more so since last year. The reason is the new subsidiary SpotXchange, in which RTL Group secured a majority stake in September 2014 – a strategic milestone on the path of transformation of what is now Europe’s most digital TV company.

“Following our investments in nonlinear TV services and in multichannel networks on YouTube, RTL Group has already become the leading European media company in terms of online video views,” said Co-CEOs Anke Schäferkordt and Guillaume de Posch, explaining the rationale behind the acquisition of SpotXchange. “The logical next step in our strategy is a structural move into the area of digital monetization.” ▶

► This is precisely where the Denver-based US company comes into play: Founded in 2007, SpotXchange is a platform for programmatic selling of online video advertising. Its advertising marketplace with an exclusive focus on video brings together online advertisers and publishers. Every time an online user visits a website, data about them is transmitted to SpotXchange. In milliseconds, SpotXchange identifies advertisers for whom this particular user could be of interest, offering them the chance to immediately advertise. The advertisers bid on this advertising slot and the highest bidder wins, resulting in their advertising being shown to the user instantly. Since the entire process runs in the background in a split second, users only see the result: advertising that is tailored to their interests.

The SpotXchange Platform



SpotXchange processes more than

3 billion
 auctions each day.

“Basically, SpotXchange is a kind of NASDAQ for online commercials,” says Guillaume de Posch. Each day, SpotXchange processes 3 billion such auctions – and the number is rising. Online video advertising is currently one of the fastest growing segments of digital advertising; experts expect average annual growth rates of 42 percent in automated sales of online video advertising.

This also pays off financially: In the first half of 2014, SpotXchange doubled its net revenues year on year, and the company’s development for the full year is also impressive. “This has been an incredible year for SpotXchange as we’ve experienced tremendous growth in revenue, made huge steps toward global expansion and continued to develop our programmatic video technology,” says SpotXchange CEO Mike Shehan. “We’re excited to see what 2015 has in store for us.”





RTL Group Expands Its MCN Networks



More than 5 billion online video views per month – and rising – are a testament to RTL Group’s rapid progress in the digital domain. In 2014, the Bertelsmann division continued to grow its successful multichannel networks (MCN) – companies that aggregate YouTube videos of various genres and sell them to advertisers. Last December, RTL Group acquired a majority stake in the US company StyleHaul that specializes in fashion and lifestyle videos (see interview on page 34).



In addition, RTL Nederland launched its own MCN focusing on music, entertainment and sports with RTL Group’s subsidiary BroadbandTV – another MCN that greatly expanded its reach last year – as its technical partner. Overall, RTL Group is now the world’s second-largest player in the YouTube ecosystem, excluding pure music services.

More than

5 billion

online video views per month



Interview with Stephanie Horbaczewski, Founder & CEO of StyleHaul

StyleHaul has been majority owned by RTL Group for several months now. How has your work changed since then?

RTL Group has been one of our investors since 2013, just like Bertelsmann Digital Media Investments. So there's been close interaction with Bertelsmann and RTL Group for some time now – and it has probably intensified further in recent months. We feel very comfortable under the Bertelsmann umbrella. RTL Group is the perfect owner for StyleHaul.

Why is that?

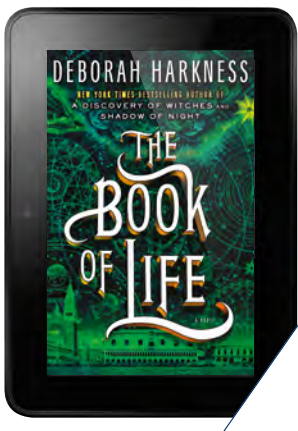
There's a perfect synergy between RTL Group and StyleHaul. RTL Group's infrastructure and reach will help us to internationalize our business easier and faster, especially in Europe – and, increasingly, in Asia too. Beyond that, the collaboration with Fremantle Media is especially rewarding as you look at the content partnership. By the same token, RTL Group benefits from our digital expertise and StyleHaul's strong online community. In short: it's a mutually beneficial partnership.

Is this true only for StyleHaul or do you believe that startups and large corporations can benefit from each other in general?

I think it is contingent on the companies. In this particular instance, yes, there is a mutual benefit. The wealth of experience at large corporations is helpful for young companies. For example, before the acquisition, our colleagues at RTL Group were active partners for us as we explored new opportunities for growth and also supported us with implementation. At the same time, everyone on the RTL Group side was always open to ideas from StyleHaul and gave our teams the space to develop our strategic growth plan and new and innovative ideas.



Penguin Random House: More than 100,000 E-books



E-book champion: Penguin Random House expanded its e-book portfolio in 2014 to more than 100,000 titles. Simultaneously with their release in print, more novels and nonfiction books, as well as a wide range of backlist titles, can now be digitally downloaded; this took place more than 100 million times worldwide last year. Last year, 31 Penguin Random House titles topped the "New York Times" e-book bestseller ▶

- list, including John Grisham’s “Gray Mountain” and “The Book of Life” by Deborah Harkness. In Germany, Verlagsgruppe Random House’s e-books publishing program saw double-digit percentage growth. The digital world is also becoming increasingly important for Penguin Random House for marketing and philanthropic purposes: Around Christmas, for example, the publisher ignited one of the largest conversations ever about books as gifts on Twitter with the #GiveaBook campaign.



Penguin
Random
House

New Digital Formats from Gruner + Jahr



Gruner + Jahr is on its way to becoming Germany’s leading provider of digital magazines. The Bertelsmann subsidiary developed numerous new e-mags and apps in the past year, including ones for the magazines “Häuser,” “Beef!,” “Essen & Trinken” and Europe’s largest lifestyle magazine, “Schöner Wohnen.” The renowned “National Geographic” brand celebrated its 15th anniversary in Germany with a grand anniversary edition as well as a completely revised e-mag. The digital magazines were very popular and regularly scored top ten slots in the App Store and Newsstand rankings. In the high-sales weeks around Christmas, publications like “Schöner Wohnen,” “Essen & Trinken,” “Stern,” “National Geographic” and “Geo” sometimes occupied the entire top five of the Apple Newsstand download charts. In Newsstand’s “Popular Science” category, the “Geo” e-mag stayed at number one for the entire fourth quarter. “Essen & Trinken” and the “Geo” and “Stern” e-mags also ranked in the five top-grossing apps.

Apart from this, G+J also invested in video with a production campaign. More than 300 videos, featuring protagonists like the chefs Rike Dittloff and Fabio Haebel, are now part of the portfolio and are used on websites, YouTube channels – such as the Chefkoch channel – and in combined content concepts such as print/DVD bundles.

At the same time, G+J invested in various additional digital businesses related to the company’s defined Communities of Interest. For instance, G+J’s homegrown start-up Roomido, a community for home and furnishings, was able to significantly

expand its network of experts. June 2014 also saw the debut of G+J’s own developed e-commerce portal, Tambini. This full-service site for themed events has everything parents need to make their children’s birthday parties a success.

In ad sales, G+J successfully consolidated its position as a relevant marketer with holdings in the digital companies Trnd and Veeseo, with more offers in cross-media and international performance marketing and with Prisma Media’s acquisition of a stake in the video inventory marketer Advideum. G+J EMS was also, once again, the leading marketer of mobile ads in Germany in 2014.



App for GenZ's Future: Successful Launch of Blicksta




Zukunft auf einen Blick

More than

25,000

students on the platform

Two awards in three months: Launched last summer, the Medienfabrik career guidance platform Blicksta won two prestigious awards in 2014. In December, the Arvato subsidiary's project won the coveted "HR Innovation of the Year" prize at the HR Excellence Awards. Earlier, the platform had already been named Innovation of the Year at the European Digital Communication Awards. The principle behind Blicksta is simple: It provides young students aged 15 to 19 with information that is relevant to them, based on interests, type of school, graduation qualifications and region. Additionally, it links pupils at schools and potential employers on its platform, where they can interact with each other.

In this way, companies, universities and organizations can find students who suit their institutions. The pupils for their part, gain authentic insights into the employment marketplace and receive guidance with their career planning. "Until now, there was no innovative tool in student marketing that is designed for the long term as well as being individual, mobile and holistic. Blicksta changed that," says Gero Hesse, managing director of Medienfabrik. Six months after its launch, at the end of 2014, more than 25,000 students were already registered on the innovative platform. Blicksta's founding partners include the Arvato subsidiary as well as Coca-Cola, Deutsche Telekom, the Zentralverband des Deutschen Handwerks (German Confederation of Skilled Crafts) and universities such as the Bucerius Law School.



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BERTELSMANN



Tolino: Market Leader and New Models

The e-reader Tolino continued its success story last year, much to the delight of its operating partnership, comprised of Der Club Bertelsmann, Hugendubel, Thalia, Weltbild and Deutsche Telekom. According to figures from the Association for Consumer Research (GfK), in the third quarter of 2014, the alliance surpassed its competitor Amazon in e-book sales market share in Germany – a trend that was further strengthened by its new partnership with the book wholesaler Libri, announced at the Frankfurt Book Fair last year.

That collaboration underlines that the Tolino ecosystem is an open e-reading system which now is available to all German booksellers. It is also expanding geographically: Since last year, the Tolino system has also been available in Belgium (in collaboration with Standaard Boekhandel) and Italy (through the online bookseller IBS). In addition, the Tolino hardware made technical progress in 2014: The partners launched the waterproof e-reader Tolino Vision 2 and the Tolino Tab 8 just in time for Christmas.

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Corporate Center



1.5 million

e-book titles are available
for the Tolino system.

Bertelsmann Funds Expand Their Portfolio

Last year, all over the world, Bertelsmann invested in promising startups that pursue innovative business models. Overall, the Group used its international funds to expand its portfolio of holdings to more than 90 young companies. Together, the funds form one of the largest and most active digital corporate venture groups. Bertelsmann's diverse corporate venture activities earned it accolades from the industry. The US trade magazine "Global Corporate Venturing" ranked Bertelsmann as the second most influential corporate venture company in the media sector, highlighting in particular the internationality of Bertelsmann's fund activities. Apart from Bertelsmann Digital Media Investments (BDMI) for investments in startups in the digital domain in the United States and Europe, the company also invests in China via Bertelsmann Asia Investments (BAI), and other strategic investment funds are in place for the growth regions of India and Brazil as well as for education (University Ventures Fund).

Most of the investments in startup companies are made by the BDMI fund (47 holdings). Last year, BDMI made a total of eight new investments and sold its holdings in nine startups, including its shares in the multichannel network StyleHaul, which was acquired by RTL Group. "Apart from the successful investment, we also fulfilled one of our core tasks in this case: To scout out strategically relevant lines of business fields at an early stage and intelligently network young companies that operate in them with Bertelsmann's divisions," says Urs Cete, managing director of BDMI. "We managed to do this perfectly with RTL Group and StyleHaul. We are proud of our role in making this partnership happen." Cete himself was also acknowledged several times in investor rankings last year.

BAI was more active than ever before in 2014: The China investment fund invested in a total of 11 companies last year (see pages 55ff.). Bertelsmann also expanded its business portfolio in other strategic growth regions. For instance, last year in Brazil,

the Group invested in three education technology companies via a new fund jointly established with the renowned Brazilian investment company Bozano Investimentos.

Bertelsmann made several investments in India, including in the education services provider iNurture and in Pepperfry, one of the leading digital marketplaces for furniture.

Bertelsmann also continued its commitment to University Ventures Fund (UVF) and in 2014 participated in the newly launched UVF II, which, like its predecessor, invests in innovative companies in the education sector. Last year, UVF II investments included the Ponce School of Medicine – the first US MD-granting medical school to be a private enterprise – and the US startup Galvanize.

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BDMI | Bertelsmann
Digital Media
Investments

 NATIVO

 JUKIN
MEDIA

 KITCHEN
STORIES

 ZergNet

New BDMI investments in 2014

Achievements: Digital Transformation

digital

international

fast-growing



- The innovative online marketer SpotXchange auctions 88 million ad impressions a day – and rising.
- RTL Group’s digital channels collectively recorded 36.4 billion video views in 2014.
- They currently receive more than five billion online video views per month – and rising.
- The RTL Group multichannel networks BroadbandTV, StyleHaul and Divimove operate 32,000 YouTube channels, generating over 4 billion video views a month – and rising.
- Fremantle Media is the world’s most-watched TV production company online: its 210 YouTube channels record 9 billion views a year.
- RTL Group owns StyleHaul, the largest multichannel network for beauty, fashion and lifestyle: more than 60 million unique viewers, over 230 million subscribers and one billion video views per month.
- RTL Group is now the world’s number two in the YouTube ecosystem (not including music-video services) with its multichannel networks and Fremantle Media’s YouTube channels, and number four in online video with all of its platforms.



- Penguin Random House is the digital frontrunner, selling more than 100 million e-books in 2014.
- The e-book catalogs of the Group’s various publishers now include more than 100,000 titles.
- The international portal DKfindout offers more than 300 animations, 300 audio files, 9,000 photos, 100 videos and 3,000 items to help satisfy children’s thirst for knowledge.
- After it was launched in December 2014, some 2,000 people called the “Penguin Hotline” in the first week alone to get book recommendations from hundreds of volunteers.



- G+J offers some 80 e-mag projects for its brands.
- With Urbia, Eltern, Roomido and Chefkoch, G+J has created strong Web communities: In December alone, Chefkoch.de, Europe’s largest food community, received 88 million hits.
- Video campaign: Professional chefs such as Rike Dittloff and Fabio Haebel passed on their knowledge in over 300 videos – embedded on websites, YouTube channels and combined print-digital concepts.
- Popular apps: The stern.de app was downloaded 260,000 times in 2014 and more than 500,000 times overall since its launch. The gala.de app was downloaded 110,000 times in 2014.



- Arvato works closely with major tech companies such as Google and Microsoft and telecom companies like Vodafone.
- Service provider for retailers: Arvato makes e-books available on various sales platforms, generating sales of 12 million digital titles in 2014.



- Bertelsmann brings together more than 6,500 channels on Twitter, Facebook, Google+ and YouTube in its Social Cloud.
- There are more than 720 million followers across all Bertelsmann social media channels.
- Through various funds, Bertelsmann has holdings in more than 90 startups and high-growth companies with digital business models worldwide.
- Some 1.5 million e-book titles are available for the Tolino system.
- In the third quarter of 2014, dealers involved with the Tolino initiative jointly led the German e-book sales market for the first time, with a 45 percent market share.

03



Over the next few years, Bertelsmann plans to expand its lines of business and systematically add fast-growing sectors. These include, for example, the education business, which is driven by the growing worldwide demand for accredited academic degrees. In the long term, education will be expanded into a third revenue pillar, alongside media and services. Music rights constitute another promising line of business: Bertelsmann actively manages music-publishing and recording rights under the historic BMG brand, with a firm focus on the needs of artists in the digital age.

Welcome to Bertelsmann, Relias Learning!

In November 2014 Bertelsmann gave sets of books to around 300 new employees as a welcome present – a visible sign that they were now part of the creative Bertelsmann family. The new colleagues work for the US education provider Relias Learning – Bertelsmann’s largest acquisition in the United States since the purchase of Random House in 1998.

“In Relias, we acquired the leading provider of e-learning solutions for employee training in the health sector,” says Bertelsmann CEO Thomas Rabe, explaining the reason behind the transaction. He called the acquisition “a milestone” in the development of Bertelsmann’s education business, one of the Group’s strategic growth platforms. “Relias also expands our presence in the United States, the largest and most innovative education market in the world.”

Specifically, the new Bertelsmann subsidiary, led by CEO Jim Triandiflou (see interview on page 45), currently offers more than 2,500 training courses to the employees of over 4,000 institutional clients on an online platform. Its main focus is senior care, behavioral therapy and care for people with disabilities. ▶



4,000

corporate customers

2,500

different online courses

25 million

online courses taken in 2014



► Around 2 million people rely on Relias’s training courses, a figure that is set to rise over the next few years because staff training and professional development are increasingly happening online. So it’s hardly surprising that Thomas Rabe also sees “significant potential” for Relias to grow in related

sectors, as well as “through international expansion.” Accordingly, the company perfectly meets Bertelsmann’s strategic investment criteria of good growth prospects, global reach, a proven digital business model, scalability and low susceptibility to economic cycles.

The e-learning market in which Relias currently operates has a volume of almost US\$20 billion and is growing by up to 15 percent annually. Experts estimate the worldwide market volume of the education sector at around US\$5 trillion – and rising steadily, fueled by global megatrends including the requirements of a knowledge society, the necessity of lifelong learning, and demand from emerging countries. Only a small part of this market is currently covered by private providers.

These figures illustrate why educational activities are a declared growth area for Bertelsmann, one in which it will continue to invest. For Thomas Rabe, the goal is clear: “We are on our way to making the education business the third pillar of our portfolio, alongside media and services.”



2.8 million
students from 119 countries

Educational Investment in Silicon Valley

In addition to the full acquisition of Relias Learning, Bertelsmann expanded its education business in the United States with a second strategic investment last year: In September, the international media company participated in a financing round of the online education provider Udacity. Founded in 2011 and led by the German computer scientist Sebastian Thrun, the company

offers online professional development courses with a focus on technology and IT. Udacity’s partners include well-known companies such as Google, Facebook and Coursera. Bertelsmann CEO Thomas Rabe says: “Participation in Udacity gives us access to one of Silicon Valley’s most innovative and best-known e-learning providers.”

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Corporate Center

Interview with Jim Triandiflou, CEO of Relias Learning

“Thanks to Bertelsmann, we think bigger”



What was last year like for Relias?

The year 2014 was fantastic. First, because Relias had a very successful year. We grew – organically and through two acquisitions – by 35 percent, passed the 4,000-customer mark and now employ about 300 people. By comparison: at year-end 2012, we had just 100 employees. At the same time, we continued working successfully on the quality and excellence of our content in 2014. That includes the development of “Relias Connect,” a social media platform on which our customers can communicate with one another. “Relias Connect” creates a tremendous sense of community among Relias customers and lets us get to know them even better. This helps us in making the most fitting solutions and highest quality content available to them.

Content is the core of Bertelsmann’s business. Is this one reason why Relias is such a good fit with the Group?

Definitely. I still remember very well when Thomas Rabe visited us at the end of the year – exactly one day after he had met the Spanish king in Gütersloh. That just shows what league Relias is playing in now thanks to Bertelsmann. On the day

of the acquisition, our Bertelsmann colleagues showed us a video here in Cary to present the Group, highlighting the company’s creative and globally renowned content. We were all thrilled to be part of such a creative powerhouse.

Has anything specifically changed about your work since Relias became part of Bertelsmann?

We think bigger – in everything we do! For example, when we talk about business expansion and growth, thanks to Bertelsmann, we are now talking about internationalization, about Europe, Latin America, China. That’s a wonderful thing that probably would be inconceivable without Bertelsmann. Our strategic perspective on many things has changed completely.

What are your plans for 2015 and the years ahead?

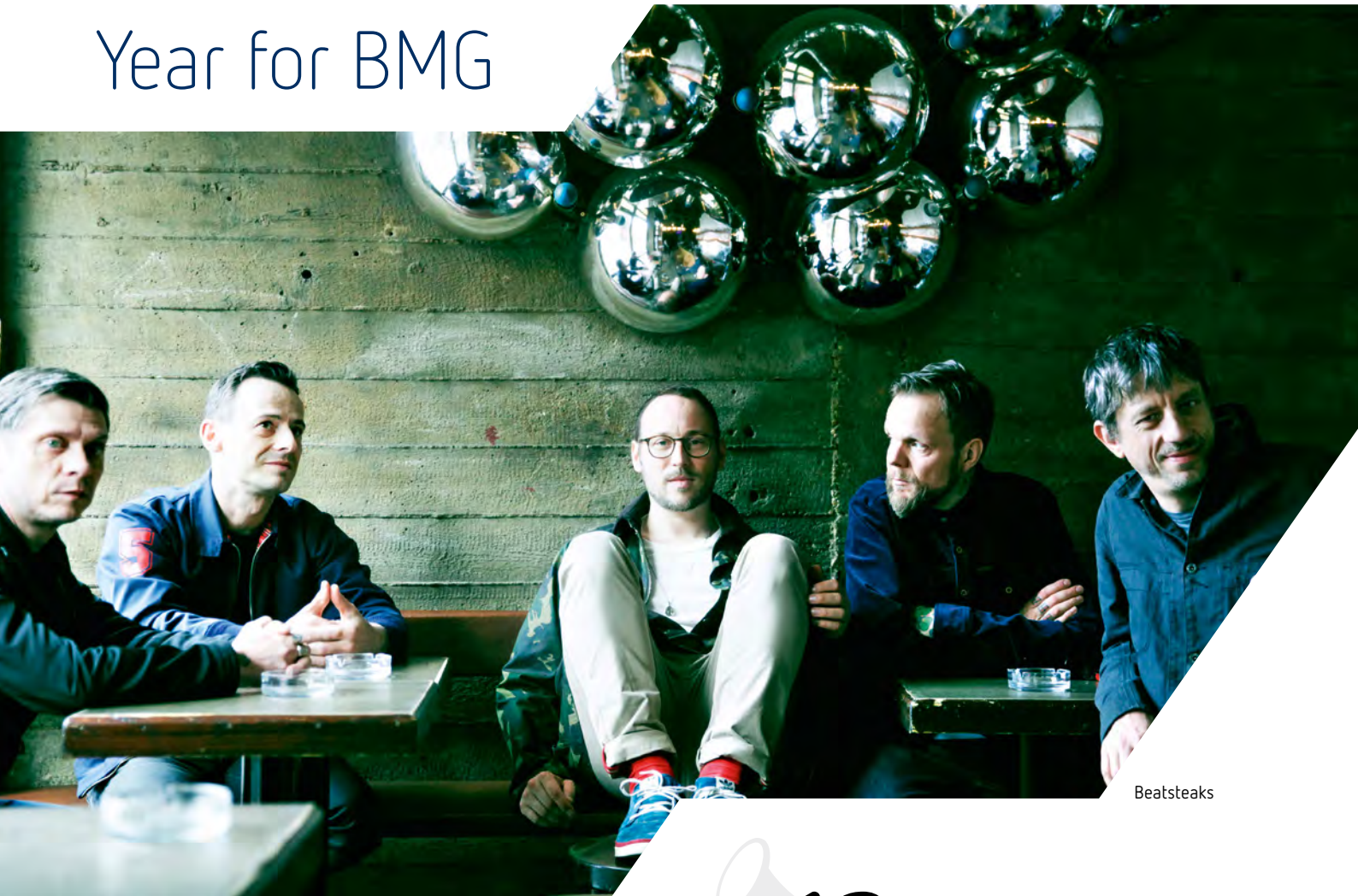
Of course we want to continue to expand the business. In the areas in which we operate, about 20 percent of the training is currently carried out digitally, while 80 percent is still analog – so there is a lot of room for growth there. Our goal is to be the world’s leading provider of e-learning. High-quality learning content will continue to remain essential to success in this, because our mission remains the same as it has been for years: to use our teaching content to support people in helping other people.

Are you
training
heroes?



Corporate Investments
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A Successful Year for BMG



Beatsteaks



13

Grammy Awards 2014

10

Echo Music Awards

BMG



Billy Corgan of
The Smashing Pumpkins

Music is sounding an increasingly positive note at Bertelsmann: BMG continued to grow during the past year and now holds the rights to more than 2.5 million songs and recordings. As well as a number of renowned artists and songwriters such as Dave Stewart, The Strokes, Faith Evans, The Smashing Pumpkins, Simply Red, Wayne Hector, M.I.A., Beatsteaks, Kraftklub, The BossHoss and Casper, who placed the management of their music rights in the hands of BMG in 2014, several acquisitions contributed to the company's growth. The Bertelsmann subsidiary, which was founded in



Dave Stewart

2008, acquired, among others, the publishing catalogs of Hal David and Montana as well as Dutch music publisher Talpa Music. BMG grew its master-rights business through the acquisitions of catalog specialist Union Square and Skint/Loaded Records as well as renowned rock labels Vagrant Records and Infectious Music.

Business was particularly good in Germany, where BMG was the most successful music publisher of the year. The artists and writers of the Bertelsmann music-rights subsidiary were involved in nearly one in five of the Top 100 singles, including the number-one hits "Auf Uns" by Andreas Bourani and "When the Beat Drops Out" by

Marlon Roudette. Overall, BMG more than doubled its market share in Germany over the previous year on year. "We have demonstrated definitively that just six years after launch, BMG can compete with even the biggest and most established industry players," says BMG CEO Hartwig Masuch. The work of BMG artists and authors won numerous accolades during the reporting period, including 13 Grammys and 10 Echo music awards.

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M.I.A.

The BossHoss





FREMANTLEMEDIA



Acquisition in the United States: Fremantle Media Buys 495 Productions

495 Productions produces some of the most successful reality shows on US television – and since last year has done so under the RTL Group umbrella. In April, RTL Group’s production arm Fremantle Media, one of Bertelsmann’s strategic growth platforms, acquired a majority stake in the company based in Burbank, California. “This deal will allow us to expand our share of the valuable US cable market and will complement and diversify our existing portfolio of content and clients,” says Cecile Frot-Coutaz, CEO of Fremantle Media.

The purchase is of particularly great strategic relevance for Fremantle Media North America: The company now has production capacity for all audiences and channel customers – families, men and women, major networks, cable channels and syndication platforms.

495 Productions achieved its breakthrough in 2009 with the reality show “Jersey Shore,” which was broadcast on MTV and went on to become the most successful format in the channel’s history. Other popular 495 Productions formats include “Party Down South,” “Tattoo Nightmares” and the MTV dating show “Friendzone.” Besides MTV, 495 Productions also works with US channels such as VH1, Fox, National Geographic and the History Channel.





Europe's Number One in Online Fashion Retail

NETRADA

Arvato was just ten days into 2014 when it announced some important news: The Bertelsmann subsidiary was taking over key parts of the Netrada Group, headquartered in Hanover, and then combining the two companies' e-commerce businesses. As the fast-growing online-trading segment is one of Bertelsmann's defined growth platforms, the deal – one of the largest transactions in Arvato's history – was a perfect fit with the Group's strategy. "The e-commerce services market is showing an attractive, sustained development and enables high growth rates," said Arvato CEO Achim Berg at the time, adding that the transaction would make the Bertelsmann subsidiary more international and strengthen its growth momentum. In short, "a major

expansion step," said Berg. One look at the figures proves his point: More than 3,000 employees work for Arvato in the combined unit, with their shared business activities generating revenues of approximately €300 million. Netrada alone operates more than 70 country web shops for 13 international fashion brands, so the acquisition turned the Bertelsmann subsidiary into Europe's leading service provider to the online fashion trade. Renowned brands like Esprit, Versace and C&A are now among its customers.

Thanks to its broad setup, Arvato can offer them more than many of its competitors can: "We are the logical partner when it comes to multichannel solutions for e-commerce, front- and back-end services, CRM solutions, forward and reverse logistics and financial services," says Berg. "We can also boost our customers' e-commerce business with innovative solutions and additional print products like catalogs."



Douglas



TORY BURCH

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BERTELSMANN



OGLI

e-Solutions
Platform

Further E-Commerce Takeover

In October 2014 Arvato continued the international expansion of its e-commerce businesses and took over the logistics service provider Ogli, which operates in this sector in Turkey. The acquisition also strengthened the Bertelsmann subsidiary's position in this emerging market.

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Takeover of Payment Services Provider Afterpay

Expansion of the growth business of financial services: In January, Arvato Financial Solutions acquired the Dutch payment services provider Afterpay. The Arvato subsidiary had already cooperated with the company for the previous two years. Afterpay handles settlement and risk management for defaults on online "pay after delivery"

orders. In Europe, payment after delivery of the goods is still the most popular method of payment. Arvato Financial Solutions can now offer this payment method for certain countries in Europe, with a payment guarantee.

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Achievements: Growth Platforms

digital

international

fast-growing



Growth Business TV Production

- RTL Group's production arm Fremantle Media produces 10,000 hours of television programming a year in 22 countries.
- It sells close to 20,000 hours of programming a year in more than 200 countries, and has over 300 formats on air or in production at any given time.



Growth Businesses Financial Services and E-commerce

- Arvato processes 70 million payments a year for corporate customers.
- Arvato carries out around 100 million credit checks per year.
- The Arvato subsidiary Netrada is Europe's leading e-commerce provider, operating more than 70 online shops for many international fashion brands.



Growth Business Education

- Bertelsmann aims to generate revenues of €1 billion from education businesses in the medium term.
- The market size of the three education sectors in which Bertelsmann currently operates is:
 - E-learning: nearly US\$20 billion globally
 - Universities specializing in health and human sciences: US\$160 billion globally
 - Services: US\$1 billion in the United States

Relias Learning

... is posting annual growth of 20 to 25 percent, ... has revenue potential in the hundreds of millions of euros, ... is the US market leader in online training in the healthcare sector, with over 4,000 corporate customers and 25 million online courses accessed in 2014.

Udacity

... is one of Silicon Valley's most innovative e-learning providers, with 2.8 million students from 119 countries.

University Ventures

... has a portfolio of seven fast-growing education companies on the market.

Growth Business Music Rights

- BMG now holds 2.5 million music rights, including 600,000 master rights, making it number four worldwide.
- The company represents 70,000 songwriters and artists.
- In 2014, BMG artists won 13 Grammys and 52 nominations as well as 10 Echo awards and 19 nominations.
- BMG is Germany's most successful music publisher: In 2014, it had a cumulative 18 percent share of the singles charts.

044



Bertelsmann is stepping up its expansion in regions that offer long-term prospects with respect to economic development, purchasing power and media use. In the Group's view, these primarily include Brazil, China and India. Bertelsmann already has operations and Corporate Centers there and intends to expand its presence in the years ahead. As it expands its existing activities, Bertelsmann will also increasingly invest in the education and digital-media sectors in these three countries.





Partner, Sponsor, Networker

When investing in fledgling companies, one-off successes are not uncommon. Consistently achieving impressive progress, however, is much more difficult. The Bertelsmann Asia Investments (BAI) fund, through which Bertelsmann has been investing in promising young companies in its strategic growth region of China since 2008, managed the feat once again last year.

One look at the figures provides proof: BAI invested in no fewer than 11 new companies in 2014 – more than ever before. These include the Chinese flash-storage specialist Memblaze and the recruiting platform Lagou, whose growth BAI helped to finance twice within a few months. Since its establishment seven years ago, the fund, managed by Bertelsmann China boss Annabelle Long (see interview on page 57), has made more than 40 investments. ►



BAI invested in

11

new companies in 2014.

► Since 2014, an additional field of activity for Bertelsmann’s startup experts in China has been very early-stage funding. Last October, the team set up an “angel fund” that focuses on providing early-stage financing for companies. The “BetaFund” also supports the startups with know-how and contacts – something that Bertelsmann Group Management

Committee member Annabelle Long feels is as important as financial assistance. In 2014, Bertelsmann’s fund brought together the CEOs of all the companies in its portfolio at the first “BAI CEO Summit” to facilitate this exchange of experience. All Bertelsmann companies in China benefit from this network, which gives them early-stage exposure to relevant digital trends as well as business models.

The experts also once again agreed that BAI does excellent work: In the summer of 2014, China’s leading online tech magazine, “36kr,” listed the Bertelsmann fund as one of the country’s top ten investment funds.



Interview with

Annabelle Yu Long,
Chief Executive Bertelsmann China
Corporate Center and Managing
Partner Bertelsmann Asia Investments

If you were to sum up Bertelsmann Asia Investments (BAI) in 2014 in just three words, what would they be?

“Busy, instructive, successful.” Mind you, they could serve as the headline for most of the years we’ve been active here in China with Bertelsmann Asia Investments.

In your opinion, what were the highlights of the past year for BAI?

It’s hard for me to narrow it down. So many wonderful things happened over the past year. One highlight was the launch of our BetaFund, which enables us to specifically support young companies during the very early stages of their development – not just financially, but also with contacts and knowledge, which is often more important at this stage. Another great experience was convincing nearly all the CEOs of our portfolio companies to join us for a two-day exchange. More generally, I am of course delighted to see how successfully many of “our” companies are developing.

How did the year go in general for Bertelsmann in China?

All of our divisions here in China made important strategic progress in their businesses. For example, in April, Penguin Random House received a license to sell books directly to customers. Gruner + Jahr has launched a Chinese version of



“Geo” magazine, and Arvato now generates almost a third of its revenues with digital businesses. Beyond this, BMG’s entry into the Chinese market was a real highlight, of course. Our colleagues quickly managed to sign a collaboration deal with the iconic music and entertainment company Giant Jump, and now BMG manages all of Giant Jump’s music rights – worldwide, no less.

What are Bertelsmann’s priorities in China for the current year?

We want to continue our successful course. In China, the largest middle class in the world is emerging and demand for media, lifestyle products and services is on the rise. That is precisely why the country is a strategic growth region for Bertelsmann. The prospering middle class in China wants to watch exactly the same TV shows, read the same books and listen to the same music as their counterparts in the rest of the world. And Bertelsmann has these shows, books and songs.

Corporate Investments
Corporate Center

Action Channels for Asia



A milestone for RTL Group in South-east Asia: On March 27, RTL CBS Asia Entertainment Network celebrated the launch of the pay-TV channel RTL CBS Extreme HD. With a program mix of action series, extreme sports and action reality, the channel is primarily aimed at a male audience. Launched in Singapore, the channel can now also be received in Thailand, Malaysia, Indonesia and the Philippines. RTL CBS Extreme HD is the second pay-TV channel the joint venture of RTL Group and CBS Studios International has launched in Asia: In early 2013, the two companies launched the pay-TV channel RTL CBS Entertainment HD, which can now be watched in 15 Asian countries.



RTL CBS
EXTREME HD

RTL CBS Entertainment HD
is on air in

15

Asian countries.



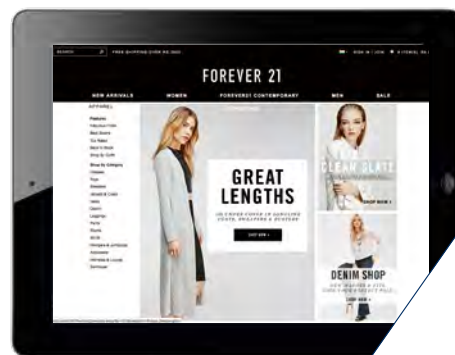


Arvato opens a logistics center in Hong Kong.

Arvato Expands Its Operations in Asia

Arvato's logistics network in China is comprised of

45 distribution centers.



Arvato took various measures to strengthen its growth in Asia last year. In February 2014, for instance, the Bertelsmann subsidiary opened a new office building in the Clark business and tourist center north of Manila in the Philippines. Several hundred new employees were hired for this. English-language digital telephone and customer services for North America will initially be provided from the site, including various customer-relationship management programs.

Arvato also expanded its services business in India last year, taking over customer support for the online fashion store Forever 21 in the middle of the year. The Arvato team assists the fashion chain's customers with queries pertaining to customer accounts, order status, returns and more. In addition, Arvato made further strategic progress in Asia in the second half of the year. At the beginning of September, the Bertelsmann subsidiary opened a new 14,000-square-meter logistics center in Hong Kong, which will be one of Arvato's most important Asian logistics hubs. A second distribution center has been operating in Bangkok, Thailand since the end of last year. Here, more than 30 employees provide logistics services to international clients in the high-tech and consumer-goods industries.



Arvato opens a new site in the Philippines.

arvato
BERTELSMANN

Ni Hao BMG!

Six years after its launch, BMG is now entering the Chinese market. The Bertelsmann music-rights subsidiary's first step in this strategic growth region was to enter into a partnership with one of the country's leading music and entertainment companies, Giant Jump. The two companies signed an exclusive worldwide rights agreement under which BMG will exclusively manage all of Giant Jump's recording and music-publishing rights internationally. Dora Yi, Chief Investment Officer of BMG Greater China, says the company, which specializes in the complete marketing of artists, is "an ideal partner for BMG" and adds: "We look forward to working with them, developing new business models and delivering the value Chinese artists and rights owners deserve." Giant Jump's artist roster includes famous Chinese artists such as Yun Hao, Nic Li and many more. Yun Hao's "Dali," the theme song to the international-hit Chinese movie "Breakup Buddies," was played more than 10 million times in the first week after release.

BMG also completed another major transaction: The Bertelsmann subsidiary signed a deal with the Chinese e-commerce giant Alibaba that allows the popular platform to digitally distribute music rights held by BMG.

BMG



Also signed with BMG: the pop duo Yu Quan

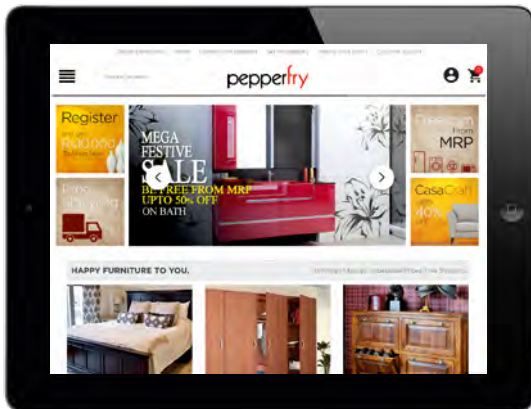
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Investments in India

Bertelsmann expanded its business operations in the strategic growth region of India last year. In May 2014, the company invested in the country's rapidly growing e-commerce sector by acquiring a stake in Pepperfry, one of the country's leading online marketplaces for furniture, used by more than a thousand vendors to sell their products. A month later, Bertelsmann bought a stake in the digital fund Nirvana, which invests in young startups in the digital domain. ▶





BII

Bertelsmann
India
Investments

iNURTURE
Education Solutions
TOMORROW'S HERE

pepperfry

NIRVANA
VENTURE ADVISORS



Shobhna Mohn, Executive Vice President
Emerging Markets at Bertelsmann

► “Altogether, Bertelsmann is now invested in three renowned funds in India and therefore has strong partners in the digital and education sectors, which are important to us,” says Shobhna Mohn, Executive Vice President of Emerging

Markets at Bertelsmann, explaining the strategic importance of the investment. In October 2014, Bertelsmann once again expanded its portfolio in India by investing in iNurture Education Solutions, a leading provider of higher education services. This holding addresses two strategic objectives: growth in India and in education.

Corporate Investments
Corporate Center





A New Educational Fund in Brazil



Fernando Carro, President Latin America and Spain of Bertelsmann

Securing early access to innovative Brazilian companies involved in education technology is the strategic assignment of the BR Education Ventures fund, set up by Bertelsmann in 2014. The fund, jointly operated with the renowned Brazilian investment company Bozano Investimentos and other partners, will invest in eight to ten portfolio companies.

Three investments were made last year in the startups Evolve, QMágico and Passei Direto. A total of up to 100 million Brazilian reals (approx. €30 million) is

available for investment and, as the anchor investor, Bertelsmann holds roughly 30 percent in the fund. Fernando Carro, the Bertelsmann Group Management Committee member responsible for Latin America, says: "Both the education business as a global growth market and the emerging economic region of Brazil play a central role in Bertelsmann's growth strategy. With BR Education Ventures, we are taking the next step in the education sector in Brazil."

Corporate Investments
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Achievements: Growth Regions

digital

international

fast-growing



- Fremantle Media sold more than 1,500 hours of programming to Asia in 2014.
- 7 television shows were produced in China in 2014.
- RTL Group and its partner CBS plan to reach 113 million households in Southeast Asia with their joint venture, RTL CBS Asia Entertainment Network.



- Penguin Random House is India's largest publisher of English-language books.
- Strong in the Latin American book market: The publishing group became the number one in the Latin American market for Spanish-language literature.



- Arvato ships more than 80 million cell phones a year in China.
- Arvato's Chinese logistics network is comprised of 45 distribution centers.
- Every year, these centers supply more than 60,000 retail outlets in China with around 100 million products such as phones, accessories and marketing materials.
- In 2014, Arvato opened several new logistics centers in Europe and Asia.
- Arvato built new offshore locations and expanded existing ones in Asia and Africa in order to provide customer services solutions to international customers.
- Services businesses were expanded and new customers acquired in key growth markets such as Turkey and India.

Corporate Investments
Corporate Center

China

- Trend scout in China: Since its establishment seven years ago, the Bertelsmann Asia Investments (BAI) fund has made over 40 investments and achieved high value growth.
- In 2014 BAI invested in eleven new Chinese companies – more than ever before.
- Companies in which BAI owns a stake reach 500 million people a month.

India

- Bertelsmann has eight holdings in funds and young businesses in India. The focus is on up-and-coming companies in the education and digital sectors.
- Booming online marketplace for furniture: The Indian portal Pepperfry, co-financed by Bertelsmann, sells furniture and home accessories from over 6,000 registered vendors and delivers them to more than 150 cities across the country.

Brazil

- Bertelsmann is focusing its investment strategy in Brazil on the education sector.
- 100 million Brazilian reals are earmarked for investment in education technology in the BR Education Ventures fund, which is co-financed by Bertelsmann.

Bertelsmann Essentials

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

Our Mission

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

Our Core Values

Creativity

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

Partnership

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

Entrepreneurship

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

Citizenship

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

Our Commitment

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

Corporate Responsibility

We want to act responsibly as entrepreneurs – in our business environment, toward our employees, in society and in our treatment of the environment. This is an integral part of Bertelsmann’s corporate culture. For decades, social responsibility has been codified in the Bertelsmann Essentials as a goal and core value for all of our Group’s employees, executives and shareholders. In accordance with the diversity of our businesses, we fulfill our responsibility in a decentralized way, depending on location, local relevance and expertise. We practice sustainable action along our value chains, staying close to the media and services business.



Our Economic Responsibility

Growth and continuity form the basis of our corporate responsibility. A prerequisite for this is generating profits in order to achieve a return on capital that can secure the company’s growth and continuity. This is the only way to secure and create jobs. Our business conduct follows the principles of good corporate governance and is guided by ethical values.

Our Responsibility Toward Our Employees

The partnership between employees and management guides our thoughts and actions, for the benefit of everyone involved. Bertelsmann’s shareholders, management and employee representatives share the following basic understanding: A corporate culture of partnership not only promotes satisfaction and identification with the company’s and individual’s tasks, but also constitutes one of the most important prerequisites for entrepreneurial success. We have therefore always attached particularly high importance to responsibility toward our employees.



The Bertelsmann corporate website contains extensive information on how Bertelsmann lives up to its corporate responsibility to employees and for the impact of our business on society and the environment.

www.bertelsmann.com/responsibility

Our Responsibility Toward Society

Media content is not just a commodity but also a cultural asset. This notion results in a special mandate: We contribute to a pluralistic media landscape with a wide diversity of creative entertainment, information and education programs. We also systematically address important social issues to raise public awareness about them. Responsible business conduct also guides our dealings as a services company. Our goal is to work with our customers to balance economic, environmental and social concerns in order to design sustainable processes. We actively campaign for and support a livable environment in our various locations. Appealing for donations in our media, promoting reading and media literacy and training young journalists form a thematic focus here.



Our Environmental Responsibility

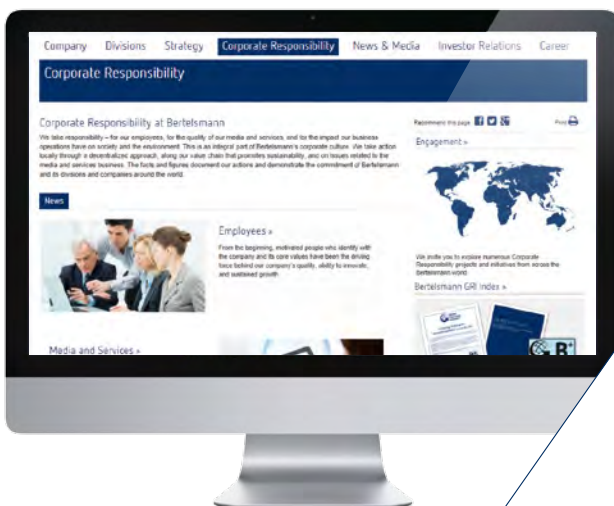
As an international media, services and education company, we depend on natural resources. This is true for the printing and publishing of books, magazines and brochures as well as for the production of movies and television, the manufacture of digital formats, and the provision of services and technology-based business solutions. Therefore, protecting the climate and ensuring an efficient use of energy and resources are among the overriding goals of our corporate responsibility. Cooperation in the Bertelsmann “be green team,” our international environmental working group with representatives from all divisions and the regular production of a Group-wide carbon-footprint report form the basis for the strategic direction of our environmental efforts.

Corporate Responsibility



Strategic Development

In 2014, the Bertelsmann Group Management Committee dealt with the issue of corporate responsibility on two occasions. An internal stakeholder dialogue with the divisions provided important input for this. Education, freedom of the press, protection of media users and customers and ecological resource efficiency shaped the debate, alongside other key issues. The expansion of CR governance at Bertelsmann was also promoted, with the designation of senior CR contacts in the Bertelsmann divisions.

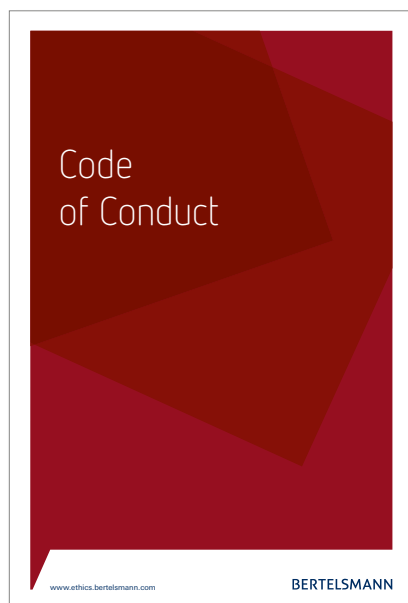
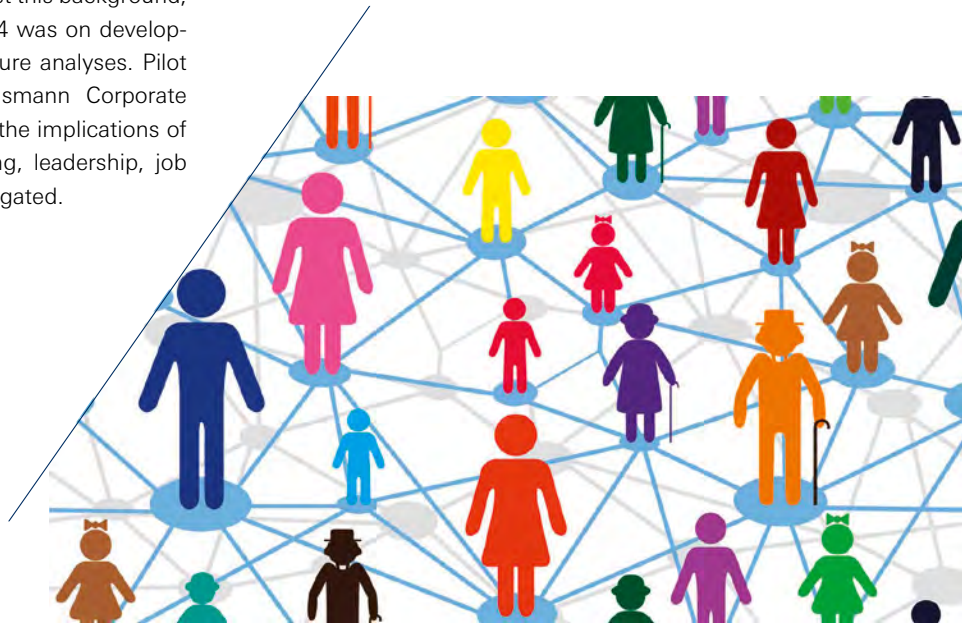


Transparency Online

The Bertelsmann corporate website creates transparency about responsible corporate practice at Bertelsmann and its companies. Since 2014, an interactive index in accordance with the guidelines of the Global Reporting Initiative (GRI) has supported targeted navigation through the corporate profile and the company's social and environmental performance indicators. Apart from this, in the past year alone, more than 200 corporate responsibility projects, initiatives and awards were communicated online. The digital information offered is supplemented by publications such as the annual Communication on Progress for the UN Global Compact and the divisions' various CR communication channels.

The Challenge of Demographic Change

Demographic change also presents great challenges for Bertelsmann, especially in Germany. Against this background, the focus of diversity management in 2014 was on developing strategic measures such as age-structure analyses. Pilot projects were initially run at the Bertelsmann Corporate Center in Gütersloh. Based on the results, the implications of demographic trends for HR policy, training, leadership, job design and health promotion will be investigated.



Our Commitment: Ethics & Compliance

Bertelsmann's "Ethics & Compliance" program represents the continuation of a form of corporate governance that has evolved and proven itself over decades, one that attaches great importance to abiding by the law and taking social responsibility. This program is primarily based on a compliance organization, monitoring of compliance risks, a Code of Conduct as a set of binding guidelines for law-abiding behavior, training and communication activities based on this and mechanisms for monitoring compliance with these standards.