

Deutsche Welle Anstalt des öffentlichen Rechts, Bonn,

Management Report for Financial Year 2014

1. Business development and general conditions

In the expired financial year, the core elements of the reform process for Deutsche Welle's alignment towards multimedia, increasing its relevance and reach, have been continued. The basis for this was the program planning for 2014 to 2017, which had been finalized and adopted by Deutsche Welle's executive bodies. In this program planning, Deutsche Welle puts the measures for the fulfillment of its statutorily determined tasks and the achievement of its objectives into concrete terms: Deutsche Welle enhances the relevance of its offered programs with global decision-takers as well as participants in political opinion-forming dialogically and interactively. Currently, Deutsche Welle records 101 million user contacts per week. This number shall be increased by some 50% in the medium term. At 150 million anticipated future user contacts per week, DW would hold a top position among the foreign broadcasters.

In order to achieve those targets, Deutsche Welle focuses on the restructuring of its programs and services, being supported by strategy teams who work out the implementation of new offers. It is intended to focus on English as the "journalistic flagship" and on successful regional languages. For this purpose, the linear TV channel is being optimized by providing it with a larger amount of current program slots. Furthermore, the classical TV programs are linked with online and social media in order to enable viewers to interact and participate in the program to a large extent. In addition to cross-media interlinking, regionalization as regards content is in the focus of the TV offer. In addition, the online offer is extended, for example, by regionalized contents. Through the development of formats for mobile use, interaction in social media is intensified.

Based on the reform process described, Deutsche Welle intends to increase the competitiveness and attractiveness of its offered programs and compensate for any additional burdens arising from cutbacks in funds and increases in salaries and costs. This is necessary in order to be able to hold its ground in the international media markets against the increasingly stronger competition of national foreign broadcasters and also local broadcasting stations which, in many cases, have more financial power than Deutsche Welle. It is also useful that, according to the findings of its evaluation submitted in 2013, Deutsche Welle is expressly commended by its users for the credibility and balance of the content of most of its programs. For example, more than 90% of the users of Deutsche Welle's programs say that Deutsche

[Translation – the German text is authoritative]

Welle helps them to be better informed about the events happening in Germany and Europe. DW is predominantly considered to be a reliable, objective and analytical information provider. Despite its short financial means, Deutsche Welle aims at increasing the number of its users by up to 50% in the medium term through improved strategic alignment.

For an efficient utilization of funds, the pooling of the two journalistic management divisions into one division had already been initiated in 2013. The former program management divisions, Multimedia Management Regions and Multimedia Management Global, were merged into one program management division with a joint management team. In 2014, the responsibilities were defined across the sites, double structures were eliminated and the work processes were restructured such that the topics can be planned on a cross-media basis at both DW sites, with contents being produced platform-specifically at the same time. Further restructuring measures in the IT departments of the Distribution and Administration management divisions have already been initiated (in the latter one also with a new administrative director).

In order to increase Deutsche Welle's competitiveness, the "DW" brand was updated. The journalistic profile was enhanced with the aim to stronger distinct itself from international competitors and become more attractive as information provider for global target groups. In addition, a brand core based on DW's traditional values was developed in 2014 in order to increase the recognizability of Deutsche Welle by the target group.

Deutsche Welle's television program is available via satellite and partner stations, via cable providers and in hotels and can also be watched as live stream and video on demand. In financial year 2014, the English and German languages TV programs were further developed, focusing on the conception of the new TV channel. The preparations for this purpose comprise the upgrading of studios, director's rooms and corresponding technology in order to be able to implement cross-media formats, the development of new graphics as well as the DW-wide established sound recording at the workplaces.

Besides the extension of the news coverage, new formats have been implemented, such as a one-hour Rolling News Show as well as other formats, e.g. "Live Notes", which take account of the multi-media strategy. Furthermore, contributions within TV broadcasts and media are recovered on a cross-media basis in an enhanced way.

The development of new TV formats, beyond the news programs, also played an important role in 2014. "Live Links" is the new format for young users which offers the possibility to listen, read and watch worldwide interesting stories. "Fokus pa" addresses topics which preoccupy the people in Europe politically and socially, showing a worldwide audience the living together and conflicts of the Europeans.

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In authentic stories, Deutsche Welle shows the opinions, hopes and anxieties of the people on this continent. Also new formats, such as "Conflict Zone" and "Frauen am Wendepunkt" [Women at a turning point] have been prepared in 2014.

Besides television, which still largely determines the perception of DW in international media markets, the online services have become increasingly important. Particularly the regional expertise of Deutsche Welle is reflected on the Internet; here, users have access to multimedia information contents in thirty languages.

The web appearance unites all digital forms of presentation: texts, videos, audios and interactive elements. From the articles, links lead to further contents, focal issues and multimedia projects of DW.

Overall, the online sector increasingly focuses on the sharing of contents via the social media as well as the increase in utilization. For this purpose, a relaunch of the home page for a large number of offered services was carried out and the visibility of contents was improved structurally and editorially. In addition, the "Diqu" commentary function was implemented within the online offer which enables users to comment on articles, audios, videos and picture galleries. The extension of video contents in a large part of the language services offered as well as the introduction of new online formats, such as "Listicles", was accelerated in financial year 2014.

In the English and German language online sector, the digital offers were designed such that a larger variety of contributions can be implemented in a faster way. In addition, the regional content of contributions was enhanced, in particular for the Africa and Asia target regions. The online sector's focus is on sharing the contents in social media as well as intensifying mobile use. For this reason, new formats have been created to personalize the offers and better reach young users, in particular.

In addition to the English and German programs, the programs in Spanish and Arabic have also been further developed. Thus, enhanced interlinking of online offers, TV / video and social media as well as extended co-operations with partners are reflected in those programs, too.

In order to intensify mobile use, a new DW app was developed with the help of which multi-media offers, such as media libraries and live streams, can be perfectly integrated. In addition to simple and intuitive handling, compatibility with various end devices (smartphone, tablet, PC) and different operating systems (Android, IOS etc.) has also improved. Further functions of the new app are the offline mode, allowing to use the contents also without having established an Internet link, and the loading of user-generated contents, e.g. a commentary function. A relocation of the Internet domain away from "www.dw.de" towards "www.dw.com" was also initiated in the current financial year in order to increase respective reach.

Radio remains an important medium almost exclusively in Africa and parts of Asia. That is why DW continues to offer radio programming via shortwave and local radio

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partners in major regional languages – such as Kiswahili for East Africa and Urdu for Pakistan. Following the end of linear programming in German, the relay stations of Deutsche Welle in Sines/Portugal and Trincomalee/Sri Lanka discontinued their activities. In accordance with the terms of the contract, the station in Trincomalee was handed over to the local broadcasting authority SLBC. The relay station in Sines had to be dissolved as it was not possible to find a party interested in continuing the operations.

The only remaining relay station in Kigali/ Ruanda discontinued its transmission operations at the end of March 2015 as the short-wave transmission volume continues to decline due to low utilization and an external lease is more cost-efficient. For this reason, the relay station will be deconstructed.

In addition to the sharpening of offers, the distribution of the offered services also contributes to increase the reach of Deutsche Welle. Thus, the distribution of offers improved considerably in financial year 2014. Furthermore, costs for satellites in America were reduced and the partner network was globally extended and enhanced. Also through investments in measures taken to circumvent censorship, Deutsche Welle was able to expand its reach in 2014.

The media services of Deutsche Welle are supplemented by the training programs of DW Academy for journalists, documentalists, technicians and managers. The Academy trains, advises and accompanies regional broadcasting stations in developing countries comprehensively and on a long-term basis at a local level. It offers traineeships and a Master's program as well as media training for executives of German enterprises and institutions who will go abroad. In this field, the activities for the Federal Ministry for Economic Cooperation and Development have been considerably expanded in the current financial year within the context of this ministry's increased funding.

In summer, Deutsche Welle successfully organized the Global Media Forum, an international media conference with 2,300 guests from 120 countries, having been able to welcome there prominent guests and speakers, such as Frank-Walter Steinmeier, Mathias Döpfner, Jeff Jarvis, Bassem Youssef, Salah Negm (news director of Al Jazeera), Glenn Greenwald (video message) and Sarah Harrison.

The financial situation of Deutsche Welle continues to be tight. For 2014, Deutsche Welle received a slightly increased federal allowance of € 278.5 million, although this increase was granted for specific purposes only (additional funds for reporting on Russia and the Ukraine, enhancement of the programs for Africa and the Arab World as well as studio upgrading).

From December 2013, a new collective salary agreement was concluded for a term of almost 2 years. The agreed pay rate increases take place in two steps as of

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February 1, 2014 and January 1, 2015, corresponding to the pay rate increases implemented in the public sector.

2. Net Assets, Financial Position and Results of Operations

Deutsche Welle concluded the year 2014 with net income for the year amounting to € 1.8 million (previous year: net loss for the year of € 5.8 million). The net income will be allocated to the Corporation's equity.

Net assets

In the expired financial year, some € 12.3 million were invested in intangible assets and tangible assets. Main additions relate to technical broadcasting equipment, primarily the investments made in the Berlin TV studios. The book value of net assets slightly increased by € 0.8 million when compared to the previous year, which was mainly due to the new investments made, exceeding amortization/depreciation by € 0.8 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 € 24.6 million to € 504.0 million, resulting mainly from the increase in pension obligations.

Current assets increased mainly due to the increase in the values recognized for reinsurance policies (+€ 4.5 million), the increased bank balance of DW Academy (€ +3.2 million) as well as the receivable from Federal Government subsidies not called up in the amount of € 2.0 million. The - overall minor - changes in other values recognized were due to the closing date.

The prepaid expenses item was set up for satellite rental fees and operating costs paid in advance.

The Corporation's equity increased by € 1.8 million to € 2.7 million as a result of the net income for the year generated.

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, exceed the previous year's level by € 28.5 million. The increase primarily resulted

from pension provisions (€ +29.3 million) and provisions for benefit payment obligations (€ +3.2 million) and was due to the low interest rates.

Liabilities increased by € 5.5 million due to the closing date, because trade payables have strongly increased compared to the previous year, which mainly resulted from the enhanced investment activities.

Results of operations

Income from federal allowances disclosed in the income statement mainly relates to allowances granted by the BKM (Bundesbeauftragter für Kultur und Medien - Federal Commissioner for Culture and Media) for the ongoing operations of Deutsche Welle. These allowances at the amount of € 278.5 million (prior year: € 270.0 million) are determined for the financing of the operating budget and for capital expenditure. Furthermore, € 7.2 million earmarked for the payment of the rental fee for the broadcasting center in Bonn [Funkhaus Bonn] (landlord: Bundesanstalt für Immobilienaufgaben - Institute for Federal Real Estate), which had been let free of charge until the end of 2012, are allocated. In addition, this item contains project promotion funds granted by the Federal Ministry for Economic Cooperation and Development (BMZ) for the Deutsche Welle Academy and other project promotion funds of public institutions - in particular the Federal Foreign Office. The increase primarily results from increased project promotion funds granted by the BMZ to the DW Academy.

Other income decreased by € 6.0 million, mainly due to the asset values of the reinsurance policies, which had declined by € 6.8 million.

Personnel expenses amounting to € 139.5 million exceeded the prior year's figure by € 32.8 million. Ongoing salaries increased by € 3.2 million (of which € 1.0 million refer to a provision for personnel relating to the Kigali relay station) and expenses for social contributions increased by € 0.9 million. As regards expenses for retirement benefits, the provision for pension had decreased in the previous year (there was no increase in the pay rates in 2013). Therefore, expenses for retirement benefits had declined disproportionately in the previous year.

Fees and other program expenses increased by 6% compared to the previous year's level. In this connection, expenses for freelancers have increased by € 4.4 million and costs for other program expenses have increased by € 1.6 million, which was, inter alia, due to increased license purchases and higher costs of external productions.

Transmission and radiation costs almost remained at the previous year's level, after savings had been achieved from reductions in the short-wave transmission volume in the previous year.

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Overall, other operating expenses increased by € 2.3 million to € 58.8 million. Major increases related to consumables (€ +1.4 million), travel expenses of employees and freelancers (€ +1.4 million) and non-program-related fees (€ +0.6 million – mainly for IT advisors). Savings were primarily achieved from energy and water supply (€ -0.5 million), property leases (€ -0.4 million) and maintenance costs of building installations (€ -0.4 million).

Depreciation/amortization amounting to € 11.4 million remained by € 1.5 million below the previous year's level (€ 12.9 million).

Interest expenses (€ 26.4 million) result from the interest share from the compounding of provisions for pensions and long-term provisions for personnel disclosed in this item under the valuation pursuant to the regulations of the BilMoG [German Accounting Law Modernization Act].

After having set off the extraordinary income due to the increase in the compensation claims against the German Federal Government (relating to provisions for pension and benefit payments), the net income for the year, increasing the Corporation's equity, amounts to € 1.8 million.

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 € 5.4 million to € 7.0 million. This increase mainly results from federal government subsidies not called up (€ 2.0 million due to the postponement of investment payments) and an increase by € 3.2 million in the DW Academy's bank balance (due to the circumstance that major projects will be invoiced only at the beginning of the following year).

3. Risk Report

Deutsche Welle annually analyzes its risks through an internal early risk detection system. The risks are specifically broken down according to business segment, dimension and probability as well as changes compared to the previous year. As a result of this, it can be seen that, due to the almost exclusive financing granted by the German Federal Government, the development of the federal allowances represents a risk affecting the development of Deutsche Welle. The still persisting uncer-

tainty related to the euro crisis and the tightened pressure by the Federal Government to make savings ("debt brake") increase this risk.

As a result of the closure of the relay stations in Portugal and Sri Lanka, the relating operating and procurement risks have ceased to exist. The relay station in Kigali discontinued its transmission operations in March 2015; it is planned to finally close this station in 2016.

For 2014, a federal allowance of € 278.5 million was allocated, including earmarked funds for the reporting on Russia and the Ukraine, the strengthening of the programs for Africa and the Arab World and the upgrading of studios. Furthermore, funds for renting the broadcasting center in Bonn, which had been made available by the Bundesanstalt für Immobilienaufgaben (BIMA) [Institute for Federal Real Estate], at a rental fee of € 7.2 million p. a. were allocated on an earmarked basis.

For 2015, the federal allowance will be maintained at a fixed basis and earmarked funds will be increased by € 1.0 million, in addition, project funds will be contributed by various funders.

For 2016, a noteworthy increase in the federal allowance is scheduled. A final decision will be taken at approval of the federal budget, presumably in the IVth quarter of 2015.

4. Significant Events After the Reporting Date

After the end of the financial year as of December 31, 2014, no events of particular importance, having an effect on the annual financial statements for 2014, which would require reporting at this point, have occurred.

5. Forecast Report

Since 2014, a significant restructuring process has taken place within Deutsche Welle. In the future, an English TV information channel will be Deutsche Welle's "journalistic flagship". On this basis, the usually English-speaking global decision-makers and participants in political opinion-forming shall be reached to a larger extent. The majority of competing international broadcasters is also active in this segment. The necessary technical, organizational, program-related and personnel-related pre-conditions have been created such that the launch of the program will be possible within the scope of the Deutsche Welle Global Media Forum in June 2015.

The aim is also to originally produce an increasing number of contributions in English instead of adapting them from German as before. For this purpose the number of staff, having the appropriate language knowledge and journalistic competence, will be increased. Apart from television, which is still largely determining the percep-

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tion in the international markets, the online offer is increasingly gaining importance. In this segment, the focus is on interactive formats and the distribution to mobile end devices via apps. A new launch is already scheduled for April 2015.

By taking program-related measures, new user potentials shall be developed, increasing the reach significantly. This will provide the realistic opportunity that Deutsche Welle will be able to move up to a top position among foreign broadcasting stations in the medium term.

The significant restructuring measures will also require a reduction in staff in many divisions, which will, inter alia, lead to collectively agreed compensation payments. This will primarily affect foreign-language programs, which will have to be gradually reduced or discontinued for financial reason. This might also result in a noteworthy decrease in the number of users.

In addition to the program-related alignment, the extent to which measures will have to be taken also depends mainly on the financial resources allocated. In 2015, the current federal allowance will continue to be granted at the same level, and the earmarked funds for the upgrading of the studios will see an increase by € 1.0 million. In addition, project funds amounting to € 7.0 million (previous year € 1.5 million) will be available in order to strengthen the programs for Africa and the Arab World, in particular. Based on current knowledge, it can be regarded as a politically reliable assessment that an increase in the ongoing federal allowance for Deutsche Welle by € 12.0 million is planned for 2016. This contribution will serve to compensate for the additional expenses arising from pay rate increases in 2014 and 2015. It was therefore possible to postpone further structural measures, which would have been necessary if the federal allowance would have been kept at an unchanged amount in 2015.

Further opportunities may also arise from the allocation of project-related subsidies for individual program projects, inter alia from so-called ODA (Official Development Assistance) funds, as Deutsche Welle's programs support the ODA objectives (e.g. democratization, freedom of opinion, good governance).

However, certainty on the final allocation of funds will only be reached at approval of the federal budget in the IVth quarter of 2015.

The collective salary agreements will still be in place until November 30, 2015. In the course of 2015, further negotiations on collective pay rates will take place, which will primarily also consider new regulations with regard to retirement benefits to be paid. The increase in the pay rates of Deutsche Welle is based on those of the Public Service sector and the broadcasting corporations under German public law.

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Deutsche Welle Anstalt des öffentlichen Rechts
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