

# Deutsche Welle Anstalt des öffentlichen Rechts, Bonn,

## Management Report for Financial Year 2016

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

In the past financial year, Deutsche Welle has consistently further pursued the objectives and projects described in its task planning for the years 2014 to 2017. Deutsche Welle aims at increasing the relevance of its offered programs in the target group by the end of 2017 and to, thereby, achieve a considerably improved reach – to then 150 million weekly user contacts in the target group. On this basis, DW aims at reaching a top position among foreign broadcasters.

In 2016, DW recorded further strong growth in the use of its offered programs and services. Currently, some 135 million people worldwide use DW's offers at least once a week. In 2015, the weekly reach - the measured value for globally present media companies – had still amounted to 118 million. In addition, there are more than 100 million people in countries of development cooperation, who benefit from measures implemented by DW Academy.

Drivers of the significant growth in DW's reach are its sharpened profile of journalistic contents offered and the extension of distribution partnerships. In terms of DW brand topics, i.e. "knowledge", "dialog" and "freedom", innovative formats were published.

DW continues to implement its aspiration to contribute to the international news agenda at an enhanced level. The transmissions of the English "Conflict Zone" TV program, with the participation of the AfD [Alliance for Germany] chairperson, Frauke Petry, the Ukrainian president, Petro Poroshenko, and the UN General Secretary, Ban Ki-Moon found, for example, worldwide resonance with the audience and the media.

Further emphasis within the English-language TV program was set by the cooperation with regard to the "Eco@Africa" program, which involved the Nigerian broadcaster, Channels TV, and the Kenyan broadcaster, KTN. This weekly broadcast environmental magazine focuses on ecological innovations and best-practice examples from Africa and Europe as well as climate protection ideas from all over the world. The co-production may be watched on the English-language DW program and is also shown by the two partner stations, which belong to the widest-reach private news stations in their countries.

In order to cope with the changed production and distribution conditions, on the one hand, and the changed usage habits, on the other side, DW started with the broadcasting of its program in HD quality in North America in spring. As from the beginning of December, this will also be the case in Asia.

The Arabic TV program has further strengthened its position as a provider of comprehensive, independent information from Germany in the Arab world. The weekly reach has significantly increased since 2015. Both in the Middle East as well as in Northern Africa, the program is increasingly used via a large number of partner broadcasters showing DW programs.

One reason for this success are award-winning shows, such as "Shabab Talk", a young format addressing topics that are sensitive or even a taboo in Arabic-speaking countries, which often triggers plenty of discussion in the target area.

DW's almost unique, dialog-oriented and interactive approach is well received. One particular example of this is "Shabab Talk on the Road" from the centers of the Arab world, financed by the Federal Foreign Office, but also the comprehensive social media offer in Arabic, which is becoming more and more important for the exchange of journalistic contents.

As part of its enhanced activities for Russia and the CIS States, DW has launched the Russian-language TV talk format "Nemtsova.Interview". Every week, the journalist Zhanna Nemtsova, daughter of the Russian opposition leader, Boris Nemtsov, who was murdered in 2015, speaks with personalities from politics and culture who have a close link to Russia.

In DW's Spanish-language TV talk show "La voz de tus derechos" ("The voice of your rights"), the well-known Cuban blogger Yoani Sánchez addresses human rights violations in Latin America. Also through this program, DW implements its brand topic "freedom". "La voz de tus derechos" presents personalities and initiatives which develop approaches to solutions for the manifold problems of the region.

Social media increasingly become an important way to the users and an integral component of program work for all 30 program languages of DW. In a targeted manner, DW produces contents for the different channels. Video productions for social networks, too, have proved as very successful.

Many editorial offices make use of user-generated contents, for example, the Kiswahili editorial team. Since April 2016, the video short news format "Papo kwa Papo" ("The latest news") has issued a news overview for social media platforms. In addition to conventional posts, the editorial team also publishes videos, audios, political caricatures and animated cartoons on Facebook. Via a link to the radio program, the Facebook offer in Kiswahili achieves high interaction rates.

Also the English-language radio program provided for Africa was consistently launched as "Social Radio" concept in 2016. The radio magazine, Africalink, connects conventional radio with social networks and its own Facebook account.

The strategy to consistently follow the changing user habits pays off, whether in Asia or in Africa. Not least, an important bridge to users is built by Deutsche Welle's new app that started in June 2015.

With a view to the arrival of some one million refugees in Germany, DW has, on the one hand, intensified its refugee reporting and, on the other hand, provided special pages for asylum seekers. These measures were partly sponsored by funds of the Federal Foreign Office. The multi-media offer provided in several languages shall make it easier for the newly arrived people to take their first steps in Germany and to also create direct access to the German language courses offered by DW.

Together with the Bundesagentur für Arbeit (Federal Labor Office - BA), DW extends its Learning German programs. By launching the "Mach dein Herz auf" ["Open your heart"] initiative, a first partial project started, which supports volunteers in language teaching. It increases the awareness of cultural differences and provides useful everyday tips, making it easier to learn German.

Asylum seekers have the possibility to get information from DW on the life culture in Germany and the political system of the German Federal Republic. They get to know all interesting facts about their rights and duties as asylum seekers,

Since December 15, 2015, viewers in Western Europe have the possibility to receive Deutsche Welle's Arabic TV program via the Astra 1M satellite. Since March 1, 2016, the offered program is complemented by programs taken over from regional ARD broadcasting stations and the ZDF as "DW Arabia 2", which are synchronized and provided with Arabic subtitles, respectively, by DW. The satellite operator SES had promised to grant DW free of charge transmission of the channel for a period of twelve months, which has, therefore, enabled DW to make a high-quality TV program available to refugees and all interested people from the Arab region. This program conveys European values to the people, providing them access to reliable information from a German perspective, initially in their mother tongue. Thus, DW also contributes to a first social participation of the refugees in Germany.

Deutsche Welle has further expanded its proven cooperation with regional ARD broadcasting stations, ZDF and Deutschlandradio. Both sides benefit from this cooperation, which strengthens public service broadcasting as a whole.

The initiated internal structural reforms were completed with success, specifically in the field of technology. Here, the IT and production areas were reorganized as of February 2016. The technical infrastructure of editorial work was comprehensively reformed and a foundation for the digital strategy was established: In September 2016, the new online content management system started for DW's 30 languages broadcast. Against the backdrop of globally declining short-wave use, DW dismantled its last relay station in Kigali, too, and returned the station site to the Rwandan authorities in June 2016 as contractually agreed.

In May 2016, DW Academy published its digital strategy titled "Academy beta", showing the ways how DW Academy rethinks and reshapes freedom of opinion in the digital world. Development is only possible if all people are able to digitally communicate in a free and sovereign manner. "Strengthen digital participation" is thus DW Academy's development target for the digital world. Being a strategic partner of the Federal Ministry for Economic Cooperation and Development, this comes along with the aim to strengthen freedom of opinion and to promote access to information. It is now a matter of implementing the strategy into daily practice.

Against the backdrop of inter-state tensions, crises and wars, foreign broadcasting has further gained in importance. Accordingly, massive investments in international communication activities are partly recorded in many countries.

Conflicts, such as between Russia and the Ukraine, in the Arab world, but also in parts of Asia and on the African continent, have determined the international relations in 2016 just as the global fight against terrorism. Particularly the NATO partner and EU aspirant, Turkey, has come into focus. But worrying tendencies have also become evident in Poland and the Western Balkans. For peace, human rights and freedom of opinion, 2016 has not been a positive year. The mentioned developments have also marked Deutsche Welle's reporting in this period – and will probably continue to do so also in the remaining period of its task planning and thereafter. In large parts of the world, DW remains an indispensable "Voice of Freedom".

The steady extension of the Russian-language program since 2012 has proven as a right and sustained strategic decision. Voices of the opposition and critical reporting are hardly to find in Russia anymore. The people in the country are under the influence of tendentious information, disinformation and propaganda, which they often not recognize (or are

not able to recognize) as such anymore. The state media or government-related media do no longer address many controversial topics at all.

The Russian foreign state media, too, exclusively reflect the view of the Russian government, having set themselves the task to destabilize the European community by distributing disinformation and propaganda. Despite the obvious use of government-guided "online trolls", DW has managed to maintain a dialog with and between its international users.

After the easing during the short so-called "Arab Spring", a contrary development towards less freedom of the press and opinion is recorded in many countries of the Arabian region. Also DW journalists increasingly face direct and indirect obstacles established by authorities and state bodies in the region.

In Turkey, there is, de facto, hardly any freedom of the press and opinion, following the governmental measures taken in consequence of the attempted coup and the state of emergency imposed. Turkish users are only able to get access to independent, comprehensive and non-partisan information via international offers, such as DW's program in the Turkish language.

Also in Poland, the freedom of the media becomes more and more restricted. Through its Polish-language programs, DW promotes European values and the European dialog, performing an important bridging function which serves the stability in Europe.

The media-political situation in the Western Balkans, which had already been worrying for a long time, further deteriorated in the most recent past. It becomes more and more difficult for the population in the young and partly unstable democracies to get independent information. Repressions against independent media significantly restrict the freedom of the press and opinion. Many of the Balkan countries are under strong pressure of Russian and anti-European propaganda. DW is the only European voice in the languages of the Balkans; it is perceived as an objective, credible and professional reporter as well as a neutral and mediating voice between ethnic groups and religions.

The readjustments in the transatlantic relations also make it more important for Europe and Germany to visibly convey their own positions and interests to the USA and throughout the world. At present, almost eleven million people in Northern America already use one of the DW offers per week. The USA are a decisive target market for DW's English-language online offers. Therefore, Deutsche Welle is an important voice for users on the other side of the Atlantic as well. In this context, DW's English-language TV channel opens up the possibility to be present on all transmission platforms.

Here, the activities outlined are based on the updated task planning of Deutsche Welle for 2016. DW prepares this planning in its own responsibility for a period of four years and submits the annually updated version to the German Bundestag and the Federal Government in accordance with Section 4b (1) Deutsche-Welle Act.

The updating aims at initiating necessary adjustments to the planned measures and to communicate those adjustments. Re-accentuations are necessary both in the light of current geo-political developments as well as in view of the increasing momentum on the international media markets and from accelerated technical change.

The Broadcasting Board approved the draft of the updated version for 2017 in its meeting on November 25, 2016; the Administrative Board approved this draft on December 19,

2016. The statements of the Federal Government and the German Bundestag are still outstanding.

## **2. Net Assets, Financial Position and Results of Operations**

Deutsche Welle closed the year 2016 with net income for the year amounting to € 3.8 million (previous year: net loss for the year of € 1.8 million). The net income will be allocated to the Corporation's equity.

### **Net assets**

In the expired financial year, some € 9.5 million were invested in intangible assets and tangible assets. Main additions relate to operating and office equipment, primarily to investments made in broadcasting projects and the computer center. The book value of net assets decreased by € 1.5 million when compared to the previous year, which was mainly due to new investments remaining € 1.4 million below amortization/depreciation.

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 € 16.0 million to € 534.0 million due to the increase in pension obligations.

Current assets increased by some € 10.9 million in 2016, which was mainly due to the increase in the values recognized for credit balances from reinsurance policies (€ +7.8 million) and increased bank balances (€ +2.6 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 to € 4.7 million as a result of net income for the year generated in the amount of € 3.8 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, exceed the previous year's figure by € 21.6 million. This increase primarily resulted from pension provisions (€ +21.6 million) and provisions for benefit payment obligations (€ +5.2 million), due to continuing low interest rates. In contrast to this, provisions for early retirement arrangements (€ - 3.1 million), provisions for semi-retirement arrangements (€ - 0.9 million), provisions for relay stations (€ - 0.8 million) and other provisions with effect on the budget (€ - 0.5 million) have decreased.

Overall, liabilities decreased by € 0.4 million due to the closing date; this decrease mainly resulted from a low amount of other liabilities.

### **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 € 299.4 million (previous year: € 279.6 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), which had been made available free of charge until the end

of 2012. In addition, this item contains project promotion funds granted by the Federal Ministry for Economic Cooperation and Development (BMZ) for Deutsche Welle Academy and other project promotion funds of public institutions - in particular the Federal Foreign Office.

Personnel expenses amounting to € 148.8 million exceeded the prior-year figure by € 14.9 million. Ongoing salaries rose € 3.3 million and expenses for social contributions rose € 0.5 million. Expenses for old-age pensions increased by € 11.1 million compared to the previous year, which mainly results from the declined interest rate applied for the determination of provisions for pensions (effect of € +18.2 million) and expenses which decreased by € -6.6 million due to the change in provisions for early-retirement arrangements (reporting year: income of € 3.3 million; previous year: expense of € 3.3 million).

Fees and other program expenses increased by some 5.0 % compared to the prior-year level. In this connection, expenses for freelancers have increased by € 5.9 million, inter alia, due to increased license purchases and higher costs of external productions. Contrary to this, other program expenses decreased by € 0.5 million.

Transmission and radiation costs amounting to € 9.8 million remained almost unchanged when compared to the previous year.

Overall, other operating expenses decreased by € 2.1 million to € 60.2 million. Savings were primarily achieved from travel expenses of freelancers (€ -0.8 million) and from energy and water supply as well as building maintenance costs (€ -0.3 million). Moreover, write-offs on receivables fell by € 0.2 million compared to the previous year. Increases resulted from maintenance expenses (€ + 0.4 million), audit and advisory fees (€ + 0.2 million) and court and notarial fees (€ + 0.2 million).

Depreciation/amortization amounting to € 10.9 million exceeded the previous year's level (€ 10.4 million) by € 0.5 million.

Interest expenses (€ 24.7 million) result from the interest share from the compounding of provisions for pensions and long-term provisions for personnel disclosed in this item.

Other operating income is mainly composed of income from the change in the provision for pensions (€ 16.0 million), which has an effect on the compensation claim against the German Federal Government. Up to 2015, changes in provisions for pensions had been shown as extraordinary result - which is no longer to be disclosed.

## **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 € 3.7 million to € 6.1 million. This decrease mainly results from federal government subsidies not called up (€ 1.1 million due to the postponement of investment payments) and an increase by € 2.9 million in the DW Academy's bank balance. The large bank balance results from the circumstance that major projects will only be invoiced at the beginning of 2017.

### **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.

For 2016, a federal allowance of € 306.6 million was allocated, which included an increase of € 12 million compensating for collective agreement pay rises in 2014 and 2015. In addition, € 4.4 million of staff enhancement funds were paid for collective agreement pay rises in 2016. Also included are earmarked funds in the amount of € 7.5 million for enhanced reporting on Russia and the Ukraine as well as for refugee reporting, as well as funds for renting the broadcasting center in Bonn from the Bundesanstalt für Immobilienaufgaben (BIMA) [Institute for Federal Real Estate], at a rental fee of € 7.2 million.

For 2017, a further increase in the federal allowance to € 325.6 million is planned. The increase compared to the previous year is mainly due to additional special funds of € 10.1 million for capital expenditures (for digitalization and IT security, among other things) and additional special funds of € 7.0 million for DW's program (specifically the extension and stabilization of the programs offered in the Arabic and Turkish languages).

The increase in the federal allowance in the last years noticeably strengthened the financial basis of Deutsche Welle.

### **4. Forecast Report**

DW will accelerate its restructuring towards a digital media company in order to achieve the targets set in the task planning until the end of 2017. At the same time, it will take further measures to increase its global use. In this context, DW will particularly focus on the target regions mentioned in its task planning.

DW will continue to examine further how media use is changing in the markets and adjust itself to those changes in terms of its programs and structures. In doing so, it will keep an eye on the cost-benefit relation in all markets and for all transmission channels, shifting, if necessary, corresponding funds internally in such a way that the highest reach possible is achieved.

Also in 2017, DW will continue to work on enhancing the journalistic profile and aligning the contents and forms of its programs even stronger to the needs and interests of the target groups. In order to support the program work, the IT strategy is further implemented through, inter alia, an extension of digitalization in production and distribution (e.g. automation of direction activities, extension of HD production). Owing to the promised investment funds, DW will be able to make the necessary investments to support its IT strategy.

At the beginning of 2017, DW will reposition the linear German-language TV program with a clear cultural profile in order to offer a clearer profiled and thus more attractive program.

In the television/video area, Deutsche Welle also plans new, target-group-aligned magazines for Africa and Asia. The cooperation with partners in the target areas shall be extended.

DW Academy will support the spread of DW offers through its broad network and extend the efficiency range with a view to the users and the relevant decision-makers in the target regions. DW Academy will contribute measures to the human-rights-based development of the media to profile DW and increase its reach. In order to further promote German as a foreign language, DW Academy will start a new comprehensive German-language course and launch a German learning app.

DW will adjust itself to the far-reaching changes in the global markets by further developing itself to a digital media enterprise at all levels.

This means to design, produce and distribute contents primarily for mobile usage situations and social media in the future. Resources, structures, processes, work flows and technology will be optimized in respect a digital alignment.

DW will also digitize administrative processes as far as possible and within the available budget, primarily in financial administration, in HR management and in staff administration.

DW Academy will integrate "digital development" in all work areas, processes, qualification offers and products, designing its media development products according to the principle "digital first". DW Academy's advisory activities, know-how and methodological expertise will also be applied to strengthen DW as a digital media enterprise.

The restructuring necessary to become a digital enterprise requires a gradual reduction in the investment backlog accrued in past years and capital expenditures in innovative technologies. Due to the difficult budget situation, important projects had to be delayed in part or as a whole several times, which meant that, in each individual case, functional restrictions, cutbacks in operational security and performance or lack of future security had to be accepted. Owing to the funds meanwhile provided for investments in 2017, it is possible to counter the massively increased risks for production, transmission and distribution. This supports the achievement of DW's targeted reach and the implementation of its program mandate in the best possible way.

According to the Deutsche-Welle Act, primary target groups of DW are people abroad. In the age of globalization and worldwide migration movements, it appears imperative that DW makes its information programs and services also available to foreigners who are temporarily in Germany, such as refugees, tourists and business travelers. Many of them are already familiar with these programs and services from home. The existing TV programs broadcast abroad in the global lingua franca, English, as well as in Spanish and Arabic should anyway consequently be made available to foreigners in Germany as well. In legal terms, DW regards such domestic distribution as permitted and already covered in general by its program mandate.

The objectives and measures will be implemented until the end of 2017 within the framework of a limited budget, volatile foreign policy and security conditions as well as increasing restrictions of the freedom of the press in many target regions.

The objectives set by the task planning can only be fully achieved if DW experiences a significant increase in its budget. This is also a precondition to minimize the increasing, considerable risks of operation arising from insufficient investments in new equipment and replacements and to make necessary investments in innovative technologies.

DW will continue to identify all saving potentials and, in the light of critical analysis, examine the discontinuation of tasks in order to be able to redeploy resources then set free.

This is – together with the project funds provided by the Federal Government - also a precondition to be able to respond flexibly to the developments in international politics. The development potential of DW, i.e. to show Germany globally with its positions by medial reporting, has not been fully exploited yet and is steadily changing in the course of digital development. On the other hand, the current financial budget provided on the basis of the so far known medium-term financial planning of the Federal Government does, however, not allow for any more scope, primarily in comparison with other, financially clearly better equipped competitors. Solely sustained financial strengthening through a significant increase in the federal allowance as well as third-party funds granted by the relevant federal ministries would open up new opportunities here to convey German positions on a global basis.

The federal allowance out of the budget of the Federal Commissioner for Culture and Media [Bundesbeauftragter für Kultur und Medien] amounts to € 325.6 million. Accordingly, the federal allowance paid out of the budget of the Federal Commissioner for Culture and Media was considerably increased in an adjustment meeting by some six percent when compared to the previous year. For DW Academy, the Federal Ministry for Economic Cooperation and Development (BMZ) will provide € 17.1 million in 2017.

With respect to the promotion of program projects, the Federal Foreign Office is, on a pro-rata basis, the main funder of Deutsche Welle. Moreover, the Federal Ministry for Economic Cooperation and Development will finance projects of the Arabic-language program in the amount of € 0.5 million in 2017.

The Budget Committee of the German Bundestag resolved in its meeting of November 10, 2016 the following: "Against the backdrop of Deutsche Welle's increasing importance within the context of new international challenges, the German Federal Government is asked to reassess the budgetary equipment of Deutsche Welle and, concerning the future amount of financial equipment to be allocated, orient itself by the example of the broadcaster in France." [non-official translation]

The further growing and already increased challenges for Deutsche Welle imperatively require a permanent and sustained raise in Deutsche Welle's institutional support, which should also be reflected in the medium-term financial planning.

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Deutsche Welle Anstalt des öffentlichen Rechts  
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