

## Deutsche Welle Anstalt des öffentlichen Rechts, Bonn,

### Management Report for the financial year 2018

#### **1. Business development and general conditions**

Deutsche Welle is Germany's medial voice in the world. Its main task is to inform people. The journalistic contents of DW in all modern media and several projects of the DW Academy strengthen the human right on freedom of opinion and unrestricted access to information. DW shapes the image of Germany worldwide with its offers and its clear, value-based approach.

With regard to the significance of Europe and especially of the EU, DW plays an increasingly important role, considering the changes in the media landscape in the EU: In Poland, Hungary, and Bulgaria the political and economic pressure on independent media increases. Great Britain is planning on leaving the Union, which might change the perspective of the BBC on Europe. As the relationship between EU countries and Great Britain is expected to become more competitive, access to objective information on Germany and the EU will be increasingly important. Politically interested and liberal-minded people are enhancing their focus on Germany, which is considered a role model for political stability and economic success, for media freedom, respect of the rule of law, and social justice. The importance of DW with regard to the medial reporting from and on Germany and the EU, and therefore the expectations placed on DW, will increase significantly. Hence, DW will increase its reporting on these topics on all platforms – not least to counter the sometimes biased image drawn by some media with a objective, well-balanced image of Germany and EU-Europe

The French foreign broadcaster France Médias Monde (FMM) and the EU are considered obvious cooperation partners in this field of action. In this context, the EU cooperation project "Info Migrants", which was started in 2017 and offers websites and Social Media in English, French and Arab, serves as an important source of information for refugees from Africa and Arab countries. It aims to offer current and relevant news to refugees, to inform them about the challenges of escape and migration and about the conditions in the countries of destination. The project was continued in 2018, and DW is cooperating with France Médias Monde and the Italian news agency Agenzia Nazionale Stampa Associata (ANSA). In addition, DW participates in a cooperation project together with BBC, FFM and Voice of America, aiming to establish a Turkish Youtube Channel. The planned channel is supposed to provide the people in Turkey with comprehensive and independent information, enabling them to take on a different perspective, also on the Turkish foreign policy.

The journalistic contents of DW and the projects and measures of its DW Academy invite people in the target regions to deal with German and European perspectives and to enter into dialog for the benefit of a peaceful, stable world community. This is more urgent than ever as the globalized, digitally networked world is in a process of radical change: Geopolitical tensions and crises, conflicts and wars, extremism and terror, escape and migration, populism and nationalism mold the international relations. The people's uncertainty is growing – and thus the need for comprehensive, reliable and independent information. In its users' perception abroad, DW is the most significant source of information about Germany.

This statement is reinforced by the user figures. The DW TV, radio and digital offer reached 162 million user contacts weekly in 2018 – an increase of three percent compared to the prior year (157 million).

The majority of the weekly users (89 million) were reached by DW TV, half of which were users of the TV program in English. The TV usage increased by four million users compared to the prior year, also due to periodic conversations at partner broadcasters, who made use of the DW Premium service. DW reaches three-quarters of its viewers via programs broadcast on the TV channels of its distribution partners and one-quarter via linear TV channels. 37 million people use of the (Translation – the German text is authoritative]

digital services of DW a week, representing an increase in online usage by one million compared to the prior year. In 2018, the services offered in Arab generated more than one third of the DW online range. 31 million people use DW contents on external platforms, mainly DW Social Media profiles, and new users could be acquired on YouTube. Six million people use the DW platforms such as m.dw.com, dw.com and DW applications. 36 million people listen to the DW radio a week, of which 95 percent live in sub-Saharan Africa.

DW enjoys the trust and esteem not only of its users, but also of Parliament and the Federal Government. It is recognized as an important player for imparting values, such as freedom of opinion and freedom of the press as well as democratic principles.

This was also evident at the ceremony in the presence of German Chancellor Angela Merkel, who celebrated the 65th anniversary with the company on June 5 in Berlin.

At the event at Paul-Löbe-Haus, the German Chancellor said, DW established itself as "the voice of out homeland and the voice of freedom". She continued, DW is representing quality journalism and objectivity. "DW is an important part of the media history of the Federal Republic of German. One might say: DW is a success story" said the German Chancellor. "You may continue to rely on the support of the Federal Government." 65 years after the first broadcasting, DW is "worldwide appreciated as a reliable partner" and "more popular than ever".

This was also reflected in the German Federal Government's equipping of the DW budget: After many years of stagnation in the allocation of resources and simultaneously increasing costs, DW has been financially strengthened by the German Federal Government and, in particular, the Federal Commissioner for Culture and Media [Bundesbeauftragte der Bundesregierung für Kultur und Medien (BKM)] as well as the parliament in recent years. Fortunately, the operating budgets, in particular, have seen sustained growth which provided DW with enhanced planning security. Overall, starting from the budget year 2014, DW received additional funds in the amount of more than € 63 million until 2018.

In addition to the financing by the allocation of resources of the Federal Commissioner for Culture and Media (BKM), DW receives project promotion funds granted by the Federal Ministry for Economic Cooperation and Development [Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ)] – especially for the projects conducted by the DW Academy for media development – as well as project promotion funds granted by the Federal Foreign Office. Moreover, project promotion of several years was agreed with the Federal Ministry for the Environment, Nature Preservation and Nuclear Safety [Bundesministerium für Umwelt, Naturschutz und nukleare Sicherheit (BMU)].

Worldwide, the far-reaching restrictions on democracy and the right of freedom also create pressure on freedom of information, freedom of the press and freedom of opinion – even in established democracies of the western hemisphere. In many countries, the curtailment of media diversity and attempts by the state to exert influence on internal media go hand in hand with increased transnational communication. More and more countries are expanding their foreign broadcasters, in some cases massively, in order to promote the foreign policy agenda of their respective governments. This increases the already existing competitive pressure for DW as a foreign broadcaster. The rapid digitalization of the global media markets has led to an increase in the number of local, national and international competitors – with a further upward trend. Germany is called upon to strengthen its media voice from the centre of Europe in such a way that it can be clearly heard in this concert vis-à-vis offers from countries such as Russia, China, Turkey or Iran – with a clear, freedom-oriented profile.

After DW successfully completed the task planning for the period between 2014 and 2017, it developed in 2017/2018 a new task planning for 2018 until 2021, in dialogue with the supervisory bodies, policy-makers and the interested public

The strategic alignment of DW will be continued consistently by the early reelection of Peter Limbourg as Director-General in fall 2018. At the meeting on September 28, 2018 in Berlin, the DW

Broadcasting Board confirmed him in office for further six years in the first ballot without a dissenting vote.

At the same meeting on September 28, 2018, the Broadcasting Board decided on the new DW task planning with the approval of the Administrative Board. The task planning includes the program objectives, key projects and their prioritisation with regard to the fulfillment of the DW tasks, broken down by target regions, target groups, distribution channels and types of offerings. In addition, DW describes how it contributes - particularly within the framework of international developmental cooperation and the promotion of foreign relations - to the training and education of media personnel.

The new task planning includes the results and insights gained from the "Evaluation Report 2017". Moreover, the strategic objectives and measures for the task planning are based on this Evaluation Report. In its new task planning for the period 2018 to 2021, DW sets itself three overarching objectives

1. DW globally strengthens freedom of opinion and democracy at times of terror, propaganda, escape and migration.
2. DW increases the impact and relevance of its programs and services offered.
3. DW enhances its reach from 157 million to 210 million weekly user contacts.

In order to achieve these objectives, DW focuses its measures on the following key priorities:

1. Increased focus on journalistic products.
2. Reorganization into a digital media company.
3. Enhance freedom of opinion and democracy by journalistic products and imparting media literacy.

The global media markets are changing rapidly. In several DW target markets, the target group is already using first and foremost digital services for information – with this figure set to increase in future. Conventional media, however, are becoming less important for the procurement of information in some regions, especially in highly developed countries. It can be assumed that this development will soon expand to the emerging and developing countries, too, as particularly the younger generation is characterised by forward-looking media use behaviour. Due to the changes in media usage, DW and DW Academy consider digital offers of increasingly important.

In the future, DW will adjust the journalistic content even better to these target groups and offer more unique content and stories. It achieves a higher user orientation by increasing the regionalisation of its services, enhancing the DW profile and setting it apart from its competitors.

With this aim, DW extended its global network of correspondents and opened new correspondent offices in Istanbul (January), Bogotá (February), and Taipeh (October) in 2018; further locations are in planning.

Especially the difficult relationship between Germany and Turkey require an increased commitment of the media in both countries. The restrictions on the freedom of the press in Turkey present an additional obligation for international broadcasters to provide objective information about the development in Turkey. The DW office close to Taksim Square is equipped with the latest TV and communication technology.

Colombia is considered a symbol of hope for Latin America as a whole and a positive example for civil conflict resolution as a way to end violence. DW correspondents in Bogotá are able to provide users with a deeper understanding for the development in Colombia as well as in Latin America as a whole. The DW channel in Spanish reaches excellent user rates in Latin America as a whole, e.g. the market share in the target group in Colombia amounts to 18 percent, exceeding even the market share in Mexico. In addition, the user rates of the Spanish Facebook page increase continuously. This success is also a result of the successful DW Partner strategy: more than 800 partner broadcast editorial contents of DW in Latin America.

(Translation – the German text is authoritative]

The new DW office in Taipeh, the capital of Taiwan, is a pilot project for DW. For the first time, DW opened an external office, where local employees generate content directly from the target region for one of the 30 broadcast languages of DW. They work closely together with the editorial department in Bonn and produce for the Chinese, the English and the German DW services.

Part and result of the DW regionalisation strategy is the joint production of a new environmental magazine with an Indian media partner. The weekly program "Eco India" addresses pressing environmental issues and illustrates ecological innovations. The program last about half an hour and focuses on Best Practice examples. The program is designed to be interactive: the viewers are able to upload submissions via Social Media and contribute own ideas. Eco India is broadcasted via the English language TV program of DW. In India, people are able to watch the program as a video via the news portal of the DW partner Scroll.in and on Hotstar, the country's biggest streaming platform with over 160 million users. Eco India is also planned in Hindi.

Since 2015, DW is cooperating with Channels TV, Nigeria's private news channel with the widest reach, on a similar environmental magazine. In August 2018, the South African channel Kwesé TV joined Eco Africa (formerly Eco@ Africa), and at present, over 70 partners cooperate in the program. Eco Afrique, the French version of the program, is produced in collaboration with Excaf in Senegal, and from the end of 2018 on, with Cameroon Radio Television (CRTV) in Cameroon.

The new task planning for 2018 until 2021 will continue the DW digital strategy and prepares DW for the challenges of the digital media world. The digital strategy consequently focuses on the users, their needs and their expectations. It aims at staying competitive with our digital contents – especially on Social Media and on partner platforms – generating relevance for users and achieving an increased reach. The timely implementation of the digital strategy ensures the future viability of the channel in a highly dynamic international media environment. In addition, organization and technical infrastructure of DW are further developed, in order to be able to flexibly respond to changed market conditions and new technologies in the future. In consequence, DW is able to react faster to geopolitical changes, however, this consistent digital transformation requires high investments in innovative technology.

Highly qualified and motivated employees are crucial in this context. Hence, the employer branding is of great importance to DW for recruiting new qualified employees. That means, that DW positions itself as employer brand to be considered an attractive employer. At the same time, the valuable expertise of long-term employees is further developed through targeted qualification measures. Considering the turbulent, often critical international situation, one of the DW's main objectives is to safeguard security, especially of the employees employed abroad.

During the period of the task planning from 2018 to 2021, DW and DW Academy increase their efforts to ensure free access to information, freedom of opinion and democracy worldwide, especially in times of terror, propaganda, escape and migration. For this aim, they are pooling their resources in an optimal way. DW also aims at getting institutional basic funding for DW Academy to secure its independence and ability to act. This requires communicating with the German Federal Government on the necessary financial equipment.

In 2018, DW entered into an agreement with the Government of North Rhine-Westphalia to establish the DW Global Media Forum (GMF) as a set meeting point of the German and international media sector. From 2019 on, this event format which was developed by DW and the Federal Foreign Office will be supported by the Government of North Rhine-Westphalia with an annual amount of EUR 600,000.

## **2. Net assets, financial position and results of operations**

Deutsche Welle concluded the year 2018 with net loss for the year amounting to € 1.4 million (previous year: net income for the year of € 11.0 million). The net loss will be allocated to the Corporation's equity.

## Net assets

In the expired financial year, some € 10.5 million were invested in intangible and tangible assets. Main additions relate to operating and office equipment, primarily to investments made in IT projects and the computer center area. The carrying value of net assets decreased by € 0.8 million when compared to the previous year, which was mainly due to lower new investments, which figure below amortization/depreciation by € 0.7 million.

The compensation claim against the German Federal Government in regard to pension, early retirement and other benefit obligations not covered by reinsurance policies increased by € 33.4 million to € 527.3 million due to an increase in pension obligations by € 41.8 million.

Current assets increased by approx. € 11.5 million in 2018, which was mainly due to the increase in the values recognized for credit balances from reinsurance policies (€ + 8.8 million) and increased bank balances (€ + 5.3 million). The - overall minor - changes in other values recognized were due to the closing date.

The prepaid expenses item was mainly set up for satellite rental fees and social benefits in connection with company pensions paid in advance.

The Corporation's equity decreased to € 14.4 million, given net loss for the year in the amount of € 1.4 million. Due to the fact that financing is guaranteed by the government, sufficient liquidity of Deutsche Welle is ensured at any time, irrespective of the disclosure of equity by the Corporation.

Provisions, which are mostly set up for pensions and other personnel commitments, remained by € 42.9 million above the previous year's figure. Increases primarily resulted from pension provisions (€ + 41.8 million), and increases related to provisions for benefit payment obligations (€ +3.0 million), due to continuing low interest rates. Provisions for early-retirement arrangements (€ - 2.6 million) and jubilee provisions (€ - 0.1 million) declined, whereas other provisions with effect on the budget increased by € + 0.2 million.

Overall, liabilities increased by € 2.9 million due to the closing date; this increase mainly resulted from increased other liabilities (€ + 4.1 million) and decreased payables to suppliers (€ -1.7 million).

## Results of operations

Income from federal allowances disclosed in the income statement mainly relates to allowances granted by the Federal Commissioner for Culture and Media (BKM) for the ongoing operations of Deutsche Welle. These allowances at the amount of € 319.5 million (prior year: € 318.4 million) are meant for the financing of the operating budget and for capital expenditures. Furthermore, € 7.2 million have been allocated on an earmarked basis for the payment of the rental fee for the broadcasting center in Bonn [Funkhaus Bonn] (landlord: Bundesanstalt für Immobilienaufgaben). In addition, this item contains project promotion funds granted by the Federal Ministry for Economic Cooperation and Development (BMZ) for the DW Academy and other project promotion funds of public institutions - in particular the Federal Foreign Office.

Other operating income is mainly composed of other project promotion funds (€ 4.9 million) and the change in the reinsurance guaranty funds (€ 8.8 million). In 2018, the change in the compensation claim against the German Federal Government is shown as income and disclosed in other operating income. For this reason, other operating income is € 35.3 million higher than in the previous year.

Personnel expenses amounting to € 183.3 million remained by € 86.3 million above the prior-year figure. Ongoing salaries grew by € 4.5 million and expenses for social contributions increased by € 0.2 million. Pension expenses increased by € 81.6 million compared to the previous year, which is mainly due to considerably higher pension provisions set up for future pension payments in the year (effect of € + 78.8 million). The main reason for this increase is the base rate for the calculation of provisions for pensions, which decreased from 3.68 % in the prior year to 3.21 % in 2018. (Translation – the German text is authoritative]

Fees and other program expenses increased by approx. 3.8 % compared to the prior-year level. In this connection, expenses for freelancers increased by € 5.8 million. Other program expenses decreased by some € 1.2 million, which was, among other factors, due to decreased license purchases and lower costs of external productions.

Overall, other operating expenses decreased by € 37.7 million to € 64.3 million, which is substantially due to the increase of the compensation claim against the German Federal Government (€ 33.4 million), which, in contrast to the prior year led to income – mainly caused by the higher pension provisions. Savings were primarily generated from consumables (€ - 0.7 million). Moreover, costs for energy and water supply (€ - 0.2 million) and third party services advertising costs (€ - 0.1 million) decreased compared to the prior year. Increases primarily resulted from maintenance costs and repairs (€ + 1.7 million).

Depreciation/amortization amounting to € 11.3 million exceeded the previous year's level (€ 10.3 million) by € 1.0 million mainly due to increased investments.

Interest expenses (€ 20.3 million) result from the interest share from the compounding of provisions for pensions and long-term provisions for personnel disclosed in this item.

### **Financial position**

The revenue and expenditure account also to be prepared within the scope of the annual financial statements, in accordance with the budget systematics of the German Federal Government, is based on governmental accounting and, in contrast to the aforementioned accounts, prepared according to commercial principles, solely focuses on payment transactions.

The revenue and expenditure account shows an increase in cash and cash equivalents by € 4.8 million to € 23.6 million. This increase primarily results from an increase in the bank balances of DW Academy by € 4.0 million and of Deutsche Welle by € 1.3 million. The large bank balance at DW Academy as of December 31 results from the circumstance that major projects will only be invoiced at the beginning of 2019. Offsetting this, the federal allowances not called up in the previous year decreased by € 0.5 million.

### **3. Risk report**

Deutsche Welle periodically analyzes its risks through an internal early risk detection system.

As a result of this, it can be seen that, due to the almost exclusive financing granted by the German Federal Government, only the development of the federal allowances represents a risk affecting the development of Deutsche Welle. Due to the low level of interest rate, personnel expenses and therefore the expenditures side continue to increase sharply in the following years. This results in a negative impact on liquidity and an increased amount of liquidity being tied up in the next years.

For 2018, federal allowances allocated by the Federal Commissioner for Culture and Media amounted to € 326.7 million, which included the ongoing federal allowance (incl. rental fee) and funds for the remuneration of pension expenses for former employees of the Deutsche Welle Fortbildungszentrum in the amount of some € 0.5 million as well as special funds for investments in the amount of € 5.0 million.

As a 1st draft for the federal budget 2019 was published as early as July 05 2018 stating an increase of the regular budget of DW for 2019, it became clear at an early stage, that the only risk impairing development present in the prior years (negative development of federal allowance) would not exist in 2019. DW took this as an opportunity to waive the central risk inventory and instead conduct a detailed evaluation and optimization of the risk management guideline and the risk management process in collaboration with the Internal Audit Function. As part of the revised process, the next central risk inventory will be conducted in the 2nd half of 2019; this process is then performed continuously.

#### 4. Forecast Report

In 2018, DW started to implement the objectives set in the new task planning until 2021.

A clearly higher increase in allocated resources, in addition to an enhanced sustainability of the described development – also for the protection of the current scope of programs and services offered – will be necessary in order to enable DW to fully cope with its mission in a changed environment. Some of the projects and measures mentioned in the new task planning cannot be implemented otherwise.

The financial situation DW is highly dependent on federal allowances of the budget of the Federal Commissioner for Culture and Media (BKM), which amounted to approx. € 326.7 million in 2018. In addition, DW receives special project promotion funds for selected projects granted by the Federal Foreign Office as well as the Federal Ministry for Economic Cooperation and Development (BMZ),.

For the budget year 2019, DW receives a total allowance of € 350 million (excluding funds for the remuneration of pension expenses for former employees of the Deutsche Welle Fortbildungszentrum in the amount of some € 0.5 million). Hence, the German Federal Government and the German Bundestag continued the financial stabilization of DW.

Fortunately, the financial strengthening of DW is expected to continue in 2020. The German Federal Government is planning to increase the federal allowance granted to DW by € 15 million to a total of € 365 million per year. This was decided on March 20 2019 in the resolution of the German Federal Government with regard to key figures included in the draft for the federal budget 2020. After significant increases in the last years, this is another big step towards the implementation of the coalition agreement, stating that the budget of DW shall increase to the level of comparable European broadcasters. In 2013, the federal allowance granted to DW amounted to € 277 million. The Minister of State for Culture responsible for DW justified the planned increase by stating, that the "work of the foreign broadcaster is more necessary than ever, taking into consideration the threats to freedom of the press and freedom of opinion worldwide. With regard to political, economical, humanitarian and social challenges as well as global developments of escape and migration, people are in need of independent journalism and access to objective information. This is what DW stands for in the world."

In order to be able to make its voice heard in the global competition for attention and to continue its successful work, an increase of the DW budget is crucial.

In addition to the financing by the allocation of resources of the BKM [Federal Commissioner for Culture and Media], DW receives project promotion funds granted by the Federal Ministry for Economic Cooperation and Development (BMZ) – especially for the projects conducted by the DW Academy for media development – as well as project promotion funds granted by the Federal Foreign Office.

The results of the resolution of the German Federal Government with regard to key figures are subject to their approval within the scope of the draft for the federal budget 2020 and the parliamentary debate regarding the federal budget 2020.

The further reorganization of DW into a digital enterprise is an important key aspect of the task planning for the years 2018 to 2021. In many areas, DW has already turned into a digital media company, specifically with regard to the production and distribution (satellite, online, social media, mobile) of journalistic contents in 30 languages. However, it will need to further develop its organization and technical infrastructure, for example, through expanding HD production and distribution as well as the implementation of its digital strategy, in order to be able to flexibly respond to changed market conditions and new technologies in the future.

Considerable further resources will also be required for investments in the expansion of digital management.

(Translation – the German text is authoritative]

Deutsche Welle meets the numerous challenges described in the task planning by increasing efficiency in different areas. This includes focusing on more distinguished and professionalized programs and services, the digitization of work processes as well as an even more intensified and focused co-operation with partners, primarily with the regional ARD broadcasting stations, ZDF and Deutschlandradio. Based on the requirement of economic efficiency, DW has participated in the structural reform of public service broadcasting, having generated saving potentials from this already today. The existing co-operation with a view to the takeover of broadcasts and material should be continued – it is important for DW, entailing considerable positive cost effects.

For the takeover of further important tasks of medial reporting on German, European and global developments, DW plans to extend its programs and services in the interest of Germany, which will require the allocation of additional resources.

Due to its limited financial equipment, DW is not able to be equally present in all regions of the world. Hence, the target regions are prioritized according to transparent criteria which are derived from the tasks set in the DW-Gesetz:

- the need for imparting democratic and liberal values,
- the need for free information,
- the political significance and
- the economic significance of a region

for Germany. Further criteria taken into consideration are the size of the target region, the potential amount of users and the access of DW to the relevant media market. Under these circumstance, DW continues to implement its legal mandate in 2019.

Bonn, May 6, 2019

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Deutsche Welle Anstalt des öffentlichen Rechts

Peter Limbourg

Director-General