

Deutsche Welle Anstalt des öffentlichen Rechts, Bonn,

Management Report for Financial Year 2017

1. Business development and general conditions

In 2017, Deutsche Welle successfully completed its task planning for the period from 2014 to 2017. All of the corporate objectives adopted by the Broadcasting Board in agreement with the Administrative Board after thorough political discussion four years ago were achieved. This is impressively underlined by the "Evaluation Report 2017", which DW, after consideration by the Broadcasting Board, has submitted to the German Bundestag, the German Federal Government and the Federal Audit Office at the end of 2017.

According to this report, Deutsche Welle has increased the number of weekly users of its programs across all media worldwide from 101 million to 157 million in the past four years. Therefore, DW has considerably exceeded its self-determined target reach of 150 million users for 2017. At the same time, DW, with its programs and services provided, has secured a top position among foreign broadcasters.

Overall, DW has increased its reach by nearly 60 percent. The clearly increased use in many target regions shows that the changes made to the programs offered, the consistent use of social media contents and the optimization of distribution channels has brought lasting success.

The expansion of the technical reach of DW's four linear TV channels - English, Arabic, Spanish and German - to worldwide 465 million households has contributed to this success. In the past four years, DW's Spanish TV program alone has been able to increase the number of regular viewers from six million users per week to 16 million users.

The new strategy has also been effective in the online and social media areas, having generated editorial contents for individual target groups in a tailor-made manner and used the best output paths in the individual regions. The increase in the reach of digital media since 2013 even surpasses the growth in linear TV programs across all 30 languages broadcast.

Besides a greater relevance, the users of DW also confirm its high degree of credibility. 96 percent of the respondents described DW as a reliable source of information. This figure has increased once again since 2012 (89 percent), which means that at times of 'fake news', disinformation and propaganda, people worldwide see DW as a reliable and trustworthy source of information, which thus delivers an important contribution to independent formation of opinion.

The programs offered by DW discernibly promote freedom of opinion and democratic discourse; they also strengthen the living together of cultures. This confirms, in addition to a comprehensive correlation study, a long-term study among German learners who use the language courses of DW. According to those studies, the users of DW are better informed about democratic principles and able to form an independent opinion.

Specifically in the Arabic-speaking countries, DW fills an information gap with its programs and online offers, which is not covered by local media. DW users, from the Middle East to Northern Africa, appreciate DW as a neutral mediator and medium, which addresses their problems. The particularly high interaction rate with users in this target region shows that

objective information leads to a higher level of tolerance and increased interest in political and social developments.

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, Deutsche Welle is the most significant source of information about Germany. It also conveys information on the ways through which positions and consensus in view of the challenges of our time is fought for in political-social debates in this country.

In the period of tasks planning – and, therefore, also in 2017 – the appreciation of the parliament and the German Federal Government for the work of the German foreign broadcaster has considerably grown. Today, Deutsche Welle 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 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. Between 2014 and 2017, the annual budget increased, most recently by some € 16.5 million. Overall, starting from the budget year 2014, DW received additional funds in the amount of more than € 48 million until 2017.

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. Deutsche Welle has explained this in more detail in its new task planning draft for the years 2018 to 2021. In December 2017, the Director-General submitted the task planning draft to the German Bundestag and the Federal Government in accordance with the DW-Gesetz, which are now required to comment on DW's plans and projects. On that basis, the Broadcasting Board and the Administrative Board will then address the task planning again and adopt it in the course of 2018.

In its new task planning, based on target regions, target groups and common purpose, DW has put its legally mandated tasks in concrete terms, having set itself the following goals until 2021:

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

A fundamental step for DW's continued work was the adoption of a comprehensive digital strategy in 2017.

Worldwide, digitization is causing a profound change in all areas of life. This is also changing Deutsche Welle: It more and more turns into a digital media enterprise. This is a path that DW will actively, strategically and systematically walk on. Digital transformation for DW means safeguarding the future.

Digital contents play an increasingly important role in DW's journalistic portfolio. In DW's more progressive target markets, the target groups already use digital contents at first place to get information and this trend continues to rise. Conventional media, however, are becoming less important for the procurement of information. It can be assumed that this development will soon expand to the emerging and developing countries, too. Therefore, digital contents are of outstanding importance.

Our digital strategy aims at becoming competitive with our digital contents, generating relevance for users and achieving an increased reach. Accordingly, the digital strategy addresses the alignment and distribution of our digital contents and the related strategic changes in the fields of editing, production, distribution and parts of technology. A concept for the digitization of the administrative area is prepared in a separate process. DW Academy has also developed its own digital strategy already, the key aspects of which are summarized in this document.

The digital strategy describes short- term and long-term measures to be taken. The aim of the short-term measures is to better gear up DW's digital contents for the current challenges in the media markets. In the long term, the aim is to position DW such that it will be able to respond to changes in the digital area faster and more flexible in the future. Some of the measures were already initiated in 2017.

A significant project was the establishment of "DW Premium": This program is intended to comprise live and breaking news coverage, TV contributions, web videos and social media contents, which are made available to selected partners. The launch of DW Premium aims at significantly increasing DW's reach, on the one hand, and, on the other hand, optimizing the use of the program assets through exchange with suitable partners. At the same time, DW is also able to increase its visibility and thus its brand positioning through TV live and breaking news coverage and TV programs specifically produced with far-reaching partner broadcasters in the target regions.

It is important for DW to faster and more flexibly respond with such innovative approaches to changes in the market and particularly in the digital area in the future. With the "DW Lab" launched in 2017, Deutsche Welle has taken an important step into this direction. In order to develop new products in a flexible and fast way and keep up with the innovation power of competitors, innovative ideas for digital journalistic products are translated by the DW Lab into prototypes within short project cycles. The aim is to have journalistic

products with new reach potential developed and tested by interdisciplinary teams. Therefore, the Lab makes it possible for DW to directly respond to new trends and developments in the digital area.

At the same time, DW's executives ensure that the digital innovation process is advanced in all areas and digital change is actively shaped. The new leadership culture of DW is an important step towards digital leadership. The same importance needs to be attributed to the further development of personnel marketing and recruiting so that DW is able to employ experts for the digital area quickly and appropriately.

2. Net Assets, Financial Position and Results of Operations

Deutsche Welle concluded the year 2017 with net income for the year amounting to € 11.0 million (previous year: net income for the year of € 3.8 million). The net income will be allocated to the Corporation's equity.

Net assets

In the expired financial year, some € 12.9 million were invested in intangible assets 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 increased by € 2.5 million when compared to the previous year, which was mainly due to new investments, which exceeded amortization/depreciation by € 2.6 million.

The compensation claim against the German Federal Government in regard to pension, early retirement and other benefit obligations not covered by reinsurance policies decreased by € 40.2 million to € 493.9 million due to a decline in pension obligations by € 34.0 million.

Current assets increased by approx. € 21.2 million in 2017, which was mainly due to the increase in the values recognized for credit balances from reinsurance policies (€ +6.5 million) and increased bank balances (€ +8.8 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 operating costs paid in advance.

The Corporation's equity increased to € 15.7 million, given net income for the year in the amount of € 11.0 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 € 32.9 million below the previous year's figure. Decreases primarily resulted from pension provisions (€ -34.0 million), and increases related to provisions for benefit payment obligations (€ +3.6 million), due to continuing low interest rates. Provisions for early-retirement arrangements (€ -3.3 million) and provisions for pensions (€ - 0.3 million) declined, whereas other provisions with effect on the budget increased by + € 0.5 million.

Overall, liabilities increased by € 4.5 million due to the closing date; this increase mainly resulted from increased payables to suppliers (€ + 0.6 million) and increased other liabilities (€ + 3.4 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 for the ongoing operations of Deutsche Welle. These allowances at the amount of € 318.4 million (prior year: € 299.4 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 Deutsche Welle 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 (€ 4.4 million) and the change in the reinsurance guaranty funds (€ 6.5 million). In 2017, the change in the compensation claim against the German Federal Government is shown as expenditure and disclosed in other operating expenses. For this reason, other operating income is € 16.1 million lower than in the previous year.

Personnel expenses amounting to € 97.0 million remained by € 51.8 million below the prior-year figure. Ongoing salaries rose by € 5.8 million and expenses for social contributions decreased by € 0.5 million. Pension expenses decreased by € 57.1 million compared to the previous year, which is mainly due to considerably lower pension provisions set up for future pension payments in the year (effect of € -54.8 million). The main reason for this decrease is a reduced underlying pension increase in the pension scheme of Deutsche Welle due to a limitation stipulated in the newly concluded collective agreement.

Fees and other program expenses increased by approx. 6.5 % compared to the prior-year level. In this connection, expenses for freelancers increased by € 5.4 million. Other program expenses rose by some € 2.0 million, which was, among other factors, due to increased license purchases and higher costs of external productions.

Overall, other operating expenses increased by € 41.8 million to € 102.0 million, which is substantially due to expenditure arising from the reduction in the compensation claim against the German Federal Government (€ 40.2 million), mainly caused by the reduced pension provisions. Savings were primarily generated from maintenance costs and repairs (€ - 0.4 million). Moreover, telephone expenses fell by € 0.3 million compared to the previous year. Increases resulted from consumables (€ + 0.5 million), travel expenses of permanent employees (€ +0.5 million) and travel expenses of freelancers (€ +0.4 million).

Depreciation/amortization amounting to € 10.3 million remained € 0.6 million below the previous year's level (€ 10.9 million).

Interest expenses (€ 23.6 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 € 12.7 million to € 18.8 million. This increase primarily results from a rise in federal allowances not called up in the previous year (€ 3.9 million due to postponed investment payments) and an increase in the bank balances of DW Academy by € 4.2 million and of Deutsche Welle by € 4.6 million. The high level of bank balances results from the circumstance that DW had withheld safety reserves as the budgeting of the German Federal Government is determined on a preliminary basis. The large bank balance at DW Academy results from the circumstance that major projects will only be invoiced at the beginning of 2018.

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 2017, federal allowances allocated by the Federal Commissioner for Culture and Media amounted to € 325.6 million, which included the ongoing federal allowance (incl. rental fee) amounting to some € 305.0 million and funds for the remuneration of pension expenses for former employees of the Deutsche Welle Fortbildungszentrum in the amount of some € 0.5 million. In addition, DW received special funds from the Federal Commissioner for Culture and Media amounting to some € 20.1 million. Here, the increase by € 18.9 million compared to the previous year mainly resulted from additional special funds granted in the amount of € 7.0 million, which had been designated for the extension and stabilization of the programs offered in the Arabic and Turkish languages, as well as special funds for capital expenditures (for digitization and IT security, among other things) in the amount of €10.1 million. In addition, € 1.9 million of staff enhancement funds were paid for collective agreement pay rises in 2017.

The risk of a budget reduction for 2018 has increased as the 2nd draft budgetary plan of the government approved a budget reduced by € 6 million (€ 319.6 million) as the basis for the Federal Government's preliminary budgeting. A possible budget reduction would result in investment reduction risks. Accordingly, it would not be possible to strengthen the editorial teams and technical departments as well as implement some of the measures stipulated by our digital strategy due to lack of funding.

4. Forecast Report

In 2018, Deutsche Welle will start to implement the objectives defined in its new task planning until 2021. To what extent this will be possible at first depends on two factors: the statements, required by law, of the government and the parliament with regard to our task planning draft, on the one hand, and the establishment of the federal budget, on the other hand. The re-election of the German Bundestag in September 2017 and the swearing-in of the new German Federal Government in March 2018, only, causes uncertainty on the budget allocation for 2018, which will last until the middle of the year.

It gives us confidence that the coalition agreement of CDU, CSU and SPD includes positive statements with regard to Deutsche Welle. This agreement is an important step towards DW's future-proof financial equipment. Accordingly, chapter XIII/2 of the coalition agreement says: "In conveying freedom of opinion and freedom of the press, Deutsche

Welle is an indispensable player, the financial position of whom we intend to further enhance to a considerable extent, as already initiated in previous years. We intend to raise the budget of Deutsche Welle to a level of comparable European foreign broadcasters. We welcome the co-operations with European broadcasting partners initiated by Deutsche Welle." [non-official translation of the quotation]

In addition, the following is underlined in chapter XII/5: "We intend to strengthen the strategic foreign country communication and, in particular, the co-operation with Deutsche Welle and align this communication to the digital future in order to convey a realistic image of Germany. This is also necessary to remain successful in the competition of the narratives and values and to take action against hybride falsification of information in the different regions of the world." [non-official translation of the quotation]

Obviously, Deutsche Welle has succeeded in convincing policy-makers with its work, successes and the new task planning. However, this should also be followed by a budgetary equipment that actually makes it possible to implement all objectives and projects of our task planning completely.

For financial year 2018, based on the 2nd draft budgetary plan of the government for the budget year 2018, DW will have an operating budget of approx. € 300 million at its disposal. Accordingly, the funds from the € 7 million increase in 2017 have again been adopted in the operating budget for 2018, on the one hand, and additional costs from collective agreement pay rises in 2018 are compensated for, on the other hand. € 7.7 million of the operating budget are earmarked funds – for the corresponding expenditure of € 7.2 million, arising from the rental contract with the Bundesanstalt für Immobilienaufgaben (BImA), which has been in place since January 1, 2013 for the broadcasting center in Bonn [Funkhaus in Bonn], as well as for the reimbursement of pension expenses of former employees of the Deutsche Welle Fortbildungszentrum in the amount of € 0.5 million. € 18.7 million is planned for capital expenditures, of which € 5 million each are special one-off funds for capital expenditures in 2018 and 2019, respectively. Based on the 2nd draft budgetary plan of the government for 2018, this means a total allowance of € 319.6 million, which thus remains approx. € 6 million below the figure of the previous year.

For the tasks of the, up to now, solely third-party funded DW Academy, project promotion resources of the Federal Ministry for Economic Cooperation and Development (BMZ) in the amount of some € 18 million had been available in 2017 as well as a further amount of some 3 million paid from the budget of the Federal Foreign Office. For the year 2018, up to € 18 million have been adopted in the draft budgetary plan of the government for project promotion by the BMZ to support the development of free, transparent media systems in focus countries. Moreover, DW Academy offers a postgradual master course and processes a large number of media projects for other funders, such as the EU and GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GIZ GmbH). 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.

With regard to additional financing of its programs and Academy activities also in 2018, DW may count again on the project promotion granted by the German Foreign Office. In this context, the German Foreign Office has cooperated with and supported DW already on a long-term basis. The Foreign Office's concrete commitment with regard to the final amount of support takes place by approving individual project applications during the year. Moreover, project promotion of several years was agreed with the Federal Ministry for the Environment, Nature Preservation and Nuclear Safety (BMU), which already start-

ed in 2017. The four-year special initiative "Northern Africa and the Middle East" of the BMZ ended in 2017.

Despite the increase in DW's operating budget in 2017 and the full approval of those operating resources for the 2018 budget as well, another structural increase will be required due to DW's increased tasks and responsibility. The current 2018 budgetary approach of the government in its 1st draft would require postponements, primarily of investments, which would directly affect the programs offered by DW. Likewise, DW's implementation and innovation capacity would experience limitations. In the medium and long term, inevitable cost increases would not only affect the program offer, but also the volume of employment.

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 enterprise, 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, 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.

Deutsche Welle meets the numerous challenges 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. In this context, DW underlines its preparedness to participate in the merging of the foreign studios and to provide its programs and services in an enhanced manner to ARD, ZDF as well as the joint programs. 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.

Efficiency increases alone will, however, not be sufficient to finance the digital transformation and increased tasks in view of the global crises. Already in previous years, comprehensive rationalization measures were taken. For the takeover of further important tasks of medial reporting on German, European and global developments – primarily at times of massive migration, medial propaganda and threats from terrorism worldwide – DW plans to extend its programs and services in the interest of Germany. This enables DW to make a contribution to more freedom of opinion and democracy worldwide, which will, however, also require the allocation of additional resources in the next task planning period from 2018 to 2021.

A permanent and significant increase in the federal allowance to a level similar to that of the two comparable large European foreign broadcasters, France Médias Monde/TV5 Monde (€ 389 million) and BBC World (€ 523 million) is thus DW's most urgent objective. Deutsche Welle is Germany's medial voice in the world. After Great Britain's withdrawal from the EU, it will also be one of the most important European voices worldwide to convey the values and positions from the point of view of the EU member states.

Given the general geo- and market-political conditions, only a sustained increase can ensure the fulfillment of DW's statutory mission on a permanent basis. Depending on the amount of the structural increase, DW will be able to implement its program projects, necessary investments and innovations described in the task planning submitted as well as extend the necessary staff and technical infrastructure.

In this connection, the Budget Committee of the German Bundestag already stated at its settlement meeting on the 2017 federal budget that, against the backdrop of Deutsche Welle's increasing importance within the context of new international challenges, the future budgetary equipment of Deutsche Welle would need to be reassessed.

Bonn, May 7, 2018

Deutsche Welle Anstalt des öffentlichen Rechts

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