

Report of the Supervisory Board



Christoph Mohn

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

Dear shareholders,

The expansion of the world economy accelerated noticeably during the financial year 2017. Growth varied, however, in markets that are relevant to Bertelsmann's businesses. For instance, the TV advertising markets in Germany, France and Spain showed largely stable development, while those in the Netherlands and Belgium saw a significant decline. The relevant markets for printed books in the English- and Spanish-language segments achieved stable to moderate growth, and the German-language segment saw a slight decline. Publishing sales of e-books in the United States and the United Kingdom fell, while the markets for audio downloads grew strongly. The magazine markets in Germany and France were characterized by significantly to strongly declining print advertising and circulation business; the corresponding digital businesses, however, posted strong growth. The global music markets for publishing and recording rights and the related service markets continued to show positive development, with moderate to significant growth. The European offset printing markets remained stable overall, while the gravure printing markets once again declined significantly. The education markets that are relevant to Bertelsmann in the e-learning, education services and university education segments again posted strong growth overall. In this diverse market environment, the Bertelsmann Group again increased its operating result and further boosted its organic revenue growth. The revenue share represented by growth businesses increased further in the financial year 2017.

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

Advising and Monitoring the Executive Board of Bertelsmann Management SE

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

The personally liable partner, represented by the Executive Board of Bertelsmann Management SE, provided the Supervisory Board with regular, prompt and comprehensive written and verbal reports on all significant issues of strategy, planning, business performance, intended business policies and other fundamental management issues. A wide range of topics and projects were presented for discussion at the meetings of the Supervisory Board. Reporting of the Executive Board concerned, but was not limited to, the position and development of the company, especially the current business and financial position, and material business transactions, particularly major planned investments and divestments. Instances where business performance deviated from official projections and targets were discussed in detail with the Supervisory Board, which reviewed these matters on the basis of the documentation submitted. The Supervisory Board obtained regular information concerning financial debt levels. The Supervisory Board also focused on the risk situation and risk management. The internal control system, risk management system, internal auditing system, and corporate governance and compliance developments at Bertelsmann were the subjects of regular reports and discussions. The Executive Board and the Supervisory Board report jointly on corporate governance and compliance at Bertelsmann on pages 136–138.

Supervisory Board Plenary Meeting

In the plenary meetings, the Supervisory Board of Bertelsmann SE & Co. KGaA regularly heard reports from the Executive Board on the current business and financial position of the Group and of the individual divisions. They also heard reports on Group planning and material business transactions, particularly major planned investments and divestments. The Supervisory Board Chairman, who at the same time is the Chairman of the Supervisory Board of Bertelsmann Management SE, reported regularly and comprehensively to the plenary session of the Supervisory Board concerning the topics and the progress of discussions in the Supervisory Board of Bertelsmann Management SE. The Supervisory Board was kept regularly informed of the status of the implementation of the Group's strategy by the Executive Board. During a full-day meeting with the Bertelsmann Management SE Executive Board, the Bertelsmann SE & Co. KGaA Supervisory Board discussed fundamental issues of strategic Group development. To the extent stipulated by law and the articles of association or bylaws, the plenary meeting made the necessary decisions. In the financial year 2017, the Supervisory Board met for four meetings and met with the Executive Board for one strategy retreat.

The first meeting of the Supervisory Board on January 26, 2017, focused on discussing and passing resolutions concerning the Group budget for 2017 and on the report on the current business and financial situation. The Supervisory Board also addressed the results of the evaluation that was conducted of its work in 2016, thereby fulfilling the requirements of the German Corporate Governance Code and the bylaws concerning the regular performance of an evaluation. The results of the evaluation that were addressed by the Supervisory Board during their meeting are indicative of a very effective and critically constructive culture of dialogue and cooperation. There was no indication of a general need for action or change. Individual suggestions were implemented.

At the following meeting on March 22, 2017, the Executive Board reported, in particular, on the current business situation and on progress that had been made in implementing the Group strategy. A further agenda item was the Annual and Consolidated Financial Statements for 2016. At the recommendation of the Audit Committee and after discussion with the auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the Supervisory Board approved the Annual and Consolidated Financial Statements for the financial year 2016 and the Combined Management Report of Bertelsmann SE & Co. KGaA. The proposal of the personally liable partner for the appropriation of net income was also

approved. Furthermore, the Supervisory Board followed the recommendations of the Audit and Finance Committee for the appointment of the auditor for the financial year 2017 and for the interim report, and resolved upon its corresponding proposal to the Annual General Meeting. As part of a topic report, the Supervisory Board also discussed the results of the worldwide Group employee survey that was conducted in 2016.

As usual, the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board took place as part of the summer meeting of the Supervisory Board on July 12 and 13, 2017. The Supervisory Board was first able to get a current impression of the status of strategy implementation and the progress made in the transformation of the Group portfolio since the last Strategic Planning Dialogue with the objective of increasing the Group's growth and making it more digital, more international and more diversified. The Supervisory Board also focused on data-based business potential, innovative Group business activities, and the topics of automation and artificial intelligence. Moreover, the Supervisory Board discussed the further developed strategy for the transformation of the Group, which includes the HR strategy. The key points of the four strategic priorities remain clearly defined: strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding businesses in the growth regions. Bertelsmann is based on three pillars: media, services and education. The present Group structure, consisting of eight divisions, is an expression of the strategy to diversify the Group's portfolio and is aimed at securing the continuity of the company in the long term. The Group is again generating better organic growth with an increasing share of revenue represented by growth businesses and a decline in the share represented by structurally declining businesses. The Supervisory Board considers that the Group is in a more robust position and is well placed to meet the challenges of the future, thanks to its broader structure and reduced dependence on economic trends.

In the last Supervisory Board meeting of the financial year, on October 19, 2017, the Supervisory Board again addressed the business and financial position of the Group and was given a report on the outlook for the overall financial year by the Executive Board. The topics of integrity management and artificial intelligence were also discussed. The Supervisory Board focused chiefly on RTL Group's video-on-demand strategy in this meeting.

The Supervisory Board Chairman maintained ongoing contact with the Executive Board outside the framework of Supervisory Board meetings, in particular with the Executive

Board Chairman, in order to stay abreast of the current business situation and significant transactions. All Supervisory Board members attended at least half of the Supervisory Board meetings convened. No potential conflicts of interest arose on the Supervisory Board. The Supervisory Board addressed the German Corporate Governance Code and Bertelsmann's compliance therewith. A joint report by the Supervisory and Executive Boards of Bertelsmann Management SE on corporate governance within the company is provided on pages 136–138 of this Annual Report. As an unlisted company, Bertelsmann does not issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act.

Audit of the Annual and Consolidated Financial Statements for the Financial Year 2017

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, audited the Annual and Consolidated Financial Statements produced by the Bertelsmann Management SE Executive Board and the Bertelsmann SE & Co. KGaA Group Management Report, which is combined with the company's management report for the financial year January 1 through December 31, 2017. Each report received an unqualified auditor's opinion. The Annual Financial Statements were produced in accordance with the German Commercial Code (HGB), and the Consolidated Financial Statements of Bertelsmann SE & Co. KGaA were produced in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union in line with section 315a HGB. The auditor was mandated by the Supervisory Board's Audit and Finance Committee to audit the Annual Financial Statements and Consolidated Financial Statements in accordance with the Annual General Meeting resolution. The auditor performed the audit in observance of German accepted auditing principles established by the German Institute of Independent Auditors (IDW). The auditor was additionally instructed to audit the risk early-warning system at Bertelsmann SE & Co. KGaA, which it found to be satisfactory in terms of section 91 (2) AktG (German Stock Corporation Act). The provisional results of the Key Audit Matters were discussed with the auditor in a video conference on March 8, 2018. The auditor of the Annual Financial Statements promptly submitted the audit reports and the other financial statement documents to all members of the Supervisory Board by the specified deadline in advance of the financial review meeting. On March 20, 2018, the auditor attended the financial review meetings of both the Audit and Finance Committee and the plenary session of the Supervisory Board, where he gave an extensive report and answered questions. He was able to confirm that, in the course of the audit, no significant weaknesses had been identified in the accounting-related internal control system. The Audit and

Finance Committee discussed the Annual Financial Statements documents and audit reports in detail. The findings of the auditor of the Annual Financial Statements were carefully reviewed in an internal audit of the Annual and Consolidated Financial Statements. The Audit and Finance Committee also examined in detail the non-financial reporting of the Executive Board, which was presented for the first time as a Combined Non-Financial Statement in a separate section of the Management Report, to ensure that it was lawful, proper and appropriate. The Audit and Finance Committee reported comprehensively to the plenary session of the Supervisory Board concerning the audit of the Annual and Consolidated Financial Statements, the Combined Non-Financial Statement and the audit reports.

On March 20, 2018, the plenary session of the Supervisory Board reviewed and discussed the Annual Financial Statements, Consolidated Financial Statements and Combined Management Report in detail, taking into account the recommendations of the Audit and Finance Committee and those contained in the audit reports and following further discussion with the auditor. The Supervisory Board concurred with the audit findings. After its own final scrutiny of the Annual and Consolidated Financial Statements and the Combined Management Report, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – raised no objections. The financial statements produced by the Bertelsmann Management SE Executive Board were thus approved. Furthermore, the Supervisory Board itself examined the above-mentioned Combined Non-Financial Statement of the Executive Board to ensure that it was lawful, proper and appropriate and, in accordance with the Audit and Finance Committee's recommendation, raised no objections. Moreover, the Supervisory Board approved the Report of the Supervisory Board for the Annual General Meeting and the Corporate Governance Report, as well as its resolution proposals concerning the agenda items for the ordinary Annual General Meeting on May 14, 2018. The Supervisory Board has furthermore reviewed the Bertelsmann Management SE Executive Board proposal as to the amount of net retained earnings for appropriation to shareholders and concurs with said proposal. The amount of the dividend proposed by the Executive Board of Bertelsmann Management SE is appropriate, in the view of the Supervisory Board, in consideration of the level of Group profit, the economic environment, the company's economic situation and the interests of the shareholders.

Supervisory Board Audit and Finance Committee

Within its sphere of responsibility, the Supervisory Board of Bertelsmann SE & Co. KGaA established an Audit and Finance

Committee to perform its tasks efficiently. The Audit and Finance Committee has four members, and the Chair of the Supervisory Board does not lead this committee. The Chair of the Audit and Finance Committee is Bodo Uebber.

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

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

In the course of addressing structural issues during the financial year, one area of focus was the auditing process. The Audit and Finance Committee concerned itself with the auditor's auditing procedures and auditing tools, discussed the anticipated Key Audit Matters and specified the focal points of the audit. The Committee also addressed future non-financial reporting and was informed about the implementation of new IFRS standards at Bertelsmann. The Audit and Finance Committee was also presented with a report on the potential implications of Brexit for the Group.

A further focus was the auditing of the Annual Financial Statements and the Consolidated Financial Statements (see also the "Audit of the Annual and Consolidated Financial Statements" section above). The Chair of the Audit and Finance Committee discussed the provisional findings from the audit of the Annual and Consolidated Financial Statements at length with the auditor on an ongoing basis before the financial review meeting that took place on March 22, 2017. In this role, the Committee also addressed the independence and

additional services performed by the auditor. There was no indication of grounds for exclusion or a risk to independence. The 2017 Interim Report was extensively discussed with the Committee prior to its publication on August 30, 2017.

The Audit and Finance Committee of Bertelsmann SE & Co. KGaA met four times during the reporting period 2017. The Chairman of the Audit and Finance Committee or his representative kept the plenary session of the Supervisory Board continuously updated about the work of the Committee through regular reports. Department heads, such as those from the Corporate Financial Reporting, Corporate Taxation and Corporate Legal departments, were represented during the discussion of individual agenda items. In addition, the Chair of the Audit Committee regularly held individual meetings with the responsible auditors.

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

The business of Bertelsmann SE & Co. KGaA is managed by its personally liable partner, Bertelsmann Management SE, represented by its Executive Board. The past financial year saw the following change to the Executive Board of Bertelsmann Management SE: the appointment of Fernando Carro de Prada as a member of the Executive Board of Bertelsmann Management SE ended on July 13, 2017, on the best of terms and by mutual agreement with Fernando Carro de Prada. The Supervisory Board would like to thank Fernando Carro de Prada for many years of excellent and trusting cooperation. The financial year 2017 also saw changes to the Supervisory Board of Bertelsmann Management SE. On January 27, 2017, in an extraordinary General Meeting of Bertelsmann SE & Co. KGaA, Bernd Leukert, member of the Executive Board of SAP SE, Walldorf, was elected as a member of the Supervisory Board. With the end of the ordinary Annual General Meeting of Bertelsmann SE & Co. KGaA on May 12, 2017, the term of office of Supervisory Board members Prof. Dr.-Ing. Joachim Milberg, Dr. Brigitte Mohn, Elisabeth (Liz) Mohn, Hans Dieter Pötsch, Kasper Rorsted and Bodo Uebber came to an end. Dr. Brigitte Mohn, Elisabeth (Liz) Mohn, Hans Dieter Pötsch, Kasper Rorsted and Bodo Uebber were re-elected to the Supervisory Board at the Annual General Meeting in May 2017. The Supervisory Board would like to thank Prof. Dr.-Ing. Joachim Milberg for many years of excellent and trusting cooperation. Longstanding Supervisory Board member Dr. Wulf Bernotat passed away unexpectedly on August 27, 2017. The Supervisory Board will honor his memory. On January 16, 2018, Dr. Thomas Buberl, CEO of AXA S.A., was elected to serve

on the Supervisory Board. At present, all 10 members of the Supervisory Board of Bertelsmann Management SE are also members of the currently 15-strong Supervisory Board of Bertelsmann SE & Co. KGaA.

The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" does not apply to the Supervisory Board of Bertelsmann SE & Co. KGaA as it is an unlisted company. However, the Supervisory Board does support the aim of the act. From a strategic point of view, the Supervisory Board also aims to properly fulfill its monitoring and consulting function by ensuring diversity among its members. The Supervisory Board shall not at this time, however, set any target quota for women on the Supervisory Board. It firmly believes that within the company suitable measures have been taken in the area of succession planning, management development and the selection processes to ensure the equal participation of men and women on an ongoing basis. In the Supervisory Board, the aim is to ensure that the existing proportion of women will not be reduced when new members are appointed. Ideally, the backgrounds of new members will show links to Bertelsmann's growth regions and markets. (See also the "Diversity in Practice" section in the Corporate Governance Report from page 137.) Apart from the three representatives of the Mohn family and the five employee representatives, the Supervisory Board of Bertelsmann SE &

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

The Supervisory Board would like to express its gratitude for the great dedication and commendable performance of the Executive Board during the financial year 2017. The Supervisory Board also wishes to thank all employees of the Bertelsmann Group and its corporate management for their commitment and contribution to a successful financial year 2017.

Gütersloh, March 20, 2018



Christoph Mohn
Chairman of the Supervisory Board