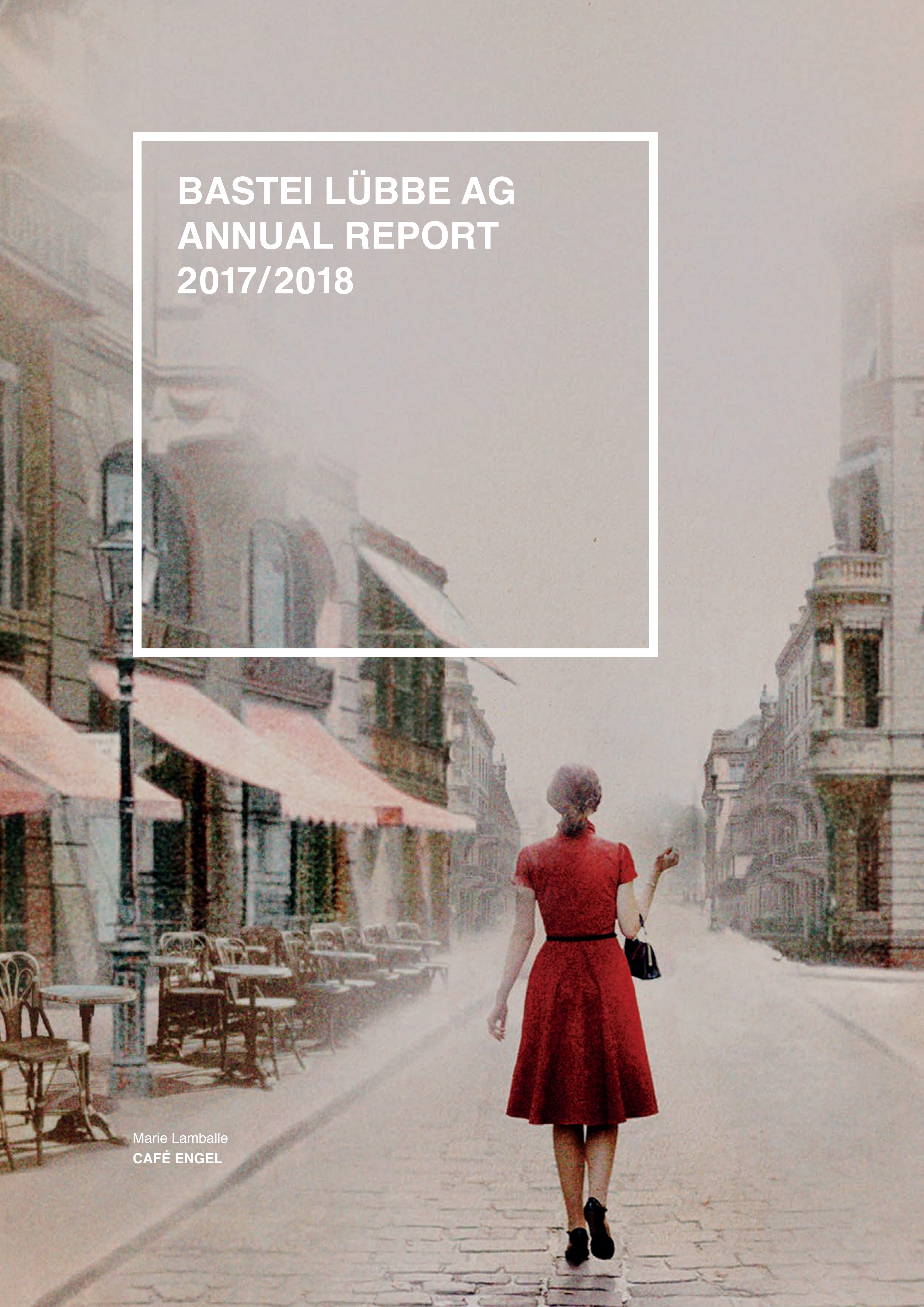
# BASTEI LÜBBE AG ANNUAL REPORT 2017/2018



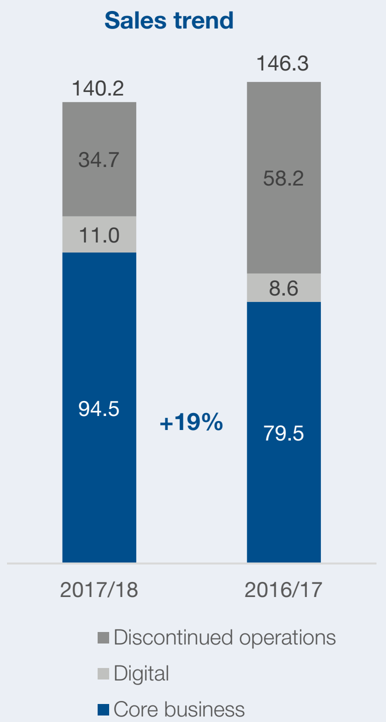
Marie Lamballe
**CAFÉ ENGEL**

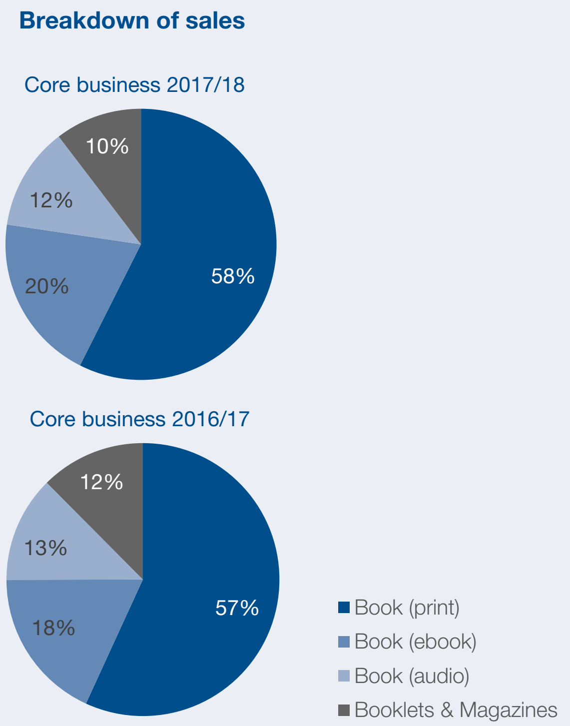
# At a glance

| | 2017/2018 | 2016/2017 | Change in % |
|---|---|---|---|
| **Key financial figures (IFRS) in EUR million** | | | |
| Group sales | 140.2 | 146.3 | -4.2 % |
| Group sales (continued operations) | 107.0 | 91.4 | 17.1 % |
| EBIT | -18.0 | -0.3 | -91.0 % |
| Adjusted EBITDA (continued operations) | 4.5 | 3.9 | 15.4 % |
| EBIT margin in % (continued operations) | 4.2 % | 4.3 % | -0.1 Pp |
| Group result | -16.2 | -2.9 | – |
| Balance sheet total | 101.5 | 146.0 | -30.5 % |
| Equity* | 32.3 | 51.0 | -36.6 % |
| Equity ratio in % | 31.9 % | 34.9 % | -3.0 Pp |
| Net debt | 30.1 | 41.4 | -27.3 % |
| Free cash flow | 4.9 | -0.8 | – |
| **Other figures** | | | |
| Earnings per share** in EUR | -0.96 | -0.16 | – |
| Financial year closing price in EUR | 3.09 | 6.20 | -50.3 % |
| Number of employees as of 31 March | 330 | 595 | -44.5 % |

* Incl. equity capital shares of non-controlling shareholders
** See consolidated financial statement, Note 16 for calculation

# Development of core business



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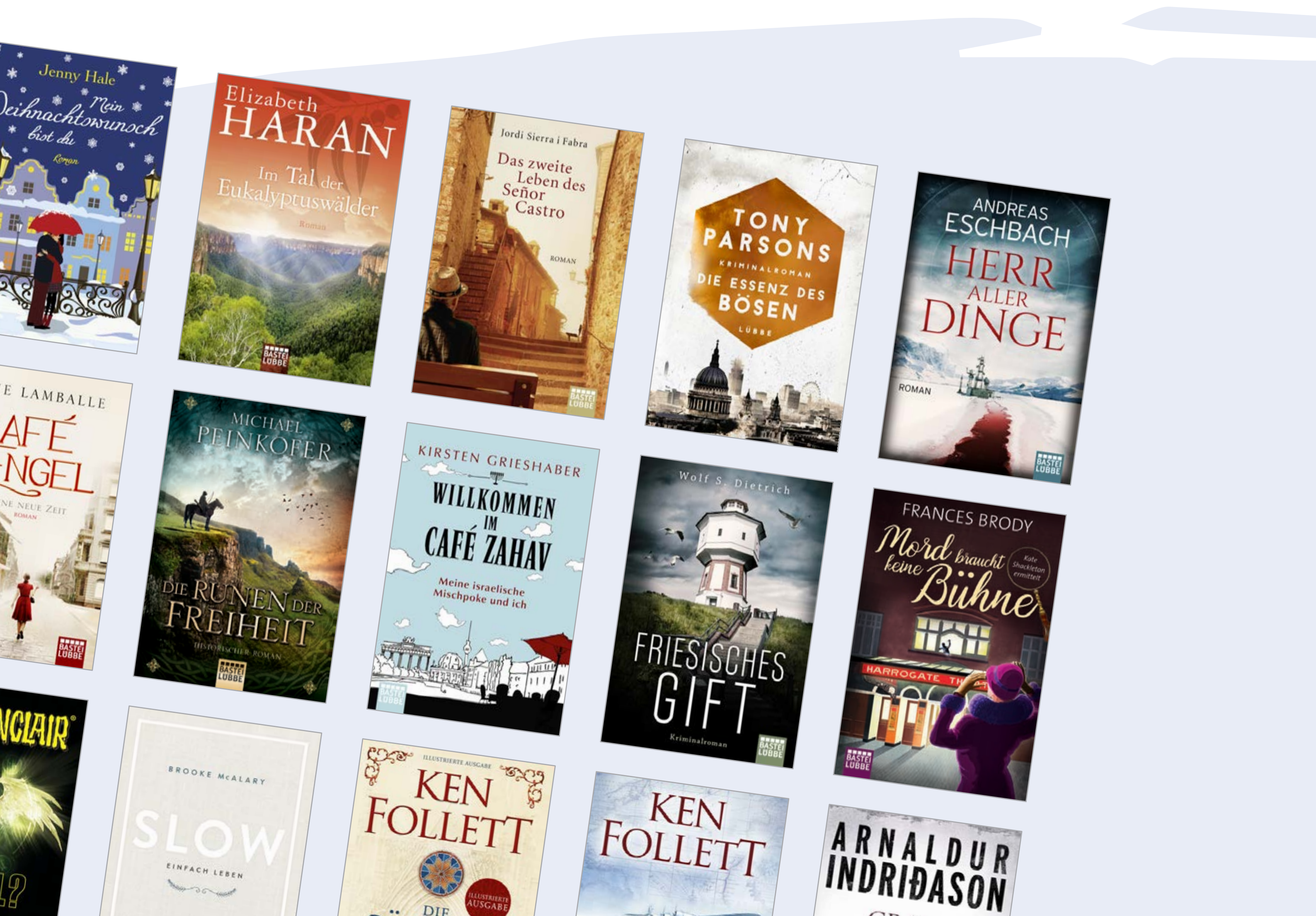
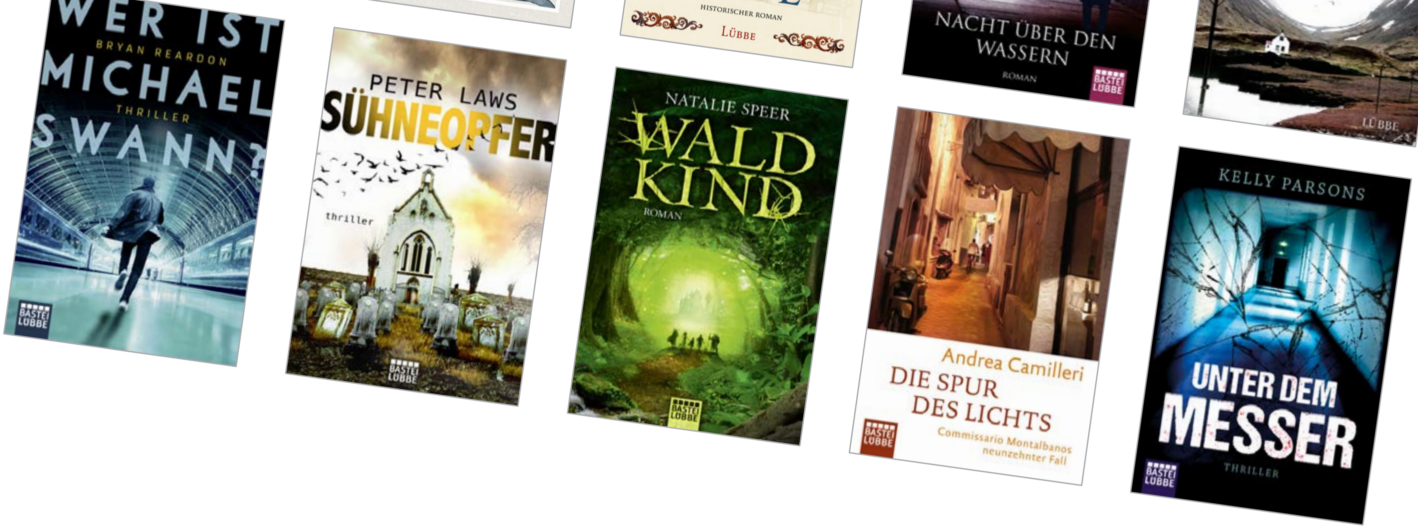
# Much more than just a publishing house

Bastei Lübbe AG is one of the largest German publishing houses and offers reading and listening pleasure to a wide audience. We publish books, ebooks, audiobooks, novels, and also games and puzzle magazines. Our portfolio includes materials for adults, children and adolescents. We pay special attention to our authors. They create the worlds that entertain, enchant and inspire our readers and listeners.

Bastei Lübbe offers more. Unlike traditional book publishers, we cover the entire product range: hardcover, paperback, ebook, audiobook, download and streaming. This means that content and rights are developed and marketed in-house to suitable products. This intensive and long-term use of the content in different products and for different forms of distribution provides the publisher and its authors with real economic added value.






### But what makes Bastei Lübbe so special, what makes us tick?

Firstly, we want to provide entertainment, whether via books or ebooks, through listening to a CD or content streaming – the customer decides HOW – because, in the end, a good story is a good story. Not only with regard to content, but also in relation to the output format, we stand by our claim: to each, their own!

We also live by the motto: We must never stand still and rest on our laurels because even failures take us forward. We keep asking ourselves: What went well and what didn't, and how can we learn from it? Always looking ahead: into the future, new ventures, not just responding to the events of the day, but whenever possible always being a little further ahead. This also involves a certain amount of risk-taking, without which new ground cannot be broken.

One important question keeps driving us forward: What does the reader want? To find out, our teams always listen carefully to readers. We also employ external, leading institutions to conduct market research specifically for us in order to be able to cater more precisely to the wishes of the various target groups in future.

### We feel connected to our authors

Perhaps the most important element of our daily activities is our appreciation of our authors, because our authors are our most important asset and without them there would be no stories. They trust us with something very special: their dreams. Which is why you can hardly compare us to any other industry or branch of production: Our business is a people business.

For decades, we've been demonstrating that our authors are in good hands with us. Our founder Gustav H. Lübbe and his wife Ursula, who built one of the biggest medium-sized publishing houses out of a small two-person company, appreciated and respected their authors to the highest degree. This special friendship between authors and publisher still exists today, not only at the level of the executive team and employees, but Birgit Lübbe also continues this tradition. The majority shareholder, who has represented the company interests of the Lubbe family since the death of her husband Stefan, represents the publisher and very much supports the grooming of new writing talent.

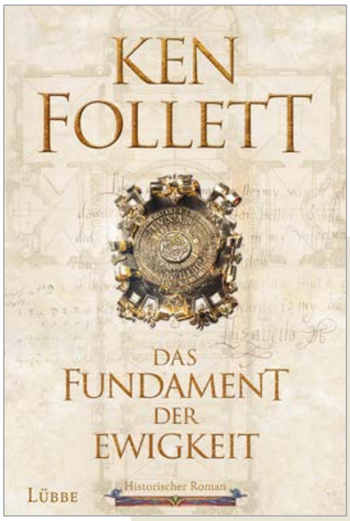
### The Lübbe Spirit

In spite of all the commercial considerations that determine our daily actions, it is precisely the interplay between old, traditional values and modern, future-oriented alignment, the innovative thinking, that has been an inherent component of this company since its foundation, that makes Bastei Lübbe attractive. In a time of ever faster moving, undefined reality, it's good to preserve mutual respect and esteem that extends beyond economic interests, and to receive the appropriate appreciation. All this has shaped and continues to define the cultural spirit of the publishing house, where new and varied projects thrive. We even like to talk about the Lübbe-spirit. This not only provides our authors with a very special environment, but unites our employees and also spreads to our business partners.

Whether “The Pillars of the Earth”, “Fall of Giants” or “A Column of Fire”, Ken Follett writes novels, that thrill millions of readers around the world. His thriller “Eye of the Needle“, which became known to a wide audience thanks to the 1981 film version starring Donald Sutherland, is truly unforgettable.

# 5 QUESTIONS FOR KEN FOLLETT

Follett‘s latest novel “A Column of Fire“ takes place in 1558. Catholics and Protestants are in conflict as Elizabeth I is crowned queen – and the whole of Europe turns against England.




A COLUMN OF FIRE is your third historical novel and is set in the fictional town of Kingsbridge. What was the inspiration for the novel?

I found out that Queen Elizabeth I established England’s first secret service. She had many enemies who wanted to take her life. This secret service worked extremely efficiently and tracked down all the assassins and uncovered various conspiracies. It tortured, executed and eliminated all the villains who plotted to assassinate the Queen. Elizabeth died in her bed as an old lady aged 69.
I was so fascinated by the idea of spies and secret agents, just as we know them from today’s novels of suspense, but also in the 16th century, the time of Shakespeare and Queen Elizabeth.

How do you manage to interweave facts and fiction so skilfully?

Of course, I have to find out what actually happened in the past and who did what. For example, we know who the head of Queen Elizabeth’s secret service was. This was Francis Walsingham, and we also know the names of one or two of his employees, but not all. So I couldn’t make a fictitious character the head of the secret service, because this is historically recorded, but I can make a fictional character one of his secret agents because he had many employees. So I insert my fictional character into the true story. And this person must do things that happened in real life, and of course follow historical conventions. And so readers can be sure that everything they read about the historical person corresponds to the truth and everything about the fictitious person sprang from my imagination.

Ken Follett, born on 5 June 1949 in Cardiff, Wales. His more than 30 novels have sold 165 million copies worldwide.

## How do you find your themes?

I think most writers are constantly on the lookout for good stories. For me, that's certainly the case. When I read, whether newspapers, magazines or books, and whenever I go to the theatre or the cinema, I'm always looking for ideas and thinking about new topics and what might be a good new story. When I read novels by other authors and think they're great, sometimes I think, I wish I'd written that, I wish I'd had this idea. And sometimes an author writes something that is not so good, and I think I could tell this story better (laughs).

## What's your writing routine like? Do you write at set times?

I have an established routine. I start very early and begin working as soon as I get up. I work more or less the whole day with the normal breaks for breakfast and lunch and shaving and all of these things. And I generally stop working around 4 o'clock in the afternoon, because I'm less creative then. I am basically at my most creative early in the morning. I work from Monday to Friday but I don't work at the weekend. However, when I wrote "The Century Trilogy", I had to work at weekends because I had set myself the goal of writing the trilogy within seven years, and that actually wasn't enough time. So I had to work on Saturdays and Sundays, but I don't do that any more.

## Who's your first reader?

Some members of my family like reading my manuscripts. And my editors, of course. Some of my children are seriously interested in the writing process, and I appreciate the fact that my children are probably my first readers.

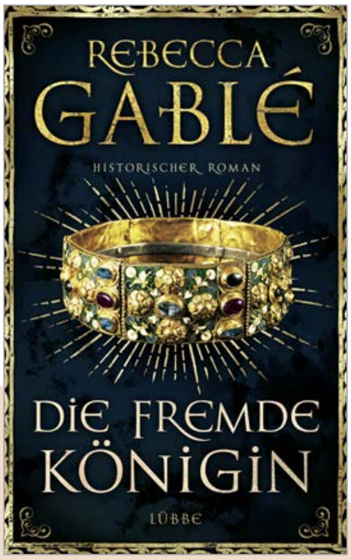
# 5 QUESTIONS FOR REBECCA GABLÉ

In 1995, Rebecca Gablé's first detective novel "Jagdfieber" was published by Bastei Lübbe, and it was nominated the following year for the Friedrich Glauser Crime Fiction Prize. The breakthrough came in 1997 with her first novel of the Warringham-Saga "Das Lächeln der Fortuna". Since then, Rebecca Gablé has published a historical novel every two year – all of them best sellers translated into many languages.

Your second historical novel, "Die fremde Königin", set in Germany, has just been published. What was the initial inspiration for a novel set in the time of Otto the Great?

Curiosity about the Middle Ages in Germany. One day I was sitting thinking about what I wanted to write my next novel about, and it struck me that although I knew the colour of the socks of kings of the English Middle Ages (well, in some cases, …), I only had at best a superficial overview of the Middle Ages in Germany. At about the same time I came across a book about "German rulers of the Middle Ages", and when I read it, I discovered one potential novel topic on every page. I started with Otto the Great because many historians see his reign as marking the beginning of German History strictly speaking. But I couldn't tell his multi-faceted story in its entirety in the "Das Haupt der Welt" as that would have far exceeded its possibilities. That is why it was always clear to me that a second novel about this fascinating period would follow.

Rebecca Gable was born on 25 September 1964 in Wickrath on the Lower Rhine. The German press likes to call her the “queen of historical novels“.




In her latest novel, Rebecca Gable immerses herself in German history once again.

Is it important to you to visit the locations of your novels? And if so, when do you go there – before writing, to get inspiration, or afterwards, for checking?

I think it is important to do research on location for both purposes. I do my research trips mostly when the novel is about half finished, in order to check my geographical or topographical descriptions but also to feel the effect of the corresponding landscape on me. Very few buildings from the 10th century have been preserved, and even landscapes have changed considerably in some cases. Yet, in Mainz on the banks of the Rhine, imagining that Gaidemar stood in the same place and could have observed the same bizarre clouds in the sky, brings me closer to my characters and my story.

What drives you to write historical novels?

My insatiable curiosity about the past. It‘s probably a personal thing. Others look at the stars and wonder what it would be to explore other galaxies. These colleagues write science fiction. I see a ruined castle on a ridge and wonder what the stonemasons had for lunch and what the serfs might have got for lugging all the stones up the mountain instead of bringing in the harvest. But if I look at the stars, I think: “Yes, very pretty“, and nothing else.

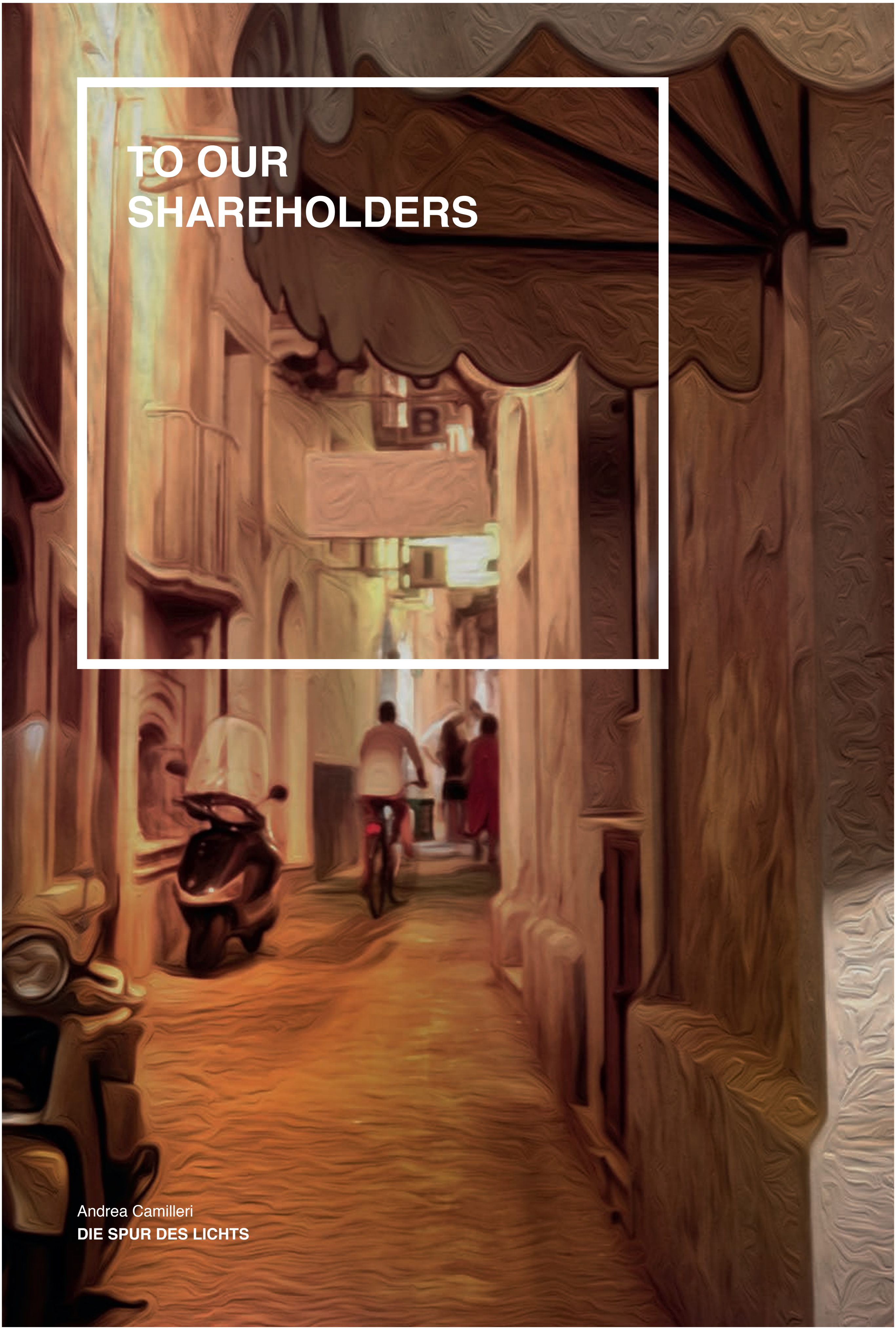
If a fairy godmother were to grant you one day of time travel, where would you go?

Really just one day? Hmm, it’s hard to choose. But right now I’d like to be at Lechfeld near Augsburg, on 10 August 955, a hot and humid summer’s day. Because it was then and there that Otto the Great and the German army defeated the dreaded Hungarian cavalry who may have outnumbered them 10 to 1. But no one knows why or how Otto won the battle; there are only theories. I‘d like to watch in order to find out, even if it would probably be a pretty gory day.

How do you reward yourself when you finish a book?

In Stephen King‘s novel “Misery“, the writer Paul Sheldon has a set ritual: He always treats himself to a glass of champagne and – even though he’s an ex-smoker – a cigarette as a reward for completing a manuscript. But on the way to the post office with the finished book, he’s kidnapped by his number one fan, who unfortunately is also psychotic, and has a horrific experience. I read this novel in the late 80s when I was an unpublished author writing as a hobby and I swore to myself that if ever I became a successful writer, I would never have a reward ritual. And that hasn’t changed.

# TO OUR SHAREHOLDERS



Andrea Camilleri
**DIE SPUR DES LICHTS**

# Letter from the Board of Directors

## Dear Shareholders,

The entire media landscape is experiencing a radical transformation. Digitisation is continuously creating new business models, products, sales opportunities and processes. Bastei Lübbe AG accepted very early on the challenge of actively exploiting this digital transition.

There are many exciting new projects and products. However, we've been obliged to acknowledge that the strategy pursued since the IPO – developing the German trade publisher into an international media company with an integrated value chain – has not been a success. Bastei Lübbe AG has therefore had a very challenging past year. We've had to undertake a significant change of course and implement some major changes. One of the changes relates to the composition of the board of directors. I am introducing myself to you, the shareholders, for the first time as the new chairman of the board of Bastei Lübbe AG.

The expansion of the investment portfolio as part of the former strategy and orientation of our business activities led to significant inefficiencies and the incorrect allocations of resources. At the end of the day, it was not a success in strategic and economic terms. The adjustment and focusing of business activities relating to sustainable profitable and future-oriented topics had a disproportionate impact on this year's results.

But it has enabled us to create the conditions for sustainable dynamic and profitable development. Exploiting national and international licences in the form of books, audiobooks, and booklets, as ebooks, download or streaming is and remains our core business. Good entertainment for the general public, but also more specific offers for clearly defined target groups complement each other in the product portfolio. This mix of different labels makes it possible to respond swiftly to current trends and also opens up interesting prospects for growth.

Concentrating on the core business enables lean structures and processes that we're implementing as part of our efficiency programme and thus significantly increasing the return potential.

### One-off effects have a disproportionate impact on the result

In the year under review, a number of special factors and one-off effects reduced revenue and earnings. Sales revenues fell from EUR 146.3 million in the previous year to EUR 140.2 million in the 2017/2018 financial year. However, for this annual comparison, the sale in the previous year of the Räder division for EUR 15.1 million, which could largely be offset, has to be taken into account.

The Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 0.5 million. In the reporting year 2017/2018, the EBIT fell to EUR -18.0 million. The failure to reach the target is due to one-off effects amounting to EUR 18.1 million. This includes the loss amounting to EUR 1.6 million for the divested stake in BuchPartner GmbH on 31 March 2018. It also includes additional write-downs in amortisations on authors' fees amounting to EUR 8.2 million, as well as unscheduled write-downs of other holdings amounting to EUR 8.3 million.

## The segments in detail: Tradition with a future

Starting from 1 April 2017, we also report ebook and audio production sales in the Book business segment. The segment generated revenues of EUR 84.7 million, corresponding to an increase of 18.3 % compared to the previous year. Once again, we see that our successful authors, especially the two guaranteed world-wide bestsellers – Dan Brown and Ken Follett – made visible and continuous sales contributions with their novels. Both blockbusters occupied the top two places in the 2017 German book market annual sales ranking. Our third bestselling author, Jeff Kinney, once again captured first place in the annual bestseller ranking in the area of children's and young adults' literature with the twelfth volume of the "Greg" series. Adjusted for the above one-off effects, earnings before interest and taxes (EBIT) in the “book” segment for the year increased by around EUR 1.5 million to EUR 4.2 million.

In the “retail” segment of the BuchPartner subsidiary, sales stood at EUR 34.7 million. This represents a decrease of 19.5 % compared to 2016/2017. The loss before interest and taxes (EBIT) increased from EUR -1.6 million to EUR -5.8 million. This holding had already been sold and deconsolidated on 31 March 2018.

In the “digital” business segment, we recorded sales revenues of EUR 11.0 million. Our subsidiary Daedalic achieved enormous success with the games "The Long Journey Home" and "Shadow Tactics". The latter game in particular is available on major gaming consoles such as Playstation and also Xbox and PCs. EBIT in the segment amounted to EUR -7.9 million. The reasons for the high loss are one-off write-downs for a game developed at Daedalic involving high expenditure, and also to stopping further development of the oolipo steaming platform.

The “novel booklets and puzzle magazines” segment remained stable in 2017/2018. With sales revenues of EUR 9.8 million, we achieved an EBIT of EUR 1.5 million.

## The Outlook: The best of both worlds

We monitor and continually analyse changes in reading habits, in obtaining information, in the use of media and the leisure activities of our customers. In the new financial year we will continue to adapt to dynamically changing market conditions and measure ourselves against strong competitors. In order to do this successfully, we have instituted far-reaching measures at all levels.

There were also changes to the Board of Directors – I became its new Chairman in November 2017, and Ulrich Zimmermann assumed responsibility as the Group’s new Chief Financial Officer (CFO) in June 2017. Together with our experienced Programme and Marketing Director, Klaus Kluge, we’re working hard to create a new and successful Bastei Lübbe AG.

Part of this programme includes the consistent separation of subsidiaries and holding companies, as well as adjusting the HR structure, publishing programmes and marketing activities in the core business. By the end of the current year, the Executive Board is aiming at sustainable improvement in the EBIT margin in the core business by 2 to 3 percentage points to 6 % to 8 % This will also reduce debt, which is a goal of our realignment strategy.

Bastei Lübbe AG faced a number of operational and financial challenges in the last financial year. The common goal of the company and its shareholders must now be to successfully implement the change in strategy and restore Bastei Lübbe AG to its former earning power. To achieve this goal as quickly as possible, the Board will propose to shareholders at the Annual General Meeting to forgo a dividend payout for 2017/2018.

For 2018/2019, the Executive Board expects consolidated sales of around EUR 95 million. Despite the expenses for the adjustment of the investment portfolio and the efficiency programme, the operating result (EBIT) should be positive again.

I would like to express my most sincere thanks on behalf of the entire Board for the trust you have placed in us this year. I would also like to thank our employees for their untiring and passionate commitment to our company and our products.

As the saying goes, sunshine follows rain. It only remains for me to extend my heartfelt greetings to you all.

Sincerely,

Carel Halff

Cologne, July 2017

## Executive Board of Bastei Lübbe AG

| Carel Halff | Ulrich Zimmermann | Klaus Kluge |
|---|---|---|
| Chief Executive Officer | Chief Financial Officer | Programme Director, Sales and Marketing |

# Bastei Lübbe in the Capital Market

## Development of Bastei Lübbe's share price

After a positive start to trading, the DAX was on track to hit the mark of 13,000 points in the first half of 2017. Neither the interest rate hike by the US central bank in March, rising yields on the bond markets, nor the official leadership of the new US president succeeded in perturbing investors.[1] The extremely positive trend continued: Throughout 2017, market participants were unfazed by risks such elections in Europe, the uncertainty surrounding Brexit, terrorist attacks, the political events in Turkey or the isolationist and North Korea policy of the US government.[2] At the end of 2017, markets in Germany and the United States had lost a little of their momentum after a strong trading year.[3] [4] However, in the USA, the Dow Jones index presented the largest annual profit since 2013.[5] In 2017, stock markets in Europe achieved their sixth annual profit result in a row and thus their longest winning streak.[6] In 2018, international equity markets experienced a difficult start to the year. The global business climate indices even reached a new cyclical high in January, before signalling a slowdown in global economic growth in February. The punitive tariffs imposed by the US and concerns about the escalation of trade disputes also unsettled investors during the first quarter.[7]

On 3 April 2017, the share certificates of Bastei Lübbe AG were opened with a trading price of EUR 6.15. The shares marked their 12-month high of EUR 6.83 on 19 June 2017, whilst their low-point in the 2017/2018 fiscal year came on 26 March 2018 at EUR 2.88. The notation closed out the year on 29 March 2018 with a closing price of EUR 3.09 (all information based on Xetra closing rates). The average daily trade volume of Bastei Lübbe shares (Xetra and Frankfurt Stock Exchange floor trading) in the 2017/2018 fiscal year ran to 15,539 shares (previous year: 14,214 shares). Based on 13,300,000 shares and a closing price of EUR 3.09, Bastei Lübbe AG's market capitalisation stood at EUR 41.1 million as at 29 March 2018 (previous year: EUR 82.5 million with a closing price of EUR 6.20).

As a designated sponsor, Oddo BHF Bank AG is continuing to provide binding ask and bid prices for trade on Xetra and is supporting the corresponding fungibility of the shares by means of a narrow price margin as well as appropriate liquidity.

## Share information

| | |
|---|---|
| Total number of shares | 13,300,000 (no-par-value shares) |
| Amount of share capital | EUR 13,300,000.00 |
| ISIN | DE000A1X3YY0 |
| WKN | A1X 3YY |
| Abbreviation | BST |
| Market segment | Regulated market (Prime Standard) |
| Designated sponsor | Oddo Seydler Bank AG |
| Closing price on 29/03/2018 | EUR 3.09 |
| 12-month high (closing price) on 19/06/2017 | EUR 6.83 |
| 12-month low (closing price) on 26/03/2018 | EUR 2.88 |

[1] Metzler (2017): Kapitalmarktausblick 2. Quartal 2017
[2] Handelsblatt (2017): DAX-AUSBLICK – Neues Spiel, neues Glück
[3] M.M. Warburg (2017): Kapitalmarktperspektiven Dezember 2017
[4] Handelsblatt (2017): DAX-AUSBLICK – Neues Spiel, neues Glück
[5] Handelsblatt (2017): DOW JONES, S&P 500, NASDAQ – Dow Jones mit größtem Jahresgewinn seit 2013
[6] Handelsblatt (2017): DAX-AKTUELL – Leitindex beendet das Jahr unter 13.000 Punkten
[7] Metzler (2017): Kapitalmarktausblick 2. Quartal 2018

## Analyst research

The shares of Bastei Lübbe AG are continuously analysed and evaluated by renowned banking institutes, such as Oddo BHF Bank AG and DZ Bank, as well as Warburg Research and Solventis, researchers specialising in the German stock market. In their current study on the development of the course of business and prospects of Bastei Lübbe AG, the analysts recommend purchasing and/or holding Bastei Lübbe shares. The stock price target is within the range of EUR 2.35 to EUR 5.50. The full research studies are available to download from Bastei Lübbe AG's homepage at www.luebbe.com/en/investor-relations/the-share/research.

## Shareholder structure

The shareholder structure changed in the reporting year and is now as follows: The largest shareholder of Bastei Lübbe AG is still Birgit Lübbe with a voting rights share of 33.08 %. 9.02 % of voting rights are allocated to the Roggen family, and 3.73 % to Joachim Schmitt. Lazard Frères Gestion S.A.S. holds 3.07 % of shares. Universal-Investment-Gesellschaft holds a stake of 3.04 %. 3.01 % of voting rights are allocated to Larissa Juliana Zang. The Executive Board and the Supervisory Board have a 0.28 % stake in the share capital. 44.77 % of shares are in free float.

## Investor Relations

Bastei Lübbe AG communicates regularly and intensively with institutional investors, analysts, private investors and the editing staff of financial and economic media about the development and the perspectives of society. During the 2017/2018 financial year, Bastei Lübbe also presented itself at the German Equity Forum in Frankfurt. The company accompanied the publication of the half-year financial report and the quarterly reports during the course of the year in some instances with conference calls.

Shares in Bastei Lübbe AG belong to the strictly regulated Prime Standard sector of the Frankfurt Stock Exchange. Correspondingly, Bastei Lübbe AG fulfils all important publicity and transparency standards and provides detailed and timely information on important results which are published ad hoc or as press releases. In the current fiscal year, too, Bastei Lübbe AG will continue our goal-orientated communication and open dialogue with the capital market participants. Potential investors can obtain further information from the Investor Relations section of the homepage at www.luebbe.com/en/investor-relations/homepage-investor-relations.

## Annual General Meeting for the 2016/2017 fiscal year

The ordinary Annual General Meeting of Bastei Lübbe AG took place on 22 November 2017 in Cologne. The Supervisory Board and the newly constituted Executive Board started the shareholder meeting with a review of the past financial year as well as an initial glimpse of the future. The Executive Board reported on the challenging operational development of the 2016/2017 financial year and also addressed the issue of the unscheduled write-down of oolipo AG. Approximately 61.75 percent of the statutory share capital of Bastei Lübbe AG was represented at the time of the vote. The shareholders approved the recommendations of the management board listed on the agenda with clear majorities. The Bastei Lübbe AG shareholders in attendance followed the management's recommendation to postpone the release of the retiring Supervisory Board for the 2016/2017 financial year until the next annual general meeting and also the release of the Board. However, the current members of the Supervisory Board were released by 98.16 % of the voting capital in attendance. The Annual General Meeting voted by a large majority to carry forward the net income for the year of EUR 1,091,912.12 to the next accounting period.

The detailed agenda items as well as the voting results can be downloaded from the Investor Relations section of the Company website.

## Dividend proposal for the 2017/2018 fiscal year

Bastei Lübbe AG is still pursuing the aim of a dividend policy aimed at continuity in order that the shareholders can benefit from the success of the company with an appropriate share in the annual distributable surplus. Compatibility with the long-term and sustainable development of business is a necessary pre-requisite for the paying out of dividends in this case.

In view of the one-off impact on earnings due to a necessary balance sheet adjustment and the measures taken to increase efficiency, the Executive Board and Supervisory Board will propose at the Annual General Meeting on 19 September 2018 that the pay-out of dividends should be temporarily suspended. The Bastei Lübbe AG 2017/2018 annual financial statements under commercial law show a net loss of EUR -14,404,203.37 to be carried forward to the next accounting period.

This will ensure that the strategic demands of a value-oriented company are pursued and that shareholders will continue to be involved in a suitably appropriate and continuous manner in the future success of the company by making promising investments in future-proof developments.

# CORPORATE GOVERNANCE


Ken Follett
**NIGHT OVER WATER**

# Supervisory Board Report


Robert Stein, Chair of the Supervisory Board

## Dear Shareholders,

The recent 2017/2018 financial year was marked by profound changes and significant losses. Since the Supervisory Board commenced its activities in December 2016, we have grappled very intensively with corporate strategy and corporate governance, which ultimately led to an expansion and renewal of the Executive Board. Since November 2017, under the leadership of the CEO, Carel Halff, there has been a very far-reaching, detailed analysis of the divisions and holdings. Closures and sales in the investment area led to painful losses which were impossible to avoid in order not to jeopardise the future development of the company.

The generally well-positioned core business of Bastei Lübbe was also subjected to an intensive review. The organisation and processes have been revised to create transparency and an efficiency enhancement programme has been adopted to enable the publisher to generate reasonable returns over the medium term again. It is very regrettable that all these measures also led to the reductions in staffing, but unfortunately this was unavoidable against the background of the advanced crisis. The company reorganisation is also constructively supported by Bastei Lübbe's financing partners and leads to adjustment of the syndicated loan agreement, which takes into account the new economic realities.

A reappraisal of the past was also intensively promoted. In the 2016/17 financial year, we already completed a special review that was commissioned and subjected to a legal assessment by the company's legal advisers. As a result, the legal representatives of the company decided to initiate legal proceedings against former directors. The total volume of claims amounts to EUR 1.3 million. The Executive Board reserves the right to further measures.

The strategy of developing the publisher into a global, digital media company through proprietary developments and acquisitions had to be revised. The core business is strengthened by the creation of greater transparency and efficiency, and is better aligned for future growth. At the same time, Bastei Lübbe will in future also take advantage of the opportunities of digitisation and will further strengthen and expand its market position through innovative media products and formats, new marketing approaches and distribution channels as well as optimised processes. However, improving company profitability and debt are the priority, before making any significant investments in the growth of the Group. Within the framework of its advisory functions, the Supervisory Board participated in the strategic implementation of key measures and projects.

In the report below, the Supervisory Board provides an overview of its activities in the previous financial year and of the results of the audit that was carried out on the 2017/2018 annual financial statements. In the reporting year, the Supervisory Board diligently performed all control and consulting duties incumbent upon it by law, the Articles of Association and the rules of procedure. Further, the Supervisory Board closely followed the work of the Executive Board, regularly advised the Executive Board in the management of the Company and supervised the Company's management by receiving reports from and holding joint meetings with the Executive Board. Moreover, the Supervisory Board satisfied itself as to the legality, regularity, effectiveness and efficiency of Company management. We therefore did not exercise the option of inspecting the company's accounts and files (Section 111 paragraph 2 of the German Companies Act (AktG)) in the reporting year. There was no reason to do so due to the regular, intensive and satisfactory reporting by the Executive Board, the audit by and discussions with the accountants, as well as the supplementary monitoring measures described below. We were always involved in a timely and appropriate fashion in any decisions that were fundamental for the Company or in which the Supervisory Board had to be included by law or under the Articles of Association.

A variety of issues were discussed in detail in the 2017/2018 financial year. Written and oral reports from the Executive Board to the Supervisory Board formed the basis for this involvement. The Executive Board kept us informed on a regular basis and in a timely and comprehensive manner of the performance of the business, the earnings and financial position and employment situation, as well as the Company's future plans and further strategic development. Any deviations from the plans were fully explained to the Supervisory Board. The risk situation and risk management were always carefully taken into account in this process.

The Supervisory Board received regular documents from the Executive Board for preparation. Beyond the routinely-scheduled meetings, the Chair of the Supervisory Board worked closely with the Executive Board, discussing major events and pending decisions with the Board.

The Executive Board also informed the Supervisory Board promptly and comprehensively, and in writing, even in between the routine meetings, about business transactions that were of major importance for the Company. The Supervisory Board has carefully monitored the Executive Board and confirms that it has acted lawfully, correctly and economically in all respects.

## Meetings of the Supervisory Board and main issues considered by the Supervisory Board

In compliance with Section 110 (1) sentence 1 of the German Companies Act, the supervisory body held a total of four ordinary meetings and seven extraordinary meetings in the 2017/2018 financial year, some of which were held in the form of conference calls. In addition, three meetings of the Supervisory Board were conducted via written correspondence. All members of the Supervisory Board attended both the ordinary and extraordinary meetings as well as the telephone conferences. Where necessary, the Supervisory Board adopted resolutions in writing.

The most important topics for discussion for the previous financial year included:

- current development of the business in 2017/2018,
- expansion and partial renewal of the Executive Board
- development and adoption of a new remuneration system for the members of the Executive Board
- analysis of the Company and its business interests and the derivation and implementation of strategic measures,
- ensuring Company liquidity,
- planning and budget for 2018/2019,
- scheduling for 2018/2019 and planning of the ordinary Annual General Meeting,
- future development and strategy of the Company and its segments,
- personnel planning and organisational structure,
- Group structure,
- Company disposals and liquidations,
- implementation of the special audit of past business transactions and deriving the resulting measures as well as
- activities on the capital market.

We also discussed the following significant topics at the individual meetings of the 2017/2018 financial year:

## Extraordinary meeting held on 04 April 2017

Planning for the 2017/2018 financial year was presented at the meeting held on 4 April 2017. Approval of the planning was postponed, as mutually agreed changes were to be made, and in particular the liquidity was to be ensured by means of a seasonal credit line.

## Extraordinary meeting held on 6 June 2017 (telephone conference)

At an extraordinary meeting of the Supervisory Board held on 6 June 2017 in the form of a conference call, the Supervisory Board discussed the proposal for a new compensation system for the Executive Board in detail and unanimously approved the introduction of this system. The Annual General Meeting on 22 November 2017 gave its consent to the remuneration system with 96.93 % of the votes cast. In addition, the economic parameters of a possible expansion of the Executive Board by a CFO were established and it was decided to include a law firm in the legal assessment of the findings of the special audit.

## Resolution by written circulation procedure of 14 June 2017

On 14 June 2017, the Supervisory Board unanimously decided by circulation procedure that Mr Ulrich Zimmermann would be appointed Chief Financial Officer of Bastei Lübbe AG for the period from 19 June 2017 to 30 June 2020. The conclusion of the Executive Board member’s contract of employment in connection with the appointment of Mr Zimmermann to CFO was also approved unanimously.

## Extraordinary meeting held on 29 June 2017

At the extraordinary meeting of the Supervisory Board of the 29 June 2017, the Board presented the main results of the annual financial statements for 2016/2017. In addition, current business development and the status of the auditing work carried out in connection with the special audit were discussed in detail as well as the next steps in this regard.

## Ordinary meeting held on 27 July 2017

At the meeting held on 27 July 2017, the Executive Board reported to the Supervisory Board on the 2016/2017 annual financial statements. The Supervisory Board discussed this report in detail. The auditor took part in the meeting for this point of order. In addition, the Executive Board was present for this, and provided supplementary and explanatory information. The auditor reported on the key findings of the audit of the annual financial statements and Management Report of Bastei Lübbe AG as of 31 March 2017, as well as the consolidated financial statements and Group management report as of 31 March 2017. In the meeting held on 27 July 2017, following an extensive audit, the Supervisory Board approved the company’s annual financial statements for the financial year ending 31 March 2017, in accordance with both HGB and IFRS standards. Further, the Supervisory Board discussed the agenda for the 2017 General Meeting, including proposed resolutions from management. At the meeting of 27 July 2017, the business planning for 2017/18 and 2018/19 was adopted unanimously.

## Resolution by written circulation procedure of 24 August 2017

On 24 August 2017, the Supervisory Board unanimously approved by circulation procedure to take a seasonal credit line amounting to EUR 10 million with the existing banking consortium.

## Ordinary meeting held on 14 September 2017

At the meeting of 14 September 2017, the economic situation of the Group was discussed in detail as well as courses of action for company investments. It was decided in connection with Oolipo not to invest any further funds in the venture and the Executive Board has been asked to develop strategic options for the remaining investment portfolio.

## Extraordinary meeting held on 20 September 2017 (telephone conference)

At the extraordinary meeting of the Supervisory Board on 20 September 2017, which was held as a conference call, the Supervisory Board unanimously approved the conclusion of a termination agreement with Mr Schierack and the resignation of Mr Thomas Schierack as board member and chairman.

## Extraordinary meeting held on 5 October 2017 (telephone conference)

At the extraordinary meeting of the Supervisory Council on 5 October 2017, which was held as a conference call, the Supervisory Board unanimously approved the repeal of the existing Executive Board contract with Mr Klaus Kluge and the conclusion of a new contract for a period from 1 October 2017 to 30 September 2020. Moreover, the Supervisory Board also unanimously approved the proposal for the agenda and the resolutions of the annual general meeting held on 22 November 2017.

## Extraordinary meeting held on 18 August 2017 (telephone conference)

At the extraordinary meeting of the Supervisory Council of 18 October 2017, which was held as a conference call, the Supervisory Board unanimously approved the appointment of Mr Carel Halff as Chairman of the Board of Bastei Lübbe AG. The conclusion of the Executive Board member’s contract of employment in connection with the appointment of Mr Halff to CEO was also approved unanimously.

## Ordinary meeting held on 14 November 2017

At the meeting of 14 November 2017, the Supervisory Board and the Executive Board discussed the half year results and determined the necessary measures for further analysis of the current situation and the future developments. Also discussed at this meeting were possible claims arising out of the transactions of the past transactions, and further audit procedures were determined.

## Extraordinary meeting held on 13 March 2018

The focus of the meeting of 13 March 2018 was the next steps with regard to BuchPartner GmbH. After the presentation and discussion of detailed analyses of different alternatives in the run-up to the meeting, the Supervisory Board unanimously approved the proposal of the Executive Board to follow up and complete the sale of the stake to the Gellert family under certain parameters.

## Ordinary meeting held on 21 March 2018

At the meeting of 21 March 2018, the Executive Board reported in detail on current developments at Bastei Lübbe AG and the status of the efficiency enhancement programme. In addition, individual remedial measures in the subsidiaries were discussed. The adoption of the corporate planning was initially postponed, in order to be able to take into account the individual measures of the efficiency enhancement programme. On the basis of a document distributed in advance, the Board of Management and the Supervisory Board agreed further action with regard to the assertion of claims against members of the former Supervisory Board and members of the Executive Board. Claims for damages will be asserted in the context of lawsuits.

Mr Zimmermann presented the revised risk management system in detail, and the Supervisory Board decided unanimously to implement this new system in a timely manner.

In addition, the Supervisory Board unanimously decided on 21 March 2018 to approve the non-audit services of Ebner Stolz in the 2017/18 financial year, to define the objectives for the Executive Board for the 2018/19 financial year in accordance with the submission, and on the possibility of waiving a voluntary bonus payment to the Executive Board in this financial year despite excellent work in connection with the restructuring of the company.

## Efficiency review

As recommended by the Corporate Governance Code, the Supervisory Board also carried out an efficiency review during the 2017/2018 financial year. The Supervisory Board considers Bastei Lübbe AG to have sufficient organisational structures and systems to enable the Supervisory Board to appropriately fulfil its obligations under the law and the Articles of Association. The rules of procedure for the Supervisory Board and regulated procedure, the definition of transactions requiring approval and the prompt and sufficient provision of information to the members of the Supervisory Board are the factors that are decisive in determining the Supervisory Board's ability to fulfil its supervisory duties in the prescribed way. In addition to their qualifications and professional experience, the members of the Supervisory Board possess the expertise required of a member of the Bastei Lübbe AG Supervisory Board in order to fulfil their tasks efficiently.

## German Corporate Governance Code

The Supervisory Board has once more addressed the content of the German Corporate Governance Code in the 2017/2018 fiscal year. With a few exceptions, Bastei Lübbe AG adheres to the recommendations and suggestions of the German Corporate Governance Code. The Executive Board and the Supervisory Board adopted a resolution on 26 July 2018 to issue a limited declaration of compliance pursuant to Section 161 of the Companies Act (Aktiengesetz - AktG), according to which the Company, with the exception of numbers 4.2.3, 5.1.2, 5.4.1 and 7.1.2, complies with the recommendations of the German Corporate Governance Code in the version dated 7 February 2017, published in the Federal Gazette on 7 February 2017. The current declaration of compliance, as well as all earlier declarations of compliance, are permanently available to shareholders on the Company website. (Further information on Corporate Governance can be found in the "Corporate Governance Report").

## Audit of the Annual Financial Statements and the Group Management Report 2017/2018

Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, has audited the annual financial statements prepared by the Executive Board in accordance with IFRS regulations, including the status report as well as the Company's management report for the 2017/2018 financial year, and has given its unqualified audit opinion thereof. The above mentioned documents, the suggestion of the Executive Board on the distribution of net profit, as well as the audit report by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, were presented to the Supervisory Board members in a timely manner. They were dealt with in the accounts review meeting of the Supervisory Board on 12 and 26 July 2018, at which the Executive Board discussed the annual financial statement and status report including the Group Management Report and the suggestion for the distribution of net profit, and the auditor from Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, reported in detail on the results of the audit. Comprehensive answers were given for all questions by the Executive Board and the auditor during the meeting. After making its own examination of the annual financial statements, the status report, the management report and the Group Management Report as well as of the proposal from the Executive Board with regard to the appropriation of net profit, the Supervisory Board had no reason to raise any objections to the annual financial statements, the status report, the management report and the Group Management Report. The Supervisory Board was in agreement with the Executive Board in its estimation of the company's situation, and approved the annual financial statement and consolidated financial statement for the 2017/2018 fiscal year, which is thereby adopted.

## The Supervisory Board extends its thanks

The past financial year was marked by significant changes and cuts, which were unavoidable to secure the future of the company and unfortunately also resulted in a number of redundancies for highly-valued employees. In view of this, the Supervisory Board would like to thank the Executive Board and especially the employees and the employee representative bodies of Bastei Lübbe AG for their enthusiastic commitment over the past financial year, and for their identification with the aims and culture of the company. The Supervisory Board thanks the shareholders of Bastei Lübbe AG for the interest and trust that they have placed in the Board and in the Company as a whole.

Cologne, July 2018

For the Supervisory Board

Robert Stein
Chairperson of the Supervisory Board

# Corporate Governance Report

## Guidelines for Business

Corporate governance means managing our company in a responsible manner. It encompasses the entire management and supervisory system of a Company. This includes its organisation, values, business principles and guidelines and internal and external control and monitoring mechanisms. The aim of good and transparent corporate governance is to establish responsible management and control of a company that is geared towards growth. This objective is embedded in framework conditions contained in the Corporate Governance Code, among other documents.

The German Federal Government originally adopted the German Corporate Governance Code on 26 February 2002. The Code is generally updated on an annual basis. It was most recently updated on 7 February 2017. The Code sets out the essential legal regulations and rules for managing and supervising listed companies in Germany, and features nationally and internationally recognised standards for proper and responsible corporate management.

Transparent corporate governance helps to foster the trust of national and international investors, financial markets, clients and other business partners, employees and the public in Bastei Lübbe AG. We publish further information on our corporate governance practices on the Internet at www.luebbe.com/en/investor-relations/corporate-governance. Our declarations of compliance with the Code, Articles of Association as well as a summary of directors' dealings can also be downloaded from this address.

## Shareholdings and reportable transactions

Alongside regulations governing securities, the Corporate Governance Guidelines also ensure that the highest possible levels of transparency are achieved in regard to directors' dealings transactions.

Under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG), the members of the Executive Board, the Supervisory Board and other persons with insider knowledge, and their close associates/relatives, are obliged to disclose any share purchases or disposals in Bastei Lübbe AG where such transactions reach or exceed a total annual value of EUR 5,000. The Europe-wide publication requirement and all other reportable share transactions are detailed on our website in the Investor Relations/Directors' Dealings section.

Bodies, managers or their close associates/relatives have not conducted any share transactions during the reporting period.

## Declaration on management in accordance with Section 289f of the Commercial Code

Good corporate governance is the foundation for managing our company in a responsible manner. The Executive Board and the Supervisory Board therefore aspire to align the management and monitoring of the company with national and international standards. To achieve this, it is essential that the Executive Board and the Supervisory Board communicate efficiently by way of open and transparent corporate communication.

The declaration on management pursuant to section 289f HGB contains a Statement of Compliance with the recommendations of the German Corporate Governance Code, as well as further information on corporate governance practices and a description of the working methods of the Executive and Supervisory Boards.

The reporting elements of the management declaration according to Section 289f HGB are also available on the website of Bastei Lübbe AG in the "Investor Relations" area.

## Declaration of conformity

The Executive Board and the Supervisory Board of Bastei Lübbe AG herewith declare pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz):

Bastei Lübbe AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version of 7 February 2017 since the last declaration of conformity, with the following exceptions:

### Fixed and variable remuneration components of management board compensation (Clause 4.2.3)

For Mr Ulrich Zimmermann, a fixed share of the bonus was determined from the date of his entry up to the end of the 2017/2018 financial year. For Mr Carel Halff, a fixed share of the bonus was determined from the date of his entry up to the end of the 2018/19 financial year.

### Target for the share of female Executive Board members (Clause 5.1.2)

Contrary to the recommendation in Point 5.1.2, the Supervisory Board has no target for the proportion of women in the Executive Board.

### Target for the share of female Supervisory Board members (Clause 5.4.1)

Contrary to the recommendation in Point 5.4.1, the Supervisory Board has no target for the proportion of women in the Supervisory Board.

### Publication of the Consolidated Financial Statement and Management Report (Clause 7.1.2)

Contrary to the recommendation in Point 7.1.2, and due to delays in the completion of the consolidated audit, the consolidated financial statement and management report for the 2017/2018 fiscal year was not made accessible within 90 days of the end of the financial year.

## Working methods of the Executive and Supervisory Boards

As a German public limited company, Bastei Lübbe AG is subject to German stock corporation law, and therefore possesses a dual management and control structure made up of an Executive Board and a Supervisory Board. The tasks, competences and responsibilities of both of these bodies are clearly regulated by the law and separated in terms of personnel.

For Bastei Lübbe AG, the basic principle for responsible corporate governance is to guarantee that the Executive Board and Supervisory Boards cooperate efficiently by way of responsible and transparent corporate communication. A large number of issues were therefore discussed in detail by the Supervisory Board and Executive Board in the 2017/2018 fiscal year. The Supervisory Board regularly and carefully monitored the work of the Executive Board and continually supported it in an advisory capacity.

The Supervisory Board was always involved in all decisions in a timely and appropriate fashion. The Executive Board kept it informed, in written or oral form, on a regular basis and in a timely and comprehensive fashion about the performance of the business, earnings and financial position and employment situation and personnel policy, as well as of the short- and long-term corporate and financial plans, and of the further strategic development of the Company and of its shareholdings. Any deviations from the plans were fully explained to the Supervisory Board. The risk situation and risk management were always carefully taken into account in this process.

The Chair of the Supervisory Board was also in contact with the Executive Board or Chair of the Executive Board outside of regularly-scheduled meetings, discussing major events and pending decisions.

## Allocation of responsibilities and working methods of the Executive Board

The Executive Board of Bastei Lübbe AG manages the Company with the aim of creating long-term growth under its own responsibility and in the interest of the Company, thus taking into account the interests of shareholders, of its employees and of other groups that are affiliated with the Company. The Executive Board therefore operates without instructions from third parties and in accordance with the law, the Articles of Association and the rules of procedure for the Executive Board issued by the Supervisory Board, as well as taking into consideration resolutions adopted in Annual General Meetings. When hiring new managerial staff, the Executive Board of Bastei Lübbe AG also takes diversity into account and aims in particular to give appropriate consideration to women.

Notwithstanding the principle of joint responsibility, according to which all members of the Executive Board are jointly responsible for the management of the Company, every member of the Executive Board heads the department allocated to him/her under his/her own responsibility and has sole executive powers in the area of responsibility assigned to him/her. All members are therefore entitled to present envisaged issues to the entire Executive Board in order that they be resolved upon.

However, all issues that have been assigned to the entire Executive Board by law are dealt with and resolved on jointly by all members. The members of the Executive Board take all fundamental decisions on business policies and strategy in close cooperation with the Supervisory Board. With this in mind, the Executive Board informs the Supervisory Board on all issues and priority topics that are relevant to the Company as a whole. The corresponding information and reporting requirements of the Executive Board are determined in detail by the Supervisory Board in the Executive Board's rules of procedure. The Chair of the Executive Board is responsible for the overall management and business policies of the Company. He ensures that coordinated and unified business management is achieved on the Executive Board, and represents the Company in public.

The Executive Board of Bastei Lübbe AG meets once a week as a rule. The Executive Board consists of the members Carel Halff (responsible for Strategy, Business Development, M&A, Compliance), Klaus Kluge (responsible for Programme, Sales, Marketing, Press) and Ulrich Zimmermann (responsible for Finance, IT, Risk Management, Legal, Production, HR and Contract Management). All board members were appointed for a term of three years.

## Working methods of the Supervisory Board

The Supervisory Board is charged with advising and monitoring the Executive Board in its management of the Company. Given that important Company decisions require the approval of the Supervisory Board, it is involved in any decisions that are fundamental for the Company. The Company's Articles of Association and the Supervisory Board's rules of procedure contain comprehensive guidelines for the work of the Supervisory Board.

The Supervisory Board of Bastei Lübbe AG is made up of three members. In making nominations for the election of Supervisory Board members, particular attention is paid to the necessary knowledge, skills and industrial experience required to undertake these duties. This ensures that Supervisory Board members possess highly-effective corporate governance skills and can appropriately advise the Executive Board on strategic orientation.

The Supervisory Board consists of the members Robert Stein (Chairman of the Supervisory Board, Managing Director of Arcana Capital GmbH), Dr Mirko Alexander Caspar (Deputy Chairman of the Supervisory Board, Managing Director of Mister Spex) and Prof. Dr Friedrich L. Ekey (member of the Supervisory Board, solicitor and Professor of Economic Law at the University of Applied Sciences in Cologne (Rheinischen Fachhochschule). The Supervisory Board was elected for the period remaining until the end of the Annual General Meeting which decides that the Supervisory Board ceases activities at the end of the financial year ending on 31 March 2018. Pursuant to the Articles of Association, the Supervisory Board of Bastei Lübbe AG is made up of three members.

In view of the elections to the Supervisory Board, the Supervisory Board dealt intensively with the question of the composition of the future Supervisory Board and the requirements profile for individual members. In this context, it must be ensured that qualified monitoring and advice can be provided to the Executive Board at all times. In addition to general requirements regarding the personal and professional skills of individual members, it must be ensured that specific knowledge is available to adequately accompany the change process initiated last year. This particularly includes in-depth knowledge and experience in the following areas:

- Accounting, Controlling, Financing, M&A (Robert Stein)
- Strategic Management, Digitization (Dr Mirko Caspar)
- Law, Corporate Governance and Compliance (Professor Dr Friedrich Ekey)

The Chair of the Supervisory Board coordinates the work of the Supervisory Board, conducts its meetings and upholds the interests and representation of the Board vis-à-vis third parties. He is in constant and regular contact with the Executive Board, particularly with the Chair, including outside meetings, and discusses major events and pending decisions affecting the Company. No members of the Bastei Lübbe AG Supervisory Board are former members of the Executive Board.

The German Corporate Governance Code recommends that Supervisory Boards form qualified committees. Given the unavoidable personal identity of committee and Supervisory Board members inherent in a three-member supervisory body, the Supervisory Board of Bastei Lübbe AG has not currently formed any committees. The members of the body are thus jointly responsible for all issues to be resolved. If the Supervisory Board is enlarged in future, a decision will be made with regard to the formation of committees.

## Avoidance of conflicts of interest

No conflicts of interest arose in the previous financial year between members of the Executive Board and the Supervisory Board of Bastei Lübbe AG that would have needed to be disclosed to the Supervisory Board without delay. No Executive Board members were members of a Supervisory Board of non-affiliated trading companies.

## Transparency

Our aim at Bastei Lübbe AG is to guarantee the highest levels of transparency and to make the same information available to all target groups at the same time. All our target groups can find out more about current Company developments on the Internet. Ad-hoc Company notifications are published on Bastei Lübbe AG website. Press releases and other Company news are also made available here. The current as well as all previous Statements of Compliance with the German Corporate Governance Code will also be made available on the Company website.

According to section 15a WpHG, members of the Executive Board and Supervisory Board of Bastei Lübbe AG as well as certain managerial employees and closely associated persons, must disclose the acquisition and sale of Company shares and related financial instruments.

All directors' dealings pursuant to Section 15 WpHG are published on the Company website at www.luebbe.com/en/investor-relations/corporate-governance/directors-dealings.

## Financial accounting and auditing

The annual financial statements of Bastei Lübbe AG as well as the interim reports conform to International Financial Reporting Standards (IFRS) pursuant to the provisions of the International Accounting Standards Board. During the Annual General Meeting on 22 November 2017, Ebner Stolz GmbH & Co. KG, an auditing company and tax consultancy based in Cologne, was selected to carry out the audit for the 2017/2018 fiscal year.

Cologne, July 2018

For the Supervisory Board

Robert Stein
Chairman

For the Executive Board

Carel Halff
Chairman

# COMBINED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT

Arnaldur Indriðason
**GRAUE NÄCHTE**

# Company Profile

## Group business model

Bastei Lübbe AG is a German-language trade book publisher based in Cologne, specialising in the publication of books, audiobooks, ebooks in the genres of fiction and popular science as well as periodicals including novel booklets and puzzle magazines. The business activities of Bastei Lübbe also include the licensing of rights.

Bastei Lübbe breaks down its business activities into the segments: “books”, “novel booklets and puzzle magazines” and “digital”. Retail operations were discontinued following the sale of the 51 % majority interest in BuchPartner GmbH with effect from 31 March 2018.

The “books” segment includes all print, audio and ebook products of Bastei Lübbe AG, marketed under the labels Lübbe Hardcover, Lübbe Taschenbuch, Ehrenwirth, Eichborn, Baumhaus, Boje, one, LYX, be and also Lübbe Audio. In the past fiscal year, the blockbuster "Origin" by Dan Brown, "Column of Fire" by Ken Follett and the 12th instalment of “The Diary of a Wimpy Kid” - “The Getaway” - by Jeff Kinney are all worthy of particular mention in the hardcover segment.

In the “Novel Booklets and Puzzle Magazines” segment, classics such as “Der Bergdoktor”, “Jerry Cotton”, “Geisterjäger John Sinclair” and the westerns of star author G.F. Unger, as well as the puzzle magazines “Rätselsterne” and “Kreuzwort Reisen” published under the “PMV” label ensure a yearly circulation in the millions. The successful tradition of the company in the field of novel booklets has existed for more than 60 years.

The Bastei Lübbe Group is completed by the "digital" segment comprising the fully consolidated companies Daedalic Entertainment GmbH (share: 51 %, game developers), oolipo AG (share: 87 %, storytelling platform), BookRix GmbH & Co. KG (share: around 54 %, self-publishing platform) as well as BEAM Shop GmbH (share: 100 %, online shop for ebooks).

## Non-consolidated holdings

In the period under review, Bastei Lübbe holds shares in following non-consolidated companies:

| | |
|---|---|
| ▪ B+M Entertainment GmbH, Erfurt (formerly Bastei Media GmbH) | 100 % |
| ▪ Bastei International Limited, Hong Kong (in liquidation) | 100 % |
| ▪ Siebter Himmel Bastei Lübbe GmbH, Cologne | 100 % |
| ▪ Bastei Ventures GmbH, Cologne | 100 % |
| ▪ Moravská Bastei MOBA s.r.o., Brno (Czech Republic) | 90 % |
| ▪ BookRix Verwaltungs GmbH, Munich (general partner of BookRix GmbH & Co. KG) | 54 % |
| ▪ Daedalic Entertainment Studio West GmbH, Düsseldorf* | 51 % |
| ▪ Daedalic Entertainment Bavaria GmbH, Munich* | 51 % |
| ▪ Bastei LLC, Santa Monica (USA) (in liquidation) | 50 % |
| ▪ CE Community Editions GmbH, Cologne | 30 % |
| ▪ HPR Bild & Ton GmbH, Cologne | 25 % |
| ▪ Bastei Studios GmbH, Erfurt | 25 % |
| ▪ Räder GmbH, Essen | 20 % |
| ▪ Various press wholesalers | 2-5 % |

* indirectly, shares are held by Daedalic Entertainment GmbH

The aforementioned subsidiaries in which Bastei Lübbe AG holds more than 50 % of shares are not consolidated due to their subordinate importance for assets, financial position and earnings. The aforementioned subsidiaries in which Bastei Lübbe AG holds less than 50 % of shares are not consolidated “at equity” due to a lack of significant influence.

# Goals and Strategies

The strategy pursued since the IPO of developing a German trade publisher into an international media company with an integrated value chain has not been a success. In this context, the expansion of the investment portfolio in particular led to inefficiencies and incorrect allocations of resources and was not a success in strategic and economic terms.

Against this background, the Executive Board considers a change of strategy necessary to secure and reinforce the competitiveness of the Bastei Lübbe AG in the core business.

As a German trade publisher, Bastei Lübbe will therefore in future continue to focus on exploiting national and international licences. Bastei Lübbe has for many years been one of the market leaders in Germany in the “historic novel” and “thriller” genres, with global best-sellers such as Ken Follett and Dan Brown. Within the female entertainment sector, Bastei Lübbe is also very successful with the “LYX” label. Eichborn and the children's book labels Baumhaus, Boje and one, as well as participation in the influencer publishing house Community Editions round off the Bastei Lübbe print portfolio. With a well above-average digital share of over 25 % compared to the industry average, the digital activities of Bastei Lübbe have achieved impressive growth in the recent past. In addition to the LYX label, the growth of the digital range of Lübbe Audio as well as the digital imprint "be" can be highlighted in particular. Against this background, the short- and medium-term business strategy of Bastei Lübbe is as follows:

- We focus on the publication of books, audiobooks and ebooks, as well as novels and puzzle magazines with fictional and popular science fiction content.
- We exploit the digitisation opportunities by expanding our digital media products, distribution channels and processes.
- We respond to changing reading habits and develop serial content with comprehensive exploitation rights.
- We break new ground in developing products and win young target groups for our company.
- We want to grow profitably and focus on the performance indicators and EBIT.

The Bastei Lübbe short-term strategy also involves the separation of activities that are not strategically or economically relevant or activities that do not fit its risk profile. For this reason, the Executive Board is committed to offer for sale shares in the three consolidated shareholdings oolipo AG, BookRix GmbH & Co. KG AND BEAM Shop GmbH.

In terms of Daedalic Entertainment GmbH, it will be checked whether this investment also fits the above business strategy fits in the medium term.

# Corporate Steering

## Executive bodies

As a public limited company under German law, Bastei Lübbe AG has a dual management and supervisory structure, consisting of an Executive Board and a Supervisory Board. The Executive Board is made up of three members; Carel Halff (Chairman), Klaus Kluge (Director of Programme, Sales and Marketing) and Ulrich Zimmermann (Chief Financial Officer). The Executive Board reports regularly to the Supervisory Board. The reports mainly deal with business policies and strategies and also current business activities. The Supervisory Board is informed of all events that could have a serious impact on the future of Bastei Lübbe AG.

The Supervisory Board appoints the members of the Executive Board and monitors and advises the Executive Board on Company management. The three members of the Supervisory Board represent the shareholders. Shareholder representatives are selected at the Annual General Meeting. The Supervisory Board consists of three members: Robert Stein (Chairman of the Supervisory Board, Dr Mirko Alexander Caspar (Deputy Chairman of the Supervisory Board) and Prof. Dr Friedrich L. Ekey.

## The internal corporate governance system

The paramount objective of Bastei Lübbe is to continually increase the value of the Company through growth and concentration on fields of business that offer the best chances of development, and an improvement in profitability.

The Executive Board and Supervisory Board take various corporate steering measures. The basis of the strategic company planning is an annually-updated three-year plan with profit and loss calculations, investments and liquidity. For the fiscal year that follows immediately, as well as a top-down target definition, the revenue planning is also calculated bottom-up, in detail and with product orientation in mind. Budget planning for the following fiscal year is derived on the basis of the final planning. Company steering is based on a monthly target/performance comparison with regard to overall sales revenues, segment sales and balance sheets.

At Bastei Lübbe, the following financial performance indicators are of primary importance for company steering (in each case, in comparison of target, performance and previous year):

- Development of sales revenues and EBIT (earnings before interest and taxes) at Group level
- Development of sales revenues and EBIT by segment

The EBITDA key figures (earnings before interest, taxes, depreciation and amortisation), which was previously used as a measure of profitability, will be replaced in the future by the EBIT. The Executive Board is of the opinion that the overall operational success of the economic activity can best be assessed by these profitability measures.

Furthermore, non-financial performance indicators such as employee numbers or social commitment are not used at Bastei Lübbe for steering purposes since no quantifiable statement can be made as to the causal relationships.

## Research and Development

As a German trade publisher, Bastei Lübbe AG does not carry out research and development in the strict sense. However, a unique feature of Bastei Lübbe AG is purchasing or developing materials with comprehensive exploitation rights, which are published in the "digital" programme area mainly in the form of ebooks under the “be” imprint.

## Employees

At the end of the financial year, Bastei Lübbe had 330 employees, as compared to 595 employees as at 31 March 2017. The reduction is mainly due to the deconsolidation of BuchPartner GmbH, as the majority holding of 51 % was sold to a minority stockholder with effect from 31 March 2018.

# Economic Report

## Macroeconomic conditions

In 2017, the global economy registered its highest growth since 2011: 3.8 %. Driving forces of economic development were the increasing investments in the industrial nations, the continued strong expansion in Asian growth markets, a noticeable upturn in the emerging economies of Eastern Europe, as well as an incipient recovery in commodity-exporting countries. Due to the unexpectedly positive economic development in both emerging and developing countries and in industrialised countries, the International Monetary Fund (IMF) repeatedly revised its calculations upwards, most recently by 0.2 percentage points compared to the forecast in January 2018. At the beginning of 2017, the IMF had been expecting 3.4 %.[8] The euro zone also benefited in 2017 from the increasing momentum of the global economy. In particular, the growth rates in Germany, Italy and the Netherlands rose as a result of the increasingly dynamic domestic consumption and higher foreign demand. For 2017, the IMF calculated an increase of 2.3 % for the euro zone.[9]

Germany contributed particularly strongly amongst the developed economies to the growth of world trade in 2017, according to the IMF, and registered a pronounced increase in economic performance of 2.2 %, which was even greater than growth in the euro zone.[10] The German economy was able to further increase the pace according to the Federal Statistical Office (Destatis) and grew for the eighth year in a row. Positive growth stimuli in 2017 were primarily domestic. Private consumption expenditure rose by 2.0 %. Almost all economic areas also contributed positively to economic development in 2017.[11] In accordance with an internationally comparable definition, the labour market situation continued very positively in 2017 with a fall in unemployment to an average of 3.7 %. This was yet another record since the country's reunification. Increased labour market participation by the German population as well as the immigration of foreign workers was able to offset negative demographic effects, so that in 2017 the economically active population also reached its highest number since reunification.[12] The inflation rate in Germany rose by 1.8 % on average over 2017 and was thus higher than in the last four years, during which inflation was below 1.0 %. This was due, in particular, to the rise in energy and food prices.[13]

According to the Leibniz Institute for Economic Research, the current global economic climate has continued to improve in 2018. The indicator rose from 17.1 to 26.0 points in the first quarter of 2018. This is the highest value since the outbreak of the financial crisis in autumn 2007. Thus the current economic situation is judged as being clearly more positive and economic expectations also improved significantly, especially in the United States, the European Union and the Asian emerging markets and developing countries. Overall, the world economic climate improved in all regions around the globe. The price level in the global economy should continue rising dynamically in the coming months according to the experts at the Leibniz Institute for Economic Research.[14]

## The industry environment in the Bastei Lübbe AG business segments

The German book market is on the move, according to the German Publishers and Booksellers Association, and in 2017 was unable to achieve the strong result in the previous year with a 1 % sales increase. The annual result on the

[8] International Monetary Fund (April 2018): World Economic Outlook: Cyclical Upswing, Structural Change
[9] International Monetary Fund (January 2018): World Economic Outlook: Brighter Prospects, Optimistic Markets, Challenges Ahead
[10] Statistisches Bundesamt (January 2018): Deutsche Wirtschaft wächst auch im Jahr 2017 kräftig
[11] Statistisches Bundesamt (January 2018): Deutsche Wirtschaft wächst auch im Jahr 2017 kräftig
[12] Statistisches Bundesamt (January 2018): Zahl der Erwerbstätigen im Jahr 2017 um 1,5 % gestiegen
[13] Statistisches Bundesamt (January 2018): Verbraucherpreise 2017: + 1,8 % gegenüber Vorjahr
[14] CESifo (February 2018): ifo Weltwirtschaftsklima sehr stark verbessert

popular market - stationary bookshops, station bookshops, e-commerce and department stores - was in total 2 % lower than in the same period the previous year. The stationary book trade segment registered a reduction in sales of 3 %. Here, declining customer traffic in the inner cities and increasing media competition in the book trade became more noticeable.[15]

However, the entire book trade began 2018 with an increase of 2 % - the retail book trade even did a little better there. For January 2018, the Media Control market research institute calculates sales growth of 2 %.[16] In March 2018, the Easter trade even brought double-digit sales growth of 12.2 % in the book trade compared to the previous year when Easter fell in April. Thus, from January until March 2018 the book trade experienced an overall increase in sales of 5.2 % compared to the same period in the previous year.[17]

**Ebooks** continue to gain importance among their users. While sales increased in the past year, sales declined in 2017, according to the Börsenverein des Deutschen Buchhandels at the same time by 1.4 % compared to the previous year. The reasons for this were a fall in the average purchase price by 5.1 % and the 7.7 % drop in the number of buyers. While the proportion of ebook buyers in the total population decreased by 0.4 percentage points to 5.2 %, the share of sales of ebooks remained stable at 4.6 %, which is, however, the level of the previous year. Sales of ebooks, on the other hand, rose by 3.9 % compared to 2016. At the same time, average purchaser expenditure increased by 6.8 % and purchase intensity increased by 12.6 % compared to the previous year.[18]

Digitally generated revenues now play a major role in publishing. According to the Börsenverein des Deutschen Buchhandels, most publishers are posting sales of ebooks: around three quarters of the large and medium-sized publishers and around 60 % of small publishers. The share of ebook downloads to total sales of publishers is on average around 6 %.[19] In this context, ebooks are gaining in importance for users. They are increasing their purchases and spending. However, competition for people’s time and attention is not limited to this format. The industry is currently analysing intensive changes in usage patterns. The aim is to inspire and regain buyers for printed as well as digital books.[20]

In 2017, sales in the overall market for **computer and video games** increased significantly by 15 % to EUR 3.3 billion compared to the previous year. This meant that the German games market broke through the 3-billion-euro mark for the first time, according to game - Association of the German Games Industry. While games (computer and video games) increased by 12 % to EUR 2.4 billion, the market for game consoles and games accessories saw a 26 % jump in sales to EUR 938 million. According to game, the games market has for many years been developing more dynamically than other media and cultural sectors – both worldwide and in Germany. Turnover from virtual goods and additional content grew especially vigorously with an increase of 28 % to EUR 844 million. The so-called free-to-play games capitalise on the purchase of virtual goods and additional content. Corresponding titles can be played free of charge, yet players have the opportunity to purchase additional levels or virtual currency. On the other hand, sales from subscriptions fell 4 % to EUR 166 million. The online network sub-segment such as EA Access, PlayStation Plus or Xbox Live Gold grew by 57 % to EUR 179 million.[21]

Subscriptions and **streaming services for books**, so-called flat-rate models, are not as yet sales drivers, according to the Börsenverein des Deutschen Buchhandels. More than two-thirds of publishers achieve less than 5 % of their sales from the above, and almost 40 % of the publishers not making any sales at all.[22]

For example, following initial successes, Amazon’s Kindle Unlimited ebook flat rate reader recorded a dramatic decrease in the number of users of around 20 % in less than six months. The offer was based on the sale of independent titles; with well-known publishing titles only available at the ebook flat rate sporadically. The fact that the market is still in its infancy and the business continues experimenting with sales models is also evident in the fact

[15] Börsenverein des Deutschen Buchhandels 2018: Buchmarkt 2017: Umsätze leicht rückläufig
[16] boersenblatt.net 2018: 2018 fängt gut an
[17] boersenblatt.net 2018: Frühe Ostern zeigen Wirkung
[18] boersenblatt.net 2018: Zahl der Käufer sinkt
[19] Börsenverein des Deutschen Buchhandels 2017: Umfrage zu der Verlage über digitale Vertriebswege
[20] Börsenverein des Deutschen Buchhandels 2018: Absatz von E-Books steigt, Umsatz geht zurück
[21] game 2018: Deutscher Games-Markt mit deutlichem Wachstumssprung
[22] Börsenhandel des Deutschen Buchhandels 2017: Umfrage zu der Verlage über digitale Vertriebswege

that, in the case of Amazon, the decrease is self-inflicted. With Prime Reading, the company offers around 500 selected ebooks that change every quarter and which the user can access indefinitely.[23]

German press wholesalers in 2017 achieved sales of EUR 1.98 billion from the sale of press products such as **novels and puzzle booklets**. This corresponds to a decline of 5.3 % compared to 2016 sales. The total Presse-Grosso sales revenues, which also includes sales of press-related products such as collectible picture cards and catalogues in addition to the press business, reached EUR 2.03 billion in 2017 and thus fell compared to the sales revenues of the previous year by 6.1 %. This was announced by the German association Presse-Grosso. Sales of copies fell significantly faster than press sales in 2017. 1.55 billion units of newspapers, magazines, as well as novels, puzzle books and comics were sold to retailers by German Presse-Grosso-operations. The decrease compared to 2016 sales is 9.4 %. No end to this development is in sight - at least for the time being. The first weeks of the new year were characterised by further declines in sales and revenue in the press distribution business according to the sector.[24]

According to Media Control, with a market share of around 6.3 % in the 2017 calendar year, Bastei Lübbe occupied the first place among the German publishing houses in the area of hardback/paperback fiction. Also in the children and young adults (from 12 years) areas, as well as audio, with market shares of 18.0 % and 7.2 %, Bastei Lübbe is among the top 2 or 3 publishing houses in Germany. With a market share of around 6.1 %, in the 2017 calendar year Bastei Lübbe was ranked seventh in the field of paperback fiction.[25]

# Business and Financial Performance of the Group

## General statement on business performance and the financial position

The Bastei Lübbe executive board is not satisfied with the business development as a whole. Initial expectations were for an increase in Group sales to approximately EUR 160 million, but the figure actually achieved was EUR 140.2 million. In the "book" segment, sales rose from EUR 69.6 million to EUR 84.7 million. The Executive Board had originally assumed a higher increase. The failure to meet sales targets at Group level is also attributable to the negative development of BuchPartner GmbH ("retail" segment), which failed to meet the expected sales revenues of EUR 46 million by EUR 11.3 million.

It was not possible to achieve the expected EBITDA and EBIT of EUR 14 - EUR 17 million and EUR 7 - EUR 10 million respectively with EUR 0.5 million and EUR -18.0.

The failure to reach the target is essentially due to one-off effects amounting to EUR 18.1 million. These include the final loss of BuchPartner GmbH - a holding divested on 31 March 2018 amounting to EUR 1.6 million, as well as write-downs of other subsidiaries amounting to EUR 8.3 million. In addition, there were additional write-downs amounting to EUR 8.2 million as a result of a reassessment of the amortisation of capitalised author royalties. These one-off effects could not be offset despite substantial sales and profitability in the core “book” business.

The covenants agreed in the syndicated loan agreement could not be complied with as of 31 March 2018 due to the mentioned failure to reach the target. In letters dated 28 March 2018 and 30 April 2018, the lenders waived their right to terminate first until the end of April 2018 and then until the conclusion of a new agreement. In a letter dated 18 July 2018, the lenders approved a prolongation of the financing until 31 March 2020. The legal documentation in the form of an update of the loan agreement provisions is to be implemented in the near future.

[23] Lesen.net 2018: eBook Flatrate Kindle Unlimited laufen die Leser davon
[24] PresseReport 5. März 2018: www.presse-report.de/_rubric/detail.php?rubric=News&nr=21524#21524
[25] Own calculation based on Media Control figures for the 2017 calendar year

At the beginning of the new 2018/2019 financial year, the Executive Board continues to regard it as necessary to consistently improve the efficiency of the Group and the company. The comprehensive efficiency enhancement programme launched in January 2018 is proceeding according to plan. This includes the separation of subsidiaries and holding companies, staff reductions and the review of the publishing programmes, marketing and also processes. The first successes are visible and have already led to the separation of BuchPartner GmbH, as well as improvements in the publishing programmes and marketing. By the end of the current year, the Executive Board aims in the medium term to achieve sustainable improvement in the EBIT margin in the core business of 2 to 3 percentage points to 6 to 8 %.

## Earnings performance

The sales revenue fell over the 2017/2018 financial year from EUR 146.3 million in the 2016/2017 financial year to EUR 140.2 million. Positive impetus came mainly from the Book core business, as well as from the game developer and Publisher Daedalic ("digital" segment). In the "retail" segment, discontinued as of 31 March 2018, the sales revenues of the previous year could not be achieved.

The other capitalised self-constructed assets relate to the in-house developed games in the "digital" segment and amount to EUR 3.1 million in the 2017/2018 financial year, compared to EUR 3.5 million in the previous year.

The other operating revenue is EUR 4.4 million in the reporting year as compared to EUR 2.7 million in the previous year. This includes in particular earnings from the deconsolidation of BuchPartner amounting to EUR 3.2 million.

With a total of EUR 83.7 million, the cost of materials in the reporting year is at the same level as the previous year (EUR 83.7 million). Higher expenses for fees and amortisation of royalties were almost completely offset by lower expenses for purchased goods and services. However, the cost of materials for continuing business divisions increased by EUR 48.7 million to EUR 62.2 million. Amortisation of royalties increased to 22.4 million due to the increase in sales as well as an adjustment of the expected amortisation pattern. (previous year: EUR 6.3 million). The expenses for fees and amortisation of royalties include write-downs amounting to EUR 1.7 million (previous year: EUR 5.2 million).

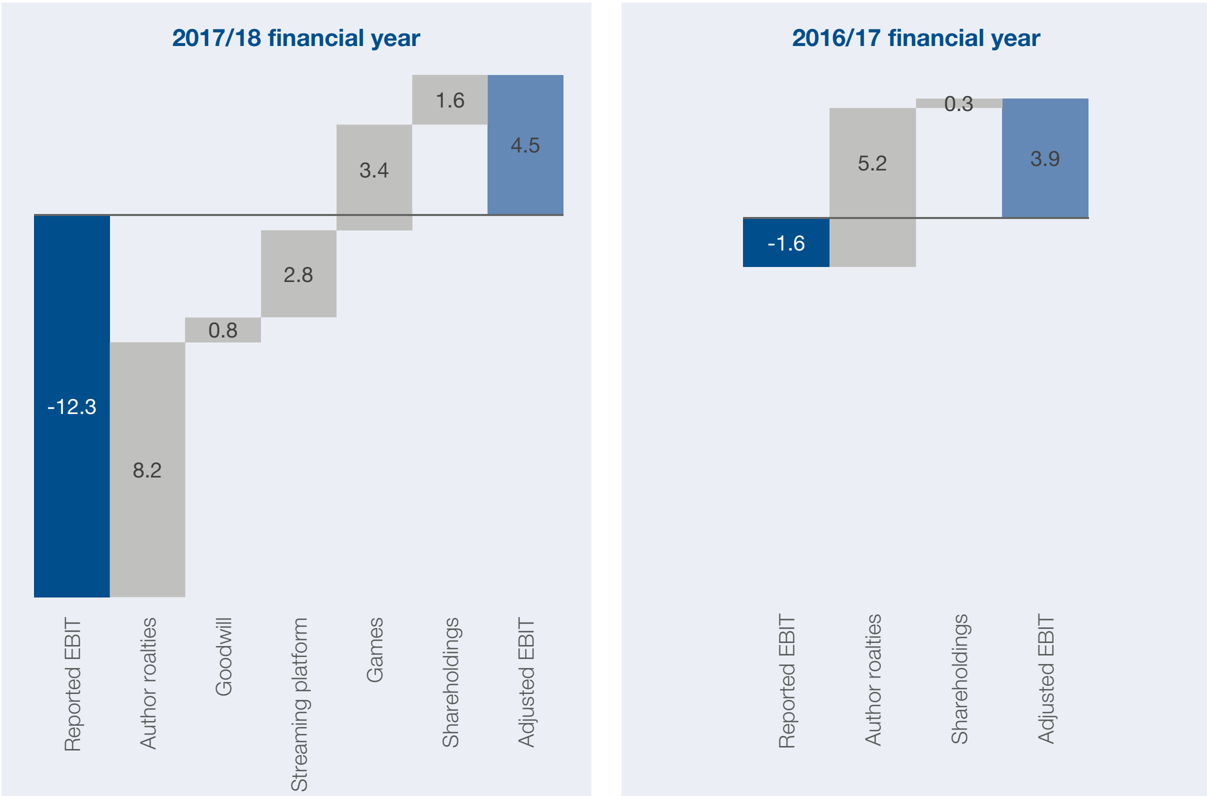
Personnel costs fell from EUR 30.6 to EUR 28.6 million. The decrease in personnel costs is due to the sale of the Räder division in the previous year ("non-book" segment; discontinued operation).

Other operating expenditure fell from EUR 36.5 million in the previous year to EUR 33.4 million. Here too, the decline resulted mainly from the sale of the Räder division in the previous year. After adjustment for discontinued operations ("retail" and "non-book") other operating expenses increased by EUR 24.4 million to EUR 26.7 million in the reporting year. The increase was mainly due to higher value adjustments on receivables from investments and increased advertising costs, particularly for the marketing of the bestselling novels by Dan Brown and Ken Follett.

Amortisation and depreciation of intangible assets and property, plant and equipment increased significantly by EUR 12.6 million to EUR 18.0 million (previous year: EUR 5.4 million). This includes impairments on goodwill and company value amounting to EUR 5.8 million and impairments of internally generated intangible assets and other intangible assets amounting to EUR 6.2 million.

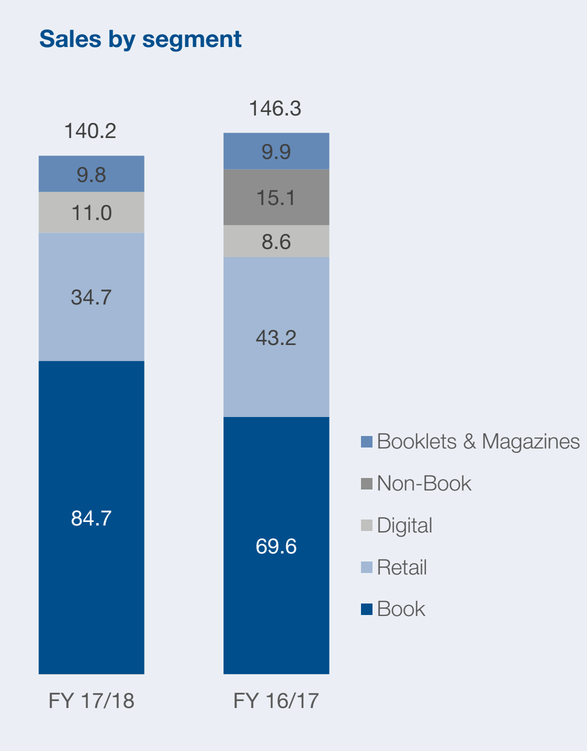
The result from Group operating activities (EBIT) in the 2017/2018 financial year fell to EUR -18.0 million (previous year: EUR -0.3 million). This is essentially the impairments on intangible assets of EUR 12.1 million as well as additional amortisation and impairments on advance payments of author fees of EUR 8.2 million.

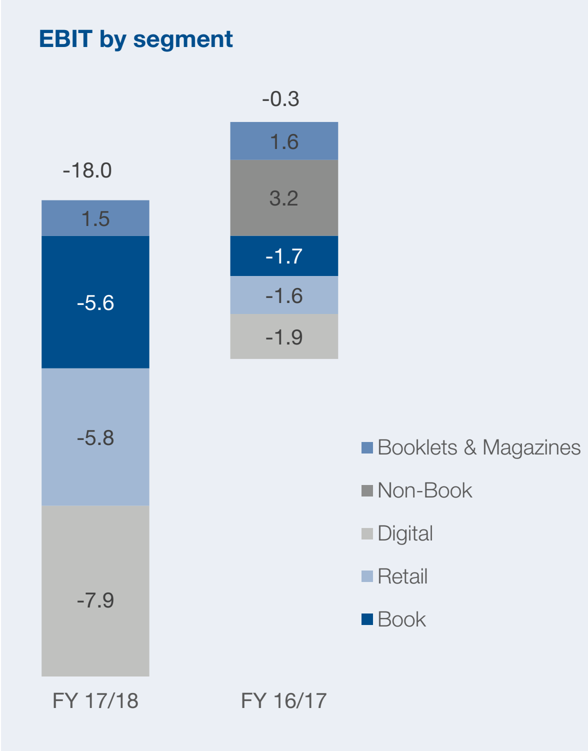
For the continued operations in the 2017/2018 financial year, the EBIT declined to EUR -12.3 million (previous year: EUR -1.6 million). In addition to the above-mentioned one-off effects in the valuation of activated author royalties of EUR 8.2 million, impairments on intangible assets and investments amounted to EUR 8.6 million. Adjusted for these expenses, the EBIT from continued operations amounted to EUR 4.5 million (previous year: EUR 3.9 million). The following overview shows the reconciliation of the reported to the adjusted EBIT.




The financial result shows net expenditure of EUR 1.7 million (previous year:) EUR 2.9 million). The Group result before income taxes amounted to EUR -19.8 million in the reporting year and was below the previous year's figure of EUR -3.2 million. Taking the income taxes into account, there was a net result for the period of EUR -16.2 million (previous year EUR -2.9 million), which is allotted to the shareholders of Bastei Lübbe AG with EUR -12.7 million (previous year EUR -2.1 million). Earnings per share amounted to EUR -0.96 compared to EUR -0.16 in the previous year. For this, a share quantity of 13,200,100 was taken as a basis in the period under review (unchanged from the previous year).

## Business Performance of Segments




Sales revenues in the “book” segment, which, starting with 1 April 2017 also includes sales of Bastei Lübbe AG digital ebook and audio products, increased in the past financial year by 21.7 % to EUR 84.7 million. This positive development is based on a broad foundation and is supported inter alia by the bestsellers by Dan Brown and Ken Follett, which finished first and second in the year sales ranking of the German book market. The 12th volume of the Greg series by US author Jeff Kinney captured 1st place in the year’s bestseller ranking of the children's and young adults’ book segment in just ten weeks. The operating result (EBIT) for the segment fell from EUR -1.7 million to EUR -5.6 million. Adjusted for one-time effects from the additional impairments on pre-paid royalties (2017/2018: EUR 8.2 million; previous year: EUR 5.2 million) and impairments on investments (2017/2018: EUR 1.6 million; previous year: EUR 0.3 million) in the “book” segment, the EBIT rose by EUR 0.4 million to EUR 4.2 million. Also from this perspective, a higher increase was originally expected.

In the discontinued “retail” operation, sales revenues were 19.5 % below the previous year and decreased from EUR 43.2 million in the previous year to EUR 34.7 million in the period under review. The decline in sales revenues resulted from an increased number of returns in the promotional business as well as lower sales in the bestseller and day-to-day business. The EBIT fell as a result of the decline in sales as well as the deconsolidation loss in the amount of EUR 1.6 million from EUR -1.6 million to EUR -5.8 million.

With a sales increase of 28.0 %, the “digital” segment increased its sales revenues to EUR 11.0 million. The main growth driver was the Daedalic subsidiary with the successful games "The Long Journey Home" and “Shadow Tactics”. The EBIT achieved EUR -7.9 million compared to EUR -1.9 million in the previous year. The impairments of intangible assets at Daedalic and oolipo amounting to EUR 6.2 million are the main reason for the loss.

Turnover in the "novel booklets and puzzle magazines" segment virtually repeated the previous year’s levels at EUR 9.8 million (previous year: EUR 9.9 million). The EBIT remained relatively stable, and decreased slightly from EUR 1.6 million in the previous year to EUR1.5 million in the reporting year.

# Financial position

## Principles and objectives for finance and capital management

### Objectives

The Bastei Lübbe Group financing strategy is based on the following objectives:

- Long-term preservation of the business
- Safeguarding of liquidity and financial flexibility
- Limiting financial risks

The following figures are also of particular importance within the context of finance and capital management:

- Equity or loan capital share
- The relation of net financial debt to the Group EBITDA

Bastei Lübbe fundamentally strives for an equity ratio of more than 40 % as well as a net financial debt ratio to the Group EBITDA of 2.5 or less. The equity ratio is below the target value and on 31 March 2018 was 31.9 %. The net financial debt to the Group EBITDA key figures also lay below the target value.

### Financing mix

The Executive Board is authorised by a resolution of the General Meeting of 30 November 2016 to increase the share capital of the company with the approval of the Supervisory Board by up to 10 %.

To ensure financial flexibility, Bastei Lübbe focuses specifically on a balanced mix of equity and debt financing. The external financing of Bastei Lübbe on the balance sheet date is as follows:

- Bank loans
- Recourse factoring

The syndicated loan is currently being renegotiated. The remaining term is expected to be until March 2020. The interest rate is variable and depends on achieving the agreed financial figures or covenants. Owing to the combination of long credit periods for our clients and high payments of guarantee royalties to authors prior to publication customary in the industry, Bastei Lübbe has a significant need for financing.

In line with the Group's structure, financing for Bastei Lübbe AG and other Group companies is dealt with separately. In particular, Daedalic Entertainment GmbH has its own credit financing.

The following criteria are considered by Bastei Lübbe when selecting the financing instruments:

- Flexibility in utilisation
- Credit support/covenants
- Maturity profile

**Dividend policy**

The Executive Board is still pursuing the aim of a dividend policy aimed at continuity in order for Bastei Lübbe AG shareholders to benefit from the success of the company with a share of 40-50 % in the annual distributable surplus. The precondition for this is the compatibility with the financing circumstances of the Group of companies and long-term and sustainable business development. In view of the negative consolidated net income for the year, therefore, the Executive Board and the Supervisory Board at the annual general meeting on 19 September 2018 once again proposed a suspension of dividend payment.

**Derivative finance instruments**

To limit the risk of interest on the long-term syndicated loan, an interest swap deal was concluded on 26 October 2016 for a credit volume of originally EUR 10 million with a term up to 26 November 2021 and a fixed interest rate of 0.75 %. The nominal amount of the derivative decreases every three months by EUR 0.5 million and, as a result, still accounts for EUR 7.5 million on the balance sheet date.

Moreover, three further interest swap deals have been concluded for a credit volume totalling EUR 3 million with a term up to 28 June 2019 and/or 30 June 2019 and a fixed interest rate of 3.0 %.

31 March 2018 saw a (negative) market value (fair value) for the interest derivatives amounting to KEUR -211 which is reported among the long-term financial liabilities. No hedging is undertaken on the balance sheet.

## Capital structure

On 31 March 2018, the Group liquidity reserves included liquid assets of EUR 0.9 million (previous year: EUR 1.2 million). Within the existing loan agreements are credit lines with a total volume of EUR 40.6 million. These credit lines were considered at 77 % on the balance sheet date. On 31 March 2018, the Bastei Lübbe Group had short- and long-term financial liabilities amounting to EUR 31.0 million (previous year: EUR 42.6 million). EUR 26.1 million of these (previous year: EUR 4.3 million) will become due in the next 12 months.

As at 31 March 2018, there was a net debt amounting to EUR 30.1 million (previous year: EUR 41.4 million). The reason for the decrease was the sale of the holding in BuchPartner GmbH.

## Liquidity analysis and investments

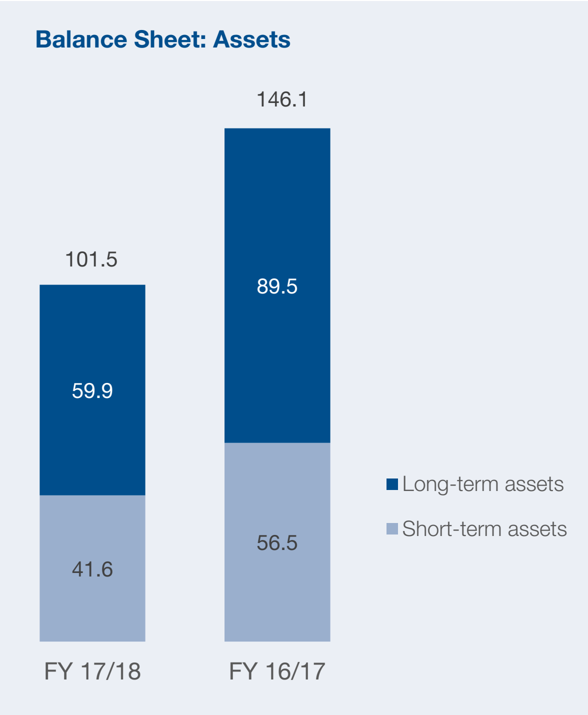
The cash flow from operating activities decreased Group-wide from EUR 11.5 million in the previous year to EUR 5.5 million in the reporting year. Liquidity tied up in trade receivables was released on a one-off basis by the conclusion of a factoring contract in the previous year. In addition, trade payables fell for the reporting year, which has resulted in a net cash outflow.

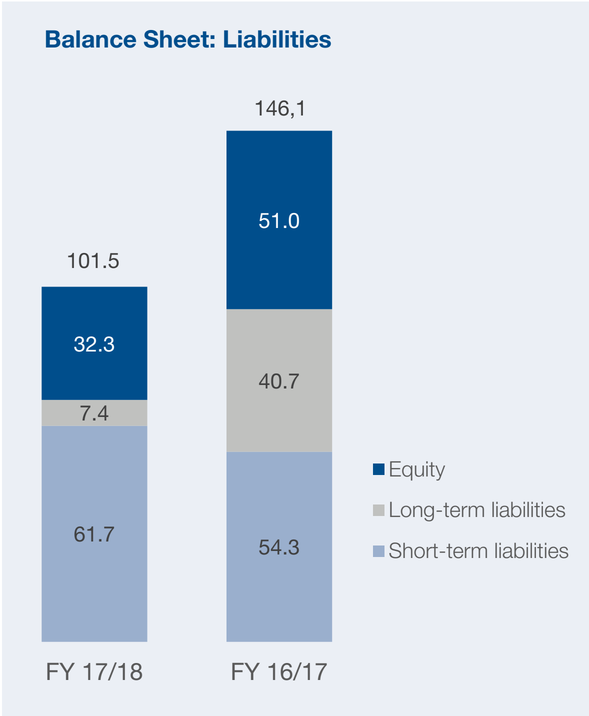
Cash flow from investment activities was EUR -0.5 million in the reporting period, compared to EUR -12.3 million in the previous year. The investment in intangible assets of EUR 4.6 million, as in the previous year (EUR 6.5 million) relates in particular the development of games at Daedalic Entertainment GmbH. The investments in property, plant and equipment (EUR 1.1 million) related primarily to Group-wide expansion and replacement investments. The Bastei Lübbe Group received cash (less cash and cash equivalents sold) in the amount of 5.1 million Euro from the sale of the investment in BuchPartner GmbH.

Cash flow from financing activity was mainly an outflow of funds totalling EUR 5.2 million in the reporting year (P. Y.: Outflow of funds EUR 2.0 million). Here, the payments for the redemption of (financial) loans exceeded the sum from the intake.

## Assets position

The Group balance sheet total compared to 31 March 2017, rose by EUR 44.6 million to EUR 101.5 million (EUR 146.1 million in the previous year). The reduction can primarily be attributed to the initial consolidation of BuchPartner GmbH but also the to the decline of the stock of pre-paid royalties and other intangible assets.




Long-term assets amount to EUR 59.9 million, compared to EUR 89.5 million as of 31 March 2017.

Intangible assets fell from EUR 39.9 million to EUR 21.2 million. This reduction is mainly related to the decrease in the goodwill and company value acquired against payment (from EUR 11.5 million to EUR 5.7 million, as a result of the impairment of the goodwill of BuchPartner GmbH, BEAM Shop GmbH and BookRix GmbH & Co.KG, and other intangible assets as well as the other intangible assets including pre-payments made (from EUR 19.3 million to EUR 7.9 million).

The inventory of pre-paid royalties fell from EUR 37.4 million to EUR 27.8 million. The reduction is primarily due to the fact that higher depreciation and amortisations in connection with the adjustment of the expected amortisation history were made as of 31 March 2018. At EUR 2.0 million, tangible assets fell by EUR 1.6 million, in particular due to the deconsolidation of BuchPartner. Financial assets decreased from EUR 4.4 million to EUR 3.6 million mainly due to impairment.

Current assets amount to EUR 41.6 million, following EUR 56.5 million as at 31 March 2017. This reduction of EUR 14,9 million is most notably a result of a decrease in inventory of EUR 30.2 million as at 31 March 2017 to EUR 18.5 million as at 31 March 2018, due to the deconsolidation of BuchPartner. The remaining current assets have remained somewhat constant.

The share of equity attributable to the parent company's shareholders amounts to EUR 31.1 million, lower than the previous year (EUR 43.9 million). The reason lies in the net period negative result of EUR 12.7 million applicable to the shareholders of the parent company

Long-term assets amount to EUR 7.4 million, compared to EUR 40.7 million as at 31 March 2017. Deferred tax liabilities decreased from EUR 4.3 million as at 31 March 2017 to EUR 1.2 million. The long-term financial liabilities amounted to EUR 34.4 million as at 31 March 2017, and were reduced to EUR 5.1 million, mainly as a result of non-compliance with the financial figures agreed in the syndicated loan agreement by regrouping in the short-term financial liabilities.

The short-term debt is EUR 61.7 million as at 31 March 2018, following EUR 54.3 million as at 31 March 2017. Financial liabilities fell from EUR 16.9 million in the previous year to EUR 33.1 million in the reporting year due to the above regrouping. Trade liabilities fell from EUR 28.4 million as at EUR 19.3 million, as a result of the deconsolidation of BuchPartner GmbH.

Provisions and other liabilities barely changed in comparison to the previous year.

# Subsequent Events

The relevant information can be found in the Notes to the Consolidated Financial Statements under Note 47.

# Forecast

## Economic conditions

In 2018 as well as the next year, the International Monetary Fund (IMF) predicts strong growth of global economic output by up to 3.9 %, driven by a dynamic economy, a favourable capital market environment and sustained favourable financing conditions, as well as expansionary fiscal policy in the United States.[26]

According to the Institute for World Economy in Kiel (IfW), economic expansion in Europe will gradually slow down. Thus, the external impulses should also be reduced due to the exchange rate, and the increase in production in some countries will be slowed down by increasing capacity constraints. However, the IfW forecast sees the economy continuing to move in an upward direction, supported by low interest rates and an expansionary fiscal policy. There will be little change in the rate of inflation within the euro area, according to Economic Research 2018 and 2019 and, compared to previous years, is expected to remain 1.5 %. Meanwhile, the decrease in unemployment is expected to continue, so, in the cases of faster wage increases, employment income will rise and continue to support consumption. According to the IfW, the economy in the euro area should expand in 2018 at a barely unchanged rate of 2.4 %. Relative to potential growth, output growth in 2019 will remain strong at 2.1 %.[27]

Following a dynamic increase of 2.2 % in the past year, according to the IfW, total economic production in Germany should accelerate further to 2.5 % in 2018. Further growth of 2.3 % is expected in 2019. The German economy is headed towards a boom. The IfW expects that rising employment will lead to growing income. As a result, consumption will also be stimulated by tax cuts and expansion in output of the new German Federal Government. Foreign trade is expanding dynamically, but with slightly lower rates. The inflation rate should move between a value of 1.7 % in 2018 and around 2.0 % in 2019. With the continuing growth in the utilisation of production capacities, the IfW anticipates that business investment will increase as a result of the necessary capacity expansions. Employment in Germany continues on an upward trend. In 2018, the rate of unemployment is expected to sink to 5.2 % and to 4.8 % in 2019.[28]

[26] International Monetary Fund (April 2018): World Economic Outlook: Cyclical Upswing, Structural Change
[27] Institut für Weltwirtschaft Kiel (March 2018): Weltkonjunktur im Frühjahr 2018
[28] Institut für Weltwirtschaft Kiel (März 2018): Deutsche Konjunktur im Frühjahr 2018

## Future industry situation

The economic situation of book retail looks promising in the first quarter of 2018 with sales growth of 5.2 % compared to the same period in the previous year (January to March). In March 2018, the Easter trade even brought double-digit sales growth of 12.2 % in the book trade compared to the previous year when Easter fell in April.[29] Meanwhile, the gap between book buyers and non-buyers is widening. Only 46 % of the population, which is less than half, appear as purchasers in bookstores. This is an increasingly dwindling number of intensive buyers, vis-à-vis a growing number of consumers who do not buy any books. The decline disproportionately affects the young (14-29 years) and the middle (30-59 years) age group - regardless of the level of education.[30]

According to the Börsenverein des Deutschen Buchhandels, this is due to the fact that social media with its high communication density is increasingly claiming the time budgets of users. The sector is nevertheless looking forward to the new year with optimism. With nearly comprehensive cross-channel activities, book retailers are responding to the needs of customers. It combines the benefits of local trade with those of online purchasing. Nevertheless bookshops and publishers are still being asked to develop convincing concepts to appeal to and retain customers, which reinforces the significance of books and of reading in society.[31] The coalition agreement between the CDU/CSU and SPD, whose policy is calling for a strengthening of the cultural and creative economy is also sending positive signals for the book industry. These include the restoration of publisher participation in the dividends of the collective administration associations, evaluation of the copyright law in the field of science and education, sales advertising for price-bound books and the reduced VAT rate for ebooks.[32]

According to the consultancy firm PricewaterhouseCoopers (PwC), the sales volume and composition of the German book market will also be primarily determined until 2021 by the respective customer preferences (print or digital products) in the individual segments, as well as by varying willingness to pay for this. The increase in sales revenues from ebooks is expected to help offset the downward trend in all print market segments in Germany. The demand for books in Germany will therefore remain very strong and robust and be able to continue to compete with entertainment media such as television and the Internet. This is also supported by demographic development in Germany. Increasingly affluent older people, who tend to have more time for shopping and reading, are willing to pay high prices for books in local bookstores However, the book market in Germany, according to estimates by PwC, will record an average annual decline of 3 % up to 2021.[33]

The market for ebooks still has untapped potential for growth. How big this is, however, is debatable. While the market research firm Statista estimates worldwide average annual growth of 3.3 % by 2022, in the case of Germany during the same period, an increase of 0.7 % per year is assumed. Overall, growth will slow down according to Statista.[34] [35] The experts at PwC, however, expect that the market for ebooks in Germany will grow by an average of 15.8 % annually until 2021.[36]

The market for electronic games (E-games) in Germany will also be marked in the coming years by dynamism, change and growth, according to a study by the consultancy firm PricewaterhouseCoopers (PwC). The experts at PwC expect the market for computer and video games to remain a dynamic growth market, forecasting average annual growth rates of 7.5 %. The growth driver is VR-technology (Virtual Reality) and the proliferation of VR glasses, the unprecedented variety of game platforms, as well as the convergence of computers and consoles. Additional impetus is coming from the rapid spread of smartphones and the increasing tendency to play video games on this medium. Even the video games market is becoming increasingly digital. Games are increasingly being purchased online, with players no longer tied to a manufacturer, but rather, thanks to the Play-Anywhere-phenomenon in the last few years, connected to each other across platforms.[37]

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[29] boersenblatt.net 2018: Ostern sorgt für Umsatzplus
[30] boersenblatt.net 2018: Der Buchmarkt verliert vor allem jüngere Käufer
[31] Börsenverein des Deutschen Buchhandels 2018: Buchmarkt 2017: Umsätze leicht rückläufig
[32] Börsenverein des Deutschen Buchhandels 2018: Positive Signale für die Buchbranche
[33] PricewaterhouseCoopers 2018: German Entertainment and Media Outlook 2017-2021 - Buchmarkt
[34] Statista 2018: ebooks Deutschland
[35] Statista 2018: ebooks weltweit
[36] PricewaterhouseCoopers 2018: German Entertainment and Media Outlook 2017-2021 - Buchmarkt
[37] PricewaterhouseCoopers 2018: German Entertainment and Media Outlook 2017-2021 - Videospiele

Based on wholesale segment development with current data from the 1st quarter of 2018 (source: DPV Vertriebsservice GmbH, 07/05/2018) a significant decline in turnover Euro sales price could be established across all items in 2018/Q1: -6.05 % to 2017/Q4 and -11.04 % to 2017/Q1. In comparison, the decline in sales in 2018/Q1 to 2017/Q4 at -4.02 % is lower, mainly due to price increases.[38] In the course of the year, it can be clearly seen that the demand for all wholesale items (= delivery quantity) continues to decrease steadily and 2018/ Q1 is 13.0 % below 2017/Q1. This trend is confirmed by the IVW quarterly report 2018/Q1, development of the market segments: Over all item groups, the IVW showed a sales decline of 7.0 % as of 2017/Q1, with the segments Travel, Youth and Food magazines being particularly affected.

If one looks only at the novels and puzzles segment, the decrease in sales in 2018/Q1 to 2017/Q4 is still significantly higher than in the overall market at 9.95 % and as at 2017/Q1 with 18.09 %. Sales volumes declined in 2018/Q1 compared to 2017/Q1 by as much as 18.52 %. The increased number of titles on the other hand, and the sharp decline of selected retailers on the other is striking compared to the previous year. This trend also characterises the Bastei Lübbe AG puzzle magazines. Demand was strongly reduced in the course of the past year, and led to declining sales in most cases.[39]

After nearly a year of difficult negotiations, seven publishers of the so-called publisher coalition and the German association Presse-Grosso reached an agreement on the conditions under which press wholesalers will supply the retail trade press with newspapers and magazines from 1 March 2018. The term of the new agreement is five years. The aim was to preserve and safeguard the future of press diversity in Germany through comprehensive and non-discriminatory distribution of newspapers and magazines in partnership with a powerful, open, efficient and sustainable wholesale system.

Criticism of the new agreement was expressed, among others, by the Hamburg-based working group of small and medium-sized publishers (Arbeitskreis Mittelständischer Verlage, AMV), to which Bastei Lübbe AG belongs. The AMV has filed a request with the Federal Cartel Office for the authority to check whether the new rules on trade margins, which the seven publishers of the so-called publishing coalition and the German association Presse-Grosso agreed to at end of February, are unlawful due to discriminatory behaviour. A ruling from the Federal Cartel Office is not yet available. In particular, the introduced penalty for failing to reach a minimum number of sales per item and retailer met with resistance from small and medium-sized publishers.

In a time of fiction books and digital media, novel booklets, with their millions of copies and a loyal readership, are an attractive niche in the book market. Moreover, publishing houses are continuing to develop the lucrative niche and are revitalising the novel booklet as an ebook in several respects. This development is supported by the need for a happy ending in uncertain times. Via digital media, it is also possible, at low marginal costs, to reorder published editions previously only printed as novel booklets and to offer titles that are only published electronically; in the genres of steampunk, gender romance and erotica, for example.[40]

## Expected earnings and financial position of the Group

The Executive Board is looking ahead with confidence at the progress of the current financial year 2018/2019. On the one hand, the publishing group has an attractive autumn programme for 2018. In addition to volume 13 of "The Diary of a Wimpy Kid", which is considered a safe sales candidate, the successful author Timur Vermes will build on the success of “Look who‘s back” with a sensational political and media satire. Authors from publishers LYX and Lübbe Paperback, first and foremost Mona Kasten and Petra Hülsmann, are also bestseller guarantees; the paperback edition of Dan Brown’s “Origin", which will appear in September is a sure bestseller contender for the No. 1 spot.

[38] DPV Vertriebsservice GmbH, 07/05/2018
[39] DPV Vertriebsservice GmbH, 07/05/2018
[40] Süddeutsche Zeitung 2017: Ein bisschen Glück für 1,80 Euro

On the other hand, after intensive analysis and following the portfolio streamlining, the Board now assumes that concentrating on the core business has also substantially improved the predictability of the earnings situation. Both in terms of the negative one-off effects in the case of shareholdings, as well as for the activated royalties, from today's perspective, all the necessary steps have been taken and their effects have been incorporated into the balance sheet. At the same time, the consistently guided and implemented efficiency programme should exert its positive effect.

The Group sales forecast for the current 2018/2019 financial year is expected to be approximately EUR 95 million (reporting year: EUR 140 million). It should be taken into account that, in comparison to the reporting year, approximately EUR 35 million of sales revenues will be missing in the 2018/2019 financial year due to the sale of BuchPartner GmbH. The main contributions come from Bastei Lübbe AG and amount to around EUR 88 million, of which around EUR 78 million (reporting year: EUR 85 million) is attributable to the “book” segment. In the reporting year, the two blockbusters from Dan Brown and Ken Follett provided an additional sales boost. A sales revenues of EUR 10 million is expected in the “digital” segment (reporting year: EUR 11 million), primarily attributable to the subsidiary Daedalic Entertainment GmbH. Sales in the "novel booklets and puzzle magazines" segment should amount to around EUR 10 million as in the reporting year

Despite the expenses for the efficiency programme in the order of EUR 2 million, as well as for the adjustment of the investment portfolio of around EUR 0.5 million in the current fiscal year, a positive operating result (EBIT) of between EUR 0.5 and 2 million is expected once again. For the "book" segment, taking into account the aforementioned one-off expenses, a positive EBIT of up to EUR 1 million is expected (previous year: -5.7 million); for "digital", a negative EBIT in the order of EUR 0.5 million is expected (previous year: EUR -7.9 million), and for "novel booklets and puzzle magazines” an EBIT of around EUR 1.3 million is aimed at (previous year: EUR 1.5 million).

In the next financial year 2019/2020, normal profitability of the Group should again be achieved with an EBIT margin of between 6 and 8 percent with smaller sales growth.

The financial planning of the Bastei Lübbe Group assumes that the net debt as at 31 March 2019 should be at the level of the reporting year (EUR 30.1 million).

## General statement on the expected development of the Group

Against the background of the individual items discussed above and the assessment of future industry development, the Executive Board considers positive development realistic. The improvement in profitability is given higher priority and is more heavily weighted than the expansion of business activities. The Board aims to increase the long-term EBIT margin to at least 6 %. In addition, the balance sheet figures, in particular, equity ratio and debt-to-equity ratio need to be steadily improved.

But the following still applies: The achievement of financial goals reflects a functioning business model. By focusing on the long-term proven core "book" segment, the Executive Board has set the appropriate course.

# Risk Report

## Risk management system

One of the main tasks of the Executive Board is to secure and sustainably develop the company's success in the long term. The Bastei Lübbe Group is exposed as part of its activities in its business segments to basic risks that are always associated with entrepreneurial activity.

In 2017/2018, the Executive Board adopted a new and comprehensive risk management system (RMS), which will also be continuously further developed in the future. The aim of this risk management system is to promptly identify risks for the Group so that counter-measures can be taken and controls implemented. The principles are regulated by a Risk Management Policy. Clear, appropriate and controllable risks are entered into consciously where a reasonable rate of return is to be expected. Risks are covered by insurance where possible. Suitable countermeasures are taken for all other risks, and adherence to these measures is regularly monitored. The countermeasures and risk situations are revised and updated as required but at least once a year. This also occurred in the 2017/2018 financial year.

The RMS covers all consolidated subsidiaries, as well as other subsidiaries, and risks are recorded according to uniformly defined categories and documented in a risk inventory. The risks are then evaluated on the basis of probability and possible amount of loss.

Today, the system regulates the recognition and examination of risks in the following areas in particular:

- Operative risks
- Financial risks
- Strategic risks
- Personnel risks
- Regulatory/legal risks

Overall risk management is the responsibility of the Executive Board. The Executive Board defines the risk policy and decides on the risks to be taken as well as on the steering measures. The Executive Board is informed immediately when risks emerge that have a major impact on the Company. The Board regularly discusses the risk management system in board meetings and frequently reports to the Supervisory Board on the risk management system.

Despite these efforts, the opportunity and risk management system cannot guarantee total certainty with regard to the achievement of the related objectives. As with all discretionary decisions, those taken with regard to the implementation of appropriate systems can be fundamentally flawed. Controls may not be functional in individual cases due to errors or mistakes, or changes to situational variables may not be recognised until a later stage despite appropriate observation. The same applies to intentional acts of damage caused by individuals.

## Accounting-related risk management system (RMS) and internal control system (ICS)

The goals of the accounting-related risk management system and internal control system are to ensure the reliability of external and internal accounting and the timely provision of information. In addition, reporting should be a representation of the asset, financial and profit situation of Bastei Lübbe corresponding to the true circumstances. One core function of the accounting and financial reporting processes is the steering of Bastei Lübbe AG and its operational units.

As a general rule, the four eyes principle is implemented for reporting and as part of the closing processes. In addition, organisational measures are in place in connection with access permission to accounting and financial systems. The accounting-related business data of the integrated Group companies are collected together at Group headquarters. Group headquarters monitors compliance with accounting provisions as well as content-related compliance with work-flows.

Significant information and facts that are relevant to the accounting of the integrated Group companies are discussed with the individual departments before compilation, and are critically assessed by accounting as to their conformity with the applicable accounting regulations. The content of the final reports of the included Group companies is analysed regularly and is checked for accuracy involving other departments. If necessary, Bastei Lübbe engages external support in the preparation of the consolidated financial report.

For the preparation of the Group Management Report, the individual financial statements as well as supplementary information in the LucaNet consolidation software are adjusted and checked. All consolidation transactions, as well as the reconciliation of local individual financial statements to the IFRS accounting standard are carried out and documented centrally.

Aside from risks arising from non-compliance with accounting regulations, risks could also arise from the failure to meet formal dates and deadlines. To avoid this sort of risk, and also in order to document work-flows within the preparation of the consolidated financial report, Bastei Lübbe has created a reporting calendar. It provides information on the time-line and on responsibilities. Bastei Lübbe uses the calendar to monitor compliance with the predetermined work-flows as well as with predetermined deadlines. This enables status tracking so that risks can be recognised promptly and eliminated.

## Significant risks

In addition to the general business risk, the Group is also exposed to the risks outlined below. These are classified into the classes A, B and C in a review period of two years according to the expected loss amount in descending order, as shown in the following diagram. The specified loss amount involves a net consideration of the effect on the EBIT.

| Loss amount in EUR million. | (5) very low (0 to <10) | (4) low (11 to <25) | (3) medium (26 to <50) | (2) high (51 to <75) | (1) very high (76 to 100) |
|---|---|---|---|---|---|
| (1) very high (>5) | B | A | A | A | A |
| (2) high (2.5 to ≤5) | B | B | A | A | A |
| (3) medium (1 to ≤2.5) | B | B | B | A | A |
| (4) low (0.25 to ≤1) | C | C | B | B | A |
| (5) very low (to 0.25) | C | C | C | C | B |

Probability of occurrence (in %)

## Unscheduled development of holdings

Bastei Lübbe's economic success will continue to depend on the future results of our holdings. There is a risk associated with the shareholdings that expected results will not be achieved.

Shareholdings are steered by Bastei Lübbe with performance in mind. Monthly business evaluations of the holdings are compiled, sometimes each month, but at least each quarter. These are compared with the target figures and the figures from the previous year. Deviations are analysed.

There are regular telephone calls and face-to-face discussions between the Executive Board and the management of the holdings. In this way, Bastei Lübbe AG is informed of the economic development of and results from the holdings in good time, and has the opportunity to counteract any potential undesirable developments.

The income statements and selected key business figures are analysed by means of a standardised monthly reporting system. Deviations from the annual targets are reported to the Executive Board as part of the reporting system.

The risk here is classified as an A risk assigned a median probability of occurrence.

## Liquidity risks

Liquidity risks arise from the possible inability of the Bastei Lübbe Group to fulfil existing or future payment obligations owing to a lack of sufficient means of payment. As a Group, Bastei Lübbe is required to finance a large proportion of its business in advance. Authors generally receive their payments by the time the book is released. The booksellers, respectively platforms, have a relatively long payment term. The same applies to the so-called secondary markets. In this respect, Bastei Lübbe must always finance a significant amount in advance. Bastei Lübbe's financial risk is split across several bodies. On the one hand, Bastei Lübbe has concluded a syndicated credit agreement with Commerzbank AG as lead manager and Deutschen Bank AG and Sparkasse Cologne-Bonn as underwriters. The same applies to significant subsidiary companies. They have also concluded long-term finance agreements with their principal banks. In addition, Bastei Lübbe AG finances itself by means of recourse factoring. There are regular meetings with the banks.

A significant risk for non-compliance with the agreed financial indicators could arise out of the syndicated credit agreement with Bastei Lübbe AG, given that the banks are entitled to special rights of termination in the event of non-compliance with the indicators. The agreed financial indicators are, on the one hand, the maximum observed debt level on a Group level at a certain time and, on the other hand, are a minimum EBITDA for Bastei Lübbe AG. In the event of non-compliance, there is the opportunity to negotiate with the consortium of banks to avoid terminating the agreement. The covenants agreed in the syndicated loan agreement could not be complied with as of 31 March 2018. In this respect, we refer to the comments on the course of business in the economic report. In letters dated 28 March 2018 and 30 April 2018, the lenders waived their right to terminate by the conclusion of a new agreement. In a letter dated 18 July 2018, the lenders approved a prolongation of the financing until 31 March 2020. The legal documentation in the form of an update of the loan agreement provisions is to be implemented soon. In the amended contract, too, adjusted financial figures will need to be agreed, with the risk of non-compliance.

The risk here is classified as an A risk assigned a median probability of occurrence.

## Promising titles absent from range

It is possible that, at the beginning of a financial year, not enough titles, top titles in particular, were bought in the "book" segment to generate the necessary sales revenues and profit for the year. Too little sales revenue can lead to losses, given that fixed costs cannot be quickly reduced.

Bastei Lübbe plans content within a time-frame of 18 to 24 months. This applies to all divisions. There is a list of contents, arranged according to genre, content and release date. This arrangement means that it can be identified early on if one or more titles are lacking in a genre for the fiscal year. Lists are compiled in a timely manner and made available to management and the Executive Board on a monthly basis. The same issue also applies in principle for the “digital” segment when developing games. Here, lead time is actually more than three years, i.e. title planning here follows the same pattern as in the “book” segment. A lack of profitable titles in the programme can be detected early. As a result of the lead time, there is sufficient time to move available titles to the front or purchase more titles.

The risk here is classified as an B risk assigned a median probability of occurring.

## IT risks

The disturbance of the operational processes due to downtime of essential IT systems represents a permanent risk for the Group. Bastei Lübbe has its own IT department. Significant tasks are outsourced so that the Company can remain capable of operating without internal IT structures for a certain time, at least. This means that the direct economic risk is reduced considerably. Particular mention should be made here of our central delivery point with its debtor management, which uses traditionally-accessible banking for incoming and outgoing payments, as well as the outsourced services of the payroll department.

The resulting risk is classified as an B risk assigned a low probability of occurring.

## Personnel risks

The future economic development of the Bastei Lübbe Group is substantially supported by the commitment and performance of employees. The Group is confronting the growing competition for highly qualified specialists and managers through targeted staff development measures aimed at ensuring long-term employment relationships.

The risk here is classified as an B risk assigned a median probability of occurring.

## Risks as a result of the payment of excessive guarantees

In the evaluation of prepaid royalties, a lack of demand for the purchased title threatens high impairment losses that could affect the EBIT of Bastei Lübbe. All rights are pre-calculated and the yield potential is assessed as part of a documented process. When assessing the potential of the title to be purchased, both predecessor titles and, especially in the case of new writers, also comparable titles from other publishers should be looked at.

The risk here is classified as an B risk assigned a median probability of occurring.

## Data protection as well as protection of data against unauthorised actions

In order to avoid financial loss and loss of reputation, responsible and lawful handling of data is essential. The statutory provisions of the German Federal Data Protection Act (BDSG) were adopted by the Bastei Lübbe Group and implemented in the operating business. When dealing specifically with customer data in the framework of statutory provisions, organisational and technical measures were implemented to insure compliance. In addition, in this regard, regular optimisation of internal processes (also with the help of external expert advice), as well as the IT landscape is carried out. The field of data protection is also strongly linked with the topic of information security. There are regular security checks of the IT systems.

The resulting risk is classified as an B risk assigned a very low probability of occurrence.

## Inability to deliver titles

The business is significantly affected by the ability to deliver titles, especially in the "book” segment. Customers increasingly plan their purchases at short notice, so very successful titles can cause supply bottlenecks. Reprints can usually be implemented within 14 days, so the ability to supply can be restored relatively quickly.

The risk here is classified as an B risk assigned a median probability of occurring.

## Changes in the market and competition in the public market for entertainment literature

Bastei Lübbe publishes entertainment literature in physical and digital formats and markets its offerings through distributors as well as a limited number of ebooks on its own platform. The public market is currently under pressure because reading and leisure habits are changing. On the sales side, there is increasing concentration and the growing range of alternative entertainment is attracting attention and reducing reading time. Bastei Lübbe is actively using the possibilities offered by consumer research to counteract decreasing sales by adopting targeted measures to improve communication and marketing activities, as well as continually optimising the range.

The risk here is classified as an B risk assigned a median probability of occurring.

C risks are not listed in detail here because of their negligible impact. C risks cannot be aggregated due to their independence from each other.

In addition, the following potential risks not quantified in the risk management system (RMS) but under constant observation are:

## Financial risks

There are a number of financial risks for the Bastei Lübbe Group. These include the effects of exchange rates and interest rates, as well as the default and liquidity risk. Risks arising from the use of financial instruments are not significant for the Group.

The Bastei Lübbe Group companies essentially operate in the euro area, so that it is only to a limited extent dependent on the development of exchange rates outside the euro currency zone. Interest swap deals for a credit amount of originally EUR 13 million (EUR 10.5 million as at the balance sheet date) with a term running up until 26 November 2021 or 30. June 2019 have been made to restrict the interest rate risk.

As part of liquidity management, it is ensured that sufficient financial resources are available to the Bastei Lübbe Group for the current business and for investment. The risks in the claim area are limited by means of credit checks and credit management systems

## Overall statement on the risk situation of the Bastei Lübbe Group

From today's perspective based on the known information, it should be noted that there are no risks that could threaten the continued existence of the company and no such risks have been identified for the future.

# Opportunity Report

As well as reducing and avoiding risk, Bastei Lübbe's risk management programme includes the long-term securing of the Company by balancing opportunity and risk. This means that opportunities are regularly identified, analysed and evaluated as to how the Company might target and exploit them. Opportunities lie in the following areas:

- Strategic opportunities, such as market opportunities, changes in competition, developments with customers and suppliers
- Operative opportunities
- Financial opportunities
- Personnel opportunities
- Regulatory/legal opportunities

The identified significant opportunities will be described below:

## Strategic opportunities

Strategic opportunities arise from altered market conditions. Bastei Lübbe has identified digitisation and changing customer reading habits as being particularly influential trends for the future of the business.

### Opportunities through digitalisation

Increasing digitalisation enables Bastei Lübbe to access new areas of business. Over the past few years, electronic eBook readers such as Kindle or Tolino, which provide the customer with a convenient, digital reading experience, have been developed and have come to be used more and more. Books are also increasingly being read on smartphones or tablets. An increasing number of artists in the music and film industries are still only offering their digital content over the Internet.

Bastei Lübbe began to develop and market digital content very early on. In doing so, it assumed a pioneering role in the German-speaking European region in the digital book and audio business. This should be developed further in the future.

### Opportunities through changed reading habits

People's reading habits are changing. Some people now want in digital form the content that they read before in analogue form. Others read less often or are frequently not reading books at all, as they spend their time on their smartphones.[41] Publishers must react to these altered reading habits and address this young group of buyers with an appropriate range of material, for example. With imprints such as LYX and ONE, Bastei Lübbe is successfully supplying young audiences with analogue and digital material. The company is breaking new ground in terms of content and marketing. Concentrating on small, very clearly defined target groups enables efficient end-user marketing on the web, and ensures high repeat purchase rates.

### Other opportunities

Bastei Lübbe also tries to take advantage of other opportunities that come along. For example, raising profit with the same or lower expenditure by acquiring a promising title on favourable terms or through efficient processes (operative opportunities). We also try to utilise highly-qualified, competent managers and employees to the best of their abilities (personnel opportunities). Other opportunities may arise from changes in the legal or regulatory framework.

[41] www.buchreport.de/nachrichten/verlage/verlage_nachricht/datum/2015/04/22/warum-bedroht-candy-crushden-buchmarkt-herr-markowetz.htm

# Supplementary information about Bastei Lübbe AG (in accordance with HGB)

## Bastei Lübbe AG business and financial performance

Bastei Lübbe AG, as the parent company of the Bastei Lübbe Group, is, in terms of the course of business, the situation, as well as the expected development with its significant opportunities and risks, on the one hand dependent on the development of the "book" and "novels and puzzles magazines" segments, as well as the development of the subsidiaries on the other hand.

## Profit and loss account for the financial year from 1 April 2017 to 31 March 2018 in accordance with German Commercial Code

| (in KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| **Sales revenue** | **95,983** | **98,008** |
| Increase in inventories of finished goods and work in progress | -1,868 | 3,396 |
| Other operating income | 794 | 5,315 |
| Material expenses | -56,965 | -52,745 |
| Personnel expenses | -17,072 | -19,175 |
| Amortisations | -7,029 | -4,429 |
| Other operating expenses | -27,507 | -27,287 |
| Income from investments | 396 | 349 |
| Miscellaneous interest income and similar revenues | 343 | 251 |
| Amortisation of financial assets and investments classified as current assets | -1,914 | -806 |
| Interest payable and similar expenses | -1,373 | -2,329 |
| Taxes on income and earnings | 718 | -645 |
| **Net loss for the year** | **-15,496** | **-99** |
| Retained earnings brought forward | 1,092 | 1,190 |
| **Consolidated net income/net loss for the financial year** | **-14,404** | **1,092** |

Revenue amounting to EUR 105 million were planned for Bastei Lübbe AG and it achieved EUR 96.0 million (previous year: EUR 98.0 million). With regard to the development of Bastei Lübbe AG, it should be taken into account that, in the previous year, approximately EUR 15 million of sales revenues had to be compensated in the 2017/2018 financial year due to the sale of the Räder division.

The business performance of the segments “books”, “novel booklets and puzzle magazines” was described on page 38 in the "Business performance of the segments" section.

The loss from the sale of the stake in BuchPartner GmbH in the amount of EUR 4.5 million is included in other operating expenses.

Write-downs on assets of current assets refer to loans to Group companies and increased by EUR 3.3 million to EUR 5.7 million in the reporting year.

Income from investments of EUR 0.4 million (previous year: (EUR 0.3 million) are made up of profits from the Czech Moravská Bastei MOBA s.r.o, as well as dividends from various press wholesalers.

Depreciation of financial investments amounted to EUR 1.9 million (previous year: EUR 0.8 million) and refer to Group companies.

On average in the 2017/2018 financial year Bastei Lübbe AG had 253 employees (previous year: 293).

The net loss for the year was EUR 15.5 million compared to EUR 0.1 million the previous year. The forecast for the EBITDA of 9 to 11 million was not met mainly due to the extraordinarily high one-off burdens from the additional amortisation on author royalties (EUR 8 million), amortisation of loans (EUR 5.7 million), and the loss from the sale of shares in BuchPartner GmbH (EUR 4.5 million).

## Bastei Lübbe AG financial position

As at 31 March 2018, the Bastei Lübbe AG liquidity reserves included liquid assets of EUR 0.8 million (previous year: EUR 0.2 million). Within the existing loan agreements are credit lines with a total volume of EUR 30.6 million. These credit lines were considered at 85 % on the balance sheet date. On 31 March 2018, Bastei Lübbe AG had liabilities to banks amounting to EUR 25.9 million (previous year: EUR 34.1 million).

## Assets position of Bastei Lübbe AG

| Assets (in KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| **Fixed assets** | | |
| Intangible assets | 2,741 | 3,415 |
| Tangible assets | 1,543 | 1,697 |
| Financial investments | 11,726 | 23,923 |
| | **16,010** | **29,035** |
| **Inventory of pre-paid royalties** | **27,770** | **37,376** |
| **Current assets** | | |
| Inventories | 18,421 | 20,362 |
| Receivables and other assets | 20,977 | 24,343 |
| Credit balances at financial institutions | 776 | 190 |
| | **40,174** | **44,895** |
| **Deferred income items** | **586** | **743** |
| **Total ASSETS** | **84,541** | **112,049** |

Compared to 31 March 2017, the balance sheet total fell by EUR 27.5 million to EUR 84.5 million (EUR 112.0 million in the previous year). The reduction is due in particular to the decrease in the financial investments and the inventory of pre-paid royalties.

Financial investments decreased from EUR 12.2 million to EUR 11.7 million, EUR 10.2 million of which was from the sale of BuchPartner GmbH.

The inventory of pre-paid royalties fell from EUR 37.4 million to EUR 27.8 million. The reduction is primarily due to the fact that higher amortisation and unscheduled amortisations in connection with the adjustment of the expected amortisation history were made as of 31 March 2018.

Current assets decreased primarily due to the decline in inventories from EUR 44.9 million to EUR 40.2 million.

| Liabilities (in KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| **Equity** | | |
| Issued capital | 13,200 | 13,200 |
| Capital reserves | 26,659 | 26,659 |
| Retained income | 100 | 100 |
| Net profit | -14,404 | 1,092 |
| | **25,555** | **41,051** |
| **Accruals** | **10,883** | **10,296** |
| **Liabilities** | | |
| Liabilities to banks | 25,930 | 34,060 |
| Trade payables | 15,326 | 17,490 |
| Other liabilities | 6,789 | 9,033 |
| | **48,045** | **60,583** |
| **Deferred income items** | **57** | **119** |
| **Total LIABILITIES** | **84,541** | **112,049** |

Equity amounts to EUR 25.6 million, lower than the previous year (EUR 41.1 million). This is due to the net loss for the year of EUR 15.5 million.

Accruals amount to EUR 10.9 million, compared to EUR 10.3 million as at 31 March 2017. The provisions mainly include remission provisions amounting to EUR 7.1 million (previous year: EUR 5.5 million), which have increased according to the increased relevant sales.

Liabilities decreased from EUR 60.6 million to EUR 48.0million. The decrease is primarily from lower liabilities via-à-vis banks arising from agreed repayments.

## Bastei Lübbe AG risk situation

The risk situation is essentially the same as for the Bastei Lübbe Group and was presented on page 46 in the section "Risk Report".

## Forecast for Bastei Lübbe AG

The development of Bastei Lübbe AG mainly depends on the development of the segments “books”, “novel booklets and puzzle magazines”. Total revenue amounting to EUR 88 million is expected, of which around EUR 78 million (previous year: EUR 85 million) is attributable to the “book” segment. Sales in the "novel booklets and puzzle magazines" segment should amount to around EUR 10 million as in the previous year Despite the expenses for the efficiency programme in the order of EUR 2 million, as well as for the adjustment of the investment portfolio of around EUR 0.5 million in the current fiscal year, a positive operating result (EBIT) of between EUR 1 and 2 million is expected once again (previous year: EUR -15.2 million). For the "book" segment, taking into account the aforementioned one-off expenses, a positive EBIT of up to EUR 1 million is expected, and for "novel booklets and puzzle magazines” an EBIT of around EUR 1.3 million is aimed at.

# Remuneration Report

## Executive Board remuneration

At the AGM held on 22 November 2017, the Supervisory Board approved the introduction of a new remuneration system for Executive Board members of Bastei Lübbe AG that was proposed on 6 June 2017. Taking account of the customs of the sector and internal compensation tables (verticality), the new system ensures, in particular, compliance with the requirements of the German Stock Corporation Act and the German Corporate Governance Code.

The structure and elements of the new remuneration system are as follows:

- The new remuneration system will continue to consist of fixed and performance-related (variable) components.
- The on-target ratio of basic salary to performance-related remuneration amounts (100 % achievement of goals) is approximately 60: 40.
- The on-target ratio of annual to multi-year variable remuneration is (100 % target achievement) 40: 60.
- Fringe benefits essentially include the use of a company car and insurance services.
- As a rule, no additional occupational pension is granted to members of the Executive Board.
- There is an individual right to choose between basic salary and a contribution to the pension scheme.

For special services, and if there is particular economic success of the company, the Supervisory Board may at its sole discretion decide on an additional voluntary management bonus, up to a maximum of the target value of the annual variable remuneration.

### One-year variable compensation

- The one-year variable compensation of Executive Board members relates to the EBIT of the Bastei-Lübbe Group (performance target). The previous EBITDA assessment is terminated, in order to also include the amortisations of assets of the Group of companies in the performance-based remuneration.
- In the event of an achievement of goals of 75 %, 50 % of the target bonus will be paid, below this value, claims become void (barrier to entry). The annual remuneration increases to 200 % of the target bonus up to a goal achievement level of 150 %.
- The Supervisory Board has the option of adjusting one-year variable compensation at its discretion in a framework of 80 % to 120 % (discretionary multiplier). For example, meeting strategic objectives and/or outstanding individual performance can be taken into account.
- The maximum amount of the annual variable remuneration is limited to 200 % of the target value, including a possible, discretionary share.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Target value | X | Achievement of goals EBIT performance target | = | Computed result | X | Discretionary multiplier | = | Payment (in cash) |

## Multi-year variable compensation

- As multi-year variable compensation, so-called performance share units (PSU) (performance-based shares) are granted to Board members.
- The PSUs will be granted annually. The starting point is the target value divided by the share price at the beginning of the period (average of the closing prices for 30 trading days prior to commencement of the term). The target value is defined as the contractually agreed multi-annual variable compensation in the event of 100 % goal achievement.
- The PSUs granted annually will be assessed after a 3-year period and then be paid out in cash to the Executive Board.
- At the beginning of the term, a target value for the average earnings per share is calculated on the basis of medium-term planning (for the calculation, see the Bastei Lübbe AG Annual Report) over the 3-year period.
- As for the annual variable compensation, the barrier to entry is a target achievement level of 75 %; with an average target achievement of 150 % over the 3-year period, the number of shares granted at the beginning of the first year increases by the factor of the target achievement (up to a 150 % cap).
- The share price at the end of the 3 years is taken into account when determining the amount paid out. The relevant increase of the share price to be taken into consideration may rise compared to the baseline up to a maximum of 250 %.
- The maximum payout from the long-term sector is thus limited to 375 % of target value.
- If the Executive Board should resign before the end of the 3-year period, the bonus is calculated after expiry of this period and the payment is pro rata.
- The beginning of the first 3-year period is 1 April 2018 or 1 April 2019.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Target value (converted into virtual shares) | X | Achievement of goals EPS (over three years) | = | Final number of virtual shares | X | Share price (at end of period) | = | Payment (in cash) |

In the event of premature termination of their Executive Board mandates, no payments will be made to Executive Board members that exceed the value of two annual salaries, including ancillary benefits, or compensate more than the remaining term of the contract ("severance payment cap" according to Section 4.2.3 para. 4 of the German Corporate Governance Code). If the employment contract is terminated for good cause for which the Executive Board member is responsible, no payments are made to the Executive Board member. The severance cap shall be calculated on the basis of the total remuneration paid for the previous financial year and, if appropriate, shall take into account the expected total remuneration for the current financial year (Section 4.2.3 para. 4 of the German Corporate Governance Code).

A commitment for benefits in the event of premature termination of their Executive Board mandates as a result of a change of control, where such is granted in the future, shall not exceed 150 % of the severance payment cap (Section 4.2.3 para. 5 of the German Corporate Governance Code).

The total remuneration of the Executive Board for the 2017/2018 financial year, as well as allocations in non-variable and variable compensation, is shown in the tables below (recommended by the Corporate Governance Code).

## Remuneration of the Executive Board – benefits granted

| | Thomas Schierack Chairman 09/07/2013 – 20/09/2017 | | | | Klaus Kluge Director, Marketing & Sales since 09/07/2013 | | | |
|---|---|---|---|---|---|---|---|---|
| **in KEUR** | **2017/18** | **2017/18 min.** | **2017/18 max.** | **2016/17** | **2017/18** | **2017/18 min.** | **2017/18 max.** | **2016/17** |
| Non-variable compensation | 574* | 574* | 631* | 430 | 280 | 280 | 280 | 310 |
| Fringe benefits | 14 | 14 | 14 | 24 | 16 | 16 | 16 | 23 |
| **Total** | **588** | **588** | **645** | **454** | **296** | **296** | **296** | **333** |
| One-year variable compensation | | | | | | | | |
| Management bonus | – | – | unlimited | 57 | – | – | 50 | 38 |
| Multi-year variable compensation | | | | | | | | |
| Management bonus 2016/17 - 2018/19 | – | – | unlimited | 24 | – | – | – | 16 |
| Recall of management bonus 2015/16 | -295 | -295 | -295 | – | – | – | – | – |
| **Total** | **-295** | **-295** | **unlimited** | **81** | **0** | **0** | **50** | **54** |
| Pension benefits | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 20 |
| **Total remuneration** | **293** | **293** | **unlimited** | **555** | **296** | **296** | **346** | **407** |

*incl. all components of the termination agreement

| | Carel Halff Chairman since 01/11/2017 | | | | Ulrich Zimmermann Chief Financial Officer since 19/06/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **in KEUR** | **2017/18** | **2017/18 min.** | **2017/18 max.** | **2016/17** | **2017/18** | **2017/18 min.** | **2017/18 max.** | **2016/17** |
| Non-variable compensation | 150 | 150 | 150 | – | 173 | 173 | 173 | – |
| Fringe benefits | 15 | 15 | 15 | – | 6 | 6 | 6 | – |
| **Total** | **165** | **165** | **165** | **–** | **179** | **179** | **179** | **–** |
| One-year variable compensation | | | | | | | | |
| Management bonus | 50 | 50 | 50 | – | 53 | 53 | 53 | – |
| **Total** | **50** | **50** | **50** | **–** | **53** | **53** | **53** | **–** |
| **Total remuneration** | **215** | **215** | **215** | **–** | **232** | **232** | **232** | **–** |

## Remuneration of the Executive Board – allocations

| | Thomas Schierack<br>Chairman<br>09/07/2013 – 20/09/2017 | | Klaus Kluge<br>Director, Marketing & Sales<br>since 09/07/2013 | |
|---|---|---|---|---|
| **in KEUR** | **2017/18** | **2016/17** | **2017/18** | **2016/17** |
| Non-variable compensation | 251 | 430 | 280 | 310 |
| Fringe benefits | 14 | 24 | 16 | 23 |
| **Total** | **265** | **454** | **296** | **333** |
| One-year variable compensation | | | | |
| Management bonus FY 2015/16 | – | 41 | – | 29 |
| Management bonus FY 2016/17 | – | – | 38 | – |
| Multi-year variable compensation | | | | |
| Management bonus FY 2013/14 | – | 27 | – | 16 |
| Management bonus FY 2014/15 | – | 33 | – | 20 |
| Other | – | – | – | – |
| **Total** | **0** | **101** | **38** | **65** |
| Pension benefits | – | 20 | – | 20 |
| **Total remuneration** | **265** | **575** | **334** | **418** |

| | Carel Halff<br>Chairman<br>since 01/11/2017 | | Ulrich Zimmermann<br>Chief Financial Officer<br>since 19/06/2017 | |
|---|---|---|---|---|
| **in KEUR** | **2017/18** | **2016/17** | **2017/18** | **2016/17** |
| Non-variable compensation | 150 | – | 173 | – |
| Fringe benefits | 15 | – | 6 | – |
| **Total remuneration** | **165** | **–** | **179** | **–** |

| | Jörg Plathner<br>Director, Digital<br>01/09/14 - 18/08/15 | |
|---|---|---|
| **in KEUR** | **2017/18** | **2016/17** |
| One-year variable compensation | | |
| Management bonus FY 2015/16 | – | 30 |
| Multi-year variable compensation | | |
| Management bonus FY 2014/15 | - | 12 |
| Fringe benefits | -15 | – |
| **Total remuneration** | **-15** | **42** |

Mr Kluge was granted a one-off special payment of KEUR 60 upon the conclusion of his new Executive Board member's contract of employment for the premature termination of his previous employment contract which had a higher remuneration. This special payment, which was offset against repayment claims from bonus payments for 2015/2016 financial year amounting to KEUR 57 is refundable if Mr Kluge resigns as a member of the board before 1 October 2018.

The former Chair of the Board, Thomas Schierack who stepped down in the 2017/2018 financial year, received a one-off amount of KEUR 380 as reimbursement for the premature termination of the contract. This amount has been fully offset by repayment claims from bonus payments from previous years in the same amount.

## Supervisory Board remuneration

Under the Articles of Association, the remuneration of members of the Supervisory Board must consist exclusively of non-variable components. No separate compensation for committee work is accrued. Compensation is paid out after the end of the financial year.

Members of the Supervisory Board received the following remuneration for the 2017/2018 financial year:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| **until 30 November 2016** | | |
| Dr Friedrich Wehrle, Chair of the Supervisory Board | – | 40 |
| Prof. Dr Michael Nelles, Vice Chair | – | 30 |
| Prof. Dr Gordian Hasselblatt | – | 20 |
| **from 30 November 2016** | | |
| Robert Stein, Chairman of the Supervisory Board | 80 | 27 |
| Prof. Dr Friedrich L. Ekey | 60 | 20 |
| Dr Mirko Caspar | 40 | 13 |
| **Total** | **180** | **150** |

# Other disclosures under sections 289a and 315a HGB

## Composition of subscribed capital

The registered capital comprises EUR 13,300,000 and is divided into a total of 13,300,000 no-par value shares with a notional share of registered capital of EUR 1.00 per share. Each share entitles its holder to one vote according to Section 22(1) of the Articles of Association of Bastei Lübbe AG.

According to the available voting right notifications, only Birgit Lübbe, Cologne, held more than 10 % of the voting rights on the balance sheet date. See also the information on notifications published in accordance with Section 20(6) AktG and Section 26(1) WpHG (Section 160(1) No. 8 AktG) in the Notes of Bastei Lübbe AG.

## Appointment and removal of members of the Executive Board

The Supervisory Board is responsible for determining the number of members of the Executive Board, their appointment and removal and the conclusion, amendment and termination of employment contracts with Executive Board members. The Supervisory Board may appoint an Executive Board member as Chair or spokesperson for the Executive Board, and may appoint a further member as Vice Chair or spokesperson. The Supervisory Board may furthermore assign one or all members of the Executive Board sole power of representation. The Supervisory Board may allow one or all Executive Board members to conclude legal transactions with themselves as legal representatives of a third party (exemption from the restriction contained in Section 181, 2 alternative, of the German Civil Code BGB).

## Amending the Articles of Association

The Annual General Meeting is responsible for any amendments to the Articles of Association (section 179(1) sentence 1 AktG). According to Section 8 of the Articles of Association of Bastei Lübbe AG, the Supervisory Board is entitled to make changes to the Articles of Association that only relate to the wording.

## Powers of the Executive Board to issue or buyback shares

The following resolution was adopted at the Annual General Meeting held on 10 September 2013:

1. Pursuant to Section 71(1) No. 8 AktG, the Company is entitled until 1 September 2018 except for the purpose of trading in own shares, to acquire its own shares up to a maximum of 10 % of the share capital. The equivalent amount for the acquisition of these shares may not fall short of or exceed the average of the opening and closing rates for the Company's shares in XETRA trading (or any functionally-comparable successor system) by more than 5 % during the respective last ten trading days. This authorisation may be exercised in full or in part amounts on one or more occasions.

The authorisation hereby granted will automatically expire without the need for an explicit rescission upon the entry into force of a new authorisation with regard to the purchase of own shares pursuant to Section 71(1) No. 8 AktG. Notwithstanding the above, the authorisation hereby granted will expire at the latest at midnight on 1 September 2018.

2. The Executive Board is permitted, with the permission of the Supervisory Board, to use its own shares for any permissible purpose, with the exception of trading in own shares, particularly to effect a sale of acquired own shares in full via the stock market or in another manner, in full or in part, via the stock market or by offering them to all shareholders when acquired own shares are sold at a price which does not fall below or exceed the stock market price of Company shares of the same unit class by more than 5 % at the time of sale. This authorisation is

limited to a maximum total of 10 % of the share capital of the Company. The applicable stock market price within the meaning of the aforementioned regulation is the average of the opening and closing rates for the Company's shares in XETRA trading (or any functionally-comparable successor system) during the respective last ten trading days preceding the sale of the share.

3. The Executive Board is furthermore permitted, with the consent of the Supervisory Board, to incorporate its own shares in full or in part without further resolutions of the Annual General Meeting.

4. The Executive Board is also permitted, with the consent of the Supervisory Board, to use its own shares as (partial) compensation in the context of company mergers or to acquire companies, participations in companies or parts of a company. The value (price) at which shares of the Company may be used according to the authorisation referred to in these paragraphs may not go more than 5 % under the stock market price of shares of the Company of the same unit class at the time of sale. The applicable stock market price within the meaning of the aforementioned regulation is the average of the opening and closing rates for the Company's shares in XETRA trading (or any functionally-comparable successor system) during the respective ten stock market days preceding the use of the share.

5. The subscription right of the shareholders is excluded from the implementation of the measures beyond the stock exchange listed above under 2. and 4. The authorisation described in 2. and 4. above may be used wholly or in part.

## Powers of the Executive Board to increase the company's share capital through the issue of new, no-par bearer shares

The following resolution was adopted at the Annual General Meeting held on 30 November 2016:

1. For a period of two years from the date of entry of Section 7 of the Articles of Association into the commercial register, the Managing Board is authorised to carry out a one-off increase in the share capital of the company with the approval of the Supervisory Board against cash contributions by up to EUR 1,330,000.00 through the issue of new, no-par bearer shares (Authorised Capital 2016).

2. The Managing Board is authorised to decide on barring statutory shareholder subscription rights, subject to the approval of the Supervisory Board. An exclusion of subscription rights is only permitted, however, if the proportion of share capital represented by the new shares does not in total exceed 10 % of the share capital, and neither at the time that this authorisation becomes effective through entry of the Authorised Capital 2016 in the commercial register nor at the time of exercising this authorisation does the issue price of the new shares significantly fall below the stock purchase price of the existing listed shares at the time the Managing Board defines the final issue amount, which should occur as close in time as possible to the placement of the shares, pursuant to Sections 203 (1) and (2), 186 (3) sentence 4 AktG. Insofar as no other authorisations to issue or sell shares of the company or to issue rights allowing or requiring the subscription of shares of the company are exercised for the duration of the Authorised Capital 2016, and the subscription right pursuant to or in accordance with Section 186 (3) sentence 4 AktG is excluded, this can be offset against the aforementioned 10 % limit.

3. Furthermore, the Managing Board is authorised to define all other content of the share rights and the conditions for the issue of shares, with the approval of the Supervisory Board, when carrying out the capital increase from the Authorised Capital 2016.

4. The Supervisory Board is authorised to adapt the wording of the Articles of Association in line with the use of the Authorised Capital 2016 or at the end of the authorisation period.

## Voting right notifications in accordance with Section 21(1) WpHG

Ms Birgit Lübbe informed us on 17 October 2014 in accordance with Section 21(1) of the Securities Trading Act (WpHG) that her share in the voting rights of Bastei Lübbe AG, Cologne, had dropped below the threshold of 50 % of the voting shares on 13 October 2014 and now amounted to 48.87 % (corresponding to 6,500,000 voting shares). 12.78 % of the voting rights (corresponding to 1,700,000 voting rights) are attributable to Ms Lübbe in accordance with Section 22(1) sentence 1, No. 1 of the Securities Trading Act (WpHG). At the same time, allocated voting rights are maintained in the following company controlled by Birgit Lübbe, whose share of voting rights in Bastei Lübbe AG amounts to 3 % or more: Lübbe Beteiligungs-GmbH

Lübbe Beteiligungs-GmbH, Cologne, informed us on 20/04/2015 in accordance with Section 21(1) WpHG that its share in the voting rights of Bastei Lübbe AG, Cologne, Germany, had dropped below the threshold of 3 % of the voting shares on 16/04/2015 and now amounted to 0 % (corresponding to 0 voting shares).

## Corporate Governance

The Company has once more addressed the content of the German Corporate Governance Code for the 2017/2018 financial year. With a few exceptions, Bastei Lübbe adheres to the recommendations and suggestions of the Corporate Governance Code. The Executive Board and the Supervisory Board will issue a limited declaration of compliance pursuant to Section 161 of the Companies Act (Aktiengesetz – AktG) on 26 July 2018, according to which the Company, with the exception of numbers 4.2.3, 5.1.2, 5.4.1 and 7.1.2, complies with the recommendations of the German Corporate Governance Code in the version dated 7 February 2017. The current declaration of conformity, as well as all earlier declarations of conformity, have been made permanently available to shareholders on the company website (see www.luebbe.com/en/investor-relations/corporate-governance/statement-of-compliance).

Further information on Corporate Governance can be found in the separate section "Corporate Governance Report" in the Annual Report.

The combined declaration on corporate governance pursuant to sections 289f and 315d of the German Commercial Code (HGB) is provided in the annual report and available on the company website at: www.luebbe.com/en/investor-relations/corporate-governance/corporate-governance-statement.

Information on environmental and other matters of social responsibility can be found in the separate non-financial Group report (available on the company website at www.luebbe.com/en/investor-relations/corporate-governance/corporate-social-responsibility-csr-statement).

Cologne, 25 July 2018
Bastei Lübbe AG

| | | |
|---|---|---|
| Carel Halff<br>Chairman | Ulrich Zimmermann<br>Chief Financial Officer | Klaus Kluge<br>Programme Director,<br>Sales and Marketing |

# CONSOLIDATED FINANCIAL STATEMENTS OF BASTEI LÜBBE AG, COLOGNE

Nina Ohlandt
**DÜNENGEISTER**

## Consolidated income statement and statement of comprehensive income for the period from 1 April to 2017 to 31 March 2018

| | Note | Continued operations | Dis-continued operations | 2017/18 Total | Continued operations | Dis-continued operations | 2016/17 Total |
|---|---|---|---|---|---|---|---|
| | | KEUR | KEUR | KEUR | KEUR | KEUR | KEUR |
| Sales revenue | 22. | 107,034 | 33,139 | 140,173 | 91,416 | 54,873 | 146,289 |
| Change in inventories of finished goods and work in progress | 23. | -1,865 | 0 | -1,865 | 707 | 2,729 | 3,436 |
| Other capitalised self-constructed assets | 24. | 3,098 | 0 | 3,098 | 3,528 | 0 | 3,528 |
| Other operating income | 25. | 1,064 | 3,339 | 4,403 | 633 | 2,061 | 2,694 |
| Material expenses | | | | | | | |
| a) Expenditure on raw materials and supplies and on purchased goods | 26. | -642 | -19,408 | -20,050 | -509 | -25,109 | -25,618 |
| b) Expenses for purchased services | 26. | -23,775 | -2,148 | -25,923 | -22,820 | -9,744 | -32,564 |
| c) Expenses for fees and amortisation of royalties | 26. | -37,743 | -4 | -37,747 | -25,396 | -156 | -25,552 |
| | | **-62,160** | **-21,560** | **-83,720** | **-48,725** | **-35,009** | **-83,734** |
| Personnel expenses | | | | | | | |
| a) Wages and salaries | 27. | -17,839 | -6,290 | -24,129 | -17,775 | -8,174 | -25,949 |
| b) Social security contributions and expenses for pensions and support schemes | 27. | -3,023 | -1,410 | -4,433 | -3,126 | -1,565 | -4,691 |
| | | **-20,862** | **-7,700** | **-28,562** | **-20,901** | **-9,739** | **-30,640** |
| Other operating expenses | 28. | -26,665 | -6,772 | -33,437 | -24,373 | -12,121 | -36,494 |
| Earnings from investments | 29. | 396 | 0 | 396 | 349 | 0 | 349 |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **40** | **446** | **486** | **2,634** | **2,794** | **5,428** |
| Amortisation of intangible assets and property, plant and equipment | 30. | -11,813 | -6,172 | -17,985 | -3,925 | -1,510 | -5,435 |
| Depreciation of financial investments | 30. | -550 | 0 | -550 | -312 | 0 | -312 |
| **Earnings before interest and taxes (EBIT)** | | **-12,323** | **-5,726** | **-18,049** | **-1,603** | **1,284** | **-319** |
| Financial result | 31. | -1,468 | -252 | -1,720 | -2,027 | -863 | -2,890 |
| **Earnings before taxes (EBT)** | | **-13,791** | **-5,978** | **-19,769** | **-3,630** | **421** | **3,209** |
| Taxes on income and earnings | 32. | 3,269 | 257 | 3,526 | 43 | 274 | 317 |
| **Results for the period** | | **-10,522** | **-5,721** | **-16,243** | **-3,587** | **695** | **-2,892** |
| Other profit/loss | | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total earnings** | | **-10,522** | **-5,721** | **-16,243** | **-3,587** | **695** | **-2,892** |
| Of which is attributable to: | | | | | | | |
| shareholders of Bastei Lübbe AG | | -9,020 | -3,690 | -12,710 | -3,440 | 1,331 | -2,109 |
| Equity capital shares of non-controlling shareholders | 33. | -1,502 | -2,031 | -3,533 | -147 | -636 | -783 |
| | | | | | | | |
| Profit per share (undiluted = diluted) (with reference to the net period earnings attributable to shareholders of Bastei Lübbe AG) | 16. | -0.68 | -0.28 | -0.96 | -0.26 | 0.10 | -0.16 |

## Consolidated balance sheet as of 31 March 2018

| | Note | 31/03/2018 KEUR | 31/03/2017 KEUR |
|---|---|---|---|
| **Long-term assets** | | | |
| Intangible assets | 6. | 21,170 | 39,934 |
| Inventory of pre-paid royalties | 7. | 27,770 | 37,376 |
| Tangible assets | 8. | 1,956 | 3,547 |
| Financial investments | 9. | 3,580 | 4,380 |
| Trade receivables | 12. | 898 | 1,135 |
| Deferred tax claims | 10. | 4,536 | 3,139 |
| | | **59,910** | **89,511** |
| **Short-term assets** | | | |
| Inventories | 11. | 18,478 | 30,178 |
| Trade receivables | 12. | 18,841 | 19,564 |
| Financial assets | 9. | 1,472 | 3,738 |
| Income tax receivables | 10. | 896 | 410 |
| Other receivables and assets | 13. | 974 | 977 |
| Cash and cash equivalents | 14. | 907 | 1,203 |
| Assets from discontinued operations | 5. | 7 | 470 |
| | | **41,575** | **56,540** |
| **Total assets** | | **101,485** | **146,051** |
| **Equity** | | | |
| Share of equity attributable to parent company shareholders: | | | |
| Subscribed capital | 15. | 13,200 | 13,200 |
| Capital reserves | 15. | 26,804 | 26,804 |
| Net profit/loss | 15. | -8,863 | 3,847 |
| | | **31,141** | **43,851** |
| Equity capital shares of non-controlling shareholders | 15. | 1,202 | 7,143 |
| **Total equity** | | **32,343** | **50,994** |
| **Long-term liabilities** | | | |
| Accruals | 17./18. | 84 | 151 |
| Deferred tax liabilities | 10. | 1,175 | 4,271 |
| Financial liabilities | 19. | 5,114 | 34,437 |
| Other liabilities | 21. | 1,030 | 1,854 |
| | | **7,403** | **40,713** |
| **Short-term liabilities** | | | |
| Financial liabilities | 19. | 33,069 | 16,867 |
| Trade payables | 20. | 19,310 | 28,370 |
| Income tax liabilities | 10. | 6 | 175 |
| Accruals | 18. | 7,235 | 7,005 |
| Other liabilities | 21. | 2,044 | 1,416 |
| Debts from discontinued operations | 5. | 75 | 511 |
| | | **61,739** | **54,344** |
| **Total debts** | | **69,142** | **95,057** |
| **Total liabilities** | | **101,485** | **146,051** |

## Consolidated cash flow statement for the period from 1 April 2017 to 31 March 2018*

| | | 2017/2018 KEUR | 2016/2017 KEUR |
|---|---|---|---|
| Results for the period | | -16,243 | -2,892 |
| +/- | Depreciation/appreciation of intangible assets and property, plant and equipment | 17,985 | 5,435 |
| +/- | Depreciation/appreciation on financial investments | 550 | 312 |
| +/- | Depreciation/appreciation on author royalties | 24,064 | 11,534 |
| +/- | Other non-cash expenses/income | 914 | 1,878 |
| +/- | Increase/decrease in provisions | 1,139 | -453 |
| -/+ | Profit/loss from the disposal of intangible assets and fixed assets | -1 | 3 |
| -/+ | Profit/loss from the sale of discontinued operations, after tax | -3,261 | -1,653 |
| -/+ | Increase/decrease in income tax receivables and liabilities, incl. deferred tax claims and liabilities | -3,916 | -3,673 |
| -/+ | Increase/decrease in inventories, trade receivables and other assets not associated with investment or financing activities | -11,105 | -9,394 |
| +/- | Increase/decrease in trade liabilities and other liabilities not associated with investment or financing activities | -4,658 | 10,408 |
| **Cash flow from current business activities** | | **5,468** | **11,505** |
| + | Payments received from the disposal of intangible assets | 0 | 3 |
| - | Outflow of funds for investments in intangible assets | -4,607 | -6,515 |
| + | Income from the disposal of fixed assets | 8 | 99 |
| - | Outflow of funds for investments in fixed assets | -1,072 | -1,052 |
| + | Income from the disposal of financial assets | 84 | 70 |
| - | Outflow of funds for investments in financial assets | -31 | -3,444 |
| - | Outflow of funds for the acquisition of consolidated companies less currency acquired in the context of acquisition | 0 | -10,195 |
| + | Incoming payments from the sale of other business entities | 5,080 | 14,322 |
| - | Payments for the acquisition of other business entities | 0 | -5,613 |
| **Cash flow from investment activities** | | **-538** | **-12,325** |
| + | Incoming payments from the sale of non-controlling shares | 0 | 821 |
| - | Disbursements to shareholders (dividends) | 0 | -1,320 |
| + | Proceeds from the issuance of bonds and obtaining (financial) credit | 9,294 | 38,683 |
| - | Outflow of funds for the repayment of bonds and (financial) credit | -14,520 | -36,204 |
| **Cash flow from financing activities** | | **-5,226** | **1,980** |
| | Net change in cash and cash equivalents | -296 | 1,160 |
| - | Consolidation-related decline in cash and cash equivalents | 0 | -550 |
| + | Cash and cash equivalents at start of period | 1,203 | 593 |
| = | **Cash and cash equivalents at end of period** | **907** | **1,203** |

* see Notes to the Consolidated Financial Statement, Note 34

## Consolidated statement of change in equity for the period from 1 April 2017 to 31 March 2018*

| | Parent company | | | | Shares of non-controlling share-holders | Group equity capital |
|---|---|---|---|---|---|---|
| (all sums in KEUR) | Sub-scribed capital | Capital reserves | Net profit | Equity | Equity | Equity |
| As at 01/04/2016 | 13,200 | 26,082 | 7,276 | 46,558 | 3,122 | 49,680 |
| Dividends paid | – | – | -1,320 | -1,320 | 0 | -1,320 |
| Changes in the group of consolidated companies | – | 351 | – | 351 | 4,354 | 4,705 |
| Sale of non-controlling shares without change of control | – | 371 | – | 371 | 450 | 821 |
| Net profit for the period = Net profit | – | – | -2,109 | -2,109 | -783 | -2,892 |
| **As at 31/03/2017** | **13,200** | **26,804** | **3,847** | **43,851** | **7,143** | **50,994** |
| As at 01/04/2017 | 13,200 | 26,804 | 3,847 | 43,851 | 7,143 | 50,994 |
| Changes in the group of consolidated companies | – | – | – | – | -2,408 | -2,408 |
| Net profit for the period = Net profit | – | – | -12,710 | -12,710 | -3,533 | -16,243 |
| **As at 31/03/2018** | **13,200** | **26,804** | **-8,863** | **31,141** | **1,202** | **32,343** |

* see Notes to the Consolidated Financial Statement, Note 15

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Michael Peinkofer
**DIE RUNEN DER FREIHEIT**

# Contents

## 1. General information

Bastei Lübbe AG (hereinafter also "Parent company") has its registered offices at Schanzenstrasse 6-20, 51063 Cologne, Germany.

Bastei Lübbe AG is a media company in the form of a publishing house. Within the scope of its business activities, Bastei Lübbe publishes books, audiobooks, ebooks and other digital products in the genres of fiction and popular science as well as periodicals including novel booklets and puzzle magazines. The business activities of Bastei Lübbe also include the development and marketing of high-quality cross-platform computer and video games through the company Daedalic Entertainment GmbH. The distribution of books, particularly in the area of food retail trade through BuchPartner GmbH was discontinued with effect from 31 March 2018 by way of a share transfer to the existing minority shareholders. The main areas of activity of the Bastei Lübbe Group (hereinafter also "Bastei Lübbe" or the "Company"), are described in the notes to the Segment Reporting (Point 36).

As a publicly owned public limited company (AG - Aktiengesellschaft), Bastei Lübbe AG is required by Section 4 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards to prepare a consolidated financial statement in line with the International Financial Reporting Standards (IFRS) adopted by the European Union.

The reporting currency is the euro; unless otherwise noted, all amounts are stated in thousands of euros (KEUR). Totals and percentages were calculated on the basis of non-rounded euro amounts, and may deviate from a calculation performed on the basis of the reported thousand-euro amounts.

The consolidated financial statement for the financial year from 1 April 2017 to 31 March 2018 was prepared by the Executive Board on 25 July 2018, approved for publication, and will be submitted to the Supervisory Board for approval on 26 July 2018.

Please refer to Point 47 for information on procedures which will occur following the reporting date, and could have a significant influence on the assessment of the company's assets, finance and financial performance, and cash flows existing on or before 25 July 2018.

## 2. Accounting principles

### a) Underlying accounting regulations and first-time adoption

The consolidated financial statement dated 31 March 2018 was prepared in accordance with the regulations on accounting valid on the reporting date, as determined in the International Financial Reporting Standards adopted by the European Union (EU), and in line with the interpretations of the IFRS Interpretations Committee (IFRS IC), the Standing Interpretations Committee (SIC), and the International Accounting Standards Board (IASB), based in London. The applicable legal provisions pursuant to Section 315e (1) of the German Commercial Code (HGB) are also observed.

### b) Valuation of assets and debts

The consolidated financial statements are prepared on the basis of historical acquisition and production costs, except for derivative financial instruments. These are allocated a current market value (fair value) in accordance with IFRS 13.

## c) Currency conversion

Transactions in foreign currencies are converted using the valid daily rate. Monetary balance sheet items are converted using the average rate of exchange on the balance sheet date. Currency gains and losses resulting from these conversions are recognised as expenses or income.

## d) Use of assumptions and estimates as well as discretionary decisions

The preparation of the consolidated financial statements requires the use of assumptions and estimates which have an effect on the presentation of assets and liabilities, the disclosure of contingent liabilities at the balance sheet date as well as the presentation of income and expenses.

Uncertain assumptions and estimations particularly affect future cash flows with interest deducted in the context of impairment testing of intangible assets and the inventory of pre-paid author royalties, determination of amortisation of the inventory of royalties as well as anticipated rates of return on goods sold (product return rates) to determine the returns on corresponding accruals. We refer you to the corresponding explanations for information determined on the basis of estimations.

Significant discretionary decisions concern in particular the procedure for the amortisation method for the inventory of prepaid author royalties as well as the methods for the identification of write-downs in the inventories.

At the time of preparation of the individual financial statements, the Executive Board does not anticipate considerable changes to the underlying assumptions, estimations and discretionary decisions. Adjustments made to any previously made assumptions are also explained in the relevant notes.

# 3. Accounting policies

For the purpose of better clarity, individual items are summarised in the statement of comprehensive income and the balance sheet and then explained in the Notes. Assets and liabilities that are realised or eliminated, respectively, within one year are considered to be short term. All others are classified as long term. No changes were made in accounting and valuation policies during preparation of the consolidated financial statement for 2017/2018 compared to the IFRS-based consolidated financial statement for the 2016/2017 financial year.

## a) Consolidation principles and cut-off date

Capital consolidation of all fully consolidated companies is performed according to the purchase methods used on the date on which control was established (date of acquisition). Assets and liabilities of the consolidated companies were valued at their fair values insofar as the corresponding purchase price allocations have already been completed.

Equity shares held by non-controlling shareholders are accounted for separately in equity. In addition, hidden reserves and hidden losses of non-controlling minority shareholders are also disclosed for company acquisitions and indicated in equity capital under “equity shares of non-controlling interests”. No use is made of non-controlling shareholder voting rights with regard to business or company asset accounting practices.

Revenues, expenses and income, as well as receivables and liabilities between group companies, will be offset against each other and eliminated.

Interim profits from internal trade receivables, as well as from the sale of property, plant and equipment between consolidated companies will be eliminated insofar as the impact on Group assets, finances and income is not of secondary importance.

Consolidation entries take income tax effects into account, while recognising deferred taxes where applicable.

Three Group companies have a calendar financial year that differs from the Group financial year. For the purposes of the consolidated financial statements, these companies prepare interim financial reports on the Group cut-off date.

## b) Intangible assets

Acquired intangible assets (with the exception of the prepaid royalties referred to under (c)) are valued at acquisition cost less the scheduled linear amortisation carried out on their respective useful lives, provided that their useful lives are considered to be limited. Internally-generated intangible assets are capitalised at cost and amortised on a straight-line basis over their useful lives. Scheduled amortisation is based on the following useful lives and amortisation rates:

| | Useful life Years | Depreciation rate % |
|---|---|---|
| **Other intangible assets** | | |
| Software | 3-7 | 14.29-33.33 |
| Internally-developed computer games | 5-7 | 14.29-20.00 |
| Publishing and title rights | 15 | 12.50 |

Goodwill and other intangible assets (e.g. trademark rights) with indeterminable useful lives - where available - do not undergo scheduled amortisation.

Impairment losses are recorded where this is deemed appropriate in the course of the impairment tests that are performed. For goodwill and intangible assets with indeterminable useful lives, these tests are performed at least on an annual basis; for intangible assets subject to scheduled amortisation, at any time when reasons for impairment exist. When the reasons for impairment cease to apply, corresponding write-ups are effected, with the exception of goodwill; they may not exceed the updated carrying values.

In accordance with the option set forth in IFRS 1.15 and Appendix B, goodwill from acquisitions made before 1 April 2011 is updated according to the previous law. This means that the amortisations and write-downs which occurred in earlier periods remain as is and will not be activated retrospectively with goodwill recognised directly in equity values.

## c) Inventory of pre-paid royalties

Prepaid royalties relate to manuscripts for which Bastei Lübbe has acquired full power of disposition and commercialisation with regard to the manuscript, as well as to advance payments made for them, and are valued at acquisition cost.

An amortisation method which reflects assets’ performance is used to calculate pre-paid author royalties. The value depends on the sales and turnover, and on contractually determined royalty rules. There is a strong correlation between sales revenues and the commercial use of exploitation rights. The amortisation method based on sales revenues can therefore be used for enabled exploitation rights. The values of the inventory of prepaid royalties and fees paid are furthermore reviewed at least once annually (generally on the balance sheet date) to see whether there is any evidence of impairment. If there is any evidence of a possible impairment, an estimate of future sales and the corresponding sales revenue thus serves as a basis to calculate the expected net revenue before the deduction of royalties, or the proportion of sales which the author will be due as a royalty payment. In the event that the royalty payment exceeds the expected net revenue before the deduction of royalties, corresponding devaluations will be made and, where necessary, provisions made for onerous contracts. Any resulting expenses are recorded as material expenses.

All expenses connected to prepaid royalties are recorded in a separate item under material expenses, as these expenses are directly connected to the losses in sales revenues incurred thereby, and thus are to be considered gross proceeds in order to ensure proper economic allocation.

## d) Tangible assets

Property, plant and equipment are valued pursuant to IAS 16 (Property, Plant and Equipment) at acquisition or production cost less accumulated and scheduled depreciation and impairment losses during the financial year. Acquisition costs include the purchase price, costs of commissioning and ancillary acquisition costs. Interest on debt capital as interpreted in IAS 23 (Borrowing Costs) was not capitalised.

Costs for the repair of property, plant and equipment are charged against income. They are only capitalised if the costs result in an addition or significant improvement to the relevant asset.

Immovable property, plant and equipment (leasehold improvements) are depreciated on a straight-line basis over the expected useful life. This also applies to movable property, plant and equipment. Residual value remaining after the customary term of useful life is taken into account when determining depreciation amounts.

When selling or decommissioning property, plant and equipment, the gain or loss from the difference between the sales proceeds and the residual carrying value is stated under other operating income or expenses as the case may be.

Scheduled depreciation is based on the following useful lives and depreciation rates:

| | Years of useful life | Depreciation rate % |
|---|---|---|
| **Real estate and property** | | |
| Leasehold improvements | 8-10 | 10.00-12.50 |
| **Technical equipment, plant and machinery** | **5-10** | **10.00-20.00** |
| **Other equipment, operating and business equipment** | | |
| Fleet | 6-9 | 11.11-16.67 |
| Fittings, office machines and equipment | 3-13 | 7.69-33.33 |
| Low-value items (up to EUR 410) | < 1 year | 100.00 |

Impairments may be noted during the performance of impairment tests if there are reasons to presume an impairment. Appropriate reversals are undertaken where the reasons for the impairment loss cease to apply.

## e) Impairment tests

The value of assets is reassessed at least once a year at Bastei Lübbe, either on the reporting date or, if deemed necessary, at another point during the course of the year. If and insofar as an independent evaluation of the affected assets is not possible, an evaluation will be carried out by the cash-generating unit (CGU) of the next highest level, as defined in IAS 36 (Impairment of Assets).

**(i) Definition of CGUs**

At Bastei Lübbe, goodwill and intangible assets with indefinite useful lives acquired in the context of business combinations and acquisitions are assigned to a group of CGUs that would be expected to benefit from the synergies of the business combinations and acquisitions. These groups of CGUs represent the lowest level at which these assets are monitored for the purposes of corporate steering. These generally correspond to individual business fields or publishing houses.

**(ii) Implementing the impairment tests**

The impairment tests compare the residual carrying values of the individual cash-generating units with their respective recoverable amounts as the higher of the fair value less costs of disposal and value in use. The calculation of the value in use, which is used as a rule at Bastei Lübbe, is based on the cash value, calculated by the discounted cash flow method, of future payments forecast for the next three to five years in the current individual plans of the Bastei Lübbe Group, by company or business field, based in particular on past experiences.

Calculation of the value in use is based on the following essential assumptions:

- Discount rate
- Sustainable growth rate
- Planned EBITDA growth rate

In order to identify the net present value, the discount rate is determined on the basis of weighted capital costs; it is based on a base rate of currently (on the reporting date) 1.25 %, as well as a market risk premium of 6.75 % (upper value within the range recommended by IDW). The following weighted capital costs were determined as at 31 March 2018, with the exception of BuchPartner GmbH, BookRix GmbH & Co. KG and the BEAM Shop GmbH. In these cash-generating units, the average weighted capital costs as at 31 December 2017 are listed because the impairment test was performed due to a triggering event at a different reporting date.

| | Weighted capital costs in % 2017/2017 | |
|---|---|---|
| **CGU** | **before tax** | **after tax** |
| BEAM Shop GmbH | 11.4 | 7.9 |
| BookRix GmbH & Co. KG | 9.0 | 6.1 |
| BuchPartner GmbH | 8.9 | 6.1 |
| Daedalic Entertainment GmbH | 10.4 | 7.1 |
| oolipo AG | 12.9 | 9.0 |
| PMV (Puzzles) | 8.3 | 5.6 |

As in the previous year, the cash flows which exist in accordance with the detailed planning period are extrapolated with a sustainable growth rate of 0.0 %, with the exception of Daedalic Entertainment GmbH, extrapolated here with a sustainable growth rate of 1.0 %

The main assumptions according to IAS 36.134 for Daedalic Entertainment GmbH and BuchPartner GmbH, which were used to estimate the recoverable amount, are set out below. The values assigned to the key assumptions represent the assessment of the Executive Board of the future developments in the relevant sectors and are based on past values from external and internal sources:

| | Daedalic Entertainment GmbH | BuchPartner GmbH |
|---|---|---|
| Basis of achievable amount | Value in use | Value in use |
| Significant assumptions cash flow forecast | In order to achieve growth, a new strategy should be pursued, which focuses more heavily on the games industry. | Growth may also be achieved via the acquisition of new spaces to be used for commercial purposes. |
| Cash flow planning procedures | The forecast growth in cash flow is based on the new business strategy which focuses more heavily on the games industry. | The forecast growth in cash flow is based on the planned acquisition of new spaces to be used for commercial purposes. |
| Detailed planning period | 4 years + 1 year | 3 years |
| Value in use (KEUR) | 24,396 | 15,458 |
| Book value (KEUR) | 21,480 | 20,376 |
| Discrepancy value in use / book value (KEUR) | 2,916 | -4,918 |
| Lower than planned sales in the last year of the detailed planning period, which would mean that the value in use is equal to the book value | 10.70 % | – |
| Change in WACC, which would mean that the value in use is equal to the book value | 0.68 % points | – |
| Change in growth rate, which would mean that the value in use is equal to the book value | 0.89 % points | – |

Write-ups are undertaken where the achievable amount exceeds the book value of the asset due to changes in the estimations underlying the valuation. Write-ups are effected at most up to the amount that would have been determined if no impairment loss had been recognised in previous years. Impairment losses recognised for goodwill are not written up.

## f) Leasing arrangements

The determination of whether an agreement contains a leasing arrangement is performed on the basis of the economic content of the agreement at the time of conclusion of the agreement. Economic ownership of movable and immovable leased objects is assigned to the contracting party in a leasing agreement who bears the major opportunities and risks connected with the leased object. If the lessor bears the major opportunities and risks (operating lease), the leased object of the lessor is entered in the balance sheet. If the lessee bears the major opportunities and risks connected with ownership of the leased object (finance lease), the lessee must enter the leased object in the balance sheet.

Hired, rented or leased intangible assets and property, plant and equipment, which, according to the requirements of IAS 17 (Leases), must be considered in economic terms as fixed asset acquisitions with long-term financing (finance leasing) are stated in the balance sheet at the time of commencement of the contract at the cash values of the minimum lease payments, taking one-off payments into consideration or at the lower market values. Depreciation is undertaken on a straight-line basis over the ordinary useful operating life. If a subsequent transfer of ownership of the leased object is not certain, the term of the lease agreement, if shorter, is used as the basis for depreciation. Payment obligations arising from future lease instalments are stated as financial liabilities. Finance leasing payments are divided into their components of financing expenditure and repayment of the leasing liability so as to produce a constant rate of interest on the remaining balance of the liability over the term of the lease. Financial costs are recognised in the balance sheet as financial expenses.

## g) Financial instruments

**(i) Financial assets**

Financial assets within the meaning of IAS 39 are classified either as financial assets held for trading; as loans and receivables; as assets held to final maturity, or as available-for-sale financial assets. Financial assets are initially recognised at fair value. In case of other financial investments than those which are classified as being valued at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the asset are additionally taken into account.

Financial assets are assigned to the categories upon initial recognition. If permitted and necessary, reclassifications are made at the beginning of the financial year.
All customary purchases and sales of financial assets are recorded at their value at the settlement date, i.e. the day when the Company entered into the obligation to purchase or sell the asset. Customary purchases and sales are those that require the delivery of the assets within a period set down by market regulations or practices.

**(ii) Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is only deemed to be impaired if, as a result of one or more events which occurred following initial recognition of the asset, there is objective evidence of impairment, e.g. repeated and/or significant payment arrears or the application of insolvency procedures on the assets of the debtor, and this loss has an impact on the expected future cash flows of the financial asset or group of financial assets that can be reliably estimated. Within the scope of impairment, financial assets that may need to be written down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment and written down, if necessary. When determining the expected future cash flows for a portfolio in this context, past experience with credit losses is taken into account along with the contractually-agreed cash flow.

Cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the respective portfolio. In the case of financial assets valued at amortised cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the cash value of the anticipated future cash flow. If the amount of the estimated impairment loss increases or decreases in a subsequent reporting period because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

**(iii) Derecognition of financial assets**

A financial asset is derecognised if one of the following conditions is fulfilled:

- Contractual rights to receive cash flows from a financial asset have expired.
- Although the Company retains the rights to receive cash flows from financial assets, it assumes a contractual obligation for the immediate payment of the cash flows to a third party under an agreement that fulfils the conditions of IAS 39.19 (pass-through arrangement), or the Company has transferred its contractual rights to receive cash flows from a financial asset, this involving either (a) the transfer of essentially all opportunities and risks associated with ownership of the financial asset, or (b) neither the transfer nor retention of the opportunities and risks associated with ownership of the financial asset, but transfer of the authority to dispose of the financial asset.

**(iv) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with a term of less than three months. Cash and cash equivalents are to be recognised at the date on which they were collected. Thus cheques are to be recorded at the time of coming into possession and incoming payments as they are credited to the bank account.

Measurement of cash and cash equivalents is carried out at amortised cost. Holdings in foreign currency are to be converted at the cash rate in force on the balance sheet date. Currency differences arising from the exchange rate are recognised in profit or loss.

**(v) Financial instruments held for trading**

Financial assets as classified as held for trading if they are purchased for the purpose of sale in the near future. They essentially include investments, and are recognised and derecognised at the date on which the purchase or sale of the investment was contractually agreed. They are initially recognised at their fair value. Investments classified as held for trading are recognised at fair value in the subsequent periods. Changes in value are recorded through profit or loss. The Company does not hold any assets in this category.

**(vi) Loans and receivables**

Trade receivables and services, as well as other receivables and loans are valued at acquisition cost minus any necessary impairments in value. Where appropriate, the effective interest method is applied. Those impairments which take the form of individual impairments adequately take into consideration the expected default risks; once default actually occurs, the respective receivables are derecognised. Impairments from trade receivables are partly recognised using allowance accounts.

The decision as to whether a default risk should be taken into account by means of an allowance account or a direct reduction of the receivable depends on the reliability of the assessment of the risk situation.

**(vii) Available-for-sale financial instruments**

Available-for-sale financial assets are non-derivative financial assets that are classified as being available for sale and are allocated either to this category or to none of the other categories. They are valued at acquisition cost when their fair value cannot be ascertained with adequate certainty. In the case of unscheduled amortisation, this is recognised as profit or loss. Shareholdings are disclosed in this category.

**(viii) Financial liabilities**

The Company stipulates the classification of its financial liabilities when they are initially recognised. On the reporting date, almost all liabilities remaining were classified in the category “liabilities, measured at amortised cost”. With the exception of four derivatives held for trade without an interest rate swap (IRS), there are no liabilities which are valued at the fair value.

Financial liabilities are measured at fair value upon initial recognition, and in the case of loans plus directly-attributable transaction costs. The measurement subsequent to initial recognition is carried out at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised or during the amortisation process, using the effective interest method. Amortised costs are calculated by taking the fees or costs into account that are an integral part of the effective interest rate. Amortisation carried out using the effective interest method is shown on the profit and loss statement under financial expenses. Financial liabilities are written-off if the underlying obligation has been met or cancelled, or if it has expired. For the valuation of derivatives held for trading, only market-based valuation methods are used. This complies with the level 2 procedure. The market interest rate on the reporting date is used as an input factor for valuation of the interest rate swap (IRS 13.91).

## h) Financial investments

Investments in affiliated and associated companies or joint ventures, categorised as financial assets are reported at amortisation cost or the lower fair value, as according to IAS 39.

## i) Inventories

The holdings listed in under inventories pursuant to IAS 2 (Inventories) are recognised as the lower of their attributable cost of acquisition or production and net realisable value. Acquisition costs are calculated on the basis of a weighted average value. Production costs include all costs directly related to units of production for materials and printing, as well as production overheads.

The net realisable value is the anticipated achievable selling price less costs incurred prior to sale. The net realisable value of unfinished products is determined according to a retrograde method from the net realisable value of the finished goods taking account of costs incurred prior to completion. In order to take account of inventory risks, value adjustments for surplus stocks of obsolete inventories are undertaken.

If the reasons that resulted in an impairment of inventories no longer apply, the impairment loss is reversed.

## j) Other provisions

In accordance with the criteria under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), provisions are formed for uncertain liabilities in the event that it appears probable in each case that performance of a current obligation will result in a direct outflow of resources embodying future economic benefits and the value of this obligation or can be measured reliably, including in the form of estimates. All known uncertain liabilities and risks concerning the past financial year are taken into consideration in the performance amount with the highest probability of occurrence. If the expected scope of obligation is reduced by a changed estimate, the provision is reduced proportionately and income recorded as other operating income.

In the case of long-term provisions, the portion that is to flow out after more than a year, and for which a reliable estimate of the amount or timing of the payment is possible, is stated at the present value calculated by discounting at an interest rate that is commensurate with the market and term.

## k) Revenue and expenses recognition

Bastei Lübbe mainly achieves product and licence revenues. Revenue is recognised if – taking into consideration tax and sales deductions – the principal risks associated with ownership have been transferred to the buyer, the amount of income can be determined reliably and the flow of economic benefits resulting from the sale is sufficiently probable.

Product revenues principally encompass the sale of novel booklets and puzzle magazines, books, audiobooks, computer games and ebooks to retailers. For products for which a contractual right of return has been agreed, sales corrections are made on the basis of experience.

Licence revenues are achieved from the resale of acquired and already exploited rights to domestic and foreign licensees. Turnover is recognised in compliance with the provisions of the underlying agreement.

Other income is recognised if the economic benefit associated with the transaction has accrued during the reporting period and the amount of the revenue can be measured reliably.

Operating expenses are charged to the statement of comprehensive income at the point at which the service is used or the delivery received, or as per the date of their being caused.

Financial income mainly includes interest income and interest expenses. Interest income and interest expenses are recognised using the effective interest method. Interest expenses include both expenses for loans and expenses from the accumulation of long-term liabilities. Dividends and impairments of financial assets are recognised under the investment result. Income recognition of dividends occurs once the Company is legally entitled to payment. This occurs in each case at the point in time at which it becomes probable that the economic benefit from the transaction will accrue to the Company and the amount of revenues can be reliably ascertained.

## l) Income taxes

Taxes on income and earnings paid or owed on an ongoing basis, as well as deferred tax liabilities, are reported as tax expenses. The calculation of ongoing income tax, including claims for reimbursement and debt, is based on applicable laws and regulations.

Deferred taxes are determined for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base. The calculation is based on the Company-specific tax rates anticipated at the time of realisation, derived from the statutory regulations that are in force on, or have been adopted by, the balance sheet date.

Deferred tax claims are only taken into account if it appears to be sufficiently certain that the temporary differences can actually be reversed for tax purposes.

If deferred taxes relate to transactions that are recorded directly in equity or in other profit/loss, the deferred taxes are also recorded directly in equity or in other profit/loss. They are recorded as income in all other cases.

## m) New regulations applied for the first time in the financial year

This consolidated financial statement was subject for the first time to accounting standards and interpretations amended, supplemented or newly published by the IASB, which were adopted by the EU and thus were binding for Bastei Lübbe AG in the 2017/2018 financial year.

Unless expressly indicated, none of the new or amended standards and interpretations had any considerable effect on the consolidated financial statements of Bastei Lübbe AG.

The following table contains a detailed listing of the standards and interpretations to be used for the 2017/2018 financial year:

| Standard | Title (English/ German) | Date of entry into force* |
|---|---|---|
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses / Ansatz von Vermögenswerten aus latenten Steuern für nicht realisierte Verluste | 1 January 2017 |
| Amendments to IAS 7 | Disclosure Initiative / Initiative zu Angaben (zu Kapitalflussrechnungen) | 1 January 2017 |
| Annual Improvements to IFRS Standards 2014-2016 Cycle | Annual improvements process (2014-2016 cycle): Amendments to IFRS 1, IFRS 12, and IAS 28 | 01/01/2018 - 01/01/2017 |

* Date of entry into force refers to financial years commencing at this date or at a later date

**Amendments to IAS 12 - Recognition of assets from deferred taxes on unrealised losses**

By amending IAS 12, the IASB clarifies that devaluations to a lower market value of debt instruments, which are measured at fair value resulting from a change in the market interest rate, lead to deductible temporary differences.

The IASB affirms that there is a temporary difference in these cases. The IASB refers expressly to the case that the loss will not be realised and that in future will reverse if held to final maturity, as the debt instrument will be repaid at nominal value. This is irrespective of whether the holder expects to hold the debt instrument to final maturity, and thus to achieve the nominal value in full.

The IASB also confirms that, in principle, for all deductible temporary differences it must be jointly assessed whether in future sufficient taxable income will be generated in order to use and assess these. Only insofar as tax laws differentiate between various types of taxable profits, a separate assessment must take place. Furthermore, IAS 12 is to be supplemented with rules and examples that explain how the future taxable income is to be determined for accounting deferred tax assets.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2017. The adoption under EU law took place on 6 November 2017.

**Changes to IAS 7 - Disclosure Initiative (on cash flow statements)**

The amendments aim to clarify IAS 7 (cash flow statements) and to improve the information provided to the final recipients relating to the financial activities of a company and thereby enabling the recipients of financial statements to assess the changes to financial debts.

According to the amendments, a company must disclose the changes to such financial liabilities, for which the payments in and out are shown in the cash flow statement under cash flow from financing activities. Related financial assets are also to be included in the disclosure (e.g. assets from hedging transactions). See Note No. 35 for the reconciliation statement.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2017. The adoption under EU law took place on 6 November 2017.

**Annual improvements process (2014-2016 cycle): Amendments to IFRS 1, IFRS 12, and IAS 28**

As part of the annual improvement process, the following amendments were made to the listed standards:

- IFRS 1 (first application of the International Financial Reporting Standards): Removal of the temporary exemptions in Paragraphs E3-E7, since they have now fulfilled their intended purpose.

- IFRS 12 (Disclosure of Equity Investments in Other Entities): Clarification that the disclosure requirements (with the exception of IFRS 12.B10-B16) stated in the standard also apply to shares falling within the scope of IFRS 5.

- IAS 28 (Investments in Associates and Joint Ventures): Clarification that the voting right for the valuation of an investment in an associated or joint venture held by a venture capital company or another eligible company may be exercised differently per investment.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2017. The adoption under EU law took place on 7 February 2018.

## n) New regulations not yet applied in the financial year

The IASB has newly adopted or revised a number of accounting standards and interpretations that will be binding on Bastei Lübbe AG from 1 April 2018 at the earliest, provided that these have been approved by the European Commission and are relevant to Bastei Lübbe AG. These have not yet been voluntarily applied, and as a matter of principle are not applied to the current consolidated financial statements.

| Standard | Title (English/ German) | Date of entry into force* |
|---|---|---|
| **EU endorsement effected (as of 28 May 2018)** | | |
| IFRS 9 | Financial Instruments | 01/01/2018 |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation / Vorfälligkeitsregelungen mit negativer Ausgleichsleistung | 01/01/2019 |
| IFRS 15 | Revenue from Contracts with Customers / Umsatzerlöse aus Verträgen mit Kunden | 01/01/2018 |
| Clarifications to IFRS 15 | Revenue from Contracts with Customers / Klarstellungen zu IFRS 15 Umsatzerlöse aus Verträgen mit Kunden | 01/01/2018 |
| IFRS 16 | Leases / Leasingverhältnisse | 01/01/2019 |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions / Klassifizierung und Bewertung von Geschäftsvorfällen mit anteilsbasierter Vergütung | 01/01/2018 |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts / Anwendung IFRS 9 und IFRS 4 Versicherungsverträge | 01/01/2018 |
| IFRIC Interpretation 22 | Consideration Foreign Currency Transactions and Advance / Transaktionen in fremder Währung und im Voraus gezahlte Gegenleistungen | 01/01/2018 |
| Amendments to IAS 40 | Transfers of Investment Property / Klassifizierung noch nicht fertiggestellter Immobilien | 01/01/2018 |
| **EU endorsement pending (as of 28 May 2018)** | | |
| IFRS 17 | Insurance Contracts / Versicherungsverträge | 01.01.2021 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture / Veräußerung oder Einlage von Vermögenswerten in assoziierte Unternehmen oder Gemeinschaftsunternehmen | postponed indefinitely |
| IFRIC 23 | Uncertainty over Income Tax Treatments / Unsicherheit bezüglich der ertragsteuerlichen Behandlung | 01/01/2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | Annual improvements process (2015-2017 cycle): Amendments to IFRS 3, IFRS 10, IAS 12 and IAS 23 | 01/01/2019 |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures / langfristige Beteiligungen an assoziierten Unternehmen und Joint Ventures | 01/01/2019 |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement / Planänderungen, -kürzungen oder -abgeltungen | 01/01/2019 |
| Amendments to References to Framework IFRS | Änderungen der Verweise auf das Rahmenkonzept in IFRS-Standards | 01/01/2020 |

* Date of entry into force refers to financial years commencing at this date or at a later date.

The most important changes, as well as their expected effects on the consolidated financial statements of Bastei Lübbe AG, are explained in greater detail below. Unless otherwise stated, it is envisaged that the standards will not be applied prematurely, and that the effects are still being investigated.

## EU endorsement effected by 28 May 2018

### IFRS 9 - Financial instruments

IFRS 9, which was published in July 2014, replaces the existing guidelines in IAS 39 Financial Instruments: Approach and valuation IFRS 9 contains revised guidelines for the classification and valuation of financial instruments, including a new model of the anticipated credit losses for the calculation of the impairment of financial assets, as well as the new general accounting rules for hedge accounting. It also incorporates the guidelines for the recording and write-off of financial instruments pursuant to IAS 39.

Our investigations have shown that neither the classification and valuation of financial assets, nor the accounting of financial liabilities are likely to change significantly. The application of IFRS 9 will not mean any significant changes in terms of the assets, financial and earnings position or the cash flow of Bastei Lübbe.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2018. The adoption under EU law took place on 22 November 2016

**Amendments to IFRS 9 - Prepayment features with negative compensation**

With the amendment, under certain conditions, an assessment at amortised cost or at fair value reported in other comprehensive income (FVOCI) should also be allowed for such financial assets for which a compensation payment may be due to the terminating party in the event of a premature termination.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2019. The adoption under EU law took place on 22 March 2018.

**IFRS 15 - Revenue from Contracts with Customers**

IFRS 15 sets out a comprehensive framework for determining whether, to what extent and at what point in time sales revenues are to be recognised. It replaces existing guidelines for the recognition of revenues, including IAS 18 Revenue IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Our analyses have shown that – in addition to the significantly extended disclosure requirements in the consolidated notes – in the future, advertising subsidies, etc., must not be included in the distribution costs (other operating costs), and must instead be deducted from the sales revenues.

In addition, for customer transactions with remission agreements, Bastei Lübbe at the time of the original sale must also record an asset for their right to receipt of the returned goods from the customer (gross statement). A balance sheet extension between the balance sheet item "Other receivables and assets" and "Provisions" of KEUR 1,588 and a corresponding reduction in sales revenue and cost of materials resulted for the fiscal year 2017/2018.

The new regulations are of no or only very minor relevance in the following areas: variable compensation, multiple-element arrangements, contract profit or fulfilment costs, principal-agent relationships, Bill-and-hold agreements, financing components and swap transactions. Bastei Lübbe intends, during the transition to IFRS 15, to apply the modified retrospective method, according to which the cumulative adjustment amounts are recorded as at 1 April 2018. There is no adjustment to the opening balance of retained earnings from the first-time application of IFRS 15.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2018. The adoption under EU law took place on 22 September 2016.

**Clarifications on IFRS 15 - Revenue from Contracts with Customers**

IFRS 15 Revenue from contracts with customers (see above) applies to reporting periods beginning on or after 1 January 2018. In order to be able to quickly identify and clarify problems that arise when switching to IFRS 15, IASB and FASB have set up a joint consulting group on the changeover in relation to revenue recognition. The discussions of the consulting group resulted in possible differences in the understanding of users in relation to some of the matters in IFRS 15. These matters were passed to IASB and FASB for further consultancy and both boards have decided to propose several improvements in order to clarify the guidelines in their revenue recognition standards.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2018. The adoption under EU law took place on 31 October 2017.

**IFRS 16 - Leasing arrangements**

The core idea of the new standard is for the lessee to generally record all leases and associated contractual rights and obligations in the balance sheet. The differentiation between financing and operating lease contracts required under IAS 17 until now no longer applies for the lessee. For all leases, the lessee must record in his balance sheet a lease liability for the obligation to make future leasing payments. At the same time, the lessee capitalises a right of use to the underlying asset, which in principle corresponds to the cash value of the future leasing payments plus directly attributable costs. Only leases with a total term of up to one year, or with “low-value” assets (reinstatement value max. USD 5,000) may deviate from these principles.

For the lessor, the regulations of the new standard are by contrast similar to the current regulations of IAS 17. Leases will continue to be classified either as financing or operating leases. Classification according to IFRS 16 was based on the criteria of IAS 17.

IFRS 16 also contains a series of other regulations on disclosure and notes and on sale and leaseback transactions.

Implementation of the new standards are managed as part of a Group-wide project. Bastei Lübbe has started an assessment of the potential impact on its consolidated financial statements, and plans to benefit from the simplifications. Nevertheless, it can be assumed that a significant number of the leasing agreements, which currently constitute operating leases (see Note 40), will have to be recorded in the balance sheet. In addition to the resulting increase in the balance-sheet total of Bastei Lübbe AG, the type of expenses which are connected with the operating leases will change, as IFRS 16 replaces the linear expenses for operating leasing agreements with a depreciation expense for rights of use (right-of-use assets) and interest expenses for liabilities under the leasing agreement. Bastei Lübbe intends to apply IFRS 16 for the first time as at 1 April 2019 using the modified retrospective method. Afterwards, the cumulative effect will be recorded as an adjustment to the opening balance sheet value of the retained earnings as at 1 April 2019 without an adjustment of the comparison information.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2019. The adoption under EU law took place on 31 October 2017.

**Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions**

Because there was room for interpretation due to the lack of specific requirements in IFRS 2, the IASB published corresponding ascertainments on 20 June 2016. The changes relate to three specific areas, namely the specification of relevant exercise conditions for share-based payments with cash compensation, the classification of share-based payments with net settlements, and the clarification of the balance sheet for the regrouping of remuneration with cash compensation for balancing by means of equity instruments.

The amendments are to be applied for the first time for financial years beginning on or after 1 January 2018. The adoption under EU law took place on 26 February 2018.

### EU endorsement pending

**IFRIC 23 - Uncertainty over Income Tax Treatments**

IFRIC 23 provides clarification about the provisions of IAS 12, "Income Taxes" in relation to the recognition and measurement of actual income taxes, deferred tax liabilities and deferred tax assets when there is uncertainty with regard to income tax treatment.

## 4. Consolidated companies and shareholdings

Below are overviews of the key subsidiaries of the Group and the changes to the group of consolidated companies conducted during the financial year 2017/2018:

### Fully-consolidated companies

| | Headquarters | Ownership interest 31/03/2018 | Ownership interest 31/03/2017 |
|---|---|---|---|
| BEAM Shop GmbH | Cologne, Germany | 100.00 % | 100.00 % |
| BookRix GmbH & Co. KG | Munich | 54.04 % | 54.04 % |
| BuchPartner GmbH | Darmstadt | – | 51.00 % |
| Daedalic Entertainment GmbH | Hamburg | 51.00 % | 51.00 % |
| oolipo AG (formerly BEAM AG) | Cologne, Germany | 88.78 % | 88.78 % |

**BuchPartner GmbH**

By way of a notarised contract dated 28 March 2018, Bastei Lübbe AG sold its 51 % participation in BuchPartner GmbH (“BuchPartner”), with its headquarters in Darmstadt, to the minority stockholder. The “retail” segment was discontinued at the same time as it consisted solely of the BuchPartner GmbH business operation. Further information in this regard can be found in Note 5 below.

### Non-controlling shares

There exist significant non-controlling shares in the following subsidiaries.

| | Headquarters | Ownership shares of non-controlling shareholders 31/03/2018 | Ownership shares of non-controlling shareholders 31/03/2017 |
|---|---|---|---|
| BookRix GmbH & Co. KG | Munich | 45.96 % | 45.96 % |
| BuchPartner GmbH | Darmstadt | – | 49.00 % |
| Daedalic Entertainment GmbH | Hamburg | 49.00 % | 49.00 % |
| oolipo AG (formerly BEAM AG) | 51063 Cologne, Germany | 11.22 % | 11.22 % |

The following table shows a summary of financial information on the subsidiaries named (before Group-internal eliminations, where applicable):

| | BuchPartner | | Daedalic | | oolipo | | BookRix | |
|---|---|---|---|---|---|---|---|---|
| (KEUR) | 31.03.18 | 31.03.17 | 31.03.18 | 31.03.17 | 31.03.18 | 31.03.17 | 31.03.18 | 31.03.17 |
| Long-term assets | – | 13,644 | 18,060 | 21,284 | 14 | 3,160 | 26 | 317 |
| Short-term assets | – | 17,963 | 1,664 | 1,692 | 10 | 23 | 680 | 732 |
| Long-term liabilities | – | 2,128 | 8,719 | 10,837 | 0 | 0 | 0 | 0 |
| Short-term liabilities | – | 15,504 | 2,172 | 1,179 | 6,002 | 5,221 | 821 | 836 |
| **Net assets** | **–** | **13,975** | **8,833** | **10,960** | **-5,978** | **-2,038** | **-115** | **213** |
| Net assets to be assigned to the non-controlling shares | – | 4,438 | 1,926 | 2,968 | -671 | -229 | -53 | -36 |
| Sales revenue | 34,734 | 43,155 | 8,912 | 6,327 | 0 | 0 | 1,923 | 2,027 |
| Period = total earnings | -4,146 | -1,297 | -2,127 | -114 | -3,940 | -1,018 | -37 | -14 |
| Total profit to be assigned to non-controlling shares | -2,031 | -636 | -1,042 | -56 | -442 | -69 | -18 | -6 |

The following table shows the net cash flows of Daedalic:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Net cash flows from business activities | 2,681 | 1,122 |
| Net cash flows from investment activities | -4,145 | -4,880 |
| Net cash flows from financing activities | 978 | 4,209 |
| **Total net revenues** | **-486** | **451** |

The following table shows the net cash flows from BuchPartner (without deconsolidation effects):

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Net cash flows from business activities | -681 | 5,187 |
| Net cash flows from investment activities | -783 | -996 |
| Net cash flows from financing activities | 1,909 | -4,021 |
| **Total net revenues** | **445** | **170** |

Apart from BuchPartner ("retail" segment), all non-controlling shares shall be allocated to the "digital" segment. In the 2016/2017 financial year, BuchPartner distributed KEUR 1,000 to its existing shareholders. This reduction in equity was compensated in the capital reserves by a unilateral contribution by the existing shareholders. Otherwise, there were no dividend pay-outs on the part of the named subsidiaries in either of the two previous financial years.

## Non-included subsidiaries, associated companies, joint ventures and other investments

All other subsidiaries and investments are not included in the consolidated financial statements because they are of minor significance for the assessment of the Group's assets, financial position and earnings performance - both individually and in their entirety - because of their size or lower level of economic activity, or because the parent company - apart from the statutory minority rights – does not have any contractual or other rights which have a significant impact on the company. BHS Service GmbH exclusively provides services to BuchPartner GmbH. In the consolidation of the company, the Group would only reduce its service charges and increase staff costs by the same amount. With the sale of the BuchPartner GmbH, the shares in BHS Service GmbH were also sold (at book value). The ownership interest in other companies - with the exception of the shareholding in Daedalic Entertainment Studio West GmbH which increased from 75 % to 100 %, as well as the newly founded Daedalic Entertainment Bavaria GmbH - remain unchanged in comparison with the previous year.

Shares in non-consolidated associated companies (larger than 50 % stake) as listed under financial assets were as follows as per the balance sheet date:

| | Headquarters | Ownership interest |
|---|---|---|
| Siebter Himmel Bastei Lübbe GmbH | 51063 Cologne, Germany | 100 % |
| B+M Entertainment GmbH (previously Bastei Media GmbH) | Erfurt | 100 % |
| Bastei International Ltd. | Hong Kong, China | 100 % |
| Bastei Ventures GmbH | 51063 Cologne, Germany | 100 % |
| Moravská Bastei MoBa s.r.o. | Brno, Czech Republic | 90 % |
| BookRix Verwaltungs-GmbH * | Munich | 100 % |
| Daedalic Entertainment Studio West GmbH ** | Düsseldorf | 100 % |
| Daedalic Entertainment Bavaria GmbH ** | Munich | 100 % |

* subsidiary of BookRix GmbH & Co. KG
** subsidiary of Daedalic Entertainment GmbH

Investments in non-consolidated companies (stake of between 20 % and 50 %)

| | Headquarters | Ownership interest |
|---|---|---|
| Bastei LLC | Santa Monica, USA | 50 % |
| CE Community Editions GmbH | 51063 Cologne, Germany | 30 % |
| HPR Bild & Ton GmbH | 51063 Cologne, Germany | 25 % |
| Bastei Studios GmbH *** | Erfurt | 24.9 % |
| Räder GmbH | Essen | 20 % |

*** subsidiary of Bastei Media GmbH

All other interests in affiliates (less than 20 percent stake) as listed under financial assets are derived at both balance sheet dates from the participation in “Das Kind” Filmproduktion GmbH & Co., Berlin, Germany, as well as holdings (each less than 5 %) in several “GROSSO” press distribution companies, mostly in eastern Germany.

## 5. Discontinued operation

On 28 March 2018, Bastei Lübbe AG concluded a contract with the existing minority shareholders for the sale of shares in BuchPartner GmbH for a total purchase price of KEUR 5,700. The purchase price was paid in full with funds, before the reporting date. The proceeds of the sale significantly exceeded the book value of the related net assets - taking into account the impairment of goodwill already recognized as of 31 December 2017 in the amount of KEUR 4,000 - so no further impairments in the course of the reclassification of business operations were recorded as held for sale - up to a reversal of the deferred tax claims on tax losses carried forward of KEUR 104.

Until 31 March 2018, the “retail” segment comprised the distribution of books, particularly in the area of food retail. Because of the sale of the shares with effect from 31 March 2018, this segment no longer exists in the Bastei Lübbe Group. The BuchPartner business division had not previously been classified as for sale, or as a discontinued operation.

Income from the discontinued operations of the BuchPartner operation:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Revenues (incl. other operating income) | 34,762 | 43,239 |
| Consolidation of inter-segment revenues | -1,528 | -3,351 |
| Expenditure (incl. amortisations and financial results) | -44,020 | -45,085 |
| Consolidation of expenses of the inter-segmental revenues | 1,792 | 2,986 |
| **Income from current operations** | **-8,994** | **-2,211** |
| Income tax refund | 194 | 549 |
| **Income from current operations, after tax** | **-8,800** | **-1,662** |
| Income from the sale of the discontinued operation: | 3,261 | 0 |
| Expenditure relating to the sale of the discontinued operation | -50 | 0 |
| Tax on the net profit from the sale of the discontinued operation | 0 | 0 |
| **Loss from the discontinued operation, after tax** | **-5,589** | **-1,662** |
| | | |
| Earnings per share (undiluted = diluted) | -0.42 | -0.13 |

Because the (until now, Group-internal) supplies and services were continued after its final disposal, Bastei Lübbe has made a complete list of elimination entries for the discontinued BuchPartner operation.

Further information on the results can be found in the segment report (Note 35, “retail” column). The depreciation or value recovery mentioned therein relate to the following items in the statement of comprehensive income:

| (KEUR) | Depreciation 2017/2018 | Value recovery 2017/2018 | Depreciation 2016/2017 | Value recovery 2016/2017 |
|---|---|---|---|---|
| Other operating income | 0 | 3 | 0 | -70 |
| Material expenses | | | | |
| Expenditure on raw materials and supplies and on purchased goods | -578 | 0 | -709 | 0 |
| Other operating expenses | -17 | 0 | 0 | 0 |
| Goodwill impairment | -4,918 | 0 | 0 | 0 |
| | **-5,513** | **3** | **-709** | **-70** |

The effects of the sale of the BuchPartner operation on the individual balance sheet items are as follows:

| (KEUR) | 01/01/2018 |
|---|---|
| Intangible assets | -6,365 |
| Tangible assets | -1,677 |
| Deferred tax claims | -204 |
| Inventories | -9,210 |
| Trade receivables and other receivables | -2,878 |
| Cash and cash equivalents | -620 |
| Deferred tax liabilities | 1,904 |
| Accruals | 972 |
| Trade payables and other liabilities | 13,296 |
| **Net assets (and liabilities)** | **-4,782** |

As part of the company Räder GmbH sold last year, which is assigned to the “non-book” segment, minor expenses were still incurred in the 2017/2018 financial year.

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Profits (incl. changes in inventory and other operating income) | -18 | 18,122 |
| Expenditure (incl. amortisations and financial results) | -177 | -16,702 |
| **Income from current operations** | **-195** | **1,420** |
| Income tax refund (previous year expense) | 63 | -149 |
| **Income from current operations, after tax** | **-132** | **1,271** |
| Income from the sale of the discontinued operation: | 0 | 1,653 |
| Expenditure relating to the sale of the discontinued operation | 0 | -441 |
| Tax on the net profit from the sale of the discontinued operation | 0 | -127 |
| **Loss (previous year profit) from the discontinued operation, after tax** | **-132** | **2,356** |
| | | |
| Earnings per share (undiluted = diluted) | -0.01 | 0.18 |

Further information on the results can be found in the segment report (Note 36, “non-book” column). The negative sales revenue results from remittances. There were no write-downs or value recovery in the 2017/2018 financial year (previous year: KEUR -80 and KEUR 14).

There are still assets from discontinued operations of the discontinued Räder business division amounting to KEUR 7 (previous year: KEUR 470) and debts from discontinued operations of KEUR 75 (previous year: EUR 511 million) at the balance sheet date.

The following table shows the net cash flows from the discontinued operations:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Net cash flows from business activities | -681 | 4,859 |
| Net cash flows from investment activities | 4,297 | 3,020 |
| Net cash flows from financing activities | -3,791 | 6,174 |
| **Total net revenues** | **-175** | **14,053** |

# Notes on the consolidated balance sheet

## 6. Intangible assets

| (KEUR) | Goodwill and company value | Internally generated intangible financial assets | Other intangible financial assets | Advance payments | Total |
|---|---|---|---|---|---|
| **Acquisition/Production costs** | | | | | |
| As of 01/04/2016 | 7,858 | 8,937 | 18,648 | 5,717 | 41,160 |
| Additions from initial consolidations | 4,918 | 0 | 7,615 | 0 | 12,533 |
| Additions | 0 | 3,528 | 890 | 2,097 | 6,515 |
| Reclassifications | 0 | 0 | 2,872 | -2,872 | 0 |
| Disposals | -1,297 | 0 | -6,912 | 0 | -8,209 |
| **As of 31/03/2017** | **11,479** | **12,465** | **23,113** | **4,942** | **51,999** |
| **Accumulated amortisations and depreciation** | | | | | |
| As of 01/04/2016 | 0 | 1,938 | 7,187 | 0 | 9,125 |
| Amortisations | 0 | 1,407 | 2,903 | 2 | 4,312 |
| Disposals | 0 | 0 | -1,372 | 0 | -1,372 |
| **As of 31/03/2017** | 0 | 3,345 | 8,718 | 2 | 12,065 |
| **Carrying amounts** | | | | | |
| As of 01/04/2016 | 7,858 | 6,999 | 11,461 | 5,717 | 32,035 |
| **As of 31/03/2017** | **11,479** | **9,120** | **14,395** | **4,940** | **39,934** |
| **Acquisition/Production costs** | | | | | |
| Last Updated: 01/04/2017 | 11,479 | 12,465 | 23,113 | 4,942 | 51,999 |
| Reclassifications in IFRS 5 | -4,918 | 0 | -7,988 | 0 | -12,906 |
| Additions | 0 | 3,090 | 774 | 744 | 4,608 |
| Reclassifications | 0 | 0 | 4,707 | -4,707 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| **As of: 31/03/2018** | **6,561** | **15,555** | **20,606** | **979** | **43,701** |
| **Accumulated amortisations and depreciation** | | | | | |
| As of: 01/04/2017 | 0 | 3,345 | 8,718 | 2 | 12,065 |
| Reclassifications in IFRS 5 | -4,918 | 0 | -1,622 | 0 | -6,540 |
| Amortisations | 0 | 1,227 | 3,615 | 92 | 4,934 |
| Write-downs | 5,759 | 3,395 | 2,917 | 0 | 12,071 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| **As of: 31/03/2018** | **841** | **7,967** | **13,628** | **94** | **22,530** |
| **Carrying amounts** | | | | | |
| As of: 01/04/2017 | 11,479 | 9,120 | 14,395 | 4,940 | 39,934 |
| **As of: 31/03/2018** | **5,720** | **7,588** | **6,978** | **885** | **21,171** |

As of the balance sheet date, the carrying values of goodwill can be allocated as follows to the respective cash-generating units (CGU) and segments:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| **Books segment** | | |
| Eichborn | **35** | **35** |
| **Retail segment** | | |
| BuchPartner | **0** | **4,918** |
| **Digital segment** | | |
| Daedalic | 4,903 | 4,903 |
| BEAM | 0 | 550 |
| BookRix | 0 | 291 |
| | **4,903** | **5,744** |
| **Novel booklets and puzzle magazines** | | |
| PMV | **782** | **782** |
| | **5,720** | **11,479** |

With the exception of goodwill, there are no intangible assets that have been classified as of indefinite useful life.

With regard to the goodwill, the impairment of the activated book values in accordance with IAS 36 is checked once a year and, in the event of triggering events, based on groups of cash-generating units.

As a result of the occurrence of a triggering event – relevant deterioration in the BuchPartner GmbH (retail segment) results – an impairment test for BuchPartner GmbH was carried out on 31 December 2017. The residual value of the group from cash-generating units was compared with their respective recoverable amounts as the higher amount derived from the fair value less selling costs and value in use. The recoverable amount corresponded to the value in use. As a result of the impairment test, the full amount of the goodwill – KEUR 4,918 – was depreciated.

In addition, impairments were applied for the goodwill of Beam Shop GmbH (digital segment) and BookRix GmbH & Co. KG (digital segment), each in the full amount (KEUR 841) because, as of 31/12/2017, in these business areas, too, development during the financial year was not according to plan. The recoverable amount was the value in use here, too.

The total amount of the recorded impairments for goodwill for the 2017/2018 financial year amounts to KEUR 5,759 and is shown under the item "Amortisation and depreciation on intangible assets and property, plant and equipment" in the statement of consolidated income.

The self-created intangible assets of KEUR 7,588 (previous year: KEUR 9,120) relate to internally-developed computer games, which are depreciated on a straight-line basis over useful lives of five to seven years. In the financial year 2017/2018, impairment losses of EUR 3,395 were made because it was assumed that the games in question will not be able to deliver the expected economic benefits.

Disclosed in other intangible assets are mainly title and brand rights, depreciated over useful lives of 15 years, and will be shown at the balance sheet date in the total amount of KEUR 1,397 (previous year: KEUR 1.536) The main individual items for title and trademark rights have a useful life of 10 to 11 years. Moreover, other intangible assets relating to the "digital" segment included development costs for the streaming platform oolipo amounting to KEUR 3,119 (previous year: KEUR 3.119, still recognised under advance payments), on which in the financial year, in addition to the amortisation on the estimated useful life of five years, impairments in the amount of the residual book value (at KEUR 2,843 ) were to be made, since the product, which was launched at the beginning of the fiscal year, was not able to fulfil expectations and was discontinued. In the previous year, this also included customer relations identified in the initial consolidation of BuchPartner GmbH as at 1 April 2016 (KEUR 6,786), which are amortised on a straight-line basis over a period of ten years. The other amounts mainly relate to software and licences, which are depreciated over three to five years. The book value on the balance sheet date is KEUR 5,580 (previous year: KEUR

6,073). Here, write-downs of KEUR 75 were to be taken into account. The amortisations and write-downs are shown in the consolidated income statement as the item “Amortisations on intangible assets and property, plant and equipment”.

As in the previous year, intangible assets do not serve as collateral.

## 7. Inventory of pre-paid royalties

| (KEUR) | Prepaid royalties | Advance payments | Total |
|---|---|---|---|
| **Acquisition/production costs** | | | |
| As of 01/04/2016 | 32,990 | 5,307 | 38,297 |
| Additions | 16,658 | 5,530 | 22,188 |
| Disposals | -1,085 | -182 | -1,267 |
| Reclassifications | 5,100 | -5,100 | 0 |
| **As of 31/03/2017** | **53,663** | **5,555** | **59,218** |
| **Accumulated amortisations and depreciation** | | | |
| As of 01/04/2016 | 11,310 | 83 | 11,393 |
| Amortisations | 6,336 | 0 | 6,336 |
| Write-downs | 5,463 | 70 | 5,533 |
| Value recovery | -335 | 0 | -335 |
| Disposals | -1,085 | 0 | -1,085 |
| **As of 31/03/2017** | 21,689 | 153 | 21,842 |
| **Carrying amounts** | | | |
| As of 01/04/2016 | 21,680 | 5,224 | 26,904 |
| **As of 31/03/2017** | **31,974** | **5,402** | **37,376** |
| **Acquisition/production costs** | | | |
| Last Updated: 01/04/2017 | 53,663 | 5,555 | 59,218 |
| Additions | 1,801 | 13,654 | 15,455 |
| Disposals | -3,594 | -231 | -3,825 |
| Reclassifications | 14,696 | -15,433 | -737 |
| **As of: 31/03/2018** | **66,566** | **3,545** | **70,111** |
| **Accumulated amortisations and depreciation** | | | |
| As of: 01/04/2017 | 21,689 | 153 | 21,842 |
| Amortisations | 22,394 | 0 | 22,394 |
| Write-downs | 1,728 | 0 | 1,728 |
| Value recovery | 0 | -58 | -58 |
| Disposals | 3,565 | 0 | 3,565 |
| **As of: 31/03/2018** | **42,246** | **95** | **42,341** |
| **Carrying amounts** | | | |
| As of: 01/04/2017 | 31,974 | 5,402 | 37,376 |
| **As of: 31/03/2018** | **24,320** | **3,450** | **27,770** |

All expenses incurred in connection with prepaid royalties and down payments made - incl. amortisations and impairments - are recognised as material expenses under “Expenses for fees and amortisations to prepaid royalties”; reversals or value recovery are recorded under other operating income.

The inventory of pre-paid royalties will remain unchanged and written down based on revenue. As a result of the necessary impairments in the previous year, revenue-based amortisation was re-estimated based on historical sales patterns in the current financial year. The impairments and amortisations of a total of KEUR 24.122 are therefore not comparable with the previous year (KEUR 11,869). The reassessment of the amortisation course results in a one-time additional cost of approximately EUR 6.5 million. In addition, due to the expanding turnover, due to major bestsellers in particular, higher amortisation in the amount of KEUR 6,500 needed to be carried out.

In the inventory of pre-paid loyalties, four manuscripts for three published books and an as-yet unpublished book (previous year: one published and one as yet to be published) book by renowned authors with a book value of KEUR 7,532 (previous year: KEUR 7,400) are included. Their respective expected amortisation period is between two and five (previous year: two and four) years. In the past financial year, write-downs amounting to KEUR 1.728 (previous year: KEUR 5.533) were to be carried out in the expired financial year if it could be assumed that the future net income before royalty expenses for the relevant manuscript would not cover the capitalised amounts. In the expired financial year, value recoveries amounting to KEUR 58 (previous year: KEUR 335) were carried out on prepaid author royalties, to the extent that future billable commissions of the relevant manuscript would not cover the capitalised amounts. Significant parts of the amortisation and value recoveries are based on changes to the estimates of future expected revenues.

## 8. Tangible assets

| (KEUR) | Real estate and buildings | Techn. Equipment and machinery | Business and operating equipment | Equipment under construction | Total |
|---|---|---|---|---|---|
| **Acquisition/Production costs** | | | | | |
| As of 01/04/2016 | 1,669 | 64 | 7,213 | 0 | 8,946 |
| Additions from initial consolidations | 152 | 0 | 924 | 2 | 1,078 |
| Additions | 82 | 2 | 962 | 7 | 1,053 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Disposals | -311 | -28 | -3,386 | 0 | -3,725 |
| **As of 31/03/2017** | **1,592** | **38** | **5,713** | **9** | **7,352** |
| **Accumulated amortisations and depreciation** | | | | | |
| As of 01/04/2016 | 618 | 42 | 5,079 | 0 | 5,739 |
| Amortisations | 220 | 5 | 898 | 0 | 1,123 |
| Disposals | -213 | -20 | -2,824 | 0 | -3,057 |
| **As of 31/03/2017** | **625** | **27** | **3,153** | **0** | **3,805** |
| **Carrying amounts** | | | | | |
| As of 01/04/2016 | 1,051 | 22 | 2,134 | 0 | 3,207 |
| **As of 31/03/2017** | **618** | **42** | **5,079** | **0** | **5,739** |
| **Acquisition/Production costs** | | | | | |
| Last Updated: 01/04/2017 | 1,592 | 38 | 5,713 | 9 | 7,352 |
| Reclassifications in IFRS 5 | -166 | 0 | -2,304 | -16 | -2,486 |
| Additions | 122 | 0 | 943 | 7 | 1,072 |
| Disposals | 0 | 0 | -62 | 0 | -62 |
| **Last Updated: 31/03/2018** | **1,548** | **38** | **4,290** | **0** | **5,876** |
| **Accumulated amortisations and depreciation** | | | | | |
| Last Updated: 01/04/2017 | 625 | 27 | 3,153 | 0 | 3,805 |
| Reclassifications in IFRS 5 | -58 | 0 | -750 | 0 | -808 |
| Amortisations | 204 | 4 | 771 | 0 | 979 |
| Disposals | 0 | 0 | -56 | 0 | -56 |
| **Last Updated: 31/03/2018** | **771** | **31** | **3,118** | **0** | **3,920** |
| **Carrying amounts** | | | | | |
| Last Updated: 01/04/2017 | 967 | 11 | 2,560 | 9 | 3,547 |
| **Last Updated: 31/03/2018** | **777** | **7** | **1,172** | **0** | **1,956** |

Property, plant and equipment include assets amounting to KEUR 347 (previous year: KEUR 421) under hire, rental or lease contracts which should be classified as finance lease agreements based on IFRS criteria, and are therefore to be entered in the balance sheet of their economic owner. These assets are operating and office equipment (office equipment). The corresponding liabilities have since been repaid.

As in the previous year, the leased and capitalised assets in property, plant and equipment experienced no accruals in the reporting year; depreciation amounted to KEUR 73.

No depreciations needed to be carried out in the previous financial year. All depreciation on property, plant and equipment is shown in the statement as the consolidated income item “Amortisation and depreciation on intangible assets and property, plant and equipment”.

As in the previous year, property, plant and equipment do not serve as collateral for own liabilities.

## 9. Financial assets

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| **Long-term (financial assets)** | | |
| Investments in affiliated companies | 367 | 635 |
| Investments in associated companies and joint ventures | 244 | 494 |
| Other equity investments | 105 | 106 |
| Loans to other equity investments | 2,638 | 2,835 |
| Other loans | 226 | 310 |
| | **3,580** | **4,380** |
| **Short-term** | | |
| Receivables from associated companies and joint ventures | 43 | 328 |
| Loans on other equity investments | 196 | 0 |
| Receivables from other equity investments | 43 | 42 |
| Receivables from factoring | 601 | 1,446 |
| Receivables from affiliated companies | 84 | 828 |
| Creditors with debit balances | 45 | 353 |
| Eichborn AG receivables (insolvency) | 102 | 102 |
| Supplier rebates | 72 | 103 |
| Other | 286 | 536 |
| | **1,472** | **3,738** |

The shares in the affiliated companies are not consolidated due to their subordinate importance for assets, financial position and earnings. Due to materiality considerations, investments in associated companies and joint ventures are not consolidated at equity.

Loans to other shareholdings relate to Räder GmbH with a fixed term until 31 December 2024, and an interest rate of 6 % p.a. The first payments of interest and principal will be made on 31 December 2018.

Receivables of Bastei Lübbe AG amounting to KEUR 8,144 (previous year: KEUR 8,750) were sold to the United Publisher arvato media GmbH (VVA) in Gütersloh, within the framework of the factoring agreements. Given that this involves recourse factoring (the default risk is not passed to the factor), unpaid receivables for which Bastei Lübbe is no longer responsible are again shown under “Trade receivables”. Financial assets include those receivables that have been paid by the customer but not yet transferred to Bastei Lübbe by the factor (KEUR 601). Payments by the factor from the acquisition of receivables still existent on the balance sheet date are reported as financial liabilities (KEUR 6,117).

In addition, BuchPartner GmbH (retail segment) concluded a “true” factoring contract in the previous year, through which KEUR 10,000 of trade receivables are transferred to the factor by the balance sheet date. On acquisition, the factor retained the amount of KEUR 500 (book value = fair value) as a so-called dilution reserve, which was also included in the above receivables from factoring, and was reported under the short-term financial assets. To repurchase the transferred receivables, BuchPartner was obliged to pay KEUR 9,500. The maximum risk from this commitment in the form of pre-risk protection was KEUR 200. A bank account was pledged as collateral (balance on 31 March 2017: KEUR 161).

In the receivables from associated companies and joint ventures are interest-bearing loans payable by HPR Bild & Ton GmbH, Cologne, totalling KEUR 150 (previous year: KEUR 250), which had to be adjusted at the balance sheet date in full because repayment is no longer expected.

Also in the receivables from affiliated companies is an interest-bearing loan receivable from Bastei Media GmbH totalling (incl. interest) KEUR 653 (previous year: KEUR 574) as well as a further claim in the amount of KEUR 221, which had to be impaired at the balance sheet date at KEUR 650 and KEUR 211, as future repayments are also considered unlikely.

The Eichborn AG receivable refers to the pre-financed social plan expenditure of the company under protective administration. Bastei Lübbe took over its pre-financing so that the total volume of the social plan as negotiated between the insolvency administrator and the works council of Eichborn AG would not fall under the relative limitation of Section 123(2) of the German Insolvency Statute (Insolvenzordnung - InsO), so that the employees would receive the severance payment due to them immediately upon termination of their employment contracts. In return, Bastei Lübbe AG has had the employees' claims against the insolvency administrator for social plan payments assigned to itself.

Financial assets were neither overdue nor impaired at the reporting dates. There is no reason to believe that a loss of financial assets beyond the undertaken write-down will be incurred.

Short-term financial assets are due for payment within one year.

## 10. Income tax assets and liabilities

The following income tax assets and liabilities are shown separately in the balance sheet:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Deferred tax claims | 4,536 | 3,139 |
| Income tax receivables | 896 | 410 |
| Deferred tax liabilities | -1,175 | -4,271 |
| Income tax liabilities | -6 | -175 |
| **Balance** | **4,251** | **-897** |

As in the previous year, current tax refund claims and tax liabilities largely relate to domestic trade and corporate tax.

Deferred taxes accounted for can be assigned to individual balance sheet items according to their origin as follows:

| (KEUR) | assets deferred taxes 31/03/2018 | liabilities deferred taxes 31/03/2018 | assets deferred taxes 31/03/2017 | liabilities deferred taxes 31/03/2017 |
|---|---|---|---|---|
| Other intangible assets | 2,891 | 2,649 | 2,974 | 5,507 |
| Tangible assets | – | 113 | – | 136 |
| Financial investments | 34 | 0 | 16 | 37 |
| Inventories | 0 | – | 118 | – |
| Trade receivables | 54 | 72 | | 74 |
| Semi-retirement obligations | 0 | – | 1 | – |
| Other provisions | 10 | – | 109 | – |
| Financial liabilities | 68 | 50 | 46 | 64 |
| Tax losses carried forward | 3,188 | – | 1,422 | – |
| | **6,245** | **2,884** | **4,686** | **5,818** |
| Balancing | -1,709 | -1,709 | -1,547 | -1,547 |
| | **4,536** | **1,175** | **3,139** | **4,271** |

Deferred tax assets on losses carried forward relate for the first time the parent company as well as – as in the previous year – to Daedalic Entertainment GmbH and – only in the previous year – BEAM Shop GmbH. At the balance sheet date, deferred tax assets on losses carried forward from Beam Shop GmbH, oolipo AG and BookRix GmbH & Co. KG amounting to KEUR 3,433 (previous year: KEUR 1.962) were not to be applied, as the realisation of such is not considered sufficiently certain according to the likelihood required by IAS 12. In addition, for the accumulated losses accrued in the months January to March 2017 by BuchPartner GmbH, an active tax deferral amounting to KEUR 213 was activated in the previous year, as it was assumed on the balance sheet date of the previous year that the losses would be offset in the same calendar-based financial year, 2017.

Deferred tax liabilities are fully offset against corresponding assets since the same tax subject and the same tax authority are involved.

Changes in deferred taxes in the profit and loss statement can be reconciled as follows:

| | (KEUR) | 31/03/2018 | | 31/03/2017 | |
|---|---|---|---|---|---|
| | Deferred tax claims 1 April | 3,139 | | 2,002 | |
| | Deferred tax liabilities 1 April | -4,271 | -1,132 | -2,286 | -284 |
| | Deferred tax claims 31 March | 4,536 | | 3,139 | |
| | Deferred tax liabilities 31 March | -1,175 | 3,361 | -4,271 | -1,132 |
| = | Change in balance | | 4,493 | | -848 |
| +/- | Additions/disposals from changes to the group of consolidated companies | | 1,683 | | 2,019 |
| = | **Deferred tax income as per profit and loss statement** | | **2,810** | | **1,171** |

Furthermore, we refer to the information regarding income tax expenses under Note 32 in this respect.

## 11. Inventories

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Raw materials and supplies | 252 | 638 |
| Unfinished products | 565 | 583 |
| Finished goods | 17,559 | 19,863 |
| Merchandise | 57 | 9,074 |
| Prepayments on inventories | 45 | 20 |
| | **18,478** | **30,178** |

This change in comparison with the previous year was fundamentally the result of the deconsolidation of BuchPartner GmbH.

Depreciations on the balance sheet date amounted to KEUR 4,546 (previous year: KEUR 4,829)previous year.

As in the previous year, inventory does not serve as collateral with the exception of usual reservations of title.

## 12. Trade receivables

The long- and short-term trade receivables recognised in the balance sheet were as follows:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| **Receivables from** | | |
| third parties | 20,043 | 20,980 |
| less long-term discounting | -37 | -57 |
| less value adjustments | -267 | -224 |
| | **19,739** | **20,699** |

Long-term receivables from a client amounting to KEUR 935 (previous year: KEUR 1,192) are discounted at a cash value of KEUR 898 (previous year: KEUR 1,135) as no interest rate was stipulated. All other trade receivables shown are due within a year and are shown as current receivables.

Value adjustments were made on receivables amounting to KEUR 305 (previous year: KEUR 281). Depreciations of trade receivables were as follows:

| (KEUR) | 2016/2018 | 2015/2017 |
|---|---|---|
| As of 1 April | 224 | 117 |
| Accrual, changes in the group of consolidated companies | 0 | 133 |
| Outflow, changes in the group of consolidated companies | -62 | 0 |
| Availment | -43 | -8 |
| Reversal | -6 | -82 |
| Addition | 154 | 64 |
| Other changes | 0 | 0 |
| | **267** | **224** |

As of 31 March 2018, trade receivables amounting to KEUR 18,101 (previous year: KEUR 16,349) were neither overdue nor depreciated. There are no indications on the reporting date in this regard that the clients will not fulfil their payment obligations.

Trade receivables classified as payments in arrears but not depreciated at the balance sheet date were overdue in the following periods:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| up to 30 days | 376 | 2,322 |
| 31 to 90 days | 1,007 | 665 |
| 91 to 180 days | 157 | 626 |
| 181 days to one year | 36 | 91 |
| more than one year | 24 | 591 |
| | **1,600** | **4,295** |

As a result, trade receivables  as in the previous year and with the exception of the factored receivables (see Note 9) do not serve as collateral for own liabilities on the reporting date.

## 13. Other receivables and assets

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Other accruals and deferrals | 586 | 743 |
| Value-added tax refund claims | 369 | 230 |
| Other | 19 | 4 |
| | **974** | **977** |

All amounts are realisable within a year.

## 14. Cash and cash equivalents

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Credit balances at financial institutions | | |
| Sight deposits and fixed deposits | 877 | 1,178 |
| Cash assets | 30 | 25 |
| | **907** | **1,203** |

These assets are not subject to any restrictions on ownership or disposal, with the exception of a bank account owned by BuchPartner GmbH which was pledged in the previous year as collateral as part of a “true” factoring agreement (balance on 31 March 2017: KEUR 161).

## 15. Equity

Since the initial public offering in October 2013, the parent company's share capital has consisted of 13,300,000 no-par value shares with a calculated proportion of the share capital of EUR 1.00 each, thus totalling EUR 13,300,000.00.

Following the stock market flotation, the parent company purchased its own shares in October 2014 via the authorisation granted by the annual general meeting as of 10 September 2013. After 100 of the previously held 100,000 own stocks were transferred free of charge to an author in July 2015, in order to strengthen the ties between this author and Bastei Lübbe, the number of own shares amounts to 99,900 as at the balance sheet cut-off date. The acquired shares can be used for all legally-permissible purposes. Hence, as in the previous year, 13,200,100 issued and fully paid, no-par-value shares in Bastei Lübbe AG were in circulation at the balance sheet date. There were no changes in this regard in the current financial year, as in the previous financial year.

In the course of the partial sale of oolipo in the previous year - without amendment to its status as a fully-consolidated company – the sales of affected shares shall be presented as simple equity transactions pursuant to IFRS 10. In doing so, the differences between the respective proportionate equity and the respective counter-performance received shall be offset against consolidated reserves due to the shareholders of the parent company. Only the capital reserves in the consolidated annual financial statement of Bastei Lübbe AG are available for this purpose. The development of the capital reserve, incl. the offsetting of the differences stated, can be removed from the consolidated change in equity statement.

Retained earnings comprise annual net profit and profit carried forward. As in the previous year, profit carried forward includes amounts of KEUR 1,920 from the additional evaluations and revaluations carried out in preparation for the IFRS opening balance sheet as of 1 April 2011, as well as income and expenses from previous years recorded as profit and loss that deviate from profit according to commercial law.

In accordance with the resolution passed by the ordinary Annual General Meeting on 22 November 2017, no dividends were distributed to the shareholders for the 2016/2017 financial year. Instead, a resolution was passed to carry forward the total net earnings of Bastei Lübbe AG of KEUR 1,092.

The equity shares of non-controlling shareholders concern equity contributions relating to the minority shareholders of BuchPartner, Daedalic, oolipo and BookRix, and have developed as follows in the past consolidated financial year:

| (KEUR) | BuchPartner | Daedalic | oolipo | BookRix | Total |
|---|---|---|---|---|---|
| Last Updated: 01/04/2017 | 4,439 | 2,968 | -229 | -35 | 7,143 |
| pro rata profit/loss for the year | -2,031 | -1,042 | -442 | -18 | -3,533 |
| Outflow from changes in the group of consolidated companies | -2,408 | – | – | – | -2,408 |
| **Last Updated: 31/03/2018** | **0** | **1,926** | **-671** | **-53** | **1,202** |

## 16. Earnings per share

In calculating earnings per share (EUR - 0.96/share, previous year: EUR -0.16 per share), the following period result attributable to the shareholders of the parent company and the average number of shares in circulation (13,200,100 shares) was assessed as a weighted average by offsetting the treasury shares held by the company.

Dilutive effects did not apply in either the reporting year or in the previous year.

## 17. Semi-retirement obligations

Bastei Lübbe had concluded partial-retirement agreements with a number of employees according to the block model stipulated in the collective agreement. Accordingly, the working hours were spread over the total period spent in partial retirement in such a way that the employee worked the full number of hours in the first half of the period of part-time working. Employees were then released from working altogether in the second half while still receiving the remuneration due during partial retirement (partial-retirement payment plus top-up amount). The last remaining partial-retirement agreements expired during the 2017/2018 financial year. There are currently no plans to renew the programme.

Net liabilities developed as follows:

| (KEUR) | 31/03/2018 | 31/03/2017 | 31/03/2016 | 31/03/2015 | 31.03.2014 |
|---|---|---|---|---|---|
| Present value of partial-retirement obligation | 0 | 66 | 184 | 393 | 674 |
| Fair value of plan assets | 0 | -24 | -155 | -274 | -418 |
| | **0** | **42** | **29** | **119** | **256** |

The cash value of semi-retirement obligations changed as follows:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| As of 1 April | 66 | 184 |
| Current service cost | 0 | 0 |
| Interest expense | 0 | 0 |
| Payments | -66 | -117 |
| Actuarial profits ("-")/losses | 0 | -1 |
| **As of 31 March** | **0** | **66** |

Accrued provisions were secured through a reinsurance policy pledged to employees. The capital amount of this reinsurance policy was correspondingly classified as a plan asset within the meaning of IAS 19.

The fair value of plan assets has developed as follows:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| As of 1 April | 24 | 155 |
| Deposits | 0 | 0 |
| Disbursements | -25 | -136 |
| Balanced earnings | 1 | 5 |
| **As of 31 March** | **0** | **24** |

The plan assets were comprised of reinsurance policies held with a life insurance company. In-payments were made in the active phase of partial retirement. These payments were then effected in the passive phase of partial retirement. Assets were generally invested in the general cover funds of the life insurance company. The restrictions of the German Federal Financial Supervisory Authority applied here. Fair-value accounts were traditional insurance policies without fund investments. The income from these reinsurance policies arose from the fixed guaranteed interest rate as well as the variable profit share from the insurance company, to be set annually, which results from risk and cost gains and the profit from the insurance policies underlying the capital investment. The cost amounts claimed by the life insurance company are thus offset.

## 18. Other provisions

The provisions recognised in the balance sheet in addition to the aforementioned pension obligations have developed as follows:

| (KEUR) | Last Updated: 01.04.2017 | Consol. Group change | Availment | Reversal | Addition | Regrouping | Last Updated: 31/03/2018 |
|---|---|---|---|---|---|---|---|
| **Long-term** | | | | | | | |
| archiving costs | 108 | -4 | 0 | 20 | 0 | 0 | 84 |
| | **108** | **-4** | **0** | **20** | **0** | **0** | **84** |
| **Short-term** | | | | | | | |
| remittances | 6,305 | -972 | 5,855 | 0 | 7,589 | 0 | 7,067 |
| Litigation | 665 | 0 | 640 | 0 | 53 | 0 | 78 |
| Specific risks receivables from factoring | 35 | 0 | 35 | 0 | 90 | 0 | 90 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **7,005** | **-972** | **6,530** | **0** | **7,732** | **0** | **7,235** |
| | **7,113** | **-976** | **6,530** | **20** | **7,732** | **0** | **7,319** |

The provisions for returns refer to the anticipated returns of published products. Customers are given credit notes for the full amount stated on the invoice. Novel booklets sold according to the cover returns procedure do not require the goods to be returned. The appropriate amount is simply credited. Calculations of return provisions are based on the return rates of the previous financial year. Separate calculations are carried out for the various segments. The development of returns over time has been calculated by the Company statistically for several years, and is stable over time. Return provisions can therefore be reliably estimated. The obligation is generally liquidated in the first eight months following the reporting date. Based on past experience, returns are normally completed within 18 months.

Provisions for current lawsuits are created, provided their risks can be reasonably estimated. These provisions are determined on the basis of notifications and cost estimates by the lawyers retained to represent the company, and cover all fees and legal expenses estimated by the lawyers, as well as any settlement costs.

Provisions for individual risks for Trade receivables from factoring refer to claims against customers involved in collection or insolvency proceedings, provided that the factor has already effected payment to Bastei Lübbe. Given that recourse factoring is involved, there is a danger in this respect that the amounts paid may need to be refunded to the factor.

## 19. Financial liabilities

| (KEUR) | Last Updated: 31/03/2018 of which with a remaining term of | | | | as of 31 March 2017 of which with a remaining term of | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total** | **up to 1 year** | **more than 1 year, up to 5 years** | **more than 5 years** | **Total** | **up to 1 year** | **more than 1 year, up to 5 years** | **more than 5 years** |
| **Liabilities (to/from)** | | | | | | | | |
| banks | 31,135 | 26,135 | 5,000 | 0 | 38,765 | 4,315 | 34,450 | 0 |
| Balanced processing charges | -154 | -154 | 0 | 0 | -198 | -44 | -154 | 0 |
| noncontrolling shareholders | 0 | 0 | 0 | 0 | 4,000 | 4,000 | 0 | 0 |
| VVA pre-financing | 6,117 | 6,117 | 0 | 0 | 6,056 | 6,056 | 0 | 0 |
| Employees | 652 | 652 | 0 | 0 | 2,233 | 2,233 | 0 | 0 |
| Debtors with credit balance | 136 | 136 | 0 | 0 | 209 | 209 | 0 | 0 |
| Derivatives (interest swap) | 211 | 97 | 114 | 0 | 141 | 0 | 141 | 0 |
| Other | 86 | 86 | 0 | 0 | 98 | 98 | 0 | 0 |
| | **38,183** | **33,069** | **5,114** | **0** | **51,304** | **16,867** | **34,437** | **0** |

On 5 October 2015, the parent company concluded a syndicated loan agreement with a renowned banking syndicate with a total value of EUR 33 million. The syndicated loan has a maturity of six years. In the reporting year, the covenants agreed could not be complied with as of 31 March 2018. The lenders have a right to extraordinary termination (see No. 47). For this reason these liabilities to banks were classified as short-term. Daedalic Entertainment GmbH also has its own loan agreement with a renowned bank.

The handling fees paid in 2015 for the syndicated loan originally amounting to KEUR 264 were offset as acquisition costs for the loan and distributed over the term (as per 31 March 2018 still KEUR 154).

The liabilities with regard to non-controlling shareholders concern the loan of the minority shareholders of BuchPartner GmbH and are deconsolidated in the context of the sale.

We refer to Note 9 regarding the liabilities from the VVA pre-financing.

Liabilities to employees particularly include bonuses and compensation.

## 20. Trade payables

Trade payables (KEUR 19,310; previous year: KEUR 28,370) essentially comprise royalties owed to authors and agencies, liabilities towards printing companies, liabilities to other publishing companies and liabilities under advisory services and lease agreements.

## 21. Other liabilities

| (KEUR)<br>Liabilities (to/from) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Accruals and deferrals | 1,627 | 2,083 |
| Advances received | 0 | 395 |
| Other taxes | 462 | 507 |
| Accrued vacation and overtime | 791 | 0 |
| Other | 194 | 285 |
| | **3,074** | **3,270** |

These liabilities are accounted for at their updated acquisition costs, unless stated otherwise.

In addition to the amounts for which the Company is a tax debtor, liabilities from other taxes also contain taxes that are remitted for the account of third parties (in particular income tax and church tax).

The following indicated amounts have residual maturities of more than one year:

| (KEUR)<br>Liabilities (to/from) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Accruals and deferrals | 930 | 1,359 |
| Advances received | 0 | 395 |
| Other taxes | 0 | 0 |
| Other | 100 | 100 |
| | **1,030** | **1,854** |

# Notes to the Statement of Comprehensive Income

The profit and loss statement is organised by types of expense (total cost procedure). The following explanations and breakdowns are related to the entries of the statement of comprehensive income, including the discontinued BuchPartner business segment.

## 22. Sales revenue

The development in sales revenues by segment and regions is shown in the segment reports (Note 36).

## 23. Change in inventories of finished goods and work in progress

| | Inventory | | Changes in inventory | |
|---|---|---|---|---|
| **(KEUR)** | **31/03/2018** | **31/03/2017** | **2017/2018** | **2016/2017** |
| Unfinished products | 565 | 583 | -18 | -196 |
| Finished goods | 17,559 | 19,863 | -2,304 | 1,216 |
| | | | **-2,322** | **1,020** |
| plus changes in the group of consolidated companies | | | 457 | 2,416 |
| | | | **-1,865** | **3,436** |

The changes in the group of consolidated companies include those from the BuchPartner outflow.

## 24. Other capitalised self-constructed assets

The other activated personal contributions (KEUR 3,098 previous year: KEUR 3,528) concern internally generated intangible assets (essentially games) of Daedalic Entertainment GmbH.

## 25. Other operating income

| **(KEUR)** | **2017/2018** | **2016/2017** |
|---|---|---|
| Income from the Räder sale | 6 | 1,653 |
| Income from the BuchPartner sale | 3,261 | 0 |
| Benefits in kind | 220 | 250 |
| Insurance compensation, indemnification | 16 | 24 |
| Income from copyright infringements | 49 | 59 |
| Currency conversion gains | 37 | 242 |
| Income from the release of accruals | 20 | 0 |
| Rental income | 0 | 15 |
| Staff sales and meal allowances | 0 | 57 |
| Income from the liquidation of specific bad debt allowances | 68 | 85 |
| Income from written-off receivables | 14 | 66 |
| Income from writing off liabilities | 89 | 17 |
| Other | 623 | 226 |
| | **4,403** | **2,694** |

Other miscellaneous income includes KEUR 328 on non-period income from continuing operations.

## 26. Material expenses

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Expenses for fees and amortisation of royalties | 37,747 | 25,551 |
| Print, layout, repro, audio books | 18,436 | 18,472 |
| Procurement of “Räder” product range | 34 | 7,652 |
| Image copyright and graphic work | 1,287 | 1,219 |
| Proofreading, editing | 384 | 520 |
| Merchandise | 19,024 | 24,194 |
| Inbound freight costs | 1,885 | 1,773 |
| Raw materials and supplies | 1,026 | 1,393 |
| License fees (royalties) | 2,767 | 1,274 |
| Third-party game development services | 607 | 881 |
| Other services purchased | 523 | 805 |
| | **83,720** | **83,734** |

We refer to Note 7 regarding amortisations on author royalties.

## 27. Personnel expenses

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Wages and salaries | 23,407 | 25,475 |
| Employer shares for statutory pension insurance | 1,844 | 2,012 |
| Other social security contributions | 2,473 | 2,572 |
| Expenditure on employment termination benefits | 453 | 223 |
| Other | 385 | 358 |
| | **28,562** | **30,640** |

Expenses for benefits upon termination of employment are attributable to the continued business operations.

## 28. Other operating expenses

| (KEUR) | 2017/2018 | | 2016/2017 | |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Rents and other premises costs | 2,818 | | 3,094 | |
| Lease expenses | 296 | | 330 | |
| Maintenance costs | 252 | | 278 | |
| Other operating expenses | 149 | 3,515 | 145 | 3,847 |
| **Administrative expenses** | | | | |
| Legal, consulting and audit costs | 3,278 | | 4,090 | |
| Vehicle costs | 1,204 | | 1,063 | |
| External data processing costs | 1,213 | | 1,233 | |
| Telephone, postage, Internet | 508 | | 605 | |
| Other personnel expenses | 399 | | 592 | |
| Office supplies, magazines | 128 | | 132 | |
| Entertainment expenses | 111 | | 146 | |
| Insurance | 187 | | 147 | |
| Subscriptions, fees | 198 | | 263 | |
| Other administrative expenses | 783 | 8,009 | 1,690 | 9,961 |
| **Sales costs** | | | | |
| Advertising and travel expenses | 10,155 | | 9,908 | |
| Outgoing freight, transport and storage costs | 5,473 | | 6,155 | |
| Personnel leasing, outside services | 3,546 | | 3,563 | |
| Sales commissions | 710 | | 1,992 | |
| eBook distribution costs | 266 | | 378 | |
| Other selling expenses | 228 | 20,378 | 312 | 22,308 |
| **Non-operating expenses** | | | | |
| Losses from deconsolidation of at-equity-accounted investments | 0 | | 0 | |
| Value adjustments on receivables | 1,292 | | 78 | |
| Exchange rate losses | 194 | | 228 | |
| Losses from disposals of assets | 2 | | 3 | |
| Donations | 4 | | 14 | |
| Other non-operating expenses | 43 | 1,535 | 55 | 378 |
| | | **33,437** | | **36,494** |

The value adjustments on receivables included in non-operating expenses comprise bad debt adjustments for trade receivables as well as those for receivables from investments.

## 29. Earnings from investments

The result of participations is derived from the following companies:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| MoBa GmbH, Brno, Czech Republic | 344 | 264 |
| Miscellaneous press distributorships | 52 | 85 |
| | **396** | **349** |

## 30. Depreciation and Amortisation

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| **Scheduled depreciation and amortisation** | | |
| Intangible assets | 4,934 | 4,312 |
| Tangible assets | 979 | 1,123 |
| | **5,913** | **5,435** |
| **Write-downs** | | |
| Intangible assets | 12,072 | 0 |
| Tangible assets | 0 | 0 |
| Financial investments | 550 | 312 |
| | **12,622** | **312** |
| | **18,535** | **5,747** |

Depreciations on the continuing business operations amounted to KEUR 7,704.

## 31. Financial result

| (KEUR) | 2017/2018 | | 2016/2017 | |
|---|---|---|---|---|
| **Finance income** | | | | |
| Income from accumulation of long-term trade receiv. | 20 | | 32 | |
| Interest income from affiliated/shareholding companies | 187 | | 68 | |
| Income from interest derivatives | 44 | | 0 | |
| Interest income from covered funds for partial retirement provisions | 1 | | 5 | |
| Other | 6 | 258 | 7 | 112 |
| **Financial expenses** | | | | |
| Interest expense from bonds | 0 | | -1,151 | |
| Processing charges for bonds | 0 | | -153 | |
| Interest expense on syndicated loan | -1,146 | | -783 | |
| Syndicated loan processing costs | -44 | | -44 | |
| Interest expense of other long-term bank loans | -188 | | -110 | |
| Interest expenses loans of non-controlling shareholders | -127 | | -124 | |
| Interest expense from factoring | -323 | | -151 | |
| Expenses from interest derivatives | -125 | | -174 | |
| Process costs interest expenses | 0 | | -142 | |
| Expenses from the discounting of long-term trade receiv. | 0 | | -24 | |
| Expenses from current accounts | -20 | | -107 | |
| Other | -5 | -1,978 | -39 | -3,002 |
| **Financial result** | | **-1,720** | | **-2,890** |

## 32. Income tax expense and income

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| **Income taxes refunded, paid or due** | | |
| for the current year | -156 | 982 |
| for previous years | -560 | -128 |
| | **-716** | **854** |
| **Deferred taxes** | | |
| on temporary differences | -1,050 | -271 |
| on changes in losses carried forward | -1,760 | -900 |
| | **-2,810** | **-1,171** |
| | **-3,526** | **-317** |

We refer to Note 10 for further details on the accounting changes related to income tax.

Actual income tax expense can be derived from the anticipated tax expense for the past financial year as shown below:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Earnings before income taxes | -19,769 | 3,209 |
| Expected income tax expense (32.45 %) | -6,415 | -1,041 |
| Tax rate differences | 55 | -66 |
| Write-downs, goodwill from capital consolidation | 1,869 | 0 |
| Write-downs, non-consolidated holdings | 389 | 0 |
| Amortisations consolidated balance sheet surpluses | -24 | 0 |
| Non-deductible operating expenses / tax-free income / special area | -64 | 304 |
| Trade tax corrections | 89 | 126 |
| Tax income from partnerships | -21 | -10 |
| Deconsolidations | -1,058 | 0 |
| Non-recognition of deferred taxes on losses carried forward | 2,559 | 335 |
| Write-off of deferred taxes from previous years | -239 | 0 |
| Adjustment of the deferred taxes due to changes in the previous year | 0 | 192 |
| Taxes from previous years | -560 | -128 |
| Other | -106 | -29 |
| **Actual income tax expenditure** | **-3,526** | **-317** |

## 33. Shares in the net profit or loss for the period, pertaining to equity shares of non-controlling shareholders

The shares in profit allotted to the non-controlling shares of BuchPartner, Daedalic, oolipo, and BookRix amounting to KEUR -3.533 (previous year: KEUR -783) - as in the previous year - concern the sum of the respective portions of losses (see also Note 15). For more financial information regarding the non-controlling shares, we refer you to Note 4.

# Other disclosures

## 34. Notes on the cash flow statement

Pursuant to IAS 7 (Cash Flow Statement), the cash flow statement prepared by the indirect method shows how the cash developed over the course of the year under review as a result of the inflow and outflow of funds.

The cash flow statement differentiates between cash flows from current operating activity, investment activity and financing activity. The changes of the inventory of pre-paid royalties are shown in the cash flow from operating activities. The cash balance comprises cheques, cash on hand and cash at banks with a residual maturity of less than three months. They are recognised under the balance sheet item “Cash and cash equivalents”.

The total amount (balance) of income tax payments made in the previous financial year is KEUR 390 (previous year: KEUR 3,356) and the interest payments made KEUR 1,583 (previous year: (KEUR 2,423). The income taxes and interest payments are assigned to the operating cashflow.

The result for the period (KEUR -16.243, previous year: KEUR -2.892) has decreased by KEUR 13,351 year-on-year. The increase in added non-cash amortisation (including impairments) from KEUR 5,435 to KEUR 17,985 is mainly due to impairments of KEUR 12,072, particularly in the digital sector. The KEUR 12,550 increase in non-cash amortisation (including impairments) of author royalties of KEUR 24,064 (previous year: KEUR 11,534) is attributable to impairments of KEUR 1,728 and the effect of the reassessment of the amortisation process (KEUR 6,500). The operating cash flow (KEUR 5,468, previous year: KEUR 11,505) also decreased by a total of KEUR 6,037 following the reduction in trade receivables in the previous year due to the conclusion of a factoring agreement in the "retail" segment (BuchPartner), high advance payments of royalties (KEUR 15,455) and funds tied up due to the consolidation adjusted reduction in trade payables by KEUR 3,277.

In the field of investment activity, in the year under review, despite the continued high investments in intangible assets (KEUR 4,607, of which KEUR 4,086 was in the subsidiary Daedalic) and investments in plant, property and equipment (KEUR 1,072) an outflow of funds amounting to KEUR 538 (previous year: KEUR 12,325) resulted. This is due to the income from the sale of the "retail" operation (BuchPartner GmbH).

Cash flow from financing activity shows an outflow of funds totalling KEUR 5,226 (previous year: KEUR 1,980 outflow of funds). Here, the repayment of (financial) loans exceeded the receipts from raising new funds. Short-term borrowings and repayments (usually 3 months) are reported on a net basis.

During the financial year, there was an overall reduction in cash funds of KEUR 296 (previous year: increase of KEUR 1,160).

## 35. Reconciliation statement for liabilities from financing activities

| (KEUR) | Book value 31/03/2017 | Cashflows | Non-cash changes<br>Consol. Group changes | Non-cash changes<br>Changes in fair values | Non-cash changes<br>Other | Book value 31/03/2018 |
|---|---|---|---|---|---|---|
| Liabilities to banks | 38,765 | -4,227 | -3,414 | – | 11 | 31,135 |
| Liabilities from derivatives | 141 | 0 | – | 70 | – | 211 |
| Liabilities from the VVA pre-financing | 6,056 | 61 | – | – | – | 6,117 |
| Other financial liabilities | 4,000 | -1,000 | -3,000 | – | – | 0 |
| | **48,962** | **-5,166** | **-6,414** | **70** | **11** | **37,463** |

## 36. Segment reporting

Segment reporting follows internal management and reporting structures. For the purposes of corporate steering, the Bastei Lübbe Group is broken down into business segments according to products or their sales channels. The business units are each monitored by the executive board using EBIT. The EBITDA key figures (earnings before interest, taxes, depreciation and amortisation), which was previously used as a measure of profitability, will be replaced in the future by the EBIT. The Executive Board is of the opinion that the overall operational success of the economic activity can best be assessed by these profitability measures. The Group financing (including financial expenses and income) and income taxes are taxed in a standardised way throughout the Group and are not assigned to the individual business segments. The transfer prices between the business segments are determined using conditions which are in line with the market between external third parties.

Since the beginning of the 2017/2018 financial year, the revenue and results from Bastei Lübbe AG digital ebook and audio products were integrated into the "Book" segment (previously in the “digital” segment). The previous-year figures have been adjusted accordingly. Compared to 31 March 2017, the segment structure remained basically unchanged in other respects. With the sale of the majority participation in BuchPartner GmbH shortly before the end of the financial year, the “retail” segment, to which only BuchPartner GmbH was allocated, was discontinued.

- Book
- Retail (till 31 March 2018)
- Digital
- Non-book (till 31 December 2016)
- Novel booklets and puzzle magazines

As the segmentation follows the Group's internal controlling and reporting, and, despite the intention to sell “retail” and “non-book”, these still had inventory, the segment reporting continue to assign control performance indicators abstracted from the provisions of IFRS 5. A corresponding reconciliation is incorporated in the tabular presentation of the segment reports.

## Book

The “Books” segment contains all print results from books and also the Bastei Lübbe AG digital ebook and audio results. The products are distributed under various labels, including hardbacks, paperbacks and pocket books.

## Retail

In the “retail” segment, the 51 % participation in BuchPartner GmbH in Darmstadt was consolidated up to its disposal shortly before the reporting date. BuchPartner GmbH is Germany’s leading wholesaler for the supply of books to grocery retail companies, in particular. BuchPartner’s customer base includes almost all the major grocery retail groups. BuchPartner supplied more than 5,000 customers as at the balance sheet date. While the “book” and “digital” segments are concerned with the marketing, distribution and the production of books and games, the “retail” segment comprised the sale of books only.

## Digital

The “digital” segment includes the results of Bastei Lübbe’s digital subsidiaries Daedalic Entertainment GmbH (games developer and publisher), oolipo AG (streaming platform) and BookRix GmbH & Co. KG (self-publishing platform) and BEAM Shop GmbH (eBook-Shop).

## Non-book (to 31 December 2016)

Until 31 December 2016, the “non-book” segment mainly comprised gift items sold under the Räder label, as well as merchandise and similar products. Furthermore, the activities of the participation in PRÄSENTA PROMOTION INTERNATIONAL GmbH, Solingen (accounted at equity), which was sold in the financial year 2015/2016 also belonged to this segment. Because of the sale of the Räder business division on 1 January 2017, this segment no longer exists in the Bastei Lübbe Group.

## Novel booklets and puzzle magazines

The “novel booklets and puzzle magazines” segment comprises the physical novel booklets – including “romantic novels” and mystery fiction novels – as well as puzzle magazines.

The segments performed as follows over the past financial year:

| (KEUR) | Book (previous-year figures adjusted) | | Retail (discontinued) | | Digital (previous-year figures adjusted). | | Non-book (discontinued) | | Novel booklets and puzzle magazines | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** |
| Segment sales revenue | 86,227 | 73,023 | 34,734 | 43,155 | 11,065 | 8,678 | -67 | 15,069 | 9,823 | 9,915 |
| Internal sales | 1,528 | 3,452 | 0 | 0 | 81 | 99 | 0 | 0 | 0 | 0 |
| **External sales** | **84,699** | **69,571** | **34,734** | **43,155** | **10,984** | **8,579** | **-67** | **15,069** | **9,823** | **9,915** |
| **EBITDA** | **-3,892** | **-61** | **378** | **-414** | **2,563** | **622** | **-195** | **3,573** | **1,633** | **1,708** |
| Amortisations | 1,741 | 1,655 | 6,172 | 1,177 | 10,449 | 2,472 | 0 | 333 | 173 | 110 |
| **EBIT** | **-5,633** | **-1,716** | **-5,794** | **-1,591** | **-7,886** | **-1,850** | **-195** | **3,240** | **1,460** | **1,598** |
| includes the following major non-cash expenses/income: | | | | | | | | | | |
| - Write-downs on goodwill | – | – | -4,918 | 0 | -841 | – | – | – | – | – |
| - Write-downs on other intangible assets | – | – | – | – | -6,313 | – | – | – | – | – |
| – Write-downs on author royalties | -1,728 | -5,533 | – | – | – | – | – | – | – | – |
| - Value recovery on author royalties | 58 | 335 | – | – | – | – | – | – | – | – |
| - Write-downs on financial instruments and inventories | -5,682 | -4,120 | -595 | -709 | -140 | – | – | -80 | – | – |
| - Value recovery on financial instruments and inventories | 80 | 0 | 3 | -70 | – | – | – | 14 | – | – |

| (KEUR) | Group total (continuing and discontinued operations) | | Discontinued operations (incl. IFRS 5 rating) | | continuing operations | |
|---|---|---|---|---|---|---|
| | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** |
| Segment sales revenue | 140,173 | 146,289 | N/A | N/A | N/A | N/A |
| Internal sales | – | – | N/A | N/A | N/A | N/A |
| **External sales** | **140,173** | **146,289** | **33,139** | **54,873** | **107,034** | **91,416** |
| **EBITDA** | **486** | **5,428** | **446** | **2,794** | **40** | **2,634** |
| Amortisations | 18,535 | 5,747 | 6,172 | 1,510 | 12,363 | 4,237 |
| **EBIT** | **-18,049** | **-319** | **-5,726** | **1,284** | **-12,323** | **-1,603** |
| Financial result | | | | | -1,468 | -2,027 |
| **Earnings before taxes (EBT)** | | | | | **-13,791** | **-3,630** |
| Taxes on income and earnings | | | | | 3,269 | 43 |
| **Results for the period** | | | | | **-10,522** | **-3,587** |

Transactions between segments comprise mainly intra-segment sales and are generally conducted at market prices.

The following table shows the geographical make-up of the sales revenue for the segments:

| (KEUR) | Germany | | Foreign countries | | Total | |
|---|---|---|---|---|---|---|
| | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** | **2017/ 2018** | **2016/ 2017** |
| External sales | 113,176 | 122,583 | 26,997 | 23,706 | 140,173 | 146,289 |

Turnover is assigned to the regions according to the location of the customer. Foreign turnover is mainly accounted for by Austria, Luxembourg and Switzerland.

Bastei Lübbe achieved more than 10 % of its revenues from its largest clients. The sum of the revenue generated from these clients relates to the “book” segment and amounts to KEUR 20,590. In the previous year, no customers generated a turnover of more than 10 % of Group turnover.

Segmentation of assets, liabilities and investments on the basis of operative business areas is not carried out as these figures are not used as control variables at segment level.

Bastei Lübbe only has production sites in Germany. It is therefore unnecessary to perform a breakdown of segment assets and liabilities according to geographic aspects.

## 37. Capital management

The capital management of the Group ensures that the aims and strategies can be achieved on behalf of shareholders and their employees. The focus of the management is minimum interest and return on equity. To do this, we aim for an increase in Group value and its partial sectors, which benefits all stakeholders of the company.

As part of capital management, the Executive Board endeavours to assure a strong equity base in order to strengthen the confidence of investors, potential investors and contracting partners with respect to the sustainability of Bastei Lübbe's business activities, and to guarantee future business development. In order to strengthen the equity base, there is a particular intention to reinvest a larger share of net profit or loss for the period. Participation of employees in the company in the form of employee share programmes has not been the intention so far.

The following figures are also of particular importance within the context of capital management:

- Equity or loan capital share
- The relation of net financial debt to the Group EBITDA

Bastei Lübbe fundamentally strives for an equity ratio of more than 40 % as well as a net financial debt percentage of the Group EBITDA (= debt level) of 2.5 or less. The equity ratio in the Group was 31.87 % as at 31 March 2018; the debt level was 4.19 at the same date (adjusted for the special effects). This is calculated from the net debt of KEUR 30,228 and an adjusted EBITDA of KEUR 7,211. The adjustments in the EBITDA relate in particular to the one-time effects from the additional write-downs on author royalties (reported in the cost of materials) and the deconsolidation of BuchPartner.

The stated debt level at Group scale is therefore of particular importance for the management of the Group because it, in addition to the EBITDA in the individual financial statement of Bastei Lübbe AG, was set as part of the syndicated loan agreement as one of the key indicators (covenants) which must be met in order to continue to maintain the required financial resources for the agreed advantageous conditions. The lenders have a right to extraordinary termination in the event that the key indicators are not achieved. In the previous financial year, the covenants were met as at 31 March 2018, please refer to Note 47.

## 38. Financial instruments

The following financial instruments are reflected in the consolidated financial statements, broken down into categories as stipulated in IAS 39:

| | Book value | | Fair value | |
|---|---|---|---|---|
| **(KEUR)** | **31/03/2018** | **31/03/2017** | **31/03/2018** | **31/03/2017** |
| **Assets** | | | | |
| **Loans and receivables** | | | | |
| Cash and cash equivalents | 907 | 1,203 | 907 | 1,203 |
| Trade receivables | 19,739 | 20,699 | 19,739 | 20,699 |
| Other original financial assets | 1,698 | 4,048 | 1,698 | 4,048 |
| **Available for sale** | | | | |
| Investments | 716 | 1,235 | – | – |
| | **23,060** | **27,185** | **22,344** | **25,950** |
| **Liabilities** | | | | |
| **Liabilities, measured at amortised cost** | | | | |
| Liabilities from trade accounts | 19,310 | 28,370 | 19,310 | 28,370 |
| Liabilities to banks | 31,135 | 38,765 | 31,135 | 38,765 |
| Other primary financial liabilities | 6,837 | 12,398 | 6,837 | 12,398 |
| **Held for trading** | | | | |
| Derivatives without hedging relationships relating to accounts | 211 | 141 | 211 | 141 |
| | **57,493** | **79,674** | **57,493** | **79,674** |

The methods and assumptions used to determine the fair values are as follows:

- Cash, trade receivables, other current receivables and assets, trade liabilities, current liabilities to banks and other current liabilities come very close to their carrying values, largely as a result of the short terms of these instruments.
- Non-current receivables not traded on an active market are valued by the Company based on parameters such as interest rates and creditworthiness. The carrying values of these receivables do not materially differ from their fair values at the balance sheet dates.
- The fair value of available-for-sale holdings is not calculated as no quoted market prices exist on an active market and the fair value cannot be reliably determined. These available-for-sale financial assets concern investment in companies which are unrelated to the Group consolidated financial statement (affiliated, associated and joint ventures, as well as other investments, specifically press distributorships). Due to the lack of market transactions and knowledge as to the parameters that exert a significant influence on the fair value of assets, the latter was not determined. The Company is currently evaluating strategic options to partially sell these assets.
- The fair value of the derivatives without hedging relationship maintained for trade purposes (interest swap) is derived from the managing bank from the mid-market price.

Bastei Lübbe uses the following hierarchy to determine and show fair values:

- Level 1: prices quoted (remaining unchanged) on active markets for assets or liabilities of the same kind
- Level 2: Input factors - except prices pursuant to Level 1 - that can be directly or indirectly observed for the asset or liability, and
- Level 3: factors not based on observable market data for the valuation of the asset or the liability.
- The calculation of the fair value of all financial instruments recognised in the balance sheet and in these Notes is either based on listed Level 1 prices (excluding the issued bond) or on the information and input factors referred to under Level 2. The use of observable market parameters prevents the evaluation from deviating from general market assumptions. There are no Level 3 financial instruments of the fair-value hierarchy.

The net profits and losses recognised in the net profit and loss statement are hereinafter presented according to the groups of financial instruments and categories (before tax and investment income).

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Loans and receivables | -1,341 | 111 |
| Available for sale | -550 | -312 |
| Liabilities, measured at amortised cost | 82 | -6 |
| Held for trading | -70 | -141 |
| | **-1,879** | **-348** |

The net profit and loss from the “loans and receivables” categories relate in particular to value adjustments, partially compensated by profits on exchange rates arising from currency differences. The net losses of the “available for sale” category concern depreciation on financial investments. The net result of the “liabilities, measured at amortised cost” category pertains to the results of currency conversion as well as write-offs.

The total interest revenue and total interest expenses for the financial instruments which are assessed for (amortised) costs amount to: KEUR 207 (revenues, previous year: KEUR 76) or KEUR -1,848 (Expenses, previous year: (KEUR -2,623).

With regard to trade receivables, interest income from the follow-up valuation according to the effective interest rate method was recognised under interest income amounting to KEUR 20 (previous year: KEUR 32).

## 39. Financial risk management

Bastei Lübbe’s financial instruments are subject to credit, liquidity, currency and interest rate risks. Financial risk management is responsible for limiting these risks by taking targeted action.

### Credit risk

At Bastei Lübbe, credit risks in the field of trade receivables are partially transferred in the form of trade credit insurance. Receivables greater than KEUR 50 from the books segment are covered by trade credit insurance. Adherence to the relevant trade credit limit is monitored on a monthly basis. There is essentially one main client for the “novel booklets and puzzle magazines” segment. The receivables are not covered by trade credit insurance. These receivables are regularly monitored for their adherence to the agreed payment conditions.

In addition, a large number of the books, merchandise, etc., sold are outsourced via VVA (a Bertelsmann subsidiary in Gütersloh). Given the involvement of recourse factoring, VVA also liquidates the receivable against the clients, mainly booksellers. VVA carries provides this service to a large number of publishing houses, including the Random

House Group. VVA has its own risk management system that checks the creditworthiness of individual debtors based on total payments. VVA issues regular and timely warnings to its contracting partners, incl. Bastei Lübbe, in this respect in the event of changing and worsening payment tendencies of individual clients. In consultation with Bastei Lübbe, these customers are then blocked from receiving further deliveries.

The maximum default risk for financial assets is KEUR 17,437 (previous year: KEUR 21.811) and is calculated as follows:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| Total financial instruments assets | 22,814 | 27,185 |
| minus receivables covered by trade credit insurance | -5,974 | -5,971 |
| plus excess (of which 10 %) | 597 | 597 |
| | **17,437** | **21,811** |

## Liquidity risk

At the balance sheet date, the liquidity required by Bastei Lübbe was specifically ensured by the syndicated loan agreement concluded in October 2015 with a current total volume as at the reporting date of EUR 30 million. The covenants agreed with the syndicate banks could not be complied with for the 2017/2018 financial year due to the failure to reach the target. The banks are entitled to terminate the loan agreement extraordinarily. In this context, we refer to Note 47. Daily inflow and outflow planning guarantees a permanent overview of liquidity requirements. In addition, actual liquidity requirements are compared with the planning, and any differences are analysed.

The following analysis of the agreed due dates for trade receivables and financial liabilities can be used to assess the liquidity risk. The liabilities from the Bastei Lübbe syndicated loan are immediately due for the reasons already stated:

| | | as of 31 March 2017 undiscounted cash outflows | | | | |
|---|---|---|---|---|---|---|
| (KEUR) | Book value | Total | up to 30 days | > 30 days, up to 180 days | > 180 days, up to 1 year | more than 1 year |
| Trade payables | 28,370 | 28,370 | 10,895 | 12,829 | 4,646 | 0 |
| Liabilities to banks | 38,765 | 38,873 | 505 | 1,854 | 1,854 | 34,660 |
| Liabilities toward non-controlling shareholders | 4,000 | 4,290 | 9 | 44 | 53 | 4,184 |
| Other primary financial liabilities | 2,540 | 3,025 | 887 | 1,978 | 160 | 0 |
| | **73,675** | **74,558** | **12,296** | **16,705** | **6,713** | **38,844** |

| | | Last Updated: 31/03/2018 undiscounted cash outflows | | | | |
|---|---|---|---|---|---|---|
| (KEUR) | Book value | Total | up to 30 days | > 30 days, up to 180 days | > 180 days, up to 1 year | more than 1 year |
| Trade payables | 19,310 | 19,423 | 8,200 | 8,624 | 867 | 1,723 |
| Liabilities to banks | 31,135 | 31,231 | 26,179 | 52 | 0 | 5,000 |
| Other primary financial liabilities | 874 | 874 | 87 | 332 | 455 | 0 |
| | **51,319** | **51,528** | **34,466** | **9,008** | **1,322** | **6,732** |

Gross inflows and outflows particularly include future interest payment obligations in addition to the liabilities' carrying values. The handling fees settled with the transaction costs of the syndicated loan are not taken into account here, as resulting outflows have already been effected. With regard to the interest swap, it is supposed that the cash flow balances out due to the relatively low market value. The equity received in advance as part of pre-financing of the VVA concerning trade receivables (see Note 19) will not lead to a payment outflow in the future.

## Currency risk

Foreign currency receivables and liabilities ensuing from contracts are covered by forward exchange transactions with investment-grade banks.

With regard to receivables and liabilities, no hedging was necessary in recent years as almost all transactions were performed in euro or receivables/liabilities in foreign currency were of minor significance.

Any change in the exchange rate within the expected fluctuation ranges would not have any material impact on the assets, financial and profit situation of the Group.

## Interest rate risk

Interest rate change risks are countered by suitable instruments from the derivatives market (e.g. exchanging fixed interest rates for variable ones). Due to the currently low interest level of the money market, a variable interest rate is accepted for short-term use of the current account.

To limit the risk of interest on the syndicated loan, an interest swap deal was concluded on 26 October 2016 for a credit volume of originally EUR 10 million with a term up to 26 November 2021 and a fixed interest rate of 0.75 %. The nominal amount of the derivative decreases every three months by EUR 0.5 million and, as a result, still accounts for EUR 7.5 million on the balance sheet date.

To limit the risk of interest on the syndicated loan, Daedalic GmbH concluded three interest swap deals for EUR 3 million with a term up to 28 or 30 June 2019 and a fixed interest rate of 3 %.
31 March 2018 saw a (negative) market value (fair value) for the interest derivatives amounting to KEUR -211.

Bastei Lübbe also has only fixed or low-interest financial assets and financial liabilities that are not accounted for at fair value through profit or loss. Changes in interest rates within the expected fluctuation ranges would not therefore have any material impact on consolidated earnings.

## 40. Contingent liabilities, operate leasing and other financial obligations

### a) Contingent liability under joint and several liability for guarantees and cash advances, open purchase orders

There were no contingencies as at the balance sheet date that would need to be reported here. Open purchase orders for royalties total KEUR 15,340 as of the balance sheet date (previous year: KEUR 23,695). The payment dates are dependent on the occurrence of events regulated in the respective contract, such as submitting the manuscript for a purchased work.

### b) Operate leasing

Apart from the finance lease contracts already described as financial liabilities (refer to Note 19), the Company has also entered into rental and leasing contracts (land, office premises and buildings, as well as fittings and equipment, e.g. vehicles and office machines), which are defined as operating leases according to their economic content. Extension and purchase options customary in the industry are contained in the underlying agreements. The office properties are still permanently rented for up to four years. The rental property on Schanzenstrasse in Cologne has a 2-time extension option of 5 years. The option must be exercised 12 months prior to expiry of the lease. After expiry of the rental agreement, the rental agreement runs for an indefinite period with a 12-month notice period.

Rental and lease payments of KEUR 1,793 (previous year: KEUR 3,312) were made under these agreements in the past year. The non-cancellable minimum instalments from the operating lease agreements existing on the balance sheet date will fall due as follows in the subsequent years:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| within one year | 1,778 | 2,726 |
| between 1 and 5 years | 4,245 | 9,013 |
| in more than five years | 0 | 3,022 |
| | **6,023** | **14,761** |

### c) Other financial obligations

Maturities of other financial obligations, with respect to open maintenance contracts in particular, are shown below:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| within one year | 446 | 500 |
| between 1 and 5 years | 38 | 62 |
| in more than five years | 0 | 0 |
| | **484** | **562** |

## 41. Notes on Related Parties

Until his death on 13 October 2014, Stefan Lübbe was majority shareholder of Bastei Lübbe AG, both directly through the shares which he owned and indirectly through shares attributable to him, but held by Lübbe Beteiligungs GmbH, Cologne. Since then, this role has been taken over by his wife, Birgit Lübbe. On 26 November 2014, an agreement was reached with Birgit Lübbe that she would assume representational duties. From this, KEUR 126 (previous year: KEUR 128) fees and expenses resulted in the 2017/2018 financial year. No other business transactions were made with controlling shareholders of Bastei Lübbe AG.

Legal transactions were entered into with other related companies and individuals in the previous financial year. These were incorporated into the consolidated income statement of Bastei Lübbe AG as follows:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| **Affiliated companies** | | |
| Sale of goods | 59 | 218 |
| Services purchased | -1,330 | -1,353 |
| Other operating expenses | 0 | -1 |
| Interest income | 10 | 18 |
| | **-1,261** | **-1,118** |
| **Associated companies and other investments** | | |
| Sale of goods | 0 | 0 |
| Services rendered | 210 | 71 |
| Revenue deductions | 0 | 0 |
| Purchase of goods | 0 | 0 |
| Services purchased | 0 | 0 |
| Other operating expenses | 0 | 0 |
| Interest income | 6 | 8 |
| | **216** | **79** |
| **Executive board/supervisory board and related individuals (without remuneration)** | | |
| Other operating expenses | – | -510 |
| | **0** | **-510** |
| | **-1,045** | **-1,549** |

The consolidated balance sheet includes the following receivables and liabilities with related companies and individuals as per the balance sheet date:

| (KEUR) | 31/03/2018 | 31/03/2017 |
|---|---|---|
| **Affiliated companies** | | |
| Trade receivables | 1 | 161 |
| Trade payables | -13 | -5 |
| Other receivables | 84 | 667 |
| | **72** | **823** |
| **Associated companies and other investments** | | |
| Trade receivables | 42 | 76 |
| Trade payables | 0 | 0 |
| Other receivables | 1 | 252 |
| Other liabilities | 0 | 0 |
| | **43** | **328** |
| **Executive board/supervisory board and related individuals (without remuneration)** | | |
| Trade payables | -1 | -247 |
| Other receivables | 0 | 394 |
| | **-1** | **147** |
| | **114** | **1,298** |

## 42. Statement of compliance pursuant to Section 161 AktG

The statement of compliance is permanently available for public viewing on the website of Bastei Lübbe AG at www.luebbe.com/en/investor-relations/corporate-governance/statement-of-compliance.

## 43. Executive bodies

Members of the Supervisory Board are:

- Robert Stein, Cologne (Chairman), Dipl. Betriebswirt (BA)
  Mr Stein is the Managing Director of Arcana Capital GmbH, Cologne,
  Managing Director of Rotaviru GmbH, Cologne,
  member of the Board of Directors of Arcana Capital AG.
- Dr Mirko Caspar (Deputy Chairman), Diplom-Kaufmann
  Dr Caspar is the Managing Director of Mister Spex GmbH, Berlin,
  Associate of Userlutions GmbH, Berlin,
  Associate of Caspar Feld Marketing-Performance GmbH, Berlin.
- Professor Dr Friedrich L. Ekey, Lawyer
  Professor Dr Ekey is partner in the law firm Dr Ekey & Kollegen, Cologne,
  Honorary professor at the Rheinische Fachhochschule, Cologne.

The total emoluments of the Supervisory Board (not incl. non-variable remuneration) and their allocation for the financial year 2017/2018 are illustrated in the following table:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| **until 30 November 2016** | | |
| Dr Friedrich Wehrle, Chair of the Supervisory Board | - | 40 |
| Prof. Dr Michael Nelles, Vice Chair | - | 30 |
| Prof. Dr Gordian Hasselblatt | - | 20 |
| **from 30 November 2016** | | |
| Robert Stein, Chairman of the Supervisory Board | 80 | 27 |
| Dr Mirko Caspar | 60 | 20 |
| Professor Dr Friedrich L. Ekey | 40 | 13 |
| **Total** | **180** | **150** |

The following are or were appointed members of the Executive Board of Bastei Lübbe AG:

- Thomas Schierack, Cologne (Chairman till 20 September 2017),
- Carel Halff, Augsburg (CEO since 1 November 2017)
- Klaus Kluge, Cologne (Executive Board member, responsible for Marketing & Sales)
- Ulrich Zimmermann, Hamburg (CFO since 19 June 2017)

The total emoluments of the Executive Board for the financial year 2017/2018 are illustrated in the following table:

| (KEUR) | Fixed remuneration | | Other remuneration | | Management bonus | | Supplies | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017/2018 | 2016/2017 | 2017/2018 | 2016/2017 | 2017/2018 | 2016/2017 | 2017/2018 | 2016/2017 | 2017/2018 | 2016/2017 | 2017/2018 | 2016/2017 |
| Thomas Schierack | 574* | 430 | 14 | 24 | – | 81 | – | 20 | -295 | – | 293 | 555 |
| Klaus Kluge | 280 | 310 | 16 | 23 | – | 54 | – | 20 | – | – | 296 | 407 |
| Carel Halff | 150 | – | 15 | – | 50 | – | – | – | – | – | 215 | – |
| Ulrich Zimmermann | 173 | – | 6 | – | 53 | – | – | – | – | – | 232 | – |

*incl. all components of the termination agreement

The former Chair of the Board, Thomas Schierack who stepped down in the 2017/2018 financial year, received one-off amount of KEUR 380 as reimbursement for the premature termination of the contract. This amount has been fully offset by repayment claims from bonus payments from previous years in the same amount.

Mr Kluge was granted a one-off special payment of KEUR 60 upon the conclusion of his new Executive Board member's contract of employment for the premature termination of his previous employment contract which had a higher remuneration. This special payment, which was offset against repayment claims from bonus payments for 2015/2016 financial year amounting to KEUR 57 is refundable if Mr Kluge resigns as a member of the board before 1 October 2018.

## 44. Employees

In the Group, an average of 431 (previous year: 485) salaried staff members and 153 (previous year: 149) industrial employees were employed in the financial year. The employees of BuchPartner were taken into account in all four quarters. As of 31 March 2018, the Group employed a total of 330 staff members (previous year: 595). The decrease at the business year end is due to the sale of the BuchPartner operation as at 31 March 2018.

## 45. Group auditor fees

The auditor fee paid to the Group auditor within the meaning of section 319(1) sentences 1 and 2 HGB is broken down as follows:

| (KEUR) | 2017/2018 | 2016/2017 |
|---|---|---|
| Statutory auditing services | 443* | 180 |
| Other attestation services | 9 | 0 |
| Tax advisory services | 105 | 65 |
| Other services | 111 | 92 |
| | **667** | **337** |

* KEUR 143 thereof from the previous year

The other assurance services include the inspection and confirmation of compliance with contractually agreed financial ratios (covenants) as at 31 March 2017. Tax advisory services include expenses for preparing the corporation and trade tax declarations of Bastei Lübbe AG, the review of tax notices and processing tax queries. Other services essentially include the review commissioned by the Supervisory Board of Bastei Lübbe AG transactions in previous years, a plausibility check of the financial planning as well as audit-related issues in connection with the interim adjustment of rating classifications for pre-paid authors' royalties and inventories.

## 46. Group relationships

Bastei Lübbe AG, Cologne, Germany, is a listed parent company, and thus required to compile a consolidated financial statement pursuant to Section 315e(1) HGB (German Commercial Code) in accordance with the International Financial Reporting Standards (IFRS). This statement is published in the Federal Gazette (Bundesanzeiger) and in the business register (Cologne Local Court, HRB 79249).

## 47. Events after the reporting date

The Executive Board is committed to offering for sale shares in the consolidated shareholdings oolipo AG, BookRix GmbH & Co. KG and BEAM Shop GmbH. In terms of Daedalic Entertainment GmbH, it will be checked whether this investment also fits the above business strategy fits in the medium term.

The comprehensive programme for sustainable increasing the efficiency of the core business launched in January 2018 continues and aims to achieve sustainable improvement of the EBIT margin in the core business in the medium term.

The covenants agreed in the syndicated loan agreement could not be complied with as of 31 March 2018. The lenders thus have a right to extraordinary termination (see Note 19). In letters dated 28 March 2018 and 30 April 2018, the lenders waived their right to terminate by the conclusion of a new agreement. In a letter dated 18 July 2018, the lenders approved a prolongation of the financing until 31 March 2020. The legal documentation in the form of an update of the loan agreement provisions is to be implemented promptly.

In addition, no events have occurred since the balance sheet date that are of material importance for the Bastei Lübbe Group and might result in a change in opinion regarding the Group’s position.

Cologne, 25 July 2018

Bastei Lübbe AG
The Executive Board

Carel Halff
Chairman

Ulrich Zimmermann
Chief Financial Officer

Klaus Kluge
Programme Director,
Sales and Marketing

# SUPPLEMENTARY INFORMATION

Bryan Reardon

**THE REAL MICHAEL SWANN**

# Responsibility Statement

## Declaration by the Executive Board

We herewith make assurances to the best of our knowledge that, in line with the applicable accounting principles, the consolidated financial statements of Bastei Lübbe AG, Cologne, Germany, present a true and fair view of the Group's net assets, financial position and results of operations as per 31 March 2018, and that the Group's combined management report accurately reflects the Group's net assets, financial position and results of operations, as well as the key opportunities and risks of the Group's future development.

Cologne, 25 July 2018

Bastei Lübbe AG
The Executive Board

Carel Halff
Chairman

Ulrich Zimmermann
Chief Financial Officer

Klaus Kluge
Programme Director,
Sales and Marketing

# Audit Report of the Independent Auditor

To Bastei Lübbe AG, Köln

## Note on the audit of the consolidated financial statements and the combined management report

### Audit opinions

We have audited the consolidated financial statements of Bastei Lübbe AG, Cologne, and its subsidiaries (the Group) - consisting of the consolidated balance sheet as of 31 March 2018, the consolidated profit and loss statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 April 2017 to 31 March 2018 and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we audited the combined Group management report and management report (hereinafter referred to as the combined management report) of Bastei Lübbe AG, Cologne, for the financial year from 1 April 2017 to 31 March 2018. We have not checked the content of the separate corporate governance report, the separate non-financial Group report published on the Company's website and the declaration on corporate governance also published on the Company's website in accordance with sections 289f and 315d of the HGB (Commercial Code), each referred to in the "Corporate Governance" section of the combined management report in accordance with German statutory provisions.

In our opinion, based on the findings of the audit

- the accompanying consolidated financial statements comply in all material respects with IFRS as adopted by the EU and with the supplementary provisions of German law pursuant to section 315e para. 1 of the HGB and give a true and fair image of the net assets and financial position of the Group as of 31 March 2018 and its earnings for the fiscal year from 1 April 2017 to 31 March 2018 in accordance with these provisions and
- overall, the attached combined management report gives a true picture of the situation of the Group. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Our opinion on the combined management report does not extend to the content of the separate corporate governance report, the separate non-financial Group report published on the Company's website and the declaration on corporate governance published on the Company's website in accordance with sections 289f and 315d of the HGB, to which it is referred in each case to the section "Corporate Governance" of the combined management report.

In accordance with section 322, para. 3, sentence 1 of the HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the combined management report.

### Basis for the audit opinion

We have audited the consolidated financial statements and the combined management report in accordance with section 317 of the HGB and the EU Regulation on specific requirements regarding statutory audit (No. 537/2014; hereinafter "EU auditor regulation"), in compliance with the German principles of regular statutory audit provided by the Institute of Auditors (IDW). Our responsibilities under these provisions, principles and standards are further described in the section entitled "Auditors' responsibility for auditing the consolidated financial statements and the combined management report" of our audit opinion. We are independent from the Group companies in accordance with the European and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Moreover, in accordance with Article 10 (2) (f) EU auditor regulation, we declare that we have not performed any prohibited non-audit services according to Article 5 (1) EU auditor regulation. We believe that the audit evidence we obtained is sufficient and appropriate to form the basis for our opinion on the consolidated financial statements and the combined management report.

## Particularly important audit matters in the audit of the consolidated financial statements

Particularly important audit matters are those matters that, in our best judgment, were most significant in our audit of the consolidated financial statements for the year from 1 April 2017 to 31 March 2018. These matters have been taken into account in the context of our audit of the consolidated financial statements as a whole and in our opinion on the audit; we do not make a separate opinion on these matters.

We present hereinafter what we consider to be especially important audit matters:

1. Assessment of the stock of prepaid author’s fees
2. Impairment test of Daedalic Entertainment GmbH’s goodwill
3. Inventory valuation

**To 1) Assessment of the stock of prepaid author’s fees**

### a) The risk of conclusion

As of the balance sheet date, the consolidated balance sheet shows a stock of prepaid author's fees with a book value of EUR 27.8 million. As a result of the impairments required in the previous year, the scheduled expenses, which are intended to reflect the expected evaluation of the respective works within the scope of the exploitation chain, were reassessed in the current financial year. The reassessment leads over time to a greater decrease in the expense estimate compared to the previous assessment. In addition, the legal representatives recorded a impairment expenses of EUR 1.7 million in the context of impairment tests (during the year and at the balance sheet date).

The information provided by the Company on the stock of prepaid royalties is set out in Sections 3 c) and 7 of the Notes to the Consolidated Financial Statements and "Net Worth" and "Net Assets of Bastei Lübbe AG" in the combined management report.

The consideration of planned exploitation processes in terms of the assessment as well as the determination of an additional impairment requirement are largely dependent on the influence of estimated values. Given the central importance and dimension of the stock of prepaid author’s fees and the fundamental volatility of the exploitation results, these issues were of particular importance in our audit.

### b) Audit procedure and conclusions

The reassessment of the scheduled expenses in the 2017/18 financial year was based on an evaluation of historical sales trends for categorised evaluation forms. In the course of our audit, we analysed the categorisation and the evaluation process and examined their adequacy with regard to the scheduled valuation of prepaid author’s fees.

At the same time, we assessed the plausibility of the planning and assumptions underlying the impairment tests of substantial works with an exploitation process failing short and discussed them with the sales representatives and the Management Board. In doing so, we also examined these for possible exercise of unilateral discretion.

All in all, our audit concludes that the revaluation of the scheduled corresponding expenses is in line with our expectations and properly derived. The valuation assumptions of the legal representatives in the context of individual impairment tests are associated with risks in a number of works, but to a reasonable extent.

**To 2) Impairment test of Daedalic Entertainment GmbH's goodwill**

a) The risk of conclusion

As of the balance sheet date, the consolidated balance sheet shows goodwill of EUR 4.9 million for Daedalic Entertainment GmbH. As a result of the annual impairment test, no impairment loss was recognised for this goodwill.

The information provided by the Company about goodwill is contained in sections 3 e) and 6 of the notes to the consolidated financial statements.

In accordance with IAS 36.90, cash-generating units to which goodwill has been allocated are subject to an impairment test whenever there is an indication of impairment or at least annually. This audit uses complex valuation models that are based on expectations about the future development of the respective operating business and the resulting cash flows. The result of the impairment test is therefore largely subject to the influence of estimated values.

Against this background, this issue was of special importance in the course of our audit.

b) Audit procedure and conclusions

In the course of our audit, we examined the plausibility of the planning underlying the impairment test by analysing the planning assumptions and documents submitted to us and through intensive discussions with the Management Board of Bastei Lübbe AG and the local management. In doing so, we also paid attention to the possible exercise of unilateral discretion.

In addition to the plausibility of the underlying planning, we assessed the planning accuracy by comparing it with the planning of the previous year to the actual values achieved. In addition, we have reconstructed the calculation methods used with regard to their methodically correct application, the derivation of the discount interest rate and the mathematical correctness with random samples.

We have validated the calculation results of the principal on the basis of supplementary analyses, which also include sensitivity analyses. In the context of the sensitivity analyses, market-based value indications obtained in connection with the review of strategic options for participation in the subsidiary were also taken into account.

In addition, we assessed the accuracy and completeness of the assets and liabilities included in the book value of the cash-generating unit.

The valuation parameters and assumptions used by the legal representatives are derived correctly and were all in all comprehensible to us.

**To 3) Inventory valuation**

a) The risk of conclusion

The inventories reported in the consolidated balance sheet as of 31 March 2018, with a book value of EUR 17.6 million, include stocks of finished goods (especially books and audiobook CDs). These stocks are subject to recovery risks, the impact of which on the valuation largely depends on the assessment of further marketability. The marketing of the entire stock partly takes place over a longer period of time.

The information provided by the Company about goodwill is contained in sections 3 i) and 11 of the notes to the consolidated financial statements.

In view of the inherent risk in assessing the risks of realisation and the significance of the position for the consolidated financial statements, these matters were of particular importance in our audit.

### b) Audit procedure and conclusions

In the context of our audit we have analysed in particular the consideration of excess stock or works with exploitation successes failing short with regard to the valuation of the stock.

Generally, the Company essentially uses a flat-rate system with staggered deduction rates to account for overstocks within the scope of the valuation. We have checked the correct implementation of the valuation system in the context of data analyses for their computational accuracy. On the basis of historical inventory analyses, we have checked the plausibility of the valuation assumptions underlying the devaluation and discussed them with the sales representatives and the Executive Board.

If there are doubts about the fact that the flat-rate valuation procedure leads to appropriate results for essential individual stocks against the background of exploitation successes failing short, a separate assessment of future exploitation potentials will be made. We also discussed this assessment and the underlying assumptions in depth with the sales representatives and the Executive Board and acknowledged their plausibility.

Overall, the valuation assumptions of the legal representatives were comprehensible and are within reasonable limits.

## Other information

The legal representatives are responsible for the other information. The other information includes:

- the separate non-financial Group report published on the Company's website and the declaration on corporate governance also published on the Company's website in accordance with sections 289f and 315d of the HGB, which are referred to in the "Corporate Governance" section of the combined management report,
- the other parts of the annual report, with the exception of the audited consolidated financial statements and the combined management report and our auditor's report,
- the Corporate Governance Report according to no. 3, 10 of the German Corporate Governance Code and
- the assurance pursuant to section 297 para. 2 sentence 4 of the HGB on the consolidated financial statements and the assurance pursuant to section 315 para. 1 sentence 5 in connection with section 289 para. 1 sentence 5 of the HGB on the combined management report.

Our audit opinions on the consolidated financial statements and the combined management report do not extend to the other information, and accordingly we provide neither an opinion nor any other form of audit conclusion.

In connection with our audit of the consolidated financial statements, we are responsible for reading the other information and assessing whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge acquired during the audit, or
- otherwise appears significantly misrepresented.

## Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with IFRS, as applicable in the EU, and the German statutory provisions to be applied in addition to section 315e para. 1 of the HGB in all material respects, and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group corresponding to circumstances, in compliance with these provisions. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary to enable the preparation of consolidated financial statements that are free from material misrepresentations, whether intentional or unintentional.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They furthermore have the responsibility to disclose matters relating to the continuation of business, if relevant. In addition, they are responsible for accounting for the continuation of business activities on the basis of accounting principles, unless the intention is to liquidate the Group or the cessation of business operations or there is no realistic alternative.

In addition, the legal representatives are responsible for the compilation of the combined management report, which provides a true picture of the Group's situation as a whole, is in line with the consolidated financial statements in all major respects, complies with German law and accurately represents the chances and risks of future development. In addition, the legal representatives are responsible for the arrangements and measures (systems), which they consider necessary to establish a combined management report in accordance with the applicable German legislation and to provide sufficient evidence for the statements in the combined management report.

The Supervisory Board is responsible for overseeing the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

## Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain sufficient assurance as to whether the consolidated financial statements as a whole are free from material misrepresentations, whether intentional or unintentional, and whether the combined management report gives a true picture of the Group's position and in all material respects with the consolidated financial statements, as well as with the knowledge obtained in the course of the audit, complies with German legal requirements and accurately represents the opportunities and risks of future development, as well as to issue an auditor's report containing our audit opinions on the consolidated financial statements and the combined management report.

Sufficient security is a high degree of security, but no guarantee that an audit conducted in accordance with section 317 of the HGB and the EU auditor regulation in compliance with the generally accepted German standards for the audit of financial statements determined by the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany) always reveals a material misrepresentation. Misrepresentations can result from breaches or inaccuracies and are considered material if they could reasonably be expected to influence, individually or collectively, the economic decisions of addressees made on the basis of these consolidated financial statements and the combined management report.

During the audit, we exercise due discretion and maintain a basic critical attitude. In addition to this

- We identify and assess the risks of material misrepresentation, whether intentional or unintentional, in the consolidated financial statements and the combined management report, and prepare and perform audit procedures in response to those risks and obtain audit evidence that is sufficient and appropriate to form the basis of our opinion. The risk that material misrepresentations will not be detected is higher for violations than for inaccuracies, as violations may include fraudulent interactions, counterfeiting, intentional incompleteness, misleading representations or overriding internal controls.
- We gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not with the aim of providing an opinion on the effectiveness of these systems.

- We assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimates and related disclosures made by the legal representatives.
- We draw conclusions on the adequacy of the accounting principle applied by the legal representatives to the continuation of the business activity and, on the basis of the audit records, whether there is a significant uncertainty in the related events or circumstances, which may raise significant doubts about the Group's ability to continue its business. If we conclude that there is material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and the combined management report or, if these disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor’s report. However, future events or circumstances may lead to the Group being unable to continue its business activities.
- We assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying business transactions and events in such a way that the consolidated financial statements, in compliance with IFRS, as to be applied in the EU and the additional German statutory provisions applicable in accordance with section 315e para. 1 of the HGB, present a true and fair view of the consolidated net assets, financial position and results of operations corresponding to the real situation.
- We collect adequate proof of audits for the accounting information of companies or business activities within the Group in order to make audit decisions on the consolidated financial statements and the combined management report. We are responsible for the guidance, supervision and implementation of the consolidated financial statements audit. We bear sole responsibility for our audit opinions.
- We assess the consistency of the combined management report with the consolidated financial statements, its legislation and the picture it conveys of the Group's position.
- We perform audit procedures on the forward-looking statements presented by the legal representatives in the combined management report. On the basis of sufficient suitable audit evidence, we carry out, in particular, the significant assumptions on which the forward-looking statements are based, and assess the proper derivation of the forward-looking statements from these assumptions. We do not give an independent opinion on the forward-looking statements and on the underlying assumptions. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

Among other things, we discuss with those responsible for monitoring the planned scope and timing of the audit, as well as significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We provide a statement to those responsible for monitoring confirming that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the safeguards concerned for this purpose.

From the matters we discussed with those responsible for monitoring, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and which are therefore the important audit matters. We describe these matters in the audit report, unless statutory or other legal provisions exclude the public disclosure of the matter.

## Other statutory and legal requirements

### Other information according to Article 10 EU auditor regulation

We were selected by the Annual General Meeting on 22 November 2017 as auditors. We were appointed by the Supervisory Board on 14 February 2018. Since the 2016/17 financial year, we have been auditors for the consolidated financial statements of Bastei Lübbe AG, Cologne.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 EU auditor regulation (audit report).

## Responsible auditors

The auditor responsible for the audit is Mr. Marcus Lauten.

Cologne, 25 July 2018

Ebner Stolz GmbH & Co. KG
Auditing company tax consulting company

| | |
|---|---|
| Dr. Christian Janßen | Marcus Lauten |
| Auditor | Auditor |

# Financial Calendar 2017/2018

| Date | Event |
|---|---|
| 9 August 2018 | Press conference on financial statements, Quarterly report (Q1) |
| 19 September 2018 | Annual General Meeting |
| 15 November 2018 | Semi-annual financial report as of 30 September 2018 (1st semi-annual report) |
| 14 February 2019 | Quarterly report (Q3) |

# Legal Notice

The Annual Report of Bastei Lübbe AG can be downloaded as a PDF file at www.luebbe.com/en.
You can also find further corporate information at www.luebbe.com/en.

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